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Hon Owen Baya, MP
Deputy Leader, majority
Firelays Mombasa

OF

THE AUDITOR-GENERAL

ON

MECHANICAL AND TRANSPORT FUND

FOR THE YEAR ENDED
30 JUNE, 2023

STATE DEPARTMENT FOR ROADS



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

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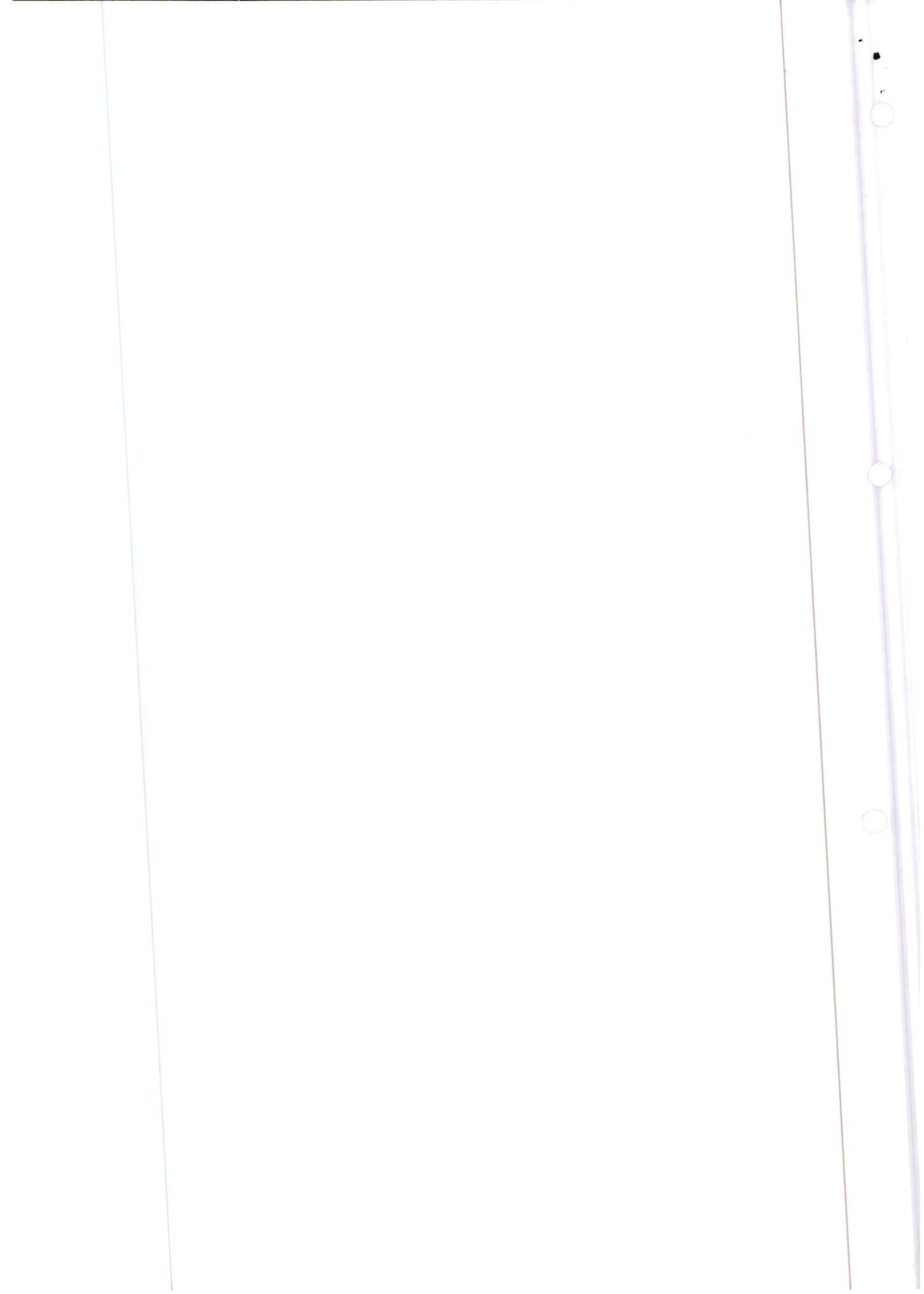
MECHANICAL AND TRANSPORT FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30TH JUNE 2023

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



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1. Acronyms and Glossary of Terms

A: Acronyms and Abbreviations

AGPO	Access to Government Procurement Opportunities
BETA	Bottom-Up Economic Transformation Agenda
CE(M)	Chief Engineer Mechanical
CEO	Chief Executive Officer
CBK	Central Bank of Kenya
CM&TE	Chief Mechanical and Transport Engineer
EBK	Engineers Board of Kenya
EDCF	Economic Development Cooperation Fund
ERP	Enterprise Resource Planning
GDC	Geothermal Development Company
HoAGDP	Horn Of Africa Gateway Development Project
ICPAK	Institute of Certified Public Accountants of Kenya
ICT	Information and Communication Technology
IEK	Institute of Engineers of Kenya
ILO	International Labour Organisation
IHRM	Institute of Human Resource Management
IPSAS	International Public Sector Accounting Standards
KEBS	Kenya Bureau of Standards
KIHBT	Kenya Institute of Highway and Buildings Technology
KURA	Kenya Urban Roads Authority
MBA	Master's In Business Administration
MDAs	Ministries, Departments and Agencies
MHRMAC	Ministerial Human Resource Management Advisory Committee
MTD	Mechanical and Transport Division
MTF	Mechanical and Transport Fund
NT	National Treasury
NTSA	National Transport and Safety Authority
OCOB	Office of the Controller of Budget
OAG	Office of the Auditor General
OSHA	Occupational Safety and Health Act of 2007
PFM	Public Finance Management

PIC	Public Investment Committee
PPE	Property Plant & Equipment
PSASB	Public Sector Accounting Standards Board
PSC	Public Service Commission
PSV	Public Service Vehicle
SAGAs	Semi-Autonomous Government Agencies
SC	State Corporations
SCFO	Senior Chief Finance Officer
SLDP	Strategic Leadership Development Programme
SUV	Sports Utility Vehicles
WB	World Bank

B: Glossary of Terms

Cabinet Secretary- the cabinet Secretary for the time being responsible for matters relating to Mechanical and Transport

Charges- All sums received or receivables, charged or chargeable for any service or facility provided by the Division.

Chief Mechanical and Transport Engineer (CM&TE)- the officer in charge of The Fund, the Secretary to the Management Committee and the Head of the Division.

Comparative Year- Means the prior period.

State Department- the State Department for Roads being responsible for matters relating to Mechanical and Transport.

Division- the Mechanical and Transport Division responsible for matters relating to Mechanical Transport and Transport Services.

Equipment- workshop tools equipment and machines used at workshops to service and repair plant.

Fiduciary Management- Members of Management directly entrusted with the responsibility of financial resources of the organisation.

Financial Year- the period of twelve months ending on the 30th June in each year.

Fund- the Mechanical and Transport Fund established under section 3 of the Exchequer and audit (Mechanical and Transport Fund) regulations, 2003 as specified in the first schedule.

Management Committee- the Mechanical and Transport Fund Management Committee appointed by the Officer Administering the Fund under section 6 of the Rules Procedures and Guidelines for the Operation of the Mechanical and Transport Fund.

