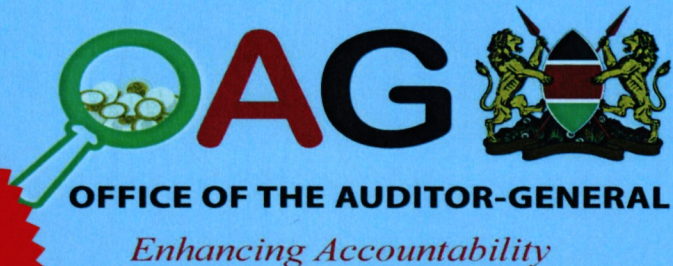


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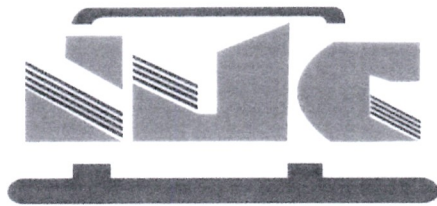
ON

NUMERICAL MACHINING COMPLEX LIMITED

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

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE:	05 MAY 2021
	DAY: Thursday
TABLED BY:	Leader of Majority Party
CLERK AT THE TABLE:	P. Muga

OFFICE OF THE AUDITOR GENERAL
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18 NOV 2020
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Numerical Machining Complex Ltd

ANNUAL REPORTS AND FINANCIAL STATEMENTS

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

**Prepared in accordance with the Accrual Basis of Accounting Method under the
International Financial Reporting Standards (IFRS)**

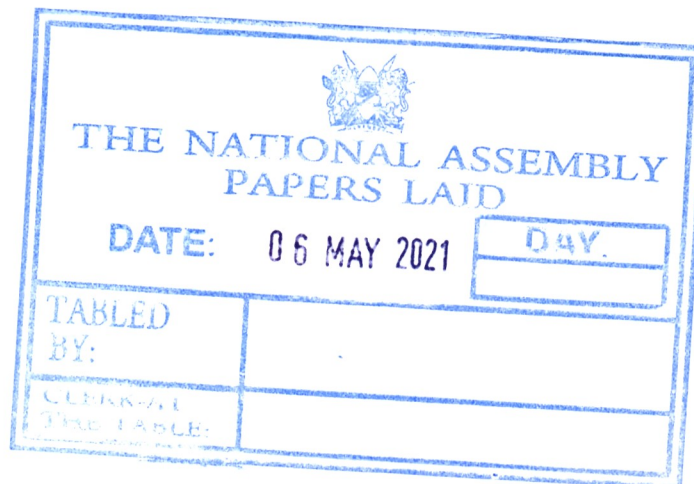


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Numerical Machining Complex Ltd

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KEY ENTITY INFORMATION

Background information

The Numerical Machining Complex Ltd was established by the Companies Act on 4th day of January 1994. At cabinet level, the entity is represented by the Cabinet Secretary for Ministry of Industrialization & Enterprise Development who is responsible for the general policy and strategic direction of Numerical Machining Complex Ltd.

Principal Activities

The principal activity of Numerical Machining Complex Ltd is the commercial production of steel, engineering design and development of machinery and components.

Directors

The Directors who served the entity during the year were as follows:

Name	Position	Appointed Date
Mr. Michael Waweru, FCCA, FCPA, CBS	Chairman	Appointed on 6 th June 2018
Ms Christine Mbando	Ag. MD	Appointed on 1 st October 2015- 29 th June 2018
Eng. Benedict Kimau	Ag. MD	Appointed on 29 th June 2018
Mr. Bernard Njiinu Njiraini	Managing Director	Appointed on 30 th January 2019.
Prof. Gideon K. Misoi	Member	Appointed on 27 th April 2015
Mr. Phillip Nyingi	Alternate to Permanent Secretary, Chief of Staff and Head of Public Service	Appointed on 3 rd September 2015
Mr. Ambrose Orwa	Alternate to Principal Secretary, National Treasury and Planning	Appointed on 14 th Oct. 2018
Eng. Francis Gitau	Alternate to PS Ministry of Transport and Infrastructure.	Appointed on 26 th August 2015
Mr. James Nyambune	Alternate to Principal Secretary in the Ministry of Education.	Appointed on 7 th August 2015
George Makateto	Alternate to Principal Secretary, Ministry of Industry, Investment and Trade	Appointed on 7 th August 2018
Eng. Benedict Kimau	Alternate to the MD, Kenya Railways Corporation.	Appointed on 3 rd September 2015- 28 th June 2018
Eng. Stanley Kaguongo	Independent Member	Appointed on 10 th May 2018
Prof. Angelina Nduku Kioko	Independent Member	Appointed on 10 th May 2018
Dr. Kamau Gachigi	Independent Member	Appointed on 10 th May 2018
Eng. James Bett	Independent Member	Appointed on 10 th May 2018

Numerical Machining Complex Ltd

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Ag. Corporate Secretary

Susan Mungai
P.O. Box 70660-00400
Nairobi

Registered Office

Railway Central Workshops
Workshops Road
P.O. Box 70660-00400
Nairobi, KENYA

Corporate Headquarters

Railway Central Workshops
Workshops Road
P.O. Box 70660-00400
Nairobi, KENYA

Corporate Contacts

Telephone: (254) 020-2327230/58
(254) 020-2110970
+254 710 568 000/3
+245 716 431 114

E-mail: enquiries@nmc.go.ke

Website: www.nmc.go.ke

Corporate Bankers

1. Kenya Commercial Bank
Moi Avenue Branch
P.O Box 30081
Nairobi, Kenya

Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

Principal Legal Advisers

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

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THE BOARD OF DIRECTORS

<p>Mr. M. G. Waweru, FCCA,FCPA,CBS (68 years) <i>Chairman</i> He joined the Board on 6th June 2018. A former KRA Commissioner General and Chairman of Kenya Railways Corporation, a majority shareholder of NMC Ltd. He holds an MBA, B.Com. and a fellow of ACCA & CPA .</p>	
<p>Eng. Benedict Kimau (62 years) <i>Ag. Managing Director</i> He was appointed as the Ag. Managing Director on 29th June 2018 Until March 2019 and currently appointed from 1st September 2019. A registered engineer with BSc Civil Engineering, University of Nairobi, who joins the company with a wide experience in Railways design, construction & maintenance and also special skills in safety management.</p>	
<p>Mr. Bernard Njiiru Njiraini (47 years) <i>Managing Director</i> He was appointed Managing Director on 30th January 2019 Until 31st August 2019. He is an industrial engineer and organizational leader with over 21 years of experience. He holds an Msc. In Industrial Engineering, BSc in Mechanical Engineering and post graduate Diploma in Strategic Studies. He is a member of IEK</p>	
<p>Prof. Gideon K. Misoi (66 years) <i>Member</i> He joined the Board on 27th April 2015 from University of Nairobi which is a shareholder of NMC. He holds a PhD Mechanical Engineering from University Of Nairobi. He is also a founder of NMC.</p>	
<p>Mr. Phillip Nyingi (52 years) <i>Member</i> Appointed as an alternate to Permanent Secretary, Chief of Staff and Head of Public Service on 3rd September 2015. He comes with a M.A (Development Studies) from the International Institute of Social Studies of Erasmus University, Netherlands and a post graduate Diploma in Corporate Governance from KCA university, Nairobi.</p>	

Numerical Machining Complex Ltd






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For the year ended June 30, 2019

<p>Mr. Ambrose Orwa (59 Years) <i>Member</i> He is Alternate Director to the PS/ National Treasury and Planning. He holds a Bachelor/Master of Philosophy degree in Economics from the University of Nairobi and a Bachelors of Arts degree in Sociology and Economics from the University of Nairobi. He has over 32 years' experience in national development planning, 10 of which he has been managing development financing sourcing at the National Treasury.</p>	
<p>Eng. Francis Gitau (54 Years) <i>Member</i> Alternate to PS Ministry of Transport and Infrastructure. He comes with 28 years of experience. He is a registered Consultant Engineer with the Enginners Board of Kenya, Holds a Bsc Civil Engineering from the University of Nairobi, an Executive Masters of Business Administration from JKUAT and is currently undertaking an Msc (Transportation) degree from the University of Nairobi. He is the Chairman of the Mechanical Transport Fund and serves as the Infrastructure Secretary in the State Department of Infrastructure.</p>	
<p>Mr. James Nyambune (54 years) <i>Member</i> He was appointed to the Board on 7th August 2015 as alternate to the PS in the Ministry of Education. He holds a Bachelor of Technology in Education, Moi University and Masters of Philosophy in Technology Education from University of Eldoret.</p>	
<p>George Makateto (49 years) <i>Member</i> He was appointed on 7th August 2018 to the board as an alternate to the Permanent Secretary, Ministry of Industry, Investment and Trade. He holds MPhil in technology Education (Automotive Engineering) and bachelor of technology Education (Automotive Option). He holds a Kaizen certification, ISO Certification EIA Renewable energy & RIO- SIYB. He has 25 years' experience in accreditation and quality assurance, industrial Development, Promotion and Productivity Improvement.</p>	
<p>Eng. Benedict Kimau (62 years) <i>Member</i> He was appointed to the Board on 3rd September 2015 as an alternate to the MD, Kenya Railways Corporation. A registered engineer with BSc Civil Engineering, University of Nairobi, who joins the company with a wide experience in Railways design, construction & maintenance and also special skills in safety management.</p>	

Numerical Machining Complex Ltd






**Annual Reports and Financial Statements
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<p>Eng. Stanley Kaguongo (58 Years) <i>Member</i> He was appointed to the Board on 17th April 2015 as an independent Director. A registered engineer with an MSc in International Construction Management and Engineering and has 30 years' experience in the field of civil and structural engineering designs, contract administration.</p>	
<p>Prof. Angelina Nduku Kioko (61 Years) <i>Member</i> She was appointed to the Board on 17th April 2015. She joins NMC with a Doctor of Philosophy in Linguistics from Monash University, Australia and wide experience as a Professor of English and Linguistics (USIU-A).</p>	
<p>Dr Kamau Gachigi (52 Years) <i>Member</i> He was appointed to the Board on 27th April 2015. He comes with a BSc Material Science from University of Bath UK and PhD Solid State Science from Pennsylvania State University USA. He has been a lecturer at University of Nairobi, department of mechanical engineering from 1999 to date.</p>	
<p>Eng. James Bett (61 Years) <i>Member</i> He was appointed to the Board on 27th April 2015 as an independent Director. He is a registered engineer who joins the company with a Master's Degree (Industrial engineering and management from University of Sierra Leone) and a wide experience gained in the sugar and tea industries.</p>	
<p>CS. Susan Mungai, <i>Company Secretary</i> Susan is the Acting Company Secretary and a Member of ICPSK M/No. 2031. She is a holder of an MBA, Strategic Management (USIU), Bsc. IBA in Marketing & Entrepreneurship (USIU), CPS (K) and a Diploma in Human Resource Management (Kenya Poly). Has over 10 years' experience handling Board matters and strategy.</p>	

MANAGEMENT TEAM

 <p>Eng. Benedict Kimau</p>	<p>Eng. Benedict Kimau, (62yrs)</p> <p><i>Ag. Managing Director</i></p> <p>He is a registered engineer with <i>BSc Civil Engineering, University of Nairobi</i>, who has a wide experience in Railways design, construction & maintenance and also special skills in safety management.</p>
 <p>Mr. Bernard Njiraini</p>	<p>Bernard Njiinu Njiraini, (47yrs)</p> <p><i>Managing Director</i></p> <p>He was appointed Managing Director on 15th March 2019. He is an industrial engineer and organizational leader with over 21 years of experience. He holds an Msc. In Industrial Engineering, BSc in Mechanical Engineering and post graduate Diploma in Strategic Studies. He is a member of IEK</p>
 <p>Eng. Michael Thubi</p>	<p>Eng. Michael Thubi, (56 yrs) is the Research & Design Manager. He holds a <i>Bsc Mechanical Engineering (UoN) and Msc. Advanced Manufacturing Technology-University of Manchester</i>. He is a member of IEK. He has 4 years' experience in steel Industry under Industrial Promotion Services and 22 years in NMC in production design of products.</p>
 <p>Mr. Zacharia Magondu</p>	<p>Eng. Zacharia Magondu (39yrs) is a Maintenance Engineer and holds Msc Mechanical and Aerospace Engineering (Tottori University) <i>Bsc. Manufacturing Engineering (Egerton University)</i> He has 19 years of experience in industrial and Energy engineering.</p>

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 <p>Dr. Charles Kireru Ph.D.</p>	<p>Dr Charles Kireru is the Head of Human Resources and Administration. He holds Ph.D. (JKUAT); (MSc) (JKUAT); B. Arts (Egerton)and Higher National Diploma in Human Resource Management(KNEC)</p>
 <p>CPA Ferdinand Ododa.</p>	<p>CPA Ferdinand Ododa (33yrs) is the In-charge Finance and holds a <i>B Com (Finance)-Kenyatta University</i> and is a CPA(K). He has 9 years' experience as finance and accounting professional and a member of ICPAK.</p>
 <p>Ms Zipporah Samoei</p>	<p>Ms Zipporah Samoei (41 yrs) is currently in charge of Sales & Marketing. She has over 10 years' experience as a Marketing professional. She is a Diploma holder of Marketing by the Chartered Institute of Marketing. She is an Associate Member CIM.</p>
 <p>Joylene Mwelu</p>	<p>Joylene Mwelu was in charge of Supply Chain Management. She holds Bachelor of Procurement (JKUAT) and has more than 10 years' experience in procurement. She is member of KISM.</p>
 <p>CPA Abishack Boiywo</p>	<p>CPA Abishack Boiywo (41yrs) is the Internal Audit Manager. She holds a Masters of Business Administration (<i>Nottingham Trent University UK</i>) and Degree in Business Administration (Accounting Option)-(<i>Maseno University</i>) and CPA(K). She is a registered member of ICPAK, ISACA & IIA Kenya and has over 10 years' experience in auditing.</p>

CHAIRMAN'S STATEMENT

During the FY2018/19, NMC had revenue target of Kshs.85 million and achieved an impressive performance of Kshs.63 million representing 74% of the target. These revenues were achieved through the various business units; 75 tons cast at the foundry, manufacture of industrial parts and fabrication of Tofas brick making machines for Ministry of Housing.

