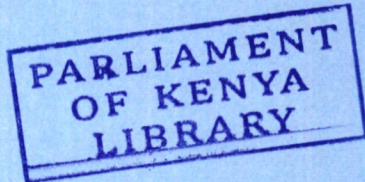


*Paper laid by the
Hon. James W. W. W. W.
14/6/2018*

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
MECHANICAL AND TRANSPORT FUND –
STATE DEPARTMENT OF INFRASTRUCTURE**

**FOR THE YEAR ENDED
30 JUNE 2017**



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

10 MAY 2018

RECEIVED

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

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

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

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

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

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

(b) Principal Activities

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

(c) Key Management

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

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

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Principal Secretary	Eng. John Mosonik, EBS
2.	Chairman MTF Management Committee	Eng. Francis Gitau
3.	Chief Engineer (Mechanical)	Eng. Boniface B. Beja

(e) Entity Headquarters

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

(f) Entity Contacts

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

(g) Entity Bankers

Kenya Commercial Bank
Industrial Area Branch
1102590339

(h) Independent Auditors

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

(i) Principal Legal Adviser

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

MANAGEMENT COMMITTEE TEAM

i.	Infrastructure Secretary	Chairman	Eng. Francis Gitau
ii.	Principal - KIHBT	Member	Eng. M. O. Ontomwa
iii.	Director Human Resources	Member	Mr. John Gitu
iv.	Chief Finance Officer	Member	Mr. Philip Wachira
v.	Chief Economist	Member	Mr. John Kimani
vi.	Principal Accounts Controller	Member	Mr. Nemwel Motanya
vii.	Chief Engineer (Mechanical)	Secretary	Eng. Boniface. B. Beja

SECRETARIAT

i.	Senior Principal Superintending Engineer	Member	Eng. C. M. Nzuka
ii.	Senior Principal Superintending Engineer	Member	Eng. M. S. Nabende
iii.	Principal Superintending Engineer	Member	Eng. John W. Ikinu
iv.	Branch Accountant	Member	Mr. David M. Mwaura
v.	Supply Chain Management Officer	Member	M/S Lucy Gituanja

II. CHAIRMAN'S STATEMENT

I am delighted to present the Mechanical and Transport Fund Annual report and financial statements for the year 2016-2017.

During the period, the Mechanical and Transport Fund performed exceptionally well for the financial year under review as compared to previous financial year. The Fund improved its financial performance which is an indication that the Fund has great potential for growth. There was however stiff competition from NYS, Private Contractors and County Governments whereby they have bought Road construction equipment thus acting as competitor to MTF and thereby posing a challenge to the Fund. There were several other challenges experienced in the year as emulated in the Chief Engineer's (Mechanical) report and despite the challenges the Fund realized its target during the year under review.

FINANCIAL PERFORMANCE

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

APPRECIATION

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

I would like to take this opportunity to thank the Fund Administrator, Principal Secretary -State Department of Infrastructure for the support the office has given to the management committee. I would also like to thank the management and staff for their wholehearted support and their provision of services with diligence that has greatly contributed to the success of the Fund. Mechanical and Transport Fund looks forward to working Closely with the rest of the Ministry of Transport, Infrastructure, Housing and Urban Development Departments, Roads Authorities' KeNHA, KURA,

KeRRA, and other GOK ministries and Divisions, County Governments and the private sector to further ensure the continued success of the Fund and also the improvement of road infrastructure



ENG. FRANCIS GITAU

CHAIRMAN

MTF - MANAGEMENT COMMITTEE

III. REPORT OF THE CHIEF ENGINEER (MECHANICAL)

The performance of the Mechanical and Transport Fund in the financial year 2016-2017 improved despite the challenges that face the Country and the Fund. During the year under review, the management embraced operational efficiency through provision of services by ensuring availability and serviceability of vehicles, plant and equipment; procurement of new plant and equipment to replace those that were found to be uneconomical to repair and those transferred to County Governments.

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

ACHIEVEMENT: -

During the period under review, 2016/2017 Financial Year, the following was achieved through the Fund: -

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

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

CHALLENGES: -

The following challenges affected Mechanical and Transport Fund performance in the 2016/2017 financial year.