Ministry- the Ministry for the time being responsible for matters relating to Mechanical and Transport.

Officer Administering the Fund- the Accounting Officer of the Ministry for the time being responsible for matters relating to Mechanical and Transport Services, or a person appointed by him in writing for that purpose.

Plant and Equipment- all types of road construction and maintenance plant (bulldozers, graders, rollers etc) static plant (stone crushers, concrete mixers etc) and road vehicles (tipper lorries/ dump trucks, flatbeds, horse/low loaders, pickups etc)

Rates- all sums which may under the provision of the Fund be levied for or in respect of any plant or service rendered by the department or any technical consultancy performance by any staff of the division or facility provided by the division.

Wide Area Network- A large network of information that connects multiple locations across a specific geographic region, country or even the world.

2. Key Entity Information and Management

(a) Background information

The Mechanical and Transport Fund is established under the article 206 1(a) of the constitution of Kenya 2010. It provides for the establishment of public funds read together with the Public Finance Management Act 2012 (PFMA) Clause 24 (4). It is established via legal notice No.140 of 2003 under Clause 34 of the Exchequer and Audit act 412 and its precursor of the PFMA, 2012. The administrator of the Fund is the Principal Secretary State Department for Roads, through a Management Committee. The day-to-day operations are executed by the Chief Engineer (Mechanical) who is the secretary to the Management Committee.

The MTF received seed capital of Kshs.22 million from the National Treasury in the 2003/2004 financial year. In addition, the Government of Kenya entered into a loan agreement with the Republic of Korea on 15th April, 2005 for Kshs. 2Billion in view of strengthening the institutions' capacity. The Fund offers services that are spread across the 47 counties. In the year 2014, after promulgation of the Constitution of Kenya (COK) 2010, and the formation of the counties, the MTF released 80% of its fleet of equipment to the County Governments through equipment sharing which were valued at Kshs 2.5 billion. In the financial year 2013/2014, MTF received additional Kshs.1.5 billion from the National Treasury to procure plant and equipment. The MTF has continuously renewed its' fleet through funds raised through user fee of plant and equipment.

(b) Principal Activities

The Mechanical and Transport Fund (MTF) principal activities are provided for through Legal Notice No. 140 of 2003 under the Exchequer and Audit Act (CAP 412). The purpose of the Fund is to provide additional funds required for administration, planning, development, management, regulations, operations and maintenance of effective, economical and efficient Mechanical and Transport services in Kenya. The MTF's principal activities are aligned to the Divisions' Vision and Mission and are stated as follows.

- i. Provision of vehicles, plant and equipment at gazetted user fees to public and private sector.
- ii. Mechanical and Transport Services at gazetted user fees to public and private sectors.
- iii. Sale of boarded vehicles, plant, equipment and stores to the public

(c) Key Management

The Management of the Fund comprises of the following key organs.

- The Principal Secretary, State Department for Roads.
- The Management Committee.
- The Chief Engineer (Mechanical), Secretary to the Management Committee.

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2023 and had direct fiduciary responsibility were:

No.	Designation	Name
1.	The Principal Secretary, State Department for Roads.	Eng. Joseph M. Mbugua.
2.	Chairman of The MTF Management Committee	Eng. Francis Gitau.
3.	Chief Engineer (Mechanical)	Eng. Richard G. Thitai, OGW.

(e) Fiduciary Oversight Arrangements

The MTF oversight role is stipulated in the legal notice N0.140 of 2003. The Management Committee is mandated by the legal notice to run the affairs of the organization by ensuring proper and effective sound financial management is upheld through various entities which includes the following;

- i. MTF Management Committee
- ii. Internal Audit Committee.
- iii. Office of the Auditor General.
- iv. Parliamentary Accounts Committees and any other oversight committees that may be constituted from time to time

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(f) Entity Headquarters

P.O. Box 30043-00100,
03 Dunga Close Road,
Industrial Area,
Nairobi, Kenya

(g) Entity Contacts

Telephone: (254) 02551960/1-5,
E-mail: cmte@mechanical.go.ke,
Website: <https://transport.go.ke/mechanical-transport-mtd>.

(h) Entity Bankers

Kenya Commercial Bank,
Industrial Area Branch,
P.O. Box 18031-00500,
Nairobi, Kenya.

(i) Independent Auditors

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

(j) Principal Legal Adviser

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

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3. Key Management Team Profile.

NO.	MANAGEMENT	DETAILS
1.	 Eng. Francis Gitau.	Holder of Bachelor of Science, Civil Engineering (BSC) From the University of Nairobi. Holder of a Masters Degree In Civil Transportation from the University of Nairobi. Holder of Executive Master of Business Administration (MBA) from Jomo Kenyatta University of Agriculture and Technology. Member Institution of Engineers of Kenya (IEK). Attended and qualified for the Strategic Leadership Development Programme (SLDP) at the Kenya School of Government. Current Chairman of the Mechanical Transport Fund. Chairman Task Force on Public Transport Industry Transition. Served as Chairman of the MRTS Programme Delivery Unit. Served as President, International Students, Aachen University, Germany, and Class of 1996. Served as President International Course, Malaysian Technical Cooperation Programme (MTCP) 2010. Served as Alternate Director of the Board in Kenya Rural Roads Authority, Kenya National Highways Authority and Numerical Machining Complex. Served as Chair of the Transport Sector Training Committee of the National Industrial Training Authority
2.	 Eng. Richard G. Thitai, OGW.	Bachelor of Science (Mechanical Engineering) from the University of Nairobi. Holder of Executive Master of Business Administration (MBA) from Jomo Kenyatta University of Agriculture and Technology. Professional Engineer - Registered with Engineers Registration Board (EBK). Member Institution of Engineers of Kenya (IEK). Attended Senior Management Course (SMC), Senior Leadership Development Course (SLDP) and Project Development and Management (PDM) at the Kenya School of Government. Attended Proactive Management Course at ESAMI -Arusha. Currently a Board member of Ihwagi Secondary school – Nyeri. Civil Service career spanning 31 years all in Engineering and Management Levels with 6 years as head of State House Mechanical department. Currently the chief Mechanical Engineer – Mechanical Division - State Department for Roads.


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3.	 <p>Eng. Maurice S. Nabende.</p>	<p>Bachelor of Science (Mechanical Engineering) from the University of Nairobi. Masters of Arts (Project Planning Management) from the University of Nairobi. Professional Engineer (Registered with Engineers Registration Board). Member (Institute of Engineers Kenya). Attended Senior Management Course (SMC), Senior Leadership Development Course (SLDP) and Project Development and Management (PDM) at the Kenya School of Government. Attended Public Private Partnership (PPP) course. Attended Transformative Leadership for Implementing Public Sector Reforms (TLIPSR) course. Civil Service career spanning 35 years all in Engineering and Management Levels. Currently, Director – Kenya Institute of Highways and Building Technology - State Department for Roads since 2017.</p>
4.	 <p>Mrs. Joyce Kirigo Gichomo.</p>	<p>Director Human Resource Management & Development in State Department for Roads. Has over thirty-three (34) years' experience in the line of Human Resource Resources Management in the Public Service. Full Member of Professional Body of Human Resource Management Professionals – Institute of Human Resource Management (IHRM). Holder of Master's degree in Business Administration (Human Resource Management Option). Bachelor of Commerce Degree, CPS (Sec 5), Strategic Leadership Development Programme among other Professional courses.</p>