During the financial year, NMC continued to face intense competition, high cost of production, alongside political and economic uncertainty, which exerted pressure on yields. Despite the challenges the Board and Management team remained focused on putting in place measures to enable the company strengthen its financial position and ultimately pay dividends to the National Treasury. The Company's turnaround strategy in line with Big 4 Agenda under the manufacturing pillar will no doubt better the position of the company in the long-term sustainable growth across its business.

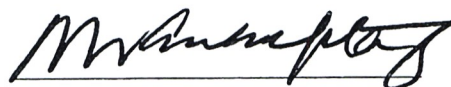
On behalf of the Board, I call upon all stakeholders to work with us in transforming and turning around the Company's business performance and laying the foundations for future growth to meet the aspirations of the government Big 4 agenda. I have no doubt that the company is poised to be at the focal point in facilitating and promoting industrialization.

Future prospects

Moving forward the company is projecting to achieve revenues of Kshs.260M in the coming financial year. This will be actualized through the manufacture of steel fittings for KPLC on last mile connectivity, manufacture of saddles for the railway industry, brick making machines to support housing under Big 4 agenda among other collaborative projects from Government Ministries.

Appreciation

We are indeed grateful to our shareholders for their support, understanding and patience as the Board of Directors continues with the turnaround efforts. The Government has showed goodwill in assisting NMC Ltd financially however we endeavour to grow in profitability and ensure self-sustainability. I thank our other stakeholders including employees, customers, suppliers and fellow Board members for their dedicated contribution and continued support to NMC Ltd.



Mr. M.G. Waweru, **FCCA,FCPA,CBS**
Chairman

REPORT OF THE MANAGING DIRECTOR

During the year under review, NMC made several achievements in regard to sourcing of orders for purposes of meeting its revenue targets, reduction on costs and putting in place strategies that will enable the organization to be self-sustaining. NMC also revised its Strategic Plan which articulates the process of implementing the turn-around strategy and the foundation for future growth is taking shape. The strategy aims at steering the Company to sustainable profitability, operational excellence, ensuring an agile and responsive business model, and having the right financing structure both for the short and long term.

Company performance

NMC slightly increased its operating loss to Kshs.5,843,763 during the financial year 2018/2019 (5,721,610-2017/2018). This was mainly attributed to increased cost of production. Results for the year were as below:

- Revenues declined by 5% to stand at Kshs.63.1M
- Operating costs reduced by 11%
- Gross profit reduced from Kshs.39.5M to Kshs.16.8M
- The loss before tax slightly increased from Kshs.5.7M to Kshs.5.8M.

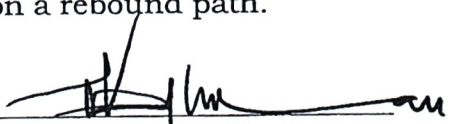
During the year 2018/2019 NMC received a grant of Kshs.135.9M for recurrent expenditure and Kshs.50M for development expenditure which was an increase by 13% from the year FY2017/18.

With the Governments Big 4 agenda under the manufacturing pillar, NMC focuses on modernizing its facilities for projects that will yield high return on investment and immensely contribute to being the driver of industrialization in Kenya. The company also embarked on completion of the on-going projects aimed at modernization of the foundry and machining workshop facilities.

In light of the current manufacturing sector performance and Governments support of the manufacturing pillar and affordable housing under the Big 4 Agenda, we are optimistic that upon implementation of the developed Strategic Plan and the promising market environment we shall attain the budgeted revenue target of Kshs.260M in the financial year 2019/2020.

APPRECIATION

I am indeed grateful to all stakeholders who have made the company remain on track despite the challenges. The support by the Government has been key to our operations. The Board of Directors and employees of the Company have also played their respective roles. We extend our gratitude to our customers, suppliers for their contribution to the continued pursuit of the mission of the Company. We are now rolling up our sleeves as we step up efforts to put NMC Ltd on a rebound path.


Eng. Benedict Kimau
Ag. Managing Director

CORPORATE GOVERNANCE STATEMENT

At Numerical Machining Complex Ltd, the Board places a high degree of importance on maintaining a sound control environment and applying the highest standards of business integrity and professionalism in all areas of the corporations' activities. The Board has adopted the Code of Best Practice for Corporate Governance issued by the Centre of Corporate Governance (Kenya) as its benchmark in developing its corporate governance principles. The Board is responsible for the governance of the entity and conducts the business and operations of the entity with integrity and in accordance with generally accepted corporate practices, based on transparency, accountability and responsibility.

BOARD OF DIRECTORS

The Board of Directors of the entity comprises of the Chairman who is appointed by the President, the CEO is appointed by the CS Ministry of Industrialization on recommendation by the Board. The Board has varied and extensive skills in the areas of business engineering management. The directors' responsibilities are set out in the Statement of Directors Responsibilities. The directors are responsible for the development of internal financial controls, which give reasonable assurance against material misstatements.

The Chairman provides the overall leadership to the Board without limiting the principle of collective responsibility for Board decisions. He acts as the link between the Board and the MD and plays a lead role in consensus building between the Board members, the MD and senior management. The Board has delegated the authority for day-to-day management to the MD. It however retains the overall responsibility for decisions with regard to finances and operations of the entity.

The Board meets regularly and has a formal schedule of matters reserved to it. Board papers are circulated well in advance of the Board meetings by the Acting Company Secretary. Directors are required to disclose all areas of conflict of interest to the Board and are excluded from voting on such areas. The key function of the Board is to guide and control the performance and management of the affairs of the entity.

The Board considers and advises the Cabinet Secretary for Ministry of Industry, Trade and Cooperatives on the development and maintenance of the policies and the objectives of Numerical Machining Complex Ltd. It considers and approves general performance targets, both strategic and business, and the annual budgets of the entity.

The Board has appointed various standing Committees to which it has delegated certain responsibilities with the chairpersons of the Committees reporting to it. These committees include: Audit & Risk, Human Resource, Finance, Technical and a Land Ad-hoc.

Numerical Machining Complex Ltd

**Annual Reports and Financial Statements
For the year ended June 30, 2019**

Composition of the Board and Committees is as follows:

Name of Director	Board Position	Board Committees			
		Human Resource	Audit & Risk	Finance & Technical	Land Ad- hoc
Michael Waweru	Chairman		√		
Eng. Benedict Kimau	Alternate to MD Kenya Railways Corporation			√	
Remmy Koech	Alternate to MD Kenya Railways Corporation		√		√
Prof. Gideon.K.Misoi	Alternate to the Vice Chancellor University of Nairobi	√			Chair
Amb. Joseph Kiplangat	Alternate to PS, Ministry of Industry ,Investments and Trade				
George Makateto	Alternate to PS, Ministry of Industry ,Investments and Trade			√	
Eng. Francis Gitau	Alternate to PS, Ministry of Transport and Infrastructure				
Ambrose Orwa	Alternate to PS, National Treasury and Planning		√		
Philip M Nyingi	Alternate to PS, Chief of Staff & Head of Public Service				
James Nyambune	Alternate to PS Ministry of Education	√		√	√
Prof. Angelina Kioko	Member	Chair			
Eng. James K Bett	Member			Chair(Technical)	
Eng Stanley Kaguongo	Member		Chair	Chair(Finance)	
Dr. Kamau Gachigi	Member			√	√

Numerical Machining Complex Ltd

**Annual Reports and Financial Statements
For the year ended June 30, 2019**

During the year, the attendance of the Board and Committees is as follows:

Total No. of Meetings	Board Meetings	Board Committees			
		Human Resource	Audit & Risk	Finance & Technical	Land Ad-hoc
	6	9	3	5	2
Michael Waweru	5/6				
Remmy Koech	1/6	1/9	3/3		1/2
Prof. Gideon Misoi	4/6	8/9	1/3(In attendance)		2/2
Amb. Joseph Kiplangat				1/5	
George Makateto	4/6				
Eng Francis Gitau	2/6				
Ambrose Orwa	5/6	2/9	3/3	4/5	
Philip M, Nyingi	1/6	7/9 (In Attendance)			
James Nyambune	4/6	8/9	1/3(In Attendance)	5/5	2/2
Prof. Angelina Kioko	3/6	6/9			
Eng. James K. Bett	5/6	6/9 (In Attendance)		5/5	
Eng. Stanley Kaguongo	5/6	6/9 (In Attendance)	3/3		
Dr. Kamau Gachugi	3/6	3/9 (In Attendance)		4/5	1/2
Eng. Benedict Kimau				3/5	
Linet Vitisia				1/5 (In attendance)	

The roles of the various Board committees are as below:

Audit & Risk Committee	Held 3 meetings during the year
Composition	The committee comprises of three non-executive Directors. It invites on need basis the Managing Director & Finance Manager to its meetings. External auditors are also invited to attend the meetings when necessary.
Terms of reference	<ul style="list-style-type: none"> • Examining quarterly, half-year and annual financial statements, • Discussing audit plan with the internal auditor before commencement of the annual audit • Consideration of audit findings by the external auditors • Reviewing the function, independence, operations and findings of the Internal Audit Department • Reviewing risks affecting the Company and management strategies in addressing them • Ensuring adherence with the code of ethics and integrity in financial transactions of the Company.

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For the year ended June 30, 2019

Human Resource Committee	Held 9 meetings during the year
Composition	The committee comprises of four Directors. It invites the Managing Director and the Head of Human Resource and Administration to its meetings.
Terms of reference	<ul style="list-style-type: none"> • Appointment of, and terms and conditions of service for the Managing Director; • Appointment, promotion and disciplinary issues of management. • Remuneration structure for staff; • Performance bonus for the Managing Director and staff; • Human resources policies and corporate organisational structure to support business
Finance & Technical Committee	Held 5 meetings during the year
Composition	The committee comprises of four Directors. It invites the Production Manager, Research & Development Engineer, Finance Manager, Sales and Marketing manager and Supply Chain Manager to its meeting.
Terms of reference	<ul style="list-style-type: none"> • The committee advises the Board on strategies to enhance performance of the Company. • The two committees review the Company's Strategic Plan, annual corporate strategic plan and annual corporate budget, financial and technical Performance. • It is also responsible for monitoring major projects under implementation. • Directing strategies for improving revenue and customer experience.
Land Ad-Hoc Committee	Held 2 meetings during the year
Composition and terms of reference	During the year, the board formed the land ad-hoc committee to discuss and deliberate on pertinent issues pertaining to NMC land in Athi-River land. The matters discussed included: Processing of title deeds for 500 acres sold off and securing of the remaining parcel of land i.e 1200 acres from further encroachment and master plan utilization.

Directors' Remuneration

During every Board meeting, present Directors are entitled to a sitting allowance, lunch allowance (in lieu of lunch being provided), accommodation allowance and mileage reimbursement where applicable within government set limits for state corporations. The Chairman receives a monthly honorarium. Directors' fees are paid in accordance and within the approved limits set in the guidelines by the Government to all State Corporations.

Details of Directors' emoluments during the year are shown on page 21 in the financial statements.