- (i) Transfer of 80% of Fleet of vehicles, plants and Equipment to County Governments that were held by the Fund as at on 4th March 2013 and Transferred on 4th March 2015 following an order by Transition Authority.
- (ii) High prices of materials and spare parts.
- (iii) Insecurity threats posed by AL-Shabaab and inter clan wars contributing to low revenue in Wajir, Mandera, Garissa, Marsabit, Isiolo and Tana River Counties.
- (iv) Many Technicians and Mechanics that form the bulk of maintenance staff for MTF equipment retired. The Fund therefore needs to recruit new staff in all cadres to stop reliance on casual labour in key areas.
- (v) Long drawn out legal issues between Roads Agencies and the County Governments on Roads classification.
- (vi) Anxiety, uncertainty and early campaigns of 2017 General elections.
- (vii) Delay in release of Funds to Roads Authorities, County Governments and CDF for Road construction projects.
- (viii) High competition especially from NYS, Private contractors and County Governments which have purchased their own Road Construction Equipment

INTERNAL CONTROLS: -

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

Important among this is the installation of Vehicle Tracking Devices in the vehicles and plant to monitor movement of the same in the whole country to avoid misuse. The introduction of Fuel Cards System in our fleet has greatly reduced the expenditure on fuel consumption.

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

ACKNOWLEDGEMENTS

Mechanical and Transport Fund success is as a result of support and guidance from the Accounting Officer, State Department of Infrastructure; MTF management Committee;

other Divisions in the Ministry; the Roads Authorities' KeNHA, KURA, KeRRA, other GOK ministries and Divisions and the stake holders in the private sector. I would also wish to commend the team spirit and continued commitment of staff of Mechanical and Transport Division. I would wish to attribute to all these groups the tremendous achievements of the Division realized during the period under review.



ENG. BONIFACE B. BEJA
CHIEF ENGINEER (MECHANICAL)

IV. STATEMENT OF THE ACCOUNTING OFFICER AND FUND CO-ORDINATOR

The Accounting Officer, State Department of Infrastructure - Ministry of Transport, Infrastructure, Housing and Urban Development and the Chief Engineer (Mechanical) are responsible for preparing the Funds Financial Statements which give a true and fair view of the state of affairs of the Fund as at the end of the accounting period. This responsibility includes maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund; implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements and ensuring that they are free from material misstatement whether due to fraud or error; safeguarding the assets of the Fund; selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Accounting Officer and the Chief Engineer (Mechanical), accept responsibility for the Funds financial statements, which have been prepared using International Public Sector Accounting Standards (IPSAS) policies and Financial Reporting in accordance with section 11.10.3 of the Government Financial Regulations and Procedures.

The Accounting Officer and the Chief Engineer (Mechanical) are of the opinion that the financial statements give a true and fair view of the state of the Fund financial position as at 30th June, 2017. The Accounting Officer and the Chief Engineer (Mechanical) further confirm the completeness of the accounting records maintained for the Fund which have been relied upon in the preparation of the financial statements as well as the adequacy of the internal control systems.

The Accounting Officer and the Chief Engineer (Mechanical) confirm that the Fund has complied fully with the terms and conditions of the Financing Covenants in accordance with the legal Agreement and the applicable Government Regulations, and the Funds received during the period under review were for the eligible purposes for which they were intended and were properly accounted.

ENG. JOHN K. MASONIK, EBS

Sign  Date 03-05-2018

ACCOUNTING OFFICER

ENG. BONIFACE B. BEJA

Sign  Date 17 June 18

CHIEF ENGINEER (MECHANICAL)

V. REPORT OF THE AUDITOR GENERAL

Auditor General

Date

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR GENERAL ON MECHANICAL AND TRANSPORT FUND - STATE DEPARTMENT OF INFRASTRUCTURE FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Mechanical and Transport Fund set out on pages 1 to 13, which comprise the statement of financial position as at 30 June 2017, the statement of financial performance; the statement of changes in net assets, the statement of cash flow and statement of comparison of budget and actual amounts for the year then ended together with a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Mechanical and Transport Fund as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards and comply with Legal Notice No. 140 of 2003 and Public Financial Management Act, 2012.