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5.	 <p>Mr. Philip Wachira.</p>	<p>Bachelor of Arts (BA Hons) from the University of Nairobi majoring in Economics and Public Administration. Masters of Business Administration (MBA) from the University of Nairobi specializing in Strategic Management. Certified Public Accountant Part II. Attended Senior Management Course (SMC) and Senior Leadership Development Course (SLDP) at the Kenya School of Government. Civil Service career spanning 26 years all in the Finance Docket. Currently, Head of Finance at the State Department for Roads as Senior Chief Finance Officer (SCFO) responsible to the Principal Secretary for coordination of budget formulation, implementation and control for all the Road Agencies and Divisions within the State Department for Roads.</p>
6.	 <p>Mr. Nathan Soita.</p>	<p>Has a career spanning 24 years in public and corporate procurement both in Government funded and donor funded projects and provision of expert advice on public procurement matters. Holder of a Masters of Business Administration (Procurement & Supply Chain Management) Degree and a Graduate Diploma in Purchasing & Supply from the University of Nairobi and Chartered Institute of Purchasing & Supply, UK respectively. Currently, serving as a Senior Deputy Director, Supply Chain Management heading the State Department for Roads.. Served as a Procurement Officer at Kenya Anti-Corruption Commission, Senior Procurement Officer at the University of Nairobi, Kenya Rural Roads Authority and as a Senior Officer at Public Procurement Administrative Review Board. Worked as Assistant Manager, Procurement at the Auditor General's Office.</p>

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7.	 <p>Mr. John Kimani.</p>	<p>Holder of Bachelor of Arts (Economics) From the University of Nairobi. Holder of Master's Degree in Economics from Makerere University. Holds a Diploma in Transport Planning and Management, Galilee Institute of Management. Holds a Certificate in Strategic Leadership and Management, KSG. Member, Kenya Institute of Management (KIM). Currently serving as Director Planning, State Department for Roads. Served as Chief Economist, Ministry of Roads. Served as Management Representative (MR) ISO 2015 Certification, Ministry of Roads. Served as Head of ISO 2015 Certification, State Department of Infrastructure. Served as Principal Economist, Ministry of Roads and Public Works. Member, Board of Management of the Kenya Institute of Highways and Buildings Technology. Member of Board of Management the Mechanical Transport Fund.</p>
8.	 <p>Eng. James M. Kungu.</p>	<p>Holder of Bachelor of Science (BSc) in Civil Engineering from the University of Nairobi. Holder of Master of Science (MSc) in Construction Management from the University of Birmingham, UK. Registered Consulting Engineer, Engineers Board of Kenya (EBK). Corporate Member, Institution of Engineers of Kenya (IEK).</p> <p>Attended and qualified for the Strategic Leadership Development Programme (SLDP) at the Kenya School of Government. Member of the Mechanical Transport Fund Committee. Member, Kenya Institute of Highways and Building Technology (KIHBT). Alternate Director of the Board in Kenya Urban Roads Authority (KURA).</p> <p>Served as a Board of Management (BOM) Member, Loreto High School Limuru. Seconded to IGAD Secretariat in Djibouti and was Head of Infrastructure and Regional Coordinator for 6 years. Over 31 years' experience in the infrastructure sector especially in the roads sub-sector. Currently the Chief Engineer, Roads in the State Department for Roads.</p>

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9.



Mrs. (CPA) Sophie
Mwangashi.

Has worked in the civil service, for over 31 years. Worked as an Audit examiner at the Auditor General's office for 2 years and as an accountant for 29 years in different Ministerial Departments. The last station being the office of the Deputy President. Currently serving as a Deputy Accountant General, heading the Accounting Unit at the State Department for Roads. A Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). Trained and qualified for the Strategic Leadership Development Program at the Kenya School of Government.

4. Statement by the Chairman

The financial year 2022-2023 presented the division with an opportunity to improve its performance in the management of the MTF, among the strategies employed by the committee through the assistance of the department was to appoint the Chief Engineer Mechanical in charge of the department as a dedicated leader in the day to day running and administration of the department. The committee has held quarterly meetings to review the implementation of the procurement plan and the contents of this report outlines all the management activities that the division undertook in the year under review. In spite of the hard economic challenges which included the huge pending bills for development projects in the roads sector coupled with delays in funds disbursement by the National Government to pay for ongoing works. The division has continued to work closely with the County Governments, Road Agencies and other stakeholders. Despite the challenges the fund has remained stable. The committee has emphasized innovative strategies to ensure sustainability and quality service delivery to its customers, focusing on retention and expansion of its customer base. Currently the division is undergoing a scan on the business processes as we prepare to achieve a semi-autonomous status supported by the HOAGDP financed by the World Bank.

It has been our strategic objective for the fund to implement an Enterprise Resource Planning (ERP) to ensure there is efficiency, transparency and effectiveness in execution of its functions. We recognize that the government is accelerating the digitization of services in the effort to apply technology to unlock efficiency, effectiveness and accessibility of services while managing risks. This is expected to improve service delivery and public resources management that will result in increased revenues.

The committee in exercise of its oversight role in guiding the Management of the division will continue to provide appropriate guidance, leadership and support to ensure that the deployment of human, capital and other resources are deployed prudently to unlock the full potential of the Division. It is my hope that the Division will continue to grow its own revenue and attract resources to capitalism the ambitious transformation expected after assuming the status of a semi-autonomous agency, in anticipation to increasing the fleet strength and adopting a robust asset management culture.

The Committee demonstrated its fiduciary duty in management of the Fund by ensuring implementation of its resolutions. I wish to take this opportunity to thank the committee for diligently executing its mandate, I wish also to congratulate the management in their execution of the annual work programme, however in recognition of the central role the division plays in

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enhancing the capacity of entrepreneurs in the construction industry we must endeavour to provide high quality services and become a premier institution in the plant and equipment hire industry. Moreover, the Bottom-up Economic Transformation Agenda (BETA) and Vision 2030 is a great opportunity for us to mobilize a wider customer base by developing new business processes to support the youth, women and new entrepreneurs. We know the first step will be to adopt a strong communication strategy that deliberately targets the prospective customer base and shifting the business practice towards modern digitized processes, reduce the paperwork and improve our customer relationship.

We wish to express our sincere gratitude to the development partners and other stakeholders whose support remains key in facilitating the capacity building of the division towards improved delivery of the MTF services.



.....
Mr. Phillip Wachira.

Chairman Mechanical and Transport Fund.

5. Statement from the Chief Executive Officer

In the financial year under review 2022/23, the Division has achieved various milestones despite harsh economic realities. We have continued to explore innovative ways to enhance our income streams and cash flows. We have engaged development partners to mobilize funds which include Sumitomo Corporation and the World Bank through Horn of Africa Gateway Development Project (HoAGDP). Accordingly, the fund has increasingly implemented innovative cost cutting measures. Further, the Fund has deployed technology to unlock revenue streams and also enhance accountability. In the year under review, the fund implemented an aggressive marketing strategy in view of attracting stakeholders to subscribe to our services. In addition, the Division is considering to engage professional consultancy services to complete its draft strategic plan. In the year under review, we were privileged to improve our staffing levels through replacement process under the Public Service Commission (PSC). However, we have not realized the optimal staffing levels.