The company has a Board Charter in place in accordance with Mwongozo code of conduct that outlines process of appointment and removal of Directors, role and functions of the Board, Board and member performance, conflict of interest, ethics and conduct as well as governance audit.

MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance.

During the year under review the company's turnover declined by 5% to stand at Kshs 63.1M from Kshs 66.6M reported in the FY 2017/2018. The decline was mainly attributed to the delay in acquisition of key production inputs to execute the received large orders from KPLC clamps & Ministry of Housing Brick making machines due to unavailability of working capital.

The gross profit declined by 57%, from Kshs 39M realised in the year 2017/18 to Kshs 16M in the year under review. The decline was mainly attributed to high cost of production arising from acquisition of inputs in phases from local firms due to inadequate working capital, and thus the company could not benefit from economies of scale.

The operating expenses declined from Kshs.251M to Kshs 223M, representing a drop of 11%. The management instituted cost cutting measures during the year which included implementing austerity measures in various expenditure heads e.g. printing and stationery, travel and accommodation and computer expenses.

The overall performance for the year as compared to 2017/2018 was a slight decline from a loss of Kshs 5.7M to a loss of Kshs 5.8M.

The challenges the management faced in managing production cost included:

- Local unavailability of production inputs and spares
- Inadequate working capital
- Insufficient or no credit terms from suppliers of raw materials
- Fluctuating cost of material inputs especially steel and foundry inputs.
- Stringent procurement laws that hampered the delivery time of customer jobs and worked in favour of our competitors.
- Down time due to machine breakdown.

Measures put in place by management to mitigate and improve the financial performance in the coming year include:-

- Reduction of trade debtors to ease on cash-flow management.
- Reduction of cash conversion cycle.

Numerical Machining Complex Ltd

Annual Reports and Financial Statements For the year ended June 30, 2019

- Contract management with suppliers to ease delivery of material inputs and in conformity with PPOA Act.
- Seeking authority from the National Treasury to access borrowing to enable the company finance its working capital.
- New robust management team that has spearheaded the revision of the Strategic Plan to give direction on the transformational journey of NMC Ltd to be self-sustainable.
- Investment in equipment and in house galvanizing plant to enhance production efficiencies.

Despite receiving the total development grant towards the end of the 4th quarter, the company managed to commit the entire Kshs 50M allocated for modernization of machining and the foundry workshop. The return on investment of these capital acquisitions will contribute to the projected turnover in the financial year of 2019/2020.

Statutory Requirements

The company managed to settle all the statutory obligations in time hence no penalties or interest. These include PAYE, NHIF, and NSSF.

The Company has an outstanding matter of tax payable to Kenya Revenue Authority of Kshs. 65,449,910 being corporation tax, VAT and withholding tax. The figure includes interest and penalties which has been accrued over a long period of time. The management is in discussion with and aim of settling the issue to finality.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

As a responsible corporate citizen, Numerical Machining Complex Ltd recognizes the need to engage with its diverse public and stakeholders through CSR in order to cultivate good relations in the environment we operate in.

Numerical Machining Complex Ltd core responsibility to its various stakeholders is to work closely with them to pursue the enhancement and fulfillment of corporate values through sound business practices in order to promote a sustainable society.

The long term strategy is to engage in strategic CSR which will not only benefit our stakeholders but will also strengthen the corporation's corporate strategy and leverage on key focus areas.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the *entity's* affairs.

Principal activities

The principal activities of Numerical Machining Complex Ltd are the commercial production of steel, engineering design and development of machinery and components.

Results

The results of the entity for the year ended June 30, 2019 are set out on page one (1) During the year the entity made a loss of Kshs 5,843,763 (Kshs. 5,721,610 – 30th June 2018)

Directors

The members of the Board of Directors who served during the year are shown on page (v-vii) In accordance with Regulation of the state corporations Act (Cap 466). The Board of Directors were appointed from 27th April 2015.

Auditors

The Auditor General is responsible for the statutory audit of Numerical Machining Complex Ltd in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



Susan Mungai
Company Secretary
Nairobi

Date:.....

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (section 14 of the State Corporations Act, - (entities should quote the applicable legislation under which they are regulated)) require the Directors to prepare financial statements in respect of that *entity*, which give a true and fair view of the state of affairs of the *entity* at the end of the financial year/period and the operating results of the *entity* for that year/period. The Directors are also required to ensure that the *entity* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *entity*. The Directors are also responsible for safeguarding the assets of the *entity*.

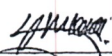
The Directors are responsible for the preparation and presentation of the *entity's* financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining 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 *entity*; (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 *entity*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *entity's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act) The Directors are of the opinion that the *entity's* financial statements give a true and fair view of the state of *entity's* transactions during the financial year ended June 30, 2018, and of the *entity's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the *entity's* financial statements as well as the adequacy of the systems of internal financial control.


Nothing has come to the attention of the Directors to indicate that the *entity* 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 *entity's* financial statements were approved by the Board on TH 26 SEPTEMBER 2019 and signed on its behalf by:



Eng. Stanley Kaguongo
Director



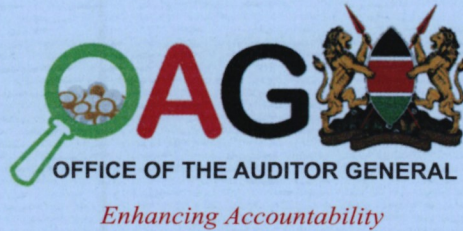
Eng. James Bett
Director



Julia Ng'ang'a
Director

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON NUMERICAL MACHINING COMPLEX LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Numerical Machining Complex Limited set out on page 1 to 38, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Numerical Machining Complex Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 of the Laws of Kenya

Basis for Qualified Opinion

1. Unconfirmed Value of Investment Property - Land

As disclosed in Note 14 to the financial statements, the statement of financial position reflects a balance of Kshs.290,000,000 under investment property. However, the following anomalies were noted:

- (i) As previously reported, the Government of Kenya in 1994 allocated the Company land measuring approximately 703.59 hectares under title LR No.63767 in Mavoko, Athi River. In 2001, the Company, with the consent of the Government sold part of land measuring 242.89 hectares to individuals and other entities whose titles deeds have not been wholly processed and released. The Company continued to pay rates based on the original title deed up to 2009. Further, a net

amount of Kshs.6,640,310 due from individuals has remained unpaid since 2001 from the sale of the parcel of the land. Recoverability of the debt remains doubtful.

- (ii) In addition, the remaining portion of land measuring 415.5 hectares is not fenced and has been encroached by informal settlers and other parties who have put up permanent structures. Further, the portion of the unsold land was revalued at Kshs.290 million in 2009 and the revaluation gain of Kshs.158,993,190 arising thereon was approved by the Board for inclusion in the financial statements in October, 2016. However, the Company has not valued its assets in the last ten (10) years to take cognizance of the drastic change in value of its assets contrary to International Accounting Standards No.16 and No. 40 which stipulates that property, plant and equipment should be revalued after every five years and lease payments be recognized as an expense in the statement of financial performance on a straight-line basis over the lease term, the leasehold property has not been amortized.
- (iii) On 14 January, 2003 a new title deed was issued to the Numeric Machining Complex Limited for 202.4 hectares under title No. I.R. 91216 land reference No.11895/22. It is not clear under which circumstances this new title deed was issued to the Company. A letter from the Ministry of Land Ref. No. VAL.1371/6 dated 17 February, 2009 to Numeric Machining Complex Limited on valuation of a parcel 11895/20 indicated that LR No.11895/20 had been subdivided and new LR's given. It is not clear why the company requested the Ministry to value land reference 11895/20. However, during the 2017/2018 and 2018/2019 audit the Management did not provide the new title deed for audit verification.

Consequently, it has not been possible to confirm the ownership, the accuracy, valuation and security of the investment property balance of Kshs.290,000,000 as at 30 June, 2019.

2. Trade and Other Payables

2.1. Long Outstanding Tax Payable

The statement of financial position reflects a balance of Kshs.159,506,136 under trade and other payables which includes accrued expenses amounting to Kshs.72,896,121. The latter balance includes an amount of Kshs.57,782,747 relating to tax payable. As previously reported, the tax payable balance relates to a tax liability of Kshs.26,264,885 which has been reflected in the financial statements since 1999. The amount still remains outstanding and continues to attract further penalties and interest - a situation which could have been avoided.

2.2. Long Outstanding Trade and Other Payables

Variances were noted between the balances reflected in the supporting schedules for trade and other payables provided for audit and the balances reflected in the financial statements as shown below.

	Financial Statement (Kshs.)	Schedule- Balances (Kshs.)	Variations (Kshs.)
Accrued Expenses	72,896,121	62,242,745	10,653,376
Other payables	67,345,688	83,628,936	16,283,248

Further, aging analysis revealed long outstanding accounts payables amounting to Kshs.144,475,469 for which no supporting documents including LPOs, invoices, delivery notes and the procurement documents were availed for audit review as shown below:

	Financial Statements Balance (Kshs.)	Amount Outstanding for more than 1 year (Kshs.)
Trade payables	19,264,327	14,149,387
Accrued Expenses	72,896,121	62,242,745
Other payables	67,345,688	68,083,337
Total	159,506,136	144,475,469

In addition, the following accounts payables balances did not show any movement during the year under review:

Item		Payable Amounts (Kshs.)
9200/010	Kandie Kimutai & Co	4,750,322
9200/020	Federation of Kenya Employers	240,210
9200/030	Challan Associates	158,990
9200/040	GPA compensation	96,828
	University of Nairobi	3,000,000
9150/010	Leave Travelling Allowance	163,669
9150/015	Salaries in Advance	14,166
9150/030	I.O.U.	6,499
9150/035	Overtime	143,047
Total		8,573,731

Under the circumstances, the accuracy, validity and existence of the trade and other payables balance could not be confirmed.

3. Trade and Other Receivables

As disclosed in Note 16 to the financial statements, the statement of financial position reflects a balance of Kshs.70,765,601 under trade and other receivables as at 30 June, 2019. However, the following anomalies were noted.

- (i) Note 16(d) to the financial statements reflects a balance of Kshs.3,478,388 for staff receivables which includes an amount of Kshs.1,971,336 for salaries advances from staff who have since left the Company's service.
- (ii) Note 16(a) reflects other receivables balance of Kshs.6,753,215 which includes an amount of Kshs.112,904 relating to a car loan for a former employee which has been outstanding since 2012. Further, the balance includes receivables of Kshs.6,640,331 for Athi River land sales which have remained unpaid since 2001.
- (iii) Note 16(a) also reflects deposits and prepayments balance of Kshs.4,917,251 which includes an amount of Kshs.1,544,762 which, as reported previously, has been outstanding for a considerable period. Although the Management explained that the amount related to deposits for tenders and performance bonds the Company participated in, no evidence was provided to support these outstanding balances.
- (iv) Further, included in the trade receivables balance of Kshs.76,065,539 is a debt amounting to Kshs.17,019,282 owed to the Company by M/s Rift Valley Railways. Recoverability of this long outstanding debt is doubtful since M/s Rift Valley Railways is no longer in operation.
- (v) The statement of financial position reflects a figure of Kshs.70,765,601 for trade and other receivables while ledgers provided for audit reflected an amount of Kshs.66,098,597 resulting to an unexplained difference of Kshs.4,667,004.

Under the circumstances, it has not been possible to confirm that the trade and other receivables balance of Kshs.70,765,601 as at 30 June, 2019 is fairly stated.

4. Unconfirmed Status of Fixed Assets

As reported in the prior years, the property, plant and equipment balance of Kshs.315,094,924 is not supported with a fixed asset register to indicate the location, condition and use of the assets, among other details, as stipulated under Regulation 143 of the Public Finance Management (National Government) Regulations, 2015 and the Company's Finance Policy Guidelines and Procedures Manual. Unless a proper and functioning asset management system is put in place, the Company's assets are exposed to abuse, misuse and may be lost through pilferage and theft. As a result, it has not been possible to confirm the status and location of the Company's assets.

It was further observed that apart from motor vehicles with a nil net book value, other assets of the Company with an aggregate net book value of Kshs.315,094,924 were not insured. Under the circumstances, it could not be confirmed that the assets of the Company had been properly safeguarded.

5. Inaccuracies of Cost of Sales Balance

The statement of profit and loss and other comprehensive income reflects a balance of Kshs.46,241,412 under cost of sales. However, the balance is not supported by a detailed

analysis to show how it was arrived at. Further, the purchases ledger provided for audit reflected a purchases figure of Kshs.38,510,277 and consequently, the cost of sales figure should have been as tabulated below:

Item	Amount (Kshs)
Opening Balances	88,967,957
Add: Purchases (As per the Ledger)	38,510,276
Less: Closing stock	(92,046,026)
Cost of Sales	35,432,206

The resulting variance of Kshs.10,809,205 has not been explained and or reconciled. Further, included in the cost of sales is an amount of Kshs.6,640,198 paid for supply of goods to different companies for which no supporting documents including procurement documents, invoices, electronic tax receipts and other documents were availed for audit verification.