In addition, as required under Article 229 (6) of the Constitution, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that Public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Cash and Cash Equivalentents

1.1 Receipts in Cash Book not in Bank Statements

The statement of financial position reflects cash and cash equivalent balance at the close of the year of Kshs.127,987,203. A review of the supporting bank reconciliation statement as at 30 June 2017 revealed a total of Kshs.2,380,660 representing receipts in cash book not in bank statements which comprised of collections received in four Fund regions between 2012 and 2016 but not banked or accounted for. The management has explained that this amount represent fraudulent deposit slips

Report of the Auditor -General on the Financial Statements of Mechanical and Transport Fund – State Department of Infrastructure for the Year Ended 30 June 2017

submitted by the clients some of which are subject of on-going court case. In the circumstances, the correctness and the accuracy of the cash and cash equivalents balance of kshs.127,987,203 could not be confirmed.

2.0 Routine Maintenance of Vehicles, Equipment, and other Assets and Inventories and other expenditure

2.1The statement of financial performance for the year ended 30 June 2017 reflects Routine maintenance of vehicles, equipment and other assets expenditure of 365,074,217 as compared to Kshs.250,932,091 in the previous year (2015/2016), an increase of 45.5% while income from hire of equipment and miscellaneous services during the year decreased from Kshs.912,773,454 to Kshs.860,957,736.

No satisfactory explanation has been given for the huge increase of expenditure while income was decreasing simultaneously.

2.2 In addition note 12 on Inventories includes lubricants and oils, inventories valued at Kshs.12,113,445 in 2016/17 as compared to Kshs.3,704,821 in the previous year 2015/2016, representing an increase of 227%. Management has not satisfactory explained the reasons for holding such huge balances of Inventories on lubricants and oils.

3.0 Other Expenditures

Evidence available revealed that the following expenditures increased significantly from the previous year.

Item Expenditures

ITEM	EXPENDITURE		
	2016/2017 (Kshs)	2015/2016 (Kshs)	Variance(Kshs)
Maintenance of vehicles.	188,723,414	110,667,596	78,055,818
Tyres and tables	91,027,582	50,436,880	40,590,702
Fuel	27,603,561	10,488,880	17,114,681
Maintenance of other Assets	10,927,708	4,471,490	6,456,218
Purchase of Specialized Equipment	3,349,532	672,080	2,677,452
Printing and Advertising	4,023,762	2,882,820	1,140,912
Uniforms	2,958,066	945,900	2,012,166
Training	11,525,536	4,984,792	6,540,744
Wages for Temporary Employees	30,466,261	19,253,968	11,212,293

No satisfactory explanation was provided for the above huge increases in expenditures despite the Fund's Income having decreased from Kshs.912,773,455 in 2015/2016 to Kshs.860,957,736 in 2016/2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Mechanical and Transport Fund in accordance with ISSAI 30 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.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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 such 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services.

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.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 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.

As part of an audit 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for purpose of giving an assurance on the effectiveness of the Fund's 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 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 offering services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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.

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.

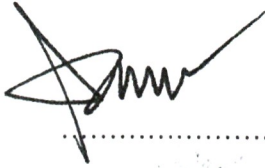



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 May 2018

VI. STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2017

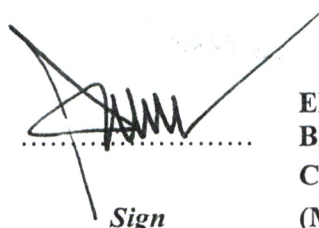
Revenue		<u>2016-2017</u>	<u>2015-2016</u>
	Note	Kshs	Kshs
Hire of Equipment and Miscellaneous Services	3	860,957,736	912,773,455
Sale of Boarded Items	4	<u>28,028,842</u>	<u>30,967,280</u>
Total Revenue		<u>888,986,578</u>	<u>943,740,735</u>
Expenses			
Travel and subsistence allowance	5	53,714,104	44,683,892
Routine Maintenance of Vehicles, Equipment and other assets	6	365,074,217	250,932,091
Administrative expenses	7	83,276,516	59,548,071
Depreciation	8	339,282,867	317,834,404
Security services	9	<u>37,096,619</u>	<u>40,215,900</u>
Total Expenses		<u>878,444,323</u>	<u>713,214,358</u>
Surplus for The Year		<u>10,542,255</u>	<u>230,526,377</u>
ENG. JOHN K. MOSONIK, EBS	 ACCOUNTING OFFICER Sign 03-05-2018 Date	ENG. BONIFACE B. BEJA CHIEF ENGINEER (MECHANICAL)  Sign 17/04/18 Date	