Through the State Department for Roads, the Division received development funds which went into renovating our regional workshops thus improving its overall image. We have also resuscitated the process of debt recovery in Kisii County and Nairobi Metropolitan Services. The Secretariat also prioritized on several equipment repair within the prevailing financial constraints. Whereas the cost implication was significant, the outcome resulted in tremendous positive effect on attainment of the Division's objectives thereby increasing the efficiency and effectiveness of service delivery. I have further ensured my staff are adequately trained on integrity, ethics and are kept abreast with the ever changing technological architecture. We have also commenced collaboration with key stakeholders focusing on e-mobility in line with the BETA agenda. In this regard, we have developed reference specifications for guiding the MCDAs in the procurement of electric motorbikes, saloon cars, pickup trucks and Sports Utility Vehicles (SUVs).

The Division is also set to undergo transformation into a Semi-Autonomous Governmental Agency (SAGA) in the process funded by the World Bank under the Horn of Africa Gateway Development Project. The transformation into a SAGA is envisaged to catapult the Division into modern operational status and unlock the Division's potential in revenue generation and ultimately attainment of long-term objectives.

I wish to take this opportunity to give my sincere appreciation to the Management Committee for the support and guidance extended to the secretariat throughout the year. I commend the MTD staff for their unwavering effort that ensured the Fund remained steadfast in delivering its

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mandate. I also extend my gratitude to the State Department for Roads, National Treasury and Development partners for financing our projects and programme. Finally, I wish to thank all other stakeholders for their critical contribution that facilitated continuous improvement of the Fund.



.....
Eng. Richard G. Thitai, OGW.
CHIEF ENGINEER (MECHANICAL)

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6. Statement of Performance Against Predetermined Objectives for FY2022/2023

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer is to present a statement of performance against predetermined objectives of the entity.

The key strategic objectives as per the strategic plan for FY 2022 - FY 2023 are to:

- a) To Standardize Government Fleet
- b) To Have Well Maintained Key Vehicles, Plant and Equipment
- c) To Have Maintenance and Renewal Funds Through Imposition of Fees and Hire
- d) To develop and improve Regional and County Mechanical Workshop
- e) To Train Staff

Below we provide the progress on attaining the stated objectives:

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MECHANICAL AND TRANSPORT DIVISION 2022/2023 ANNUAL DEPARTMENTAL WORKPLAN										
S/No	Activities	Output	Performance Indicators	Target Output	Actors	Time (Financial Year 2022/2023)				Achievement
						Q1	Q2	Q3	Q4	
Strategic Objective 1: To Standardize Government Fleet										
1.	Issuing/Providing standard specifications for procurement of vehicle, plant and equipment for MCDAs	Standard Specs Issued	Register of standard specs issued	Issue standard specs 170 No.	CEM, Technical, Ministries/Depts.	29 No. Standard Specs issued	36 No. Standard Specs issued	48 No. Standard Specs issued	69 No. Standard Specs issued	182 No.
2.	Developing new Technical Specifications of vehicle, plant and equipment for MCDAs upon request	New Specifications developed	Register of New specs issued to client	Develop New Specs for Vehicles, plant and equipment. 30 in No.	CEM, Technical, Ministries/Depts.	7 No. new specs to be developed	15 No. new specs to be developed	32 No. new specs to be developed	11 No. new specs to be developed	65 No.
3.	Evaluating procurement tenders of Vehicles, Plant, and Equipment for MCDAs	Various tenders evaluated	Register of Various tenders evaluated and issued to client	Technical evaluation of tenders for vehicles, plant and equipment 30 in No.	CEM, Technical, Ministries/Depts.	2 No. tenders to be evaluated	8 No. tenders to be evaluated	9 No. tenders to be evaluated	29No. tenders to be evaluated	48 No.
4.	Pre-Delivery inspection of Vehicles, Plant, and Equipment for Govt. MCDAs	PDI Reports Issued	Register of PDI reports inspected	Inspect 2200 Vehicles, Plant and Equipment	CEM, Technical, Ministries/Depts.	1,750 PDI's carried out	229 PDI's carried out	211 PDI's carried out	584 PDI's carried out	2,774 No.
Strategic Objective 2: To Have Well Maintained Key Vehicles, Plant and Equipment										
1.	To maintain and repair key vehicles, plant and equipment	To have 67% Serviceability level of vehicles, plant and equipment	Logbooks Serviceability reports pm Schedules	Maintain and Repair 489 vehicles, plant and equipment	RME'S CMO'S	328	328	328	328	342No.
2.	To renew vehicles, plant, equipment and other machinery	To have vehicles, plant, equipment and other machinery that are economical to maintain	Copies of: LPO's and delivery documents.	To Procure the following; 1 bulldozer 1 grader 3 excavators 1 lowbed single drum rollers 11 trucks 2 prime movers 2supervisory vehicles	CEM, Technical, Procurement/ Operations		1 grader 3 trucks 1 supervisory vehicles	4 trucks 1 supervisory vehicle 1 single Drum roller 1 excavator	1 Dozer 4 Trucks 1 Supervisory Vehicle 1 Single Drum Roller 1 Excavator 1 Low bed 1 Prime mover	NIL

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S/No	Activities	Output	Performance Indicators	Target Output	Actors	Time (Financial Year 2021/2022)				Achievement
						Q1	Q2	Q3	Q4	
3.	To board all vehicles, plant, equipment and other machinery that are uneconomical to operate	Optimal and efficient fleet	Lower operational cost and less breakdowns.	To board 180 lots of obsolete and uneconomical to repair vehicles, plant and equipment	CEM, Operations, RME's	Appointment of Board of Survey, identification and Survey of boarded items	Advertisement and sale of documents	Sale of boarded items	Collection of sold items	242 No. of items boarded
Strategic Objective 3; To Have Maintenance and Renewal Funds Through Imposition of Fees and Hire										
1.	Receipts from hire of equipment	Funds for renewal and maintenance generated	Bank statements and MR receipt	Kshs.745, 325, 553 raised	CME, RME's, Accounts	Kshs.65, 009, 824	Kshs.307, 502, 375	Kshs:186, 238, 727	Kshs.186, 574, 627	545.02 Million
2.	Receipts from sale of vehicles, plant, Equipment and Machinery	Funds for renewal and maintenance generated	Bank statements and MR receipt	Kshs. 15,000,000 raised	CME, RME's, Accounts			Kshs.15, 000, 000		26.1 Million
3.	Receipts from sales and fees for services surrendered	Funds for renewal and maintenance generated	Bank statements and MR receipt	Kshs. 40,000,000 raised	CME, RME's, Accounts	Kshs. 10,000,000	Kshs. 10,000,000	Kshs. 10,000,000	Kshs. 10,000,000	66.28 Million
Strategic Objective 4: To develop and improve Regional and County Mechanical Workshop										
1.	Improve and renovate central workshops and MTD main office	Improved Central Workshops and Offices.	Copies of: Requisitions, quotations, LSO's, BQs, completion certificate, payment voucher	MTD Workshops and offices renovated	CEM, Supply Chain Management officer, Branch Accountant.	Requisitions	BQs, quotations	LSO's	Completion certificate, Payment voucher	Funds Not Availed
2.	Improve and renovate 46 Regional/County Workshops and Offices	More functional Regional Workshops.	Copies of: Requisitions, quotations, LSO's BQs, completion certificate, payment voucher	46 county workshops and offices renovated	CEM, Supply Chain Management officer, Branch Accountant.	Requisitions	BQs, quotations	LSO's	Completion certificate, Payment voucher	46 County Workshops Refurbished