In the circumstances, the accuracy, completeness and propriety of the cost of sales figure of Kshs.46,241,412 could not be ascertained.

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

Emphasis of Matter

1. Lack of an Enabling Framework

As previously reported, the Company was incorporated in 1994 under the Companies Act, Cap 446, but there is no enabling legislation enacted to strengthen the Company's mandate and objectives. As a result, the Company operates with a weak enabling framework which has not fortified its operations and mandate.

2. Unexplained Status of Ordinary Share Capital

Note 18 to the financial statements indicates that Kenya Railways Corporation owns 51% of the ordinary shares in Numerical Machining Complex Limited and the balance of 49% is owned by the University of Nairobi. The ownership is however not as a result of direct purchase of ordinary shares, but shares held in trust by these institutions on behalf of the Government through The National Treasury.

Key Audit Matters

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

Other Matter

1. Budget Control and Performance

The statement of comparison of budget and actual amounts reflects a final receipts budget and actual on comparable basis of Kshs.296,072,604 and Kshs.263,497,586 respectively resulting in under collection of Kshs.32,575,018. The statement also reflects a total expenditure of Kshs.268,712,841 against an approved budget of Kshs.294,544,851 resulting to an under-expenditure amounting to Kshs.25,832,010. However, an over expenditure of Kshs.17,195,212 was recorded under use of goods and services where an actual expenditure of Kshs.46,241,412 was incurred against the budgeted expenditure of Kshs.29,046,200. It was also observed that the Company received capital grants of Kshs.50,000,000 for the modernization of the NMC Foundry and Machining workshop. However, there was no evidence provided to show that the grants were utilized for the intended purpose.

2. Financial Performance

The Company's statement of profit and loss and other comprehensive income reflects a net loss of Kshs.5,843,763 (2018: Kshs.5,721,610). It is not clear what measures the Company has put in place to reverse the loss-making trend. Further, the company attracted customer orders worth Kshs.85,041,695 but was not able to complete orders amounting to Kshs.44,497,282 which may have resulted to the Company's revenue shortfall.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Payment done in Advance without Provision of Performance/Security Bond

The Company engaged several suppliers for supply of goods and services and paid an amount of Kshs.10,431,049 in advance contrary to Section 146 of the Public Procurement and Asset Disposal Act, 2015 which states that no works, goods or services contract shall

be paid for before they are executed or delivered and accepted by the Accounting Officer of a procuring entity.

2. Irregularities in Procurement of Purchases

- (i) A review of sampled procurements undertaken during the year revealed that items worth Kshs.185,160 were procured from suppliers who were not in the list of registered suppliers for the Company. The Company, therefore contravened section 71(1) of the Public Procurement and Assets Disposal Act, 2015. In the circumstance, it was not possible to confirm if the Company got value for money from the procurements.
- (ii) The Company procured Earth Ground Tester Fluke1625 kits through request for quotations method of procurement at a cost of Kshs.683,676. However, the quotation from the winning bidder was received on 13 June, 2018 while the Evaluation Committee meeting was held on 8 May, 2018. Consequently, the regularity of the procurement process could not be confirmed.
- (iii) The Company procured Assorted Galvanized Hexbolts from a Chinese Company at a cost of Kshs.6,166,298. However, Management has not explained how the supplier was identified as they were not in the list of prequalified suppliers. Further, Management did not provide evidence that the supplies were taken on charge. In addition, the same supplier was awarded another contract to supply Hex Bolt Nuts plain spring washer at a cost of Kshs.931,500 without any justification for single sourcing.
- (iv) A local firm supplied several items valued at a total cost of Kshs.3,589,666 to the Company through direct method of procurement. No evidence was provided that the conditions for use of the method as provided under Section 103(2) of the Public Procurement and Asset Disposal Act, 2015 had been met.
- (v) A local firm was awarded several contracts for the supply of mild steel flat bars at a total cost of Kshs.6,783,620. However, the firms invited to submit the quotations were identified through a market survey rather than from the list of registered suppliers as required under Section 106 (2) (a) of the Public Procurement and Asset Disposal Act, 2015. Further, the quotations did not indicate the day they were to be returned contrary to Section 106(1) (c) of the Public Procurement and Asset Disposal Act, 2015.

In view of the foregoing, the Company contravened the public procurement law and regulations and may not have received value for money from the procurement of the goods.

3. Irregular Reallocation of Development Grant

Section 43 1(b) of the Public Finance Management Act, 2012 prohibits reallocation of funds appropriated for capital expenditure. However, development grants amounting to Kshs.41,599,048 were reallocated and utilized for recurrent expenditure.

4. Delay in Approval of Procurement Plan

Section 53 (2) of the Public Procurement and Asset Disposal Act, 2015 provides that an Accounting Officer shall prepare an annual procurement plan, which is realistic, in a format set out in the Regulations within the approved budget prior to commencement of each financial year, as part of the annual budget preparation process. However, the Company operated without an approved procurement plan up to 17 December, 2018.

5. Irregular Recruitment of Employees

During the financial year 2018/2019, the company recruited four (4) employees. However, Management did not advertise for the positions of Marketing Officer and ICT Officer II. In addition, the advertisements for the Senior Superintending Engineer indicated that only one vacancy was available while two Senior Superintending Engineers were employed during the year. The employments were therefore in violation of Section 37 of the Public Service Commission Act, 2017 which stipulates that where a vacancy in a public office is to be filled, the Commission or authorized officer shall invite applications by advertising the vacancy in the Commission's website, at least in one daily newspaper of nationwide coverage, the radio and other modes of communication, so as to reach as wide a population of potential applicants as possible.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. Failure to Use Inventory Management Software

The statement of financial position reflects a balance of Kshs.92,046,027 for inventories. As previously reported, the Company used Pastel Accounting Software to manage its financial and some other operational records. Although the software includes a module for inventory management and control, the Company does not utilize this module. Instead inventories are managed and controlled manually which is prone to errors and fraud.

2. Internal Control Weaknesses in Management of Inventory

It was observed that the store was not segregated from the production unit. The finished goods are stored at the factory awaiting collection or delivery to customers. It was further noted that there were lathe machines that had been ordered by the State Department for Industrialization and had not been collected for over six (6) years. It is not clear why the Department has not collected the machines over the years from the Company's factory.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 Financial Reporting Standards and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the basis of accounting unless Management is aware of the intention to liquidate the Company 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 Company's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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 and that public resources are applied in an effective way, 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 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 Company's policies and procedures may deteriorate.


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

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

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern or 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 Company 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 April, 2021

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR
THE YEAR ENDED 30 JUNE 2019**

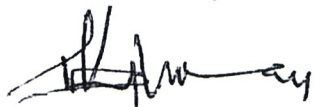
	Note	2018-2019	2017-2018
		Kshs	Kshs
REVENUES			
Revenue	6	63,139,094	66,615,916
Cost of sales	7	(46,241,412)	(27,088,593)
Gross profit		16,897,683	39,527,322
Grants from the National Government	8	200,316,317	204,579,877
Other Income	9	42,175	1,560,278
TOTAL REVENUES		217,256,174	245,667,478
OPERATING EXPENSES			
Administration Costs	10	(215,585,523)	(244,030,775)
Selling and Distribution Costs	11	(7,514,414)	(7,358,313)
TOTAL OPERATING EXPENSES	12	(223,099,937)	(251,389,088)
PROFIT/(LOSS) BEFORE TAXATION		(5,843,763)	(5,721,610)
INCOME TAX EXPENSE/(CREDIT)		0	0
PROFIT/(LOSS) AFTER TAXATION		(5,843,763)	(5,721,610)
OTHER COMPREHENSIVE INCOME			
Fair value through comprehensive income		0	0
Surplus or deficit on revaluation of PPE		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(5,843,763)	(5,721,610)

Annual Reports and Financial Statements
For the year ended June 30, 2019

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	2019 Kshs	2018 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	13	315,094,924	369,711,482
Investment property	14	290,000,000	290,000,000
Total Non-Current Assets		605,094,924	659,711,482
Current Assets			
Inventories	15	92,046,027	88,967,957
Trade and other receivables	16(a)	70,765,601	98,283,172
Bank and cash balances	17	75,381,301	42,179,156
Total Current Assets		238,192,929	229,430,285
TOTAL ASSETS		843,287,853	889,141,768
		=====	=====
EQUITY AND LIABILITIES			
Capital and Reserves			
Government grants		1,214,024,646	1,214,024,646
Revaluation reserve		158,993,190	158,993,190
Retained earnings		(1,575,524,195)	(1,569,680,432)
Capital Grants		886,288,076	900,698,776
Proposed dividends		-	-
Capital and Reserves		683,781,717	704,036,181
Non-Current Liabilities			
Total Non-Current Liabilities		-	-
Current Liabilities			
Trade and other payables	22	159,506,136	185,105,587
Total Current Liabilities		159,506,136	185,105,587
TOTAL EQUITY AND LIABILITIES		843,287,853	889,141,768
		=====	=====

The financial statements were approved by the Board on _____ 2019 and signed on its behalf by:



Eng. Benedict Kimau
Ag. Managing Director



CPA Patrick Kariuki
Head of Finance
ICPAK M/No.11770



Mr. M. G. Waweru, FCCA, FCPA, CBS
Chairman

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Capital Development Grants/Fund	Total
At July 1, 2017	1,214,024,646	158,993,190	-	(1,563,958,822)	-	940,853,653	749,912,667
Revaluation gain	-	-	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-	-	-
Fair value adjustment on quoted investments	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	(5,721,610)	-	-	(5,721,610)
Capital/Development grants received during the year	-	-	-	-	-	25,000,000	25,000,000
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	(65,154,877)	(65,154,877)
Dividends paid – 2017	-	-	-	-	-	-	-
Interim dividends paid – 2018	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-
At June 30, 2018	1,214,024,646	158,993,190	-	(1,569,680,432)	-	900,698,776	704,036,180
At July 1, 2018	1,214,024,646	158,993,190	-	(1,569,680,432)	-	900,698,776	704,036,180
Issue of new share capital	-	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-	-	-
Fair value adjustment on quoted investments	-	-	-	-	-	-	-

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Total comprehensive income	-	-	-	(5,843,763)	-	-	(5,843,763)
Capital/Development grants received during the year	-	-	-	-	-	50,000,000	50,000,000
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	(64,410,701)	(64,410,701)
Dividends paid – 2018	-	-	-	-	-	-	-
Interim dividends paid – 2019	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-
At June 30, 2019	1,214,024,646	158,993,190	0	(1,575,524,195)	0	886,288,076	683,781,717

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Note	2018-2019 Kshs	2017-2018 Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	23	57,956,820	63,444,587
Net cash generated from/(used in) operating activities		57,956,820	63,444,587
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	13	(10,343,974)	(10,796,033)
Net cash generated from/(used in) investing activities		(10,343,974)	(10,796,033)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in capital grants <i>(See the movement in statement of changes in Equity)</i>		(14,410,701)	(40,154,878)
Net cash generated from/(used in) financing activities		(14,410,701)	(40,154,878)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		33,202,145	12,493,676
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		42,179,156	29,685,480
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	17	75,381,301	42,179,156

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2019

	Original budget 2018-2019 Kshs	Adjustments 2018-2019 Kshs	Final budget 2018-2019 Kshs	Actual on comparable basis 2018-2019 Kshs	Performance difference 2018-2019 Kshs	Percentage Variation
Revenue						
Sale of goods	256,000,000	(171,000,000)	85,000,000	63,139,094	(21,860,906)	(26%)
Transfers from the Government	192,000,000	(53,320,800)	138,679,200	135,905,616	(2,773,584)	(2%)
Other income-Deferred & Miscellaneous	125,515,848	(53,122,444)	72,393,404	64,452,876	(7,940,528)	(11%)
Total income	573,515,848	(277,443,244)	296,072,604	263,497,586	(32,575,018)	
Expenses						
Compensation of employees	207,265,982	76,659,464	130,606,518	117,038,819	13,567,699	10%
Use of goods and services	122,704,281	93,658,080	29,046,200	46,241,412	(17,195,212)	(59%)
Other payments	218,842,180	83,950,047	134,892,133	105,432,610	29,459,523	22%
Total expenditure	548,812,442	254,267,591	294,544,851	268,712,841	25,832,010	
Surplus for the period	24,703,406	(531,710,835)	1,527,753	(5,215,255)	(58,407,028)	

1. **Sale of goods**

The company achieved 74% of the projected revenues giving a variance of 21.8million. These revenues were to be generated from diversified product lines. We had KPLC and Kenya railways orders in mind while preparing the budget which did not materialize.