VII. STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

<u>Assets</u>	<u>Notes</u>	<u>2016-2017</u> <u>(Kshs)</u>	<u>2015-2016</u> <u>(Kshs)</u>
<u>Non- Current Assets</u>			
Intangible Assets	10	5,906,199	5,906,199
Property, Plants & Equipment	11	<u>3,797,350,738</u>	<u>3,480,293,881</u>
<u>Total Non- Current Assets</u>		<u>3,803,256,937</u>	<u>3,486,200,081</u>
<u>Current Assets</u>			
Inventories	12	158,261,412	170,840,577
Receivables from non-exchange transactions	13	29,455,432	78,316,131
Outstanding imprest	14	641,514	5,625,026
Cash and cash equivalents	15	<u>127,987,203</u>	<u>364,633,871</u>
<u>Total Current Assets</u>		<u>316,345,561</u>	<u>619,415,616</u>
<u>Total Assets</u>		<u>4,119,602,498</u>	<u>4,105,615,697</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Trade & other payables from exchange transactions	16	<u>16,979,177</u>	<u>13,534,631</u>
<u>Total Current Liabilities</u>		<u>16,979,177</u>	<u>13,534,631</u>
Government Grant	17	2,132,082,347	2,132,082,347
Reserves		1,959,998,719	1,729,472,342
Accumulated Surplus		<u>10,542,255</u>	<u>230,526,377</u>
<u>Total Liabilities and Reserves</u>		<u>4,102,623,321</u>	<u>4,092,081,067</u>
<u>Net assets and Liabilities</u>	<u>4,119,602,498</u>	<u>4,105,615,697</u>

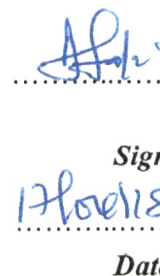
ENG. JOHN K. MOSONIK, EBS
ACCOUNTING OFFICER



.....
Sign

03-05-2018
.....
Date

ENG. BONIFACE B.
BEJA
CHIEF ENGINEER
(MECHANICAL)



.....
Sign
17/05/18
.....
Date

VIII. STATEMENT OF CHANGES IN NET ASSETS
For the year ended 30 June 2017

	<u>Reserves</u>	<u>Government Grant</u>	<u>Total</u>
	<u>Kshs</u>	<u>Kshs</u>	<u>Kshs</u>
Balance as at 30 June 2015	1,729,472,342	2,132,082,347	3,861,554,689
Surplus for the period	<u>230,526,377</u>	0.	<u>230,526,377</u>
As at 30th June 2016	<u>1,959,998,719</u>	<u>2,132,082,347</u>	<u>4,092,081,066</u>
Balance As At 1st July 2016	<u>1,959,998,719</u>	<u>2,132,082,347</u>	<u>4,092,081,066</u>
Surplus for the period	<u>10,542,255</u>	0.	<u>10,542,255</u>
Balance as At 30 June 2017	<u>1,970,540,974</u>	<u>2,132,082,347</u>	<u>4,102,623,321</u>