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Strategic Objective 5: To Train Staff										
1.	To train in various Disciplines	Well trained and skilled staff	Invitation letters, attendance registers, and certificates	To train 70 staff members	CEM, RME's, Training Institutions	0 No. of Staff	20 No. of Staff	30 No. Staff	20 No. Staff	40 Officers Trained

7. Corporate Governance Statement.

At the Mechanical and Transport Division (MTD), a Government Division, we are committed to upholding strong corporate governance principles to ensure transparency, accountability, and the efficient delivery of quality services. Our mission is to provide quality mechanical, transport, and plant services, standardize government vehicles, plant, and equipment, and contribute to the development and maintenance of roads and related infrastructure. With a vision to become a world-class provider of Mechanical, Transport and Plant services, we are guided by a set of core values including integrity, objectivity, teamwork, discipline, respect, courtesy, competence, commitment, dedication to duty, invention and innovation.

To fulfil our corporate governance responsibilities, we establish and maintain effective structures, processes, and controls. We strive to foster a culture of integrity and ethical behaviour among our staff members, ensuring that they act in the best interest of our clients and stakeholders. We are dedicated to providing a balanced assessment of our services, prioritizing objectivity over personal or external influences. By promoting teamwork, discipline, respect, and courtesy, we foster a positive work environment that encourages collaboration, open communication, and mutual respect.

We are committed to competence and enhancement of knowledge, skills, and experience of our workforce through capacity building initiatives. We maintain a strong focus on maintaining and renewing our vehicles, plant, and equipment with funds generated through appropriate fees and charges. We emphasize the modernization and equipping of our workshops and offices to create an efficient and conducive work environment.

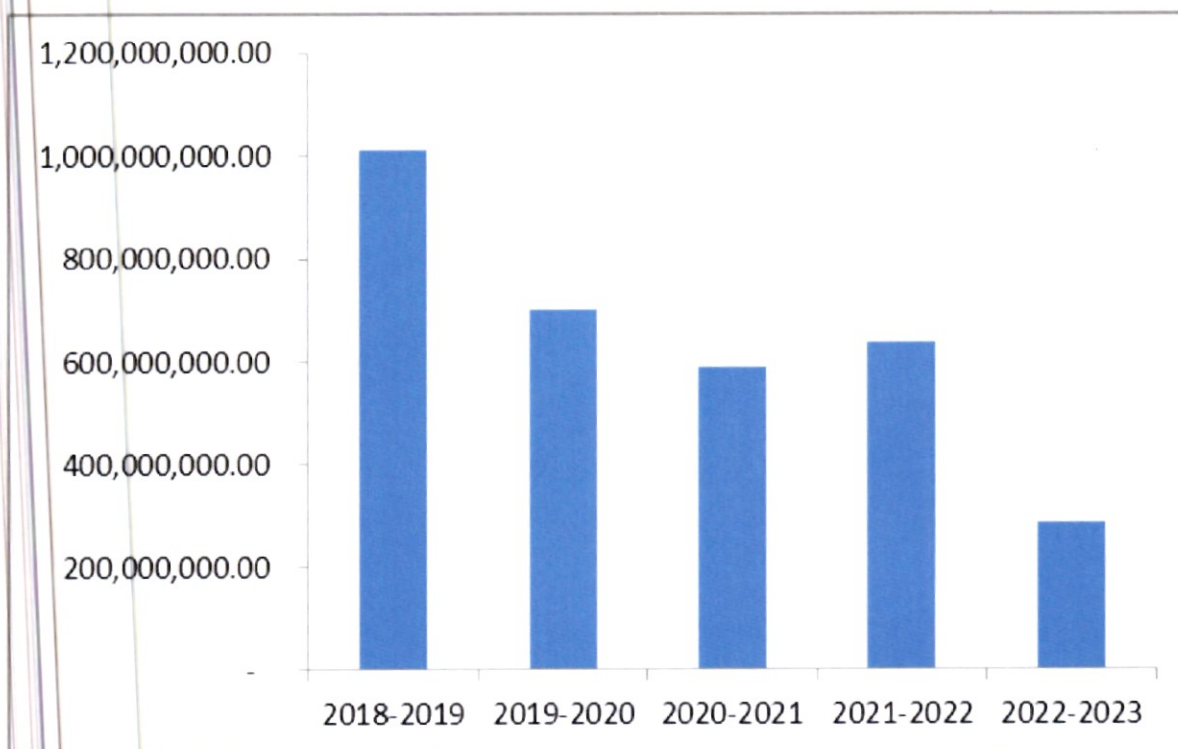
Through effective corporate governance practices, the MTD operates with integrity, efficiency, and accountability, delivering quality services and contributing to the development and maintenance of infrastructure. We maintain compliance with all applicable laws, regulations, and policies, and regularly review and assess our governance practices to ensure their effectiveness. We are committed to engaging with our stakeholders, fostering transparency and trust, and continuously improving our operations to achieve our strategic goals and fulfil our mission and vision as a Government Division

8. Management Discussion and Analysis

The effects of Ukraine and Russia war, disruptions of global supply chain, geo-politics, and depreciation of world currencies, interest rates and adverse climatic conditions continued to be significant factors affecting global economic growth.

In addition, the country underwent a challenging electioneering period, a long drought episode, inflation and huge infrastructure pending bills. Consequently, in the year under review, the Mechanical and Transport Fund experienced significant economic challenges that disrupted its activities such as increased prices of spare parts, tyres, oils & lubricants and other equipment consumable parts. Moreover, the Division has an ageing fleet whose maintenance costs has continued to escalate resulting in decreased capacity to generate income.

The graph below depicts trends in revenue generation over the financial years 2018/19-2022/23



The significant decline of revenue generation was due to unavoidable economic factors beyond the Divisions control. However, the management is employing strategies to mitigate against this trend by resource mobilization, engagement of like-minded stakeholders, implementing cost cutting measures, re-capitalization and pursuing institutional reform.

Entity’s key projects or investments decision implemented or ongoing.

Mechanical and Transport Fund has continued to offer support in Infrastructural development across the country. The following images are representations of some key project engagements within the year under review.



Meru County, Road Opening



Road Grading
Butula Constituency, Busia County.



**Road Opening
Elgeyo Marakwet**





The Chief Engineer (Mechanical) (Extreme Right) inspecting MTF equipment on a road opening project in Elgeyo Marakwet

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Entity's compliance with statutory requirements

Mechanical and Transport Fund Management has continued to observe and adhere to The Constitution of Kenya, 2010, the Gazette Notice No. 140 of 2003, The Public Finance Management Act, 2012, The Public Procurement and Asset Disposal Act, 2015, regulations and other circulars that are issued from time to time.

Major risks facing the organisation.

During the year under review the following risks and mitigation measures were employed as depicted in the table below:

S/No.	RISK EVENT	MITIGATION MEASURES
1.	Loss of funds	Adherence to code of conduct for Public Officers. Embracing ERP technology.
2.	Loss of Assets	Hiring of guards.
3.	Manipulation of records.	Adherence to the code of conduct.
4.	Misappropriation of funds	Sanctions/ Punishment Adhere to professional standards and code of ethics.