2. **Other Income and Deferred Income.**

Deferred income realised from depreciation of assets bought through development grant (IAS 20). The total development funds were received toward the end of fourth quarter therefore the acquisition of capital items for 2018/19 was still in progress thus we did not achieved projected deferred income. Other income projection of Kshs. 3.5m from disposal of Engines did not take effect thus rendering us not to achieve the target.

3. **Use of goods and service.**

Production materials consumed during the year gave a variance of 59%. This variance arises from purchase of production inputs for KPLC, Itare Dam order and others which had not been completed by the end of the reporting period.

4. **Other payments**

The payment were less by 22% of projected amount. As the target for sales were not achieved some of expenses projected could not have incurred or deferred.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Numerical Machining Complex Ltd is established by and derives its authority and accountability from the Companies Act. The entity is wholly owned by the Government of Kenya through 49 % of equity held by University of Nairobi and 51% held by Kenya Railways Corporation and is domiciled in Kenya. The entity's principal activity is the commercial production of steel, engineering design and development of machinery and components.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

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, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity'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 *entity*.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

Amendment/Interpretation to a standard	Effective date	Impact <i>(The standard is not relevant to NMC Ltd for FY 2018/19)</i>
IFRS 16: Lease <i>(Issued 24 July 2014)</i>	Effective for annual periods beginning on or after 1 January 2019	Introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease

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Amendment/Interpretation to a standard	Effective date	Impact <i>(The standard is not relevant to NMC Ltd for FY 2018/19)</i>
		<i>payments. The sstandard is not relevant to NMC Ltd for FY 2018/19</i>
IFRS 3: Annual improvement to IFRSs 2015-2017 Cycle, <i>(Issued December 2017)</i>	Applicable 1 January 2019	The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination. <i>(The standard is not relevant to NMC Ltd for FY 2018/19)</i>
IFRS 11: Annual improvement to IFRSs 2015-2017 Cycle, <i>(Issued December 2017)</i>	Applicable 1 January 2019	The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests <i>(The standard is not relevant to NMC Ltd for FY 2018/19)</i>
IAS 12: Annual improvement to IFRSs 2015-2017 Cycle, <i>(Issued December 2017)</i>	Applicable 1 January 2019	The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked. <i>The standard is not relevant to NMC Ltd for FY 2018/19)</i>
<i>Applying IFRS 9 Prepayment feature with negative compensation issue date 1st October 2017</i>	Effective for annual periods beginning on or after 1 January 2019	The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met. <i>The standard is not relevant to NMC Ltd for FY 2018/19)</i>
<i>Amendments to IAS 23 – Annual improvement to IFRSs 2015-2017 Cycle Issue date December 2017</i>	Effective for annual periods beginning on or after 1 January 2019	The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the cost of borrowing made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing cost for other qualifying assets. <i>The standard is not relevant to NMC Ltd for FY 2018/19)</i>

Numerical Machining Complex Ltd

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Amendment/Interpretation to a standard	Effective date	Impact <i>(The standard is not relevant to NMC Ltd for FY 2018/19)</i>
<i>Amendments to IAS 19 –Plan Amendments, curtailment or settlement</i> <i>Issue date February 2018</i>	Effective for annual periods beginning on or after 1 January 2019	The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard. <i>The standard is not relevant to NMC Ltd for FY 2018/19)</i>

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact <i>(The standard is not relevant to NMC Ltd for FY 2017/18)</i>
<i>IFRS 17 Insurance Contracts</i> <i>(Issued 18 May 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2021	IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021. <i>(The standard is not relevant to NMC Ltd for FY 2018/19)</i>

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<p><i>IFRIC 23: Uncertainty over Income Tax Treatments (Issued 7 June 2017)</i></p>	<p>Applicable to annual reporting periods beginning on or after 1 January 2019</p>	<p>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • The effect of changes in facts and circumstances <p><i>(The standard is not relevant to NMC Ltd for FY 2018/19)</i></p>
<p><i>Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) (Issued 12 October 2017)</i></p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.</p> <p><i>The standard is not relevant to NMC Ltd for FY 2018/19)</i></p>
<p><i>Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018)</i></p>	<p>Annual periods beginning on or after 1 January 2020</p>	<p>Together with the revised <i>Conceptual Framework</i> published in March 2018, the IASB also issued <i>Amendments to References to the Conceptual Framework in IFRS Standards</i>. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised <i>Conceptual Framework</i>. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised <i>Conceptual Framework</i>.</p> <p><i>The standard is not relevant to NMC Ltd for FY 2018/19)</i></p>

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

iii) Early adoption of standards

The entity did not adopt any new or amended standards in year 2018.

i) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

a) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the *entity* and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the *entity's* activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the *entity's* activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the *entity* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the *entity* actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the *entity* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *entity* includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

A full year's depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible assets

Intangible assets comprise purchased computer software licenses, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

f) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

g) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

h) Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

j) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

l) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

m) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

n) Taxation

Current income tax

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 Entity 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Current income tax (Continued)

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 Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and

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.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Deferred tax (Continued)

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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 Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

p) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

q) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2018. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

s) Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

t) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

u) Budget information

The original budget for FY 2018-2019 was approved by the National Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Numerical Machining Complex didn't record additional appropriations of on the 2018-2019 budget.

The entity'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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Budget information (Continued)

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section XV of these financial statements.

v) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

w) 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, 2018.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Impairment losses on trade and other receivables

The company reviews its trade and other receivables to assess impairment regularly. In determining whether an impairment loss should be recognised through profit or loss, the company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the receivables, before a decrease can be identified. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers or local economic conditions that correlate with defaults on assets in the company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY
(Continued)**

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 16(c).

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

a) Bad and Doubtful Debts

Debts are written off only with Board of Directors' approval

- **Specific provisions**

Specific provisions are made against customer debts when, in the opinion of the directors recovery is considered doubtful or they are over 6 years old.

- **General provision**

These are made at 2% of Debtors which

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 REVENUE

	2018/2019	2017/2018
	Kshs	Kshs
Gross sales of goods	73,270,701	77,303,750
Gross sales of services	-	-
Less: Value added tax on gross sales	(10,131,607)	(10,687,854)
Total	63,139,094	66,615,916

7 COST OF SALES

	2018/2019	2017/2018
	Kshs	Kshs
Cost of sales on goods	46,241,412	27,088,593
Cost of sales on services	-	-
Total	46,241,412	27,088,593

8 GRANTS FROM NATIONAL GOVERNMENT

	2018/2019	2017/2018
	Kshs	Kshs
Recurrent grants received	135,905,616	139,425,000
Capital grants realized (see note below)	64,410,701	65,154,877
In Kind contributions/ donations	-	-
Total	200,316,317	204,579,877

Name of the Entity sending the grant	Amount recognized in the Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund. KShs	Total grant income during the year KShs	2018-2019 KShs
Ministry of Industry, Trade & Cooperatives	135,905,616	64,410,701	50,000,000	185,905,616	164,425,000
Total	135,905,616	64,410,701	50,000,000	185,905,616	164,425,000

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 OTHER INCOME

	2018- 2019	2017-2018
Description	Kshs	Kshs
Sale of tender documents	-	1,600
Other miscellaneous receipts	42,175	1,558,678
Total	42,175	1,560,278

10 (a) ADMINISTRATION COSTS

	2018- 2019	2017-2018
Description	Kshs	Kshs
Staff costs (note 10b)	112,074,049	118,950,234
Directors' emoluments	6,269,787	4,309,081
Electricity and water	10,694,769	11,799,574
Communication services and supplies	1,140,226	2,151,541
Transportation, travelling and subsistence	1,168,165	1,218,078
Advertising, printing, stationery and photocopying	568,483	460,944
Rent expenses	-	-
Staff training expenses	1,003,063	177,622
Hospitality supplies and services	1,547,069	1,575,132
Insurance costs	734,419	23,415,929
Bank charges and commissions	412,416	336,881
Office and general supplies and services	2,250,926	2,308,745
Auditors' remuneration	696,000	696,000
Legal fees	122,790	197,931
Consultancy fees	1,165,557	-
Repairs and maintenance	2,734,675	2,526,374
Provision for bad and doubtful debts	628,507	-
Other operating expenses	72,374,622	73,906,709
Total	215,585,523	244,030,775

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 (b) STAFF COSTS

Salaries and allowances of permanent employees	101,694,013	101,763,971
Wages of temporary employees	2,311,183	630,386
Compulsory national health insurance schemes	-	-
Compulsory national social security schemes	270,600	260,200
Other pension contributions	6,315,693	1,908,074
Leave pay and gratuity provisions	1,140,061	14,387,602
Staff welfare	342,500	-
Total	112,074,049	118,950,234
The average number of employees at the end of the year was:		
Permanent employees – Management	9	4
Permanent employees – Unionisable	107	109
Temporary and contracted employees	3	3
Total	119	116

11 SELLING AND DISTRIBUTION COSTS

	2018- 2019	2017-2018
Description	Kshs	Kshs
Salaries and wages of sales personnel	5,460,518	5,866,195
Marketing and promotional expenses	2,053,896	1,492,118
Total	7,514,414	7,358,313

12 OPERATING PROFIT/(LOSS)

	2018- 2019	2017-2018
	Kshs	Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 10b)	112,074,049	118,950,234
Selling and distribution Expenses	7,514,414	7,358,313
Other Administration costs	30,956,647	54,370,754
Depreciation of property, plant and equipment	64,960,533	65,704,706
Provision for bad and doubtful debts	628,507	-
Directors' emoluments – fees	1,646,551	1,924,081
- other	4,623,236	2,385,000
Auditors' remuneration - current year fees	696,000	696,000
Total	223,099,937	251,389,088

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 PROPERTY, PLANT AND EQUIPMENT

2019	Freehold land	Buildings & civil works	Plant and machinery/Tools and spares	Motor vehicles, including motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
COST OR VALUATION								
At July 1, 2018	290,000,000	59,263,289	1,183,525,548	27,181,661	69,140,897	9,377,363	14,840,903	1,653,329,662
Additions		31,540	13,998,234	-	79,000	-	-	14,108,774
Transfers	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	(3,764,800)	(3,764,800)
At June 30, 2019	290,000,000	59,294,829	1,197,523,783	27,181,661	69,219,897	9,377,363	11,076,103	1,663,673,636
DEPRECIATION								
At July 1, 2018	-	19,072,570	870,609,417	27,181,661	68,913,233	7,841,298	-	993,618,180
Charge for the year	-	1,185,897	63,109,020	-	168,393	497,222	-	64,960,533
Impairment loss	-	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-	-	-
At June 30, 2019	-	20,258,467	933,718,438	27,181,661	69,081,626	8,338,521	-	1,058,578,712
NET BOOK VALUE At June 30, 2019	290,000,000	39,036,362	263,805,345	-	138,271	1,038,843	11,076,103	605,094,924

Property, plant and equipment include the following items that are fully depreciated:

	Cost or Valuation	Normal Annual depreciation charge
Plant and machinery	625,853,751	80,915,469
	625,853,751	80,915,469
	=====	=====

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
13 PROPERTY, PLANT AND EQUIPMENT (Continued)

2018	Freehold land	Buildings & civil works	Plant and machinery/Tools and spares	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
COST OR VALUATION								
At July 1, 2017	290,000,000	57,650,129	1,176,748,640	27,181,661	8,884,077	9,377,363	12,691,758	1,642,533,629
Additions		1,613,160	6,776,908		256,820		3,764,800.30	12,411,689
Transfers	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	(1,615,655)	(1,615,655)
At June 30, 2018	290,000,000	59,263,289	1,183,525,548	27,181,661	9,140,897	9,377,363	14,840,903	1,653,329,662
DEPRECIATION								
At July 1, 2017	-	17,887,304	809,250,176	25,083,464	8,390,173	7,302,356	-	927,913,473
Charge for the year	-	1,185,266	61,359,241	2,098,197	523,060	538,942	-	65,704,706
Impairment loss	-	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	-	-	-	-	-
At June 30, 2018	-	19,072,570	870,609,417	27,181,661	8,913,233	7,841,298	-	993,618,180
NET BOOK VALUE At June 30, 2018	290,000,000	40,190,719	312,916,131	-	227,664	1,536,065	14,840,903	659,711,482
Property, plant and equipment include the following items that are fully depreciated:								
					Cost or Valuation		Normal Annual depreciation charge	
Plant and machinery					692,593,832		86,574,229	
Motor vehicles, including motor cycles					27,181,161		5,436,332	
Computers and related equipment					68,714,717		22,904,906	
					5,399,584		674,948	
					793,889,294		115,590,415	
					=====		=====	

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For the year ended June 30, 2019

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 INVESTMENT PROPERTY

	2018-2019	2017-2018
	Kshs	Kshs
Opening valuation	290,000,000	290,000,000
Movements during the year		
Closing valuation	290,000,000	290,000,000
	=====	=====
DEPRECIATION (IF AT COST)		
At June 30		-
NET BOOK VALUE		
At June 30	290,000,000	290,000,000
	=====	=====

The company has an investment of 703.59 Hectares of Land at Athi River. Out of this a total of 242.89 Hectares has been sold leaving a balance of 460.70 Hectares as investment in property worth Kshs 131,006,810. The property was valued in 1995 and this does not reflect the actual fair market value of the property. A revaluation by the Ministry of Lands to Kshs. 290 million done in 2009 has been included in the financial statements after the same had been adopted by Board of Directors.