IX. **STATEMENT OF CASHFLOWS**
For the year ended 30 June 2017

	<u>2016-2017</u>	<u>2015-2016</u>
	<u>Kshs</u>	<u>Kshs</u>
<u>OPERATING ACTIVITIES</u>		
Surplus/Loss for the year	10,542,255	230,526,377
<i>Non-cash adjustments:-</i>		
Interest received	(705,595)	(538,870)
Sale of asset disposal	(28,028,842)	(30,967,280)
Depreciation	339,282,867	317,834,404
Adjustments due to prior depreciation calculation errors	(111,390,016)	(26,276,440)
Operating income before working capital changes	209,700,669	490,578,191
Movement in Working Capital		
Decrease Debtors/prepayments	48,860,702	28,314,070
Decrease in Inventories	12,579,164	44,331,896
Increase in Trade & Other Payables	3,444,546	(1,262,871)
Decrease outstanding imprest	4,983,512	(4,714,846)
Net Change in working Capital	69,867,924	66,668,249
<i>Net cash used by/from operating activities</i>	279,568,593	557,246,440
<u>INVESTING ACTIVITIES</u>		
Purchase of plant, machinery and equipment	(535,415,670)	(267,765,493)
Installation of Computer Software's	-	(2,777,000)
Purchase of furniture	(4,524,213)	(1,187,529)
Purchase of computers equipment and accessories	(4,374,573)	(1,079,000)
Purchase of Office equipment	(635,250)	(449,195)
Purchase of ICT Infrastructure & Telephony	-	(76,000)
Asset disposal	28,028,842	30,967,280
interest income	705,595	538,870
<i>Net cash used in Investing activities</i>	(516,215,269)	(241,828,067)
<u>FINANCING ACTIVITIES</u>		
GoK Capital Grant	-	-
<i>Net Cash from Financing Activities</i>	-	-
CASH & CASH EQUIVALENTS		
<u>NET (DECREASE)/INCREASE</u>	(236,646,676)	315,418,373
<i>At the Beginning of the year</i>	<u>364,633,879</u>	<u>49,215,506</u>
At the end of the year	<u>127,987,203</u>	<u>364,633,879</u>

X. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
For the year ended 30 June 2017

Item	Particulars	BUDGET	ACTUAL	DEVIATION
	Income			
4-251-0000-3510701	Receipts from hire of equipment	921,835,572	794,124,970	(127,710,602)
4-251-0000-3520302	Receipts from sale of Boarded items	33,000,000	28,028,842	(4,971,158)
4-251-0000-3510803	Receipts from sales and fees for Services rendered &	44,664,428	32,566,522	(12,097,906)
4-251-0000-7310224	Bank interest	500,000	705,595	205,595
		1,000,000,000	855,425,929	(144,574,071)
4-251-0000-2210301	Domestic Travel Allowances and Expenses	49,978,000	50,235,046	(257,046)
4-251-0000-2210401	Foreign Travel Allowances and Expenses	3,640,000	3,479,058	160,942
4-251-0000-2220102	Maintenance of Vehicles, Plant, Machinery and Equipment & Tyres and Tubes	288,293,000	300,120,075.00	(11,827,075.00)
4-251-0000-2211201	Fuel, Oils & Lubricants	61,066,048	50,127,049.00	10,938,999.00
4-251-0000-2220103	Fit Equipment with Fleet management	-	-	-
4-251-0000-2220201	Maintenance of buildings and stations - Non Residential	4,000,000	10,927,708	(6,927,708)
4-251-0000-2220202	Maintenance of Internet Server, computers, Printers and software	1,594,300	549,853	1,044,447
4-251-0000-2221106	Steel, Copper, and Timber for Spare parts	5,296,000	3,349,532	1,946,468