Material arrears in statutory and other financial obligations,

In the year under review, the fund encountered the following arrears from our clients:

Trade Receivables.

1) Nairobi Metropolitan Services (NMS) unpaid amount:	Kshs. 36,337,417.
2) Kisii County Government:	Kshs. 48,710,152.
3) Geothermal Development Company	<u>Kshs 7,855,125.</u>
Total:	<u>Kshs. 92,902,694.</u>

Trade payables;

1) Gyto security services:	Kshs 3,766,900.
2) Techno hub:	Kshs 2,363,930.
3) Telkom Kenya:	Kshs 6,573,543.
4) Tender refunds:	<u>Kshs 1,133,87.</u>
Total:	<u>Kshs. 13,838,247.</u>

Review of the Economy

The Mechanical and Transport Fund experienced economic challenges due to high prices of spare parts, tyres, oil & lubricants and fuel that came about due to inflation and huge pending bills in the road sector.

Review of the sector,

The infrastructural sector was majorly affected by electioneering period, delays in exchequer release to MCDAs and huge pending bills.

Future Developments

The Division is mobilizing funds from GOK and development partners to procure new fleet, modernize and equip workshops with modern tools, spearhead e-mobility, digitizing services, integration into the e-citizen platform, enhance cost cutting measures and finally transform the Division into a SAGA

9. Environmental and Sustainability Reporting

a) Sustainability strategy and profile

The management is working to develop a 5-year draft strategic plan anchored on Vision 2030 and the Sustainable Development Goals (No. 9 on Industry, Innovation and Infrastructure, No.13 on Climate Action) that will help transform the Fund and widen the range of proposed services to help it become more self-reliant. The following table shows the measures that are being put in place towards attainment of these goals.

GOALS	OBJECTIVES	STRATEGIES
Efficient and Effective service delivery	Acquisition of more equipment.	40% of MTF annual accruals is normally set aside for the purchase of vehicles, plant and equipment. During the year under review however, we were unable to purchase any new machinery due to the shortfall in revenue target in the uncertain economic environment.
		The Division embarked on vehicle body fabrication to reduce cost of a complete body unit and enhance utilization of our competence. The Fund is in the process of mobilizing more resources from our development partners for recapitalization.
	Ensure availability and serviceability of equipment	The Fund utilized at least 60% of MTF annual accruals for spares, service parts, lubricants and other administrative costs.

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	Develop and Adopt Information Communication Technology in MTF operations	Through the HoAGDP Project, the Fund is in the process of implementing relevant software (ERP) for MTF reporting system.
		The Fund is in the process of obtaining funding through HoAGDP to acquire more ICT Equipment and to connect field stations to headquarters through Wide Area Network.
	Improve Workshops	The Fund is seeking support to help equip our regional and county workshops with modern tools and equipment.
	Ensure our services are available Countrywide	The Fund has presence in all the 47 counties.
Financial Sustainability	Increase annual revenue collection from under 1.0 billion to 2.0 billion	During the financial year, the Fund practiced prudent financial and asset management system.
		The Fund is actively seeking development partners to help renew fleet and improve efficiency in revenue collection.
	Increase Sources of Revenue	The Fund strives to ensure maximum utilization of consultancy services, workshop facilities and equipment for services at a fee.
		Through the Draft strategic plan developed, we sought to diversify our consultancy services further e.g. inspection of exhaust emission for vehicles, locomotives, fuel generators, regulating the construction of bus bodies and trailers, regulation of private and public garages, Manufacture of small machines like block making Machines.
	During the period under review, the fund sought to dispose obsolete and uneconomical to repair equipment.	

	Ensure stabilized user and service fee	Going forward the Division strives to have a periodic review of user and services fees to ensure market stability amidst inflation and market dynamics.
Improve Institutional Capacity	Train staff on relevant technology	The Division identified and trained various cadres of staff in the period under review to help build capacity.
		The Division received more technical staff including engineers, clerks, inspectors and drivers during the year under review.

b) Environmental performance /climate change/ mitigation of natural disasters

The Division has been on the forefront of environmental conservation efforts in the field of motor vehicles, plant and machinery in the following ways:

- As the Chief advisor of Government in matters relating to Mechanical and Transport Services, the Division is continually researching on improving technical specifications issued to other MCDAs in view of adopting green technology and e-mobility. The Division has been working towards developing technical specifications for electric vehicles, biogas driven and those that consume better standards of fuels to help environmental conservation efforts.
- Additionally, on the Regulation and reduction of emissions and promoting renewable energies, the Division is also developing technical specifications on diesel and petrol motor vehicles that support the use of cleaner fuels that lead to lower emission levels. By advocating for motor vehicles that meet the higher Euro 4 standards from the current Euro 2 standards we thus help in improving the air quality by reducing the emission of sulphur and other metals.
- As the implementing agency of KS1515, the Division is also tasked with thoroughly inspecting imported second hand vehicles and ensuring they meet the required pollution emission standards to minimize environmental degradation.
- The Division undertakes valuation and inspection of unserviceable motor vehicles, plant and equipment in lieu of boarding. This helps eliminate motor vehicles that are not roadworthy to further reduce the number of pollutants emitted to our environment as well as improving our road safety.
- The Division alongside Kenya Bureau of Standards (KEBS) and National Transport and Safety Authority (NTSA) carried out testing of road speed limiters to ensure strict compliance of all new road speed limiter models to the set out for Public Service

Vehicles (PSV) regulations.

- The Division as part of the multi-agency team implements compliance to tag-axle conversions and develop technical specifications for weigh bridges used in axle-load controls thus protecting roads.
- The Division develops Preventive Maintenance Schedules to help improve fleet life span thereby minimizing the number of vehicles polluting the environment.
- The Division was involved in GDC projects for geothermal exploration to generate green energy in Nakuru and Baringo regions.

The Division was involved in planting trees in view of environmental conservation and increasing the forest cover in Kajiado, Kwale, Kilifi and Mombasa Counties

c) Employee welfare

Currently, the Division has a staffing level of 1,073 in post against 2,675 authorized establishments indicating that it relies on 40% of the required human capacity. In the year under review, the Division has been able to train 33No. of its staff across various cadres funded by the World Bank program of Horn of Africa Gateway Development Project and 7.No. funded by Mechanical and Transport Fund. The organization periodically conducts the training needs assessment and trains competent staff across all cadres. The organization is constantly working towards achieving gender parity and cultural diversity in its replacement processes as outlined in the **Public Service Commission's policies and regulations of 2016.**

The Division strives to maintain the health and safety of employees, customers, neighbours and protecting the environment as part of our organizational culture. Our aspirations are to have zero accidents, zero errors and zero harm by continually adhering to the provisions of the Kenyan Constitution, the Labour Laws of Kenya, the ILO Conventions, best practices and the Occupational Safety and Health Act (OSHA).

d) Marketplace Practices

Responsible Supply chain and supplier relations

The Division made strides in the following strategic areas:

- **Responsible Market Competition Practices**

By provision of equipment to strengthen local contractors, the Fund facilitated growth of local contractors thus stabilizing user fees in the industry.

- **Responsible Supply Chain and Supplier Relations**

The organization maintained good business practices by treating its own suppliers responsibly, honouring contracts in time, embracing Access to Government Procurement Opportunities (AGPO) for special groups.