15 INVENTORIES

	2018-2019	2017-2018
	Kshs	Kshs
Engineering stores	82,763,316	88,967,957
Fuel, oil and lubricants	8,025,567	-
Stationery and general stores	1,257,144	-
	92,046,027	88,967,957
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 (a) TRADE AND OTHER RECEIVABLES

	2018-2019	2017-2018
	Kshs	Kshs
Trade receivables (note 16 (b))	76,065,539	101,323,324
Deposits and prepayments	4,917,251	8,843,510
VAT recoverable	3,072,633	154,391
Staff receivables (note 16 (c))	3,478,388	4,101,650
Other receivables	6,753,215	6,753,215
Gross trade and other receivables	94,287,025	121,176,089
Provision for bad and doubtful receivable	(23,521,424)	(22,892,917)
Net trade and other receivables	70,765,601	98,283,172
	=====	=====

16 (b) TRADE RECEIVABLES

	2018-2019	2017-2018
	Kshs	Kshs
Gross trade receivables	76,065,539	101,323,324
Provision for doubtful receivables	(23,521,424)	(22,892,917)
	52,544,415	78,430,407
	=====	=====
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	2,945,784	4,608,817
Between 30 and 60 days	604,753	2,917,656
Between 61 and 90 days	501,817	3,002,419
Between 91 and 120 days	450,938	147,409
Over 120 days	71,562,247	90,647,023
	76,065,539	101,323,324
	=====	=====

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 (c) PROVISION FOR BAD AND DOUBTFUL DEBTS

PROVISION FOR BAD BEBTS	2019	2018
	KSHS	KSHS
Debts balance As At 30.06.19	76,065,539	101,323,324
Less:		
Specific Provisions	20,073,156	18,916,357
	55,992,383	82,406,967
Specific Provision Debts over six Years	20,073,156	18,916,357
General Provision-2% of 55,593,851	1,119,848	1,648,139
	21,193,004	20,564,496
	(20,564,496)	(21,027,861)
Decrease or increase in provision for bad debts	628,507	(463,365)
Provision for bad debts 2017/2018	22,892,916	23,356,281
Less/Add: Decrease in bad debts	628,507	(463,365)
	23,521,424	22,892,916

16 (d) STAFF RECEIVABLES

	2018-2019	2017-2018
	Kshs	Kshs
Gross staff loans and advances	3,478,388	4,101,650
Provision for impairment loss	(2,009,614)	(2,136,361)
Less: Amounts due within one year	(1,468,773)	(1,965,289)
Amounts due after one year	-	-
	=====	=====

17 BANK AND CASH BALANCES

	2018-2019	2017-2018
	Kshs	Kshs
Cash at bank	75,381,301	42,179,156
Cash in hand	-	-
	75,381,301	42,179,156
	=====	=====

The cash was held at KCB Bank group the company's main banker

		2018/2019	2017/2018
Financial Institutions	Account Number	Kshs.	Kshs.
Kenya Commercial Bank	1107169453	23,713,252	6,025,379
Kenya Commercial Bank	1127662244	51,668,049	36,153,417
Total		75,381,301	42,179,156

18 ORDINARY SHARE CAPITAL

	2018-2019	2017-2018
	Kshs	Kshs
Authorised:		
75,000,000 ordinary shares of Kshs.10 par value each	750,000,000	750,000,000
	=====	=====
Issued and fully paid:		
75,000,000 ordinary shares of Kshs. par value each	-	-
	=====	=====

The share are owned by 2 entities i.e. Kenya Railways Corporation and University of Nairobi consisting of 38,250,000 and 36,750,000 shares respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 REVALUATION RESERVE

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

20 FAIR VALUE ADJUSTMENT RESERVE

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

21 RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the *entity's* shareholders. Undistributed retained earnings are utilised to finance the *entity's* business activities.

22 TRADE AND OTHER PAYABLES

	2018-2019	2017-2018
	Kshs	Kshs
Trade payables	19,264,327	26,833,248
Accrued expenses	72,896,121	91,349,584
Other payables	67,345,688	66,922,754
	159,506,136	185,105,587
	=====	=====

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 NOTES TO THE STATEMENT OF CASH FLOWS

	2018-2019	2017-2018
	Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(5,843,763)	(5,721,610)
Depreciation	64,960,533	65,704,706
Amortisation	-	-
(Gain)/loss on disposal of property, plant and equipment	-	-
Operating profit/(loss) before working capital changes	59,116,770	59,983,097
(Increase)/decrease in inventories	(3,078,070)	1,658,722
(Increase)/decrease in trade and other receivables	27,517,571	(11,672,841)
Increase/(decrease) in trade and other payables	(25,599,451)	13,475,609
Increase/(decrease) in retirement benefit obligations	-	-
Increase/(decrease) in provision for staff leave pay	-	-
Cash generated from/(used in) operations	57,956,819	63,444,587
	=====	=====
(c) Analysis of cash and cash equivalents		
Short term deposits	-	-
Cash at bank	75,381,301	42,179,157
Cash in hand	-	-
Balance at end of the year	75,381,301	42,179,157
	=====	=====

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24 RELATED PARTY DISCLOSURES

(a) Government of Kenya

The Government of Kenya is the principal shareholder of Numerical Machining Complex Ltd holding 100% through 49% by University of Nairobi and Kenya Railways Corporation. Other related parties include:

Other related parties include:

- i) Ministry of Industry Trade and Cooperatives
- ii) Key management;
- iii) Board of directors;

25 CAPITAL COMMITMENTS

Capital commitments at the year- end for which no provision has been made in these financial statements are:

	2018-2019	2017-2018
	Kshs	Kshs
Amounts authorised and contracted for	50,000,000	25,000,000
Amounts authorizes but not contracted for	-	-
Less: Amounts included in Work in progress	-	-
	50,000,000	25,000,000
	=====	=====

26 CONTINGENT LIABILITIES

	2018-2019	2017-2018
	Kshs	Kshs
Disputed tax penalties	57,782,747	57,782,747
	_____	_____
	57,782,747	57,782,747
	=====	=====

The company has an outstanding matter of tax payable to Kenya Revenue Authority of Kshs 31,517,862 being nthe difference between the self-assessed amounts of Kshs 26,264,885 which has been outstanding for a long time. In their assessment, KRA tax audit had given a total tax payable of Kshs. 57,782,747. KRA agreed to schedule another audit for NMC tax liabilities to clear the matter.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

27 FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2019				
Trade Receivable	52,544,115	4,503,292	71,562,247	(23,521,424)
Bank balances	75,381,301	75,381,301	-	-
Total	127,925,416	79,884,593	71,562,247	(23,521,424)
At 30 June 2018				
Trade Receivable	78,430,407	14,185,265	87,138,059	(22,892,917)
Bank balances	42,179,156	42,179,156	-	-
Total	120,609,563	56,364,421	87,138,059	(22,892,917)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from trade receivables

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

27 FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk management (Continued)

	Less than 1 month	Between 1- 3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2019				
Trade payables	1,785,284	59,169	17,419,873	19,264,327
Total	1,785,284	59,169	17,419,873	19,264,327
At 30 June 2018				
Trade payables	708,337	12,175,704	13,949,207	26,833,248
Total	708,337	12,175,704	13,949,207	26,833,248

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

27 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company did not have any interest borrowing in the current finance period hence no exposure to interest rate risks.

28 INCOPORATION

The entity is incorporated in Kenya under the Kenyan Companies Act (Cap 486) and is domiciled in Kenya.

29 EVENTS AFTER THE REPORTING PERIOD

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

30 CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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:	Timeframe:
1	Unconfirmed value of Investment Property - Land	<p>The management is in agreement with the auditors comments. However, processing of title deeds is currently underway and several titles have been issued to rightful owners of the sold parcels of land.</p> <p>The resurveying and securing of the parcel had been halted by court cases since 2010. However, a ruling made on 29th March 2019 in favour of NMC has granted permission for the said activities.</p> <p>A cabinet memo to install beacons, secure the parcel of land & remove squatters and revalue the investment property is in progress.</p>	Board of Directors/MD	On-going	June 2020
2	Long outstanding Tax Payable	<p>The management has been working closely with KRA to ensure the issue is amicably settled. A review of NMC tax position was to be conducted by KRA and recommendations sort to address writing off of the long outstanding tax.</p> <p>The management is currently reconstructing the tax account from 1994 to establish the basis of the tax obligation.</p>	MD/Finance Manager	In-Progress	June 2020

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3	Trade Receivables	<p>The statement of financial position as at 30 June, 2018 reflects a figure of Kshs 98,246,923 for Trade and other Receivables. The following anomalies were noted;</p> <ol style="list-style-type: none"> 1. The management is in the process of compiling a report to table to the Board of Directors in order to have the amounts written off as per section 148 of the PFM Regulations 2. The management shall table a report to the Board of Directors in order to have the amount of Kshs 112,904 written off as per section 148 of the PFM Regulations 2015. 3. The amount of Kshs 1,544,762 relates to bid bonds that the company participated in various years as highlighted below. However, the mode of payment during the same period was through bankers' cheque. 4. Measures have been put in place to reconcile and recover any outstanding amounts recovered. 5. The management through the BOD is negotiating with Kenya Railways for settlement of the outstanding debt of Kshs 17,019,282 through issuance of scrap metal inputs for production process. Currently, NMC has been awarded 1,000,000 kgs at a discounted price of Ksh 17 per Kg. (See attached correspondence) 6. Measures have been put in place to ensure the credit limits of 60 days for customers are adhered to. 	Finance manager	In-Progress	June 2020
---	-------------------	--	-----------------	-------------	-----------

Numerical Machining Complex Ltd

**Annual Reports and Financial Statements
For the year ended June 30, 2019**

4	Unconfirmed status of fixed Assets	The management has taken measures to have a fixed asset register with a list of assets together with their location being identified. Further actions that the management intends to take are to include valuation of all assets to ascertain their fair market values.	Finance Manager	In-Progress	June 2020
5	Trade and Other Payables	Measures are being put in place to reconcile the trade payable account to clear any long outstanding de Included in other payable is gratuity payable of Kshs 58,862,964. Management is in the process of reconciling and reconstructing the account to reflect the listings.	Finance Manager	In-Progress	June 2020

Ag. Managing Director

Date.....

30/09/2019

Chairman of the Board

Date.....



Numerical Machining Complex Ltd

Annual Reports and Financial Statements

For the year ended June 30, 2019

APPENDIX I1: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1	-	-	-	-	-	-

Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	-	-	-	-	-	-	-

The company did not implement any project funded by development partners.