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4-251-0000-2210504	Printing, Advertising and information supplies Services	8,414,085	4,023,792	4,390,293
4-251-0000-2210201	Telephone, telex, facsimile, m/phone services & others	3,388,000	3,222,114	165,886
4-251-0000-2210202	Internet connections	4,584,000	4,756,911	(172,911)
4-251-0000-2210203	Communication-Installation of WAN	1,488,000	-	1,488,000
4-251-0000-2210801	Hospitality services & Catering	6,000,000	4,507,425	1,492,575
4-251-0000-2211101	Courier and postal services	1,000,000	622,319	377,681
4-251-0000-2211102	Trade Shows and Exhibitions	1,500,000	618,500	881,500
4-251-0000-2211103	Uniforms	4,500,000	2,958,066	1,541,934
4-251-0000-2211104	* Supplies, Accessories, Computers and Printers and usable	8,793,952	8,797,635	(3,683)
4-251-0000-2211106	Detergents, Fungicides, Insecticides and Sprays	1,000,000	706,815	293,185
4-251-0000-2211107	*Supply of furniture and office equipment's	3,085,915	5,159,463	(2,073,548)
4-251-0000-2211108	Stationery and general office supplies	7,000,000	9,201,984	(2,201,984)
4-251-0000-2210101	Electricity expenses	4,379,200	4,230,107	149,093
4-251-0000-2210102	Water and sewerage charges	2,223,900	1,366,731	857,169
4-251-0000-2211301	Bank Operating charges	691,200	646,893	44,307
4-251-0000-2210705	Training Expenses	11,584,400	11,525,536	58,864

4-251-0000-2110101	Payment for Temporary Employees	42,000,000	30,466,261.00	11,533,739.00
4-251-0000-2211305	Contracted guards and cleaning services	40,000,000	37,096,619	2,903,381
4-251-0000-3110701	Vehicles, plants and equipment and other machinery	434,500,000	535,415,670	(100,915,670)
		1,000,000,000	1,084,111,162	(84,111,162)

Note:**Particulars**

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

Remarks

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

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

Delay in release of funds by National Government to various Government Agencies, Authorities and County Government who are our main clients

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

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

4-251-0000-3110701-Vehicles, plants and equipment and other machinery

Purchase of Vehicles, plants and equipment which were ordered in the F/Y 2015-2016 and they were delivered in the F/Y 2016-2017

* 4-251-0000-2211104 Supplies , Accessories , Computers and Printers and usable	i. Computer supplies and accessories (Note 7.)	4,423,062
	ii. Computer Equipment & Accessories (Note 11.)	4,374,573
	Total Actual Expenditure	8,797,635
4-251-0000-2211107 , Supply of furniture and office equipments	i. Supply of furniture and office equipment (Note 11.)	635,250
	ii. Office Furniture (Note 11.)	4,524,213
	Total Actual Expenditure	5,159,463

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

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

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

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

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

b) Sale of goods

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

c) Interest income

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

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

d) Basis of Depreciation

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

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

	<u>2016-2017</u>	<u>2015-2016</u>
	<u>Kshs.</u>	<u>Kshs.</u>
3. Hire Of Equipment and Services Rendered		
Receipts during the year	842,985,672	872,693,685
Less: Debtors as at 30.06.2015-16	(78,316,134)	(106,630,204)
Add : Debtors as at 30.06.2016-17	<u>29,455,432</u>	78,316,134
	<u>794,124,970</u>	<u>844,379,615</u>
Miscellaneous income	32,566,522	32,236,748
Receipts not captured in ledger	33,560,649	35,618,222
Bank interest income	<u>705,595</u>	<u>538,870</u>
	<u>860,957,736</u>	<u>912,773,455</u>
4. Sale of boarded items	28,028,842	32,652,287
Less: Sale of County's Equipment held at Fund HQS	-	(1,685,007)
	<u>28,028,842</u>	<u>30,967,280</u>
5. Travel/Subsistence Allowance		
Domestic travel/subsistence allowance	50,235,046	43,410,089
Foreign travel/subsistence allowance	3,479,058	1,273,803
	<u>53,714,104</u>	<u>44,683,892</u>
6. Routine Maintenance		
<u>Routine Maintenance of vehicles & Other Transport Equipment</u>		
Inventory Balance B/Fwd	163,321,779	193,295,000
Payments during the year-Routine Maintenance of vehicles	188,723,414	110,667,596
Payments during the year-Tyres and tubes	91,027,582	50,436,882
Inventory C/Fwd	<u>(142,952,700)</u>	<u>(163,321,779)</u>
	300,120,075	191,077,699
<u>Fuel , oils and lubricants</u>		
Inventory B/B/Fwd	3,704,822	17,070,699
Payments during the year-Fuel	27,603,561	10,488,883
Payments during the year-oils and lubricants	30,932,111	30,436,962
Inventory B/CFwd	<u>(12,113,445)</u>	<u>(3,704,822)</u>
	<u>50,127,049</u>	<u>54,291,722</u>
Routine Maintenance & Other assets	10,927,708	4,471,490
Routine Maintenance comps, printers	549,853	419,100
Purchase of specialised Materials	<u>3,349,532</u>	<u>672,080</u>
	<u>365,074,217</u>	<u>250,932,091</u>