- **Responsible Marketing and Advertising**

The Division maintained its gazetted rates uniformly across the country and has made this information publicly available to all. The Division therefore upheld openness, honesty and transparency, operating with the highest level of ethical standards.

- **Product Stewardship**

The management continuously worked to identify market gaps and needs thereby introducing new technical specifications for electric light trucks, motorbikes and saloon cars in line with the e-mobility government agenda

10. Statement of Management Responsibilities

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

The Accounting Officer in charge of the Mechanical and Transport Fund is 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, 20xx. 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 Accounting Officer in charge of Mechanical and Transport Fund accepts responsibility for the entity's financial statements, which have been prepared on the Accrual Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the Mechanical and Transport Fund financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 20xx, and of the entity's financial position as at that date. The Accounting Officer in charge of Mechanical and Transport Fund further confirms the completeness of the accounting records maintained for the Mechanical and Transport Fund, 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.

The Accounting Officer in charge of the Mechanical and Transport Fund confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the entity's financial statements

MECHANICAL AND TRANSPORT FUND

Annual Report and Financial Statements for the year ended June 30, 2023.

have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

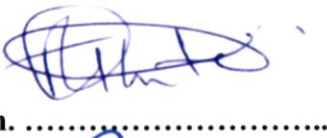
Approval of the Financial Statements

The Mechanical and Transport Fund financial statements were approved on 26/07/2023 2023 and signed by:


Sign.

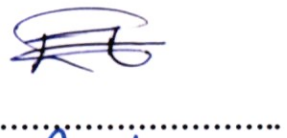
Date. 28/12/23

Eng. Joseph M. Mbugua, CBS
Accounting Officer


Sign.

Date. 28/12/2023

Eng. Richard G. Thitai OGW.
Chief Engineer (Mechanical)

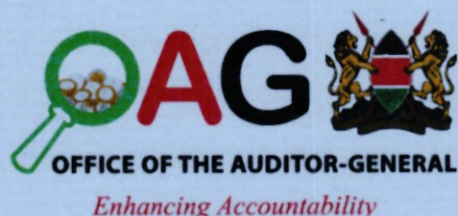

Sign.

Date. 28/12/2023

Dr. Eric Maina Gatimu
Head of Accounting Unit
ICPAK M/No. 9365

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MECHANICAL AND TRANSPORT FUND FOR THE YEAR ENDED 30 JUNE, 2023 – STATE DEPARTMENT FOR ROADS

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure that the Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Mechanical and Transport Fund set out on pages 1 to 32, which comprise of the statement of financial position as at

Report of the Auditor-General on Mechanical and Transport Fund for the year ended 30 June, 2023 – State Department for Roads

30 June, 2023, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of the Mechanical and Transport Fund as at 30 June, 2023, 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 do not comply with the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

Review of the financial statements revealed the following unsatisfactory matters:

- i) The statement of financial position reflects inventories balance of Kshs.26,477,661 as disclosed in Note 14 to the financial statements. However, the trial balance provided for audit reflects an amount of Kshs.24,097,900 while the supporting ledger reflects a balance of Kshs.24,143,905. The resultant variances between the three records have not been reconciled.

Further, inventory balance includes spare parts and meter balance of Kshs.22,191,989 which includes a Komatsu item with an amount of Kshs.2,189,868. However, re-computation of the item resulted in a balance of Kshs.2,235,875. The resultant variance of Kshs.46,007 has not been reconciled.

- ii) The statement of cash flows reflects net increase in cash and cash equivalents amount of Kshs.4,211,041. However, a re-computation of the amount indicated a balance of Kshs.13,565,113 resulting in unreconciled variance of Kshs.9,354,072.
- iii) The statement of financial performance reflects expenditure on administrative expenses of Kshs.55,144,821 as disclosed in Note 9 to the financial statements. The amount includes expenditure on general office supplies of Kshs.5,996,771 which differs from supporting ledger amount of Kshs.6,076,770 resulting in unreconciled variance of Kshs.79,999.

In the circumstances, the accuracy and completeness of balances reflected in the financial statements could not be confirmed.

2. Receivables from Non-Exchange Transactions Balance

The statement of financial position reflects current receivable from non-exchange transactions balance of Kshs.92,902,694 which, as disclosed in Note 13 to the financial statements includes an amount of Kshs.48,710,152 owed by Kisii County Government.

As previously reported, the amount has remained outstanding from the financial year 2018/2019. However, during the year under review, the County Government of Kisii had acknowledged an amount of Kshs.48,000,000 as the balance owed to the Fund resulting to an unreconciled variance of Kshs.710,152.

Further, the balance of Kshs.92,902,694 includes an amount of Kshs.36,337,417 owed by the defunct Nairobi Metropolitan Services (NMS). In addition, the Fund had no debt collection policy.

In the circumstances, the accuracy, completeness and recoverability of the receivables balance Kshs.92,902,694 could not be confirmed.

3. Inaccuracies in Property, Plant and Equipment Balance

As disclosed in Note 15 to the financial statements, the statement of financial position reflects property, plant and equipment with a Net Book Value of Kshs.3,420,988,046. Review of records revealed the following inaccuracies:

- (i). Note 13 to the financial statements reflect property, plant and equipment with historical cost of Kshs.6,812,061,480 as at 30 June, 2023. However, the master inventory revealed that there were assets worth Kshs.3,454,186,802 which had been transferred to various County Governments but were included in the master inventory. It was further observed that assets worth Kshs.1,259,249,662 were sold or disposed but were still maintained in the master inventory.
- (ii). The master inventory revealed that there were five excavators and two Zoomlion Dozers with a total value of Kshs.121,000,000. However, the records did not indicate the registration numbers of the equipment hence it was not possible to verify the existence and ownership of the assets.
- (iii). The property, plant and equipment schedule reflect a depreciation charge for the year of Kshs.255,620,992. However, the depreciation workings provided for audit revealed charge for the year of Kshs.254,388,928 resulting in unreconciled variance of 1,232,064.
- (iv). The depreciation rates applied were not clearly stated or disclosed in the financial statements. Further, the depreciation workings reflect depreciation charge of Kshs.7,011,768. However, there were no details or a breakdown of the specific assets.
- (v). The historical costs brought forward for the old assets were not supported with accurate schedules and could not be verified.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.3,420,988,046 could be confirmed.

4. Unauthorized Over-Expenditure on Fuel, Oil and Lubricants

The approved budget reflects a budgeted expenditure of Kshs.16,000,000 for refined fuel and lubricants. However, Note 8 to the financial statements indicates that the Fund spent an amount of Kshs.45,781,815 on fuel for both the operations and projects components,

thus resulting to an over-expenditure of Kshs.29,781,815. Further, the Fund had a budgeted expenditure of Kshs.23,486,458 for oil and lubricants but spent an amount of Kshs.11,044,096 resulting to under expenditure of Kshs.12,442,362. The Fund incurred an overall over-expenditure of Kshs.17,339,453 on fuel, oils and lubricants. Management did not explain or provide an approval for the over-expenditure on the two items. This is contrary to Regulation 54 (1) of the Public Finance Management (National Government) Regulations, 2015 which states that except as provided for in the Act and these Regulations, an Accounting Officer of an entity may not authorize payment to be made out of funds earmarked for specific activities for purposes other than those activities

In the circumstances, the regularity of the expenditure on fuel, oils and lubricants could not be confirmed.