Numerical Machining Complex Ltd

Annual Reports and Financial Statements

For the year ended June 30, 2019

APPENDIX III: INTER-ENTITY TRANSFERS

	ENTITY NAME:	Numerical Machining Complex		
	Break down of Transfers from the State Department for Industry			
	FY 2018/2019			
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		13/09/2018	34,669,800	2018/2019
		07/12/2018	32,589,612	2018/2019
		19/02/2019	34,669,800	2018/2019
		13/05/2019	33,976,404	2018/2019
		Total	135,905,616	
b.	Development Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		26/02/2019	25,000,000	2018/2019
		21/05/2019	25,000,000	2018/2019
		Total	50,000,000	
c.	Direct Payments			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
			-	
			-	
			-	
		Total	0	
d.	Donor Receipts			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
			-	
			-	
			-	
		Total	0	

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/ Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded/ recognized						Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific		
Ministry of Planning and Devolution	0	Recurrent	-	-	-	-	-	-	-	-
Ministry of Planning and Devolution	0	Development	-	-	-	-	-	-	-	-
USAID	0	Donor Fund	-	-	-	-	-	-	-	-
Ministry of Planning and Devolution	0	Direct Payment	-	-	-	-	-	-	-	-
Total			-	-	-	-	-	-	-	-

REPUBLIC OF KENYA

OAG



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability



REPORT

OF

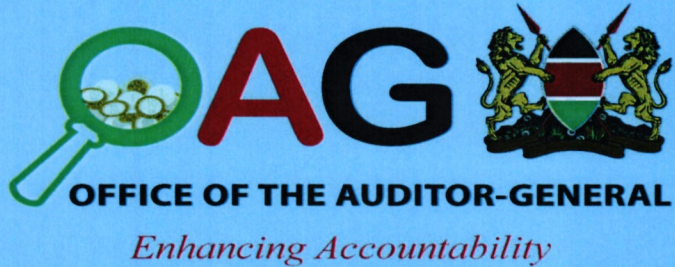
THE AUDITOR-GENERAL

ON

**NUMERICAL MACHINING COMPLEX
LIMITED**

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

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

**COMMISSION ON REVENUE ALLOCATION
STAFF MORTGAGE SCHEME FUND**

**FOR THE YEAR ENDED
30 JUNE, 2020**



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

03 FEB 2021

RECEIVED

COMMISSION ON REVENUE ALLOCATION

CRA'S STAFF MORTGAGE SCHEME FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30 JUNE 2020

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

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I. KEY SCHEMES' INFORMATION AND MANAGEMENT

Background information

The Commission's Mortgage Scheme Fund was established in FY 2016/17 through the SRC's regulations Ref No: SRC/ADM/CIR/1/13 Vol. III (128) with the objective of providing a loan scheme for the purpose of residential property for the staff. The loan acquisition entails both construction, purchase of residential homes and acquisition of land.

The fund was established with an initial capital outlay of **Kshs. 80,805,126/-** paid out from the Commission's reserves as seed capital for the fund. The Scheme's capital has since been enhanced to **Kshs. 117,403,126/-** mainly from the annual budget allocations of the Commission.

The scheme's secretariat is drawn from Corporate service directorate while administration and management is conducted by KCB. Management is done in accordance with the laid down internal guidelines & regulations and MOU between KCB and the Commission.

Principal Activities.

The principal activity of the Fund is to facilitate acquisition of residential property for members of Commission on Revenue Allocation by providing a loan scheme for:

- i) Purchase and or development,
- ii) Renovation or repairs of property by members of the scheme and
- iii) Acquisition of land for future development.

Mission

To make reliable recommendations on equitable revenue sharing, revenue enhancement and prudent public financial Management.

Vision

No Kenyan Left Behind

Key Management

The Scheme's Fund day-to-day operations is under Corporate Services directorate.

Key officers' in-charge are as follows;

- | | | |
|----|------------------|---|
| 1. | Dr. Moses Sichei | Commission Secretary (Officer administering the Fund) |
| 2. | Angela Kariuki | Director Corporate Services |
| 3. | William Birech | Human Resource Manager |
| 4. | Maureen Junge | Finance Manager |

Fiduciary Management

The Mortgage's fund Committee members who served during the financial year ended 30 June, 2020 and who had direct fiduciary responsibility were;

- | | | |
|----|------------------|---|
| 1. | Angela Kariuki | Chairperson / Director Corporate Services |
| 2. | James Katule | Member/Director Fiscal Affairs |
| 3. | Sheila Yieke | Member/Director Legal Services |
| 4. | Joseph Kuria | Member/Director ICT |
| 5. | Lineth Oyugi | Member/Director Research and Policy Development |
| 6. | William Birech | Member/Human Resource Manager |
| 7. | Maureen Junge | Member/Finance Manager |
| 8. | Collins Wanyoike | Member/ICT Officer |
| 9. | Phillip Karisa | Member/Logistics Officer |

Headquarters

Commission on Revenue Allocation
14 Riverside Drive
Grosvenor suite 2nd and 3rd Floor
P.O Box 1310-00200 Nairobi
Tel: (020) 4298000

Commission Contacts

Telephone: (254) (020) 4298000
E-mail: info@crakenya.org
Website: www.crakenya.org

Fund Bankers

Kenya Commercial Bank
KICC Branch
Harambee Avenue
P. O. Box 46950-00100 Nairobi
Tel: (020) 29248501,
Fax: (020) 29248501,



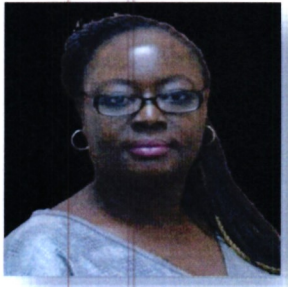
Independent Auditors




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

Principal Legal Adviser

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

II.COMMITTEE OF CRA STAFF MORTGAGE SCHEME FUND

 <p>Angela Kariuki Chairperson / Director, Corporate Services</p>	<p>She holds a master’s in international Commercial Law (LLM) from the University of Nottingham (UK) and a Bachelor of Laws (LLB) from the University of Sheffield (UK). She is an Advocate of the High Court of Kenya; member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya. Mrs. Kariuki has been with the Commission from inception for a period of six years. She has broad professional experience in the areas of human capital management, facilities management, supply chain management, strategic planning and corporate governance, legal compliance with regards to securities law, corporate law, policy formulation and implementation.</p> <p>She previously worked with the Capital Markets Authority for nine years and Kilonzo & Company Advocates for two years.</p>
 <p>James Katule Member / Director Fiscal Affairs</p>	<p>He holds a Masters of Business Administration from the Eastern and Southern Africa Management Institute (ESAMI) and a Bachelor of Arts in Economics & Business Education from Kenyatta University. He is a Certified Public Accountant and a member of ICPAK. He has a wealth of experience in financial management, administration, people management and procurement gained in working for the Kenya National Trading Corporation, the International Centre for Insect Physiology and Ecology (ICIPE), International Livestock Research Institute (ILRI), the Africa Medical Research Foundation (AMREF) and most recently, Capital Markets Authority (CMA).</p>
 <p>Sheila Yieke Member / Director Legal Affairs</p>	<p>She is an Advocate of the High Court of Kenya and holds an MBA, Finance from the United States International University and a Certified Public Secretary (K). In addition she is alumni of the International Development Law Organization (IDLO) and a member of the Chartered Institute of Purchasing and Supplies (UK). She has worked with Sotik Tea and Sotik Highlands Tea Estates, Kenya Investment Authority and Kosgey and Masese Co. Advocates. Internationally she has worked at the UN, IGAD, NORDIC and UNOPS.</p>

 <p>Joseph Kuria Member / Director ICT</p>	<p>He holds a Master's Degree in Business Administration, Strategic Management from the University of Nairobi and a BSc. Degree in Computer Science from Egerton University. He is currently pursuing a PhD in Information Systems.</p> <p>He holds the following professional certifications: MCP, MCSE, MCDBA, CISA, CEH, MCT, PMP and PRINCE2 He is a member of Information Systems Audit and Control Association (ISACA). He has over 16</p>
 <p>Lineth Oyugi Member / Director Economic Affairs</p>	<p>Lineth Oyugi holds a Masters of Arts in Economics from the University of Nairobi and a 4th year Phd student of Economics at University of Nairobi. She has vast knowledge and experience in Research having worked for the Federation of Kenya Employers as the Head of Research and Policy Advocacy.</p> <p>Additionally, Lineth has worked with the Institute of Policy Analysis and as a Research Fellow, Macroeconomics programme and also with the Ministry of Finance and Ministry of Planning and National Development as an Economist.</p>
 <p>William Birech Member / Human Resource Manger</p>	<p>Mr William K Birech is Manager HR/Admin at the Commission on Revenue Allocation. He holds MBA from the University of Nairobi, a B. Com (HR) from the Catholic University of Eastern Africa, a Higher National Diploma in Human Resource Management and a Diploma in Personnel Management from the IHRM College.</p> <p>He has over fifteen years' experience in Human Resource Management having worked at the Postbank and the Rural Electrification Authority before joining the Commission on 5th January 2015.</p> <p>He has written and published articles on HR matters in reputable HR journals in Kenya especially The Management and the IHRM journal.</p>

 <p>Maureen Junge Member / Finance Manager</p>	<p>Ms. Junge has extensive work experience in public finance with emphasis on budgeting, financial management, financial analysis and reporting. She is a Certified Secretary, Certified Accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and Association of Women Accountants of Kenya (AWAK). She holds a Masters of Science degree and a Bachelors of Commerce degree (Finance) from the University of Nairobi.</p> <p>As the inaugural manager in charge of finance, Ms. Junge was instrumental in setting up the finance department at the Commission including aligning all financial management and reporting systems and policies.</p> <p>She previously worked with Kenya Investment Authority, Africa Investment Bank (AIG) and Reliance General Limited.</p>
 <p>Collins Wanyoike Member/ICT Officer</p>	<p>Mr. Wanyoike is a focused Information Technology and Communication (ICT) professional with a BSc degree in Information Technology, CCNA and MCTIP certifications. Possesses relevant professional experience gained during his 12 years working career in this field, acquiring valuable insight into development, deployment and administration of ICT systems.</p> <p>He has been part of a team involved in setting up the Commission's (CRA) ICT environment from inception, including communication platforms, Network and security solutions, ERP solution and policies.</p>
 <p>Phillip Karisa Member / Logistic staff</p>	<p>Mr. Karisa is a logistics personnel with certification in sales and marketing and BCEA cluster in driving. He has undertaken various trainings i.e. in First Aid, Customer care and computer packages.</p>

III. CHAIRPERSON'S REPORT

The Commission on Revenue Allocation established a Staff Mortgage Scheme committee whose objective is to coordinate and engage with the Kenya Commercial Bank, appointed to manage the Fund on behalf of CRA. The Schemes Committee members were drawn from all the Directorates / Departments across CRA which was representative, credible and inclusive.

The Commission in consultation with the Bank, developed internal rules and Memorandum of Understanding (MOU) which are binding on matters relating to the Scheme. They set out rules, regulations and guidelines on accessibility of the loans and requirements to be met by the applicants.

The Key objective of the Scheme is to support employees acquire mortgage facility as a way of motivation and retention of staff at the Commission. It also enhances loyalty and high commitment to the Commission.

The Scheme has since supported Kshs. 118,147,671 in loan applications and where applicants were drawn from various cadres of staff at the Commission. The Bank continues to carry out due diligence for all the loan application to minimize risks in acquiring property.

The Committee shall endeavour to support staff through continuous engagements with the bank to ensure more employees benefit from the scheme in the foreseeable future.



Angela W. Kariuki,

CHAIRPERSON, CRA STAFF MORTGAGE SCHEME FUND (CSMSF)

IV. REPORT OF THE OFFICER ADMINISTERING THE FUND

CRA's Mortgage Scheme fund activities are to facilitate purchase and/ or improvement of residential property and acquisition of land for staff members of the Commission. The scheme maintained an interest rate of 4% as cost of borrowing for the reporting period. The low cost of borrowing enhanced the number of loan applicants up to approximately 100% absorption of the fund.

For the Financial year 2019/2020, the Fund's activities comprised of; application for mortgages, approval and disbursement of the loans.

During the year, the Fund's capital was enhanced to Kshs. 117.4 million and an interest earning of Kshs. 1.6 million from both the Unutilised and utilised accounts as compared to FY 2018/19 where Capital stood at Kshs. 115.5 million and cumulative interest of Kshs. 6.5 million.



Dr. Moses Sichei,

COMMISSION SECRETARY/CEO

V. REPORT OF THE COMMISSION'S STAFF MORTGAGE SCHEME FUND

The officer administering the Commission's Mortgage Scheme Fund submits his report and financial statements for the year ended 30 June, 2020 which shows the state of the Fund's affairs.

Principal Activities

The principal activities of the Commission's Mortgage Scheme continues to be provision of housing loan facilities to the staff members.

Results

The results of the Mortgage scheme for the year ended 30 June, 2020 are set out on page 1-4.

Management

The members of the Staff Mortgage Scheme Committee who served during the year are shown on page (v-vii). The members are representatives from all directorates of the Commission.

Auditors

The Auditor General is responsible for the statutory audit of the Commission's Staff Mortgage Scheme Fund in accordance with the Section 81(4a) of the Public Financial Management Act, 2012 and Section 35 of the Public Audit Act, 2015.

VI. STATEMENT OF THE OFFICER ADMINISTERING FUND'S RESPONSIBILITIES

Section 24(3) of the Public Finance Management Act, 2012 requires the officer administering the Fund to prepare financial statements in respect of that Fund, which give a true and fair view of the Fund at the end of the financial year/period and the operating results of the Fund for that year/period. The Officer administering is also required to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Fund. The Officer administering the Fund is also responsible for safeguarding the assets of the Fund.