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7. Administrative expenses		
Printing, advertising & information supplies services	4,023,792	2,882,820
Communication –T/Phone, M/Phones	3,222,114	2,663,430
Communication- internet	4,756,911	7,715,500
Hospitality supplies & services	4,507,425	2,539,302
Courier & Postal Services	622,319	319,965
Trade, Shows & Exhibitions	618,500	-
Uniforms	2,958,066	945,900
Computer supplies and Accessories	4,423,062	4,702,631
Purchase of Coffins	-	242,548
Detergents, Fungicides, Insecticides	706,815	653,450
Inventory B/FWD	3,813,977	4,806,775
General Office Supplies	8,583,275	6,301,327
Inventory C/FWD	(3,195,268)	(3,813,976)
General office supplies for the year	9,201,984	7,294,126
Utilities, - Electricity	4,230,107	3,188,912
Utilities, Water & Conservancies	1,366,731	1,798,994
Bank charges	646,893	361,732
Training	11,525,536	4,984,792
Basic wages for Temporary employees	30,466,261	19,253,969
	83,276,516	59,548,071
8. Depreciation	339,282,867	317,834,404
9. Security services		
Payments during the year	37,952,006	42,754,270
Less: Pending bills as at 30.06.2015-16	(4,139,970)	(6,678,340)
ADD: Pending bills as at 30.06.2016-17	3,284,583	4,139,970
	37,096,619	40,215,900

10. Intangible Assets

B/Bfwd	5,906,199	3,129,199
System one Ltd	0	2,777,000
B/Cfwd	5,906,199	5,906,199

11. Property, Plants & Equipment

Year ended 30th June 2016	SUPERVISORY VEHICLES (BELOW 3 TON)	PLANTS AND EQUIPMENT	TRUCKS (OVER 3 TON)	COMPUTER EQUIPMENT & ACCESS	OFFICE EQUIPMENTS	I C T INFRASTRUCTURE & TELEPHONY	OFFICE FURNITURE	TOTAL
<i>Rate</i>				10%	10%	10%	10%	
COST	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
As At 01.07.2016	194,189,479	3,901,913,039	710,805,260	15,199,728	21,701,864	10,156,326	21,898,323	4,875,864,019
Additional	-	476,117,052	59,298,618	4,374,573	635,250	-	4,524,213	544,949,706
As At 30.06.2017	194,189,479	4,378,030,091	770,103,878	19,574,301	22,337,114	10,156,326	26,422,536	5,420,813,725
DEPRECIATION								
As At 01.07.2016	82,472,044	1,024,723,504	257,279,543	8,753,516	9,745,570	6,141,814	6,454,145	1,395,570,136
*Adjustments		(111,390,016)						(111,390,016)
Period charge	10,568,508	278,879,750	41,985,581	1,957,430	2,233,711	1,015,633	2,642,254	339,282,867
As At 30.06.2016	93,040,552	1,192,213,238	299,265,124	10,710,946	11,979,281.00	7,157,447	9,096,399	1,623,462,987
NET BOOK VALUE AS AT 30-06-2017	101,148,927	3,185,816,853	470,838,754	8,863,355	10,357,833	2,998,879	17,326,137	3,797,350,738

*Adjustments due to prior year depreciation calculation of errors

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12. Inventory

- i. Spare parts, Paints &tyres
- ii. Lubricants and oils
- iii. Stationery & computer items

2016-2017

142,952,700

12,113,445

3,195,267

158,261,412

2015-2016

163,321,779

3,704,821

3,813,977

170,840,577

Total

13. Receivables from None. Exchange transactions

- i. Geothermal Dev. Company -May & June 2017
- ii. Geothermal Dev. Company- February & March 2015
- iii. Kengen-, May & June 2017

12,032,732

8,779,170

8,643,530

29,455,432

40,314,230

0

38,001,904

78,316,134

14. Outstanding imprest

641,514

5,625,026

15. Cash and cash Equivalents

Cash and cash Equivalents

127,987,203

364,633,879

16. Trade & other payable from exchange transactions

a) Sale of boarded items Tender Deposits ;

Balance B/fwd.

Tender Deposits -Sale of boarded items

Refund -Sale of boarded items Of Deposits

7,709,654

10,195,401

(4,210,461)

13,694,594

7,988,200

6,295,010

(6,573,557)

7,709,653

Un-refunded Deposits

Other Creditors

- i. Contracted Guards –Gyto Success security- June 2017
- ii. Babs Security May 2017

2,933,583

351,000

3,284,583

4,139,970

4,139,970

TotalSecurity

16,979,177

11,849,624

Sub-Total payables

0

1,685,007

Sale of Nyeri County Equipment held at Fund Hqs

16,979,177

13,534,631

Total payables

17. GOVERNMENT GRANT

Particulars

Amount

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A loan agreement was entered into between the Governments of the Republic of Korea on 15th April, 2005 concerning EDCF (Economic Development Cooperation Fund) Loans to be extended to the Government of the Republic of Kenya or its designated agency for the implementation of projects to be agreed upon between those two Governments of KSHS. 1,963,016,499.15.

The EDCF Loan arrangement dated 10th May, 2005 concerned the financing and the implementation of Road Maintenance Equipment Renewal Project.

The loan Repayment was to be done by the National Government in forty (40) semi-annual consecutive instalments on date of 20th April and 20th October at an interest rate of 1% from the 11th year after the signing of the Loan agreement.

1,963,016,500

The National Government advanced the Mechanical and Transport Fund Kshs. 1,500,000,000.00 in the Financial year 2013-2014 to purchase Road Maintenance Equipment following an agreement to transfer 80% of MTF fleet to County Government.

1,500,000,000

Transfer 80% of MTF fleet to County Government.

(1,330,934,153)

Total Government Grant

2,132,082,347

Mechanical and Transport Fund
PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATION

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe:
1	<p>As previously reported Kenya National Highways Authority paid Kshs. 25,564,350 vide payment voucher no. 17690 dated 23 July 2014 to M/S Intermass Technologies (E.A) Ltd for a pending bill relating to 2013-2014 financial year. The supplier was competitively awarded the contract for the supply of 3 No. Rack-Mount type computer servers; 94 No. Standard Desktop Computers; 12 No. Touch Smart Desktop Computers; 8 No. Laptop Computers and 46 No. Integrated Service Routers on 13 June 2013 at their tender sum of Kshs. 25,564,350 which were purchased for Mechanical and Transport Fund under Northern Corridor Transport Improvement Project, IDA Credit Nos 2930-KE and 4571-KE. The supplier is said to have delivered the goods to Mechanical and Transport Fund of Ministry of Transport and Infrastructure on 19 November 2013 vide delivery note No. 1063. The Inspection and</p>	<p>It is true that the goods were delivered to the Division on 19th November, 2013 vide delivery note No. 1063. The inspection and acceptance committee inspected and accepted only 8No. Laptop Computers and 19No. Integrated service routers all valued at Kshs. 2,975,150 The rest of the goods were stolen before they could be inspected by the inspection and acceptance committee.</p> <p>I wish to state that the goods were received in the morning of 19th November, 2013 in our warehouse stores vide the signed delivery note No. 1063. The goods were kept in the stores awaiting inspection by KeHNA vide letter Ref: KeNHA /SP/NCTIP/Goods/Vol. I/75687 Dated 13th January 2014.</p> <p>However on the weekend of 24th November, 2013, between 10.20 a.m. and 11.30 a.m. there was a break-in in the stores where the Computers, Computer accessories and other stores were stolen. The same was reported to the Industrial Area Police Station, by the security officer. From the CCTV footage it was apparent the guards from the contracted security firm (M/s</p>		Not Resolved	

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

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