The Officer administering the Fund's responsibilities is responsible for the preparation and presentation of the Scheme's financial statements, which give a true and fair view of the state of affairs of the Scheme for and as at the end of the financial year (period) ended on June 30, 2020. 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 Commission; (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 Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Officer administering the Fund's responsibilities accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with Accrual basis of Accounting method under the International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the Commission's Act. The Officer administering the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of the Fund's transactions during the financial year ended June 30, 2020, and of the Fund's financial position as at that date. The Officer administering the Fund's responsibilities further confirms the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Commission's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Officer administering the Fund's responsibilities to indicate that the Scheme will not remain a going concern for at least the next 12 months from the date of this statement.

Approval of the financial statements

The Commission's Staff Mortgage Scheme Fund financial statements were approved by the Commission on **17th September 2020** and signed on its behalf by:



Dr. Jane Kiringai
CHAIRPERSON

VII. MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance

During the year, the Fund was reinstated to Kshs. 117.4 million in capital and Kshs. 1.6 million as interest earned from Utilised and Unutilised accounts. The fund had 19 withdrawals amounting to Kshs.118.1 million as compared to 15 withdrawals at Kshs. 95.6 million in FY 2018/19. In the reporting year the Fund has pending requests awaiting disbursements of Kshs.18.6 million. The fund achieved an absorption rate of approximately **100%** similar to FY 2018/19 performance.

Funds' compliance with statutory requirements

The Fund's Terms of Reference and Regulations were anchored on the SRC's guidelines on Mortgage Scheme. Further, in the implementation of the same, the Commission ensured compliance with HR Policies and Procedures manual 2015 e.g. regarding requirements of 1/3 Rule principle.

Key activities the Fund is undertaking

The main reason for setting up the Fund was mainly to provide financial support for staff members in acquisition of mortgage facility at a subsidised interest rate relating to:

1. Home development loans
2. Acquisition or Purchase of residential homes
3. Purchase of land for Home construction

Major risks facing the Fund

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due. This risk is managed by always ensuring that the fund is liquid enough to meet its obligations whenever they fall due. This has since been managed over the previous years by ensuring sufficient budget allocations are appropriated to the fund.

Material arrears in statutory/financial obligation

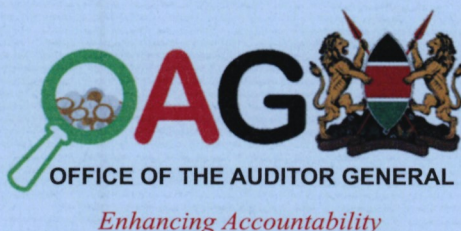
The Fund has outstanding liability on fringe benefit which will be settled in FY 2021/22.

The Fund's financial probity and governance issues

The Fund runs its operation through a committee whose main role is to oversee the operations and implementation of the scheme by both the administrator and the Commission. The committee's membership is drawn from all directorates for inclusivity purposes.

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON COMMISSION ON REVENUE ALLOCATION STAFF MORTGAGE SCHEME FUND FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Commission on Revenue Allocation Staff Mortgage Scheme Fund set out on pages 1 to 7, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets, and the statement of cash flows 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 Commission on Revenue Allocation Staff Mortgage Scheme Fund as at 30 June, 2020 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 Public Finance Management Act, 2012 and Salaries and Remuneration Commission Regulations.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Commission on Revenue Allocation Staff Mortgage Scheme 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, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Unpaid Fringe Benefit Tax

During the year under review, the Fund Management gave out loans to employees at an interest rate below the market rate, which attracted the Fringe Benefit Tax payable by the Commission. However, as at the end of the year, the Fringe Benefit Tax payable to the Kenya Revenue Authority was Kshs.831,826. Failure to comply with the stipulated remittance timelines attracts fines and penalties. The Fund Management is therefore in breach of Section 12B of the Income Tax Act which states that a Fringe Benefit Tax is payable commencing on the 12th June, 1998 by every employer in respect of a loan provided to an individual who is a director or an employee at an interest rate lower than the market interest rate.

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

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

Responsibilities of 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 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 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 and that public resources are applied in an effective way, 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

09 April, 2021

IX. STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019-2020 Kshs	2018-2019 Kshs
REVENUE			
Interest earned	4	1,554,383	1,649,668
Total revenue		1,554,383	1,649,668
EXPENDITURE			
General Expenses	8	831,826	817,564
Transfer to Staff Car Loan Scheme Fund	8.i.	-	1,000
Total expenses		831,826	818,564
Surplus for the period		722,557	831,103

The notes set out on pages 5 to 7 form an integral part of the Financial Statements

X. STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Note	2019-2020 Kshs	2018-2019 Kshs
ASSETS			
Current assets			
Cash and cash equivalents	5	3,365,102	5,373,810
Receivables	6	103,389,767	87,735,979
Undisbursed Loans	7	18,684,302	28,899,999
		125,439,171	122,009,788
Non-current assets			
		-	-
Total assets		125,439,171	122,009,788
LIABILITIES			
Current liabilities			
Fringe Benefit	9	1,989,783	1,157,957
Non-current liabilities			
		-	-
Total liabilities		1,989,783	1,157,957
NET ASSETS		123,449,388	120,851,831
FINANCED BY:			
Authorised and paid up Capital	10	115,528,126	104,305,126
Additional Capital	10	1,875,000	11,223,000
Accumulated surplus		5,323,705	4,492,602
Surplus for the Period		722,557	831,103
Total net assets and liabilities		123,449,388	120,851,831

The Financial Statements set out on pages 1 to 4 were signed on behalf of the Commission by:


Dr. Moses Sichei
Commission Secretary/CEO

Date...17/9/20


Ms. Maureen Junge
Finance Manager/ ICPAK No. 9883

Date...17/9/20


Dr. Jane Kiringai
Chairperson

Date...17/9/20

XI. STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2020

	2019-2020	2018-2019
	Kshs	Kshs
Balance as at 30 June 2019	115,528,126	104,305,126
Additional Capital	1,875,000	11,223,000
Transfers to/from accumulated surplus	5,323,705	4,492,602
Surplus/(deficit) for the period	722,557	831,103
Balance as at 30 June 2020	123,449,388	120,851,831

XII. STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019-2020 Kshs	2018-2019 Kshs
Surplus/Deficit for the year before tax		722,557	831,103
Adjusted for:			
Depreciation and Amortisation		-	-
(Non-cash grants received)		-	-
(Contributed assets)		-	-
Impairment		-	-
(Gains and losses on disposal of assets)		-	-
Contribution to provisions		-	-
Contribution to impairment allowance		-	-
(Finance income)		-	-
Finance cost		-	-
Working capital adjustments:			
(Increase in inventory)		-	-
(Increase)/Decrease in receivables	6	(15,653,788)	(8,457,620)
(Increase)/Decrease in undisbursed Loans	7	10,215,697	(28,899,999)
Increase in deferred income		-	-
Increase/(Decrease) in payables	9	831,827	816,905
Increase in payments received in advance		-	-
Net cash flows from operating activities		(3,883,707)	(35,709,611)
Cash flows from investing activities			
(Increase)/Decrease in accounts receivable		-	-
Decrease in accounts payable		-	-
Net cash flows used in investing activities		-	-
Cash flows from financing activities			
Additional Capital	10	1,875,000	11,223,000
Net cash flows used in financing activities		1,875,000	11,223,000
Net increase/(decrease) in cash and cash equivalents		(2,008,707)	(24,486,611)
Cash and cash equivalents at 1 July 2019	5	5,373,810	29,860,421
Cash and cash equivalents at 30 June 2020	5	3,365,102	5,373,810

XIII. NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. General Information

The Commission on Revenue Allocation (CRA) was established under Article 215 of the Constitution of Kenya. The Commission's principle responsibility is to provide an objective and independent framework for equitable sharing of nationally raised revenues. The Commission also plays a key role in ensuring that the county governments adhere to prudent financial management principles, enhance revenues for both national and county government. Further, the Commission plays a critical role in addressing regional disparities by proposing recommendations aimed at accelerating balanced development in the country, especially marginalized areas.

2. Statement of Compliance basis of preparation – IPSAS 1

The Financial Statements have been prepared in accordance to and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Accrual Basis Financial Reporting under the Accrual basis of Accounting and relevant legal framework of Kenya. The financial statement complies with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya (PSASB).

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Fund. The accounting policies adopted will be applied consistently over the years. The financial statements have been prepared on the accrual basis following the Government's standard chart of accounts. The accrual basis of accounting recognizes transactions and events whenever they are incurred.

3. Summary of Accounting policies

(i) Non-Current Assets

The fund does not maintain any non-current assets

(ii) Recognition of Revenue and expenses

Income is recognized in the period in which it's earned. Income is not accrued if its recoverability is doubtful. The Revenue constitutes all incomes accruing to the Fund in the form of interest earned both on the Utilized fund (1%) and Unutilized fund (10% (CBR). All interest is recouped back to the revolving account on a quarterly basis.

(iii) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise Cash book balance as at 30th June 2020.

(iv) Fund Account

The fund is enhanced gradually on an annual basis through annual appropriations from the Commission's Budget. Further, all accrued interest is recouped back to the fund. The Fund was mainly established in order to enable members of staff members acquire loans for purchase of residential homes, acquisition of land and construction of residential homes. The facility is extended to applicants at an interest rate of 4% being 1% to the revolving fund and 3% to the administering bank.

XIII. NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

(V) Fringe Benefit Tax

Fringe Benefit Tax was introduced by the new provisions under section 12B of the Income Tax Act. It is payable by the Commission in respect of loans provided to staff at an interest rate lower than the market rate. The taxable value of Fringe Benefit is determined;

- (a) (Market Int rate for the month – Interest charged to employees) x Loan amount
- (b) Fringe benefit Tax payable by the Commission = (a) x 30%

The prescribed rates of interest are published by the Commissioner of Tax on a quarterly basis. In the reporting year the interests were published as 7%, 6%, 7% and 7% for Q1, Q2, Q3 and Q4 respectively

XIII. NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2019-2020	2018-2019
	Kshs	Kshs
4. Income		
Interest -Utilized Fund (1%)	866,752	731,872
Interest -Unutilized Fund (3.6%)	687,631	917,795
	1,554,383	1,649,668
5. Cash and cash equivalents		
KCB-Mortgage Account	2,986,674	4,958,986
Short Term deposits (Bank statement)	378,428	414,824
	3,365,102	5,373,810
6. Receivables (Current Receivables)		
Outstanding Loans advanced as at 30th June 2020	103,389,767	87,735,979
	103,389,767	87,735,979
7. Refundable Deposits from customers		
Loan Deposits	-	-
Undisbursed Loans	18,684,302	28,899,999
	18,684,302	28,899,999
8. General Expenses		
Bank Charges	-	660
Fringe Benefit	831,826	816,904
	831,826	817,564
8 (i) Transfer to another Scheme		
CRA Staff Car Loan Scheme	-	1,000
General Administration Expenses	-	-
	-	1,000
9. Creditors / Liabilities		
KRA – Fringe Benefit	1,989,783	1,157,957
	1,989,783	1,157,957
10. Fund Account		
Capital Fund	115,528,126	104,305,126
Additional Capital	1,875,000	11,223,000
	117,403,126	115,528,126

XIV. PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

Reference No. on external audit report	Issue / Observation from Auditor	Management Comments	Focal point person to resolve the issue	Status:	Time frame:
N/A	Auditor General gave a clean opinion	N/A	N/A	N/A	N/A



Dr. Moses Sichei
Commission Secretary/CEO

Date...17/9/20

Ms. Maureen Junge
Finance Manager/ ICPAK No. 9883

Date...17/9/20



Dr. Jane Kiringai
Chairperson

Date...17/9/20

XV. PRIOR YEAR'S ADJUSTMENTS

Note	Particulars	Year	Audited	Revised	Difference	Reason	Action	Affected Statement	Effect on Financial Statements
8	Accrued Fringe Benefit	17/18		341,052		Understatement	Reduce Accumulated Surplus by 341,052	Statement of changes in Net Assets	Decreased Accumulated surplus
8	Accrued Fringe Benefit	18/19		1,157,957	1,157,957	Understatement	Increase liabilities and Reduce Accumulated Surplus by 1,157,957	Financial Position	Decreased Net Assets
								Statement of changes in Net Assets	Decreased Accumulated surplus
								Notes to Financial Statements	Increased Liabilities
							Increase General Expenses by 816,904, and Payables to 1,157,957	Statement of Financial Performance	Decreased surplus for period
							Financial Position	Decreased Net Assets	

Total Adjustment (1,157,957)

Audited Net Assets 18/19 122,009,788

Revised Net Assets 18/19 120,851,831