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

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.780,825,553 and Kshs.284,563,461 respectively, resulting in a revenue shortfall of Kshs.496,262,092 or 64% of the budget. Similarly, the Fund spent an amount of Kshs.273,270,635 against an approved budget of Kshs.780,825,554 resulting in an under expenditure of Kshs.507,554,919 or 65% of the budget.

The under-collection of revenue and under-expenditure affected the planned activities of the Fund and may have impacted negatively on service delivery to the public.

2. Poor Financial Performance

During the year under review, the Fund reported a deficit of Kshs.244,328,166 (2021/2022 deficit - Kshs.128,695,987) resulting in depletion of accumulated reserves from Kshs.1,497,912,883 as at 1 July, 2022 to Kshs.1,253,584,717 as at 30 June, 2023. Management did not disclose strategies put in place to reverse the unfavourable trend which has been there for the last five (5) years and if not addressed appropriately, may adversely affect the Fund's sustainability of services

My opinion is not modified in respect of these matters.

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

Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Non-Compliance with Authorized Staff Establishment

As previously reported, review of the Fund's authorized staff establishment revealed that in-post staff in various cadre were one thousand and seventy-three (1,073) against an authorized establishment of two thousand, six hundred and ninety-five (2,695) resulting in a shortage of one thousand, six hundred and twenty-two (1,622) staff members.

In the circumstances, the Fund lacked the requisite staffing levels to be able to run the day-to-day activities thereby adversely affecting delivery of its mandate.

2. Poor Management of Assets

Review of assets inventory records revealed the following unsatisfactory matters:

Report of the Auditor-General on Mechanical and Transport Fund for the year ended 30 June, 2023 – State Department for Roads

- (i). The master inventory does not have unique identifiers for property, plant and equipment in the form of tagging which is used for the identification of specific assets to facilitate their accountability and monitoring. Record did not indicate the registration number of the supervisory vehicles, trucks, plants and equipment.
- (ii). The Fund occupies various parcels of land with building and structures which have not been disclosed in the financial statements. Management explained that the Fund did not have titles for the land and therefore the land and buildings could not be valued. It is not clear why the land has not been registered and what action Management intends to take to rectify the anomalies.

In the circumstances, the existence of an effective mechanism to safeguard assets could not be ascertained.

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 controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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 controls.

- 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 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 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.


 FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

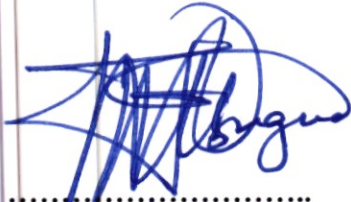
22 February, 2024

MECHANICAL AND TRANSPORT FUND**Annual Report and Financial Statements for the year ended June 30, 2023.****12. Statement of Financial Performance for the year ended 30 June 2023**

	Notes	2022-2023	2021-2022
		Kshs	Kshs
Revenue from exchange transactions			
Hire of Equipment and Miscellaneous Services	5	254,586,305	611,302,099
Sale of Boarded Items	6	29,977,156	26,130,755
Total Revenue		284,563,461	637,432,854
Expenses			
Travel and subsistence allowance	7	38,613,167	101,881,651
Routine Maintenance of Vehicles, Equipment and other assets	8	134,311,329	274,412,500
Administrative expenses	9	55,144,821	65,399,741
Depreciation	10	255,620,992	276,051,688
Security services	11	45,201,318	48,383,260
Total Expenses		528,891,627	766,128,841
Deficit for The Year		(244,328,166)	(128,695,987)

The notes set out on pages 10 to 22 form an integral part of these Financial Statements.


The Financial Statements set out on pages 1 to 22 signed on behalf of the Board of Directors by:



Sign.

Date. 28/12/23

Eng. Joseph M. Mbugua, CBS
Accounting Officer



Sign.

Date. 28/12/23

Eng. Richard G. Thitai OGW.
Chief Engineer (Mechanical)



Sign.

Date. 28/12/23


Dr. Eric Maina Gatimu
Head of Accounting Unit
ICPAK M/No. 9365


MECHANICAL AND TRANSPORT FUND
Annual Report and Financial Statements for the year ended June 30, 2023.


14. Statement of Financial Position as at 30 June 2023

	Notes	2022-2023	2021-2022
		Kshs	Kshs
Assets			
Current Assets			
Cash and Cash equivalents	12	126,189,495	121,978,474
Receivables from Non-Exchange Transactions	13	92,902,694	85,047,569
Inventories	14	26,477,661	43,686,059
Total Current Assets		245,569,850	250,712,102
Non-Current Assets			
Property, Plant and Equipment	15	3,420,988,046	3,640,633,941
Total Non- Current Assets		3,420,988,046	3,640,633,941
Total Assets		3,666,557,896	3,891,346,043
Liabilities			
Current Liabilities			
Trade and Other Payables from exchange transactions	16	13,838,247	19,754,813
Total Current Liabilities		13,838,247	19,754,813
Government Grant	18	2,373,678,347	2,373,678,347
Reserves		1,523,369,468	1,626,608,870
Deficit for the year		(244,328,166)	(128,695,987)
Total Liabilities and Reserves		3,652,719,649	3,871,591,230
Total Net Assets and Liabilities		3,666,557,896	3,891,346,043

The Financial Statements set out on pages 1 to 22 were signed on behalf of the Board of Directors by:


 Sign.
 Date. 28/12/23
 Eng. Joseph M. Mbugua, CBS
 Accounting Officer


 Sign.
 Date. 28/12/2023
 Eng. Richard G. Thitai OGW.
 Chief Engineer (Mechanical)


 Sign.
 Date. 28/12/2023
 Dr. Eric Maina Gatimu
 Head of Accounting Unit
 ICPAK M/No. 9365

MECHANICAL AND TRANSPORT FUND**Annual Report and Financial Statements for the year ended June 30, 2023.****15. Statement of Changes in Net Assets for the year ended 30 June 2023**

	Accumulated Reserves	Government Grant	Total
	Ksh	Ksh	Ksh
Balance As at July 1, 2021	1,626,608,870	2,373,678,347	4,000,287,217
Deficit for the Year	(128,695,987)	0	(128,695,987)
As at June 30, 2022	1,497,912,883	2,373,678,347	3,871,591,230
Balance As at July 1, 2022	1,497,912,883	2,373,678,347	3,871,591,230
Deficit for the Year	(244,328,166)	0	(244,328,166)
Balance As at June 30, 2023	1,253,584,717	2,373,678,347	3,652,719,649

MECHANICAL AND TRANSPORT FUND
Annual Report and Financial Statements for the year ended June 30, 2023.
16. Statement of Cash Flows for the year ended 30 June 2023

		2022-2023	2021-2022
	Notes	Kshs	Kshs
Receipts			
Receipts during the year		218,735,142	545,018,298
Miscellaneous income		33,964,472	63,752,799
Bank interest income		1,886,691	2,531,002
Sale of boarded items		29,977,156	26,130,755
Totals Receipts		284,563,461	637,432,854
Payments			
Use of goods and services		394,580,298	491,716,341
Repairs and Maintenance		134,311,329	274,412,500
Total Payments		528,891,627	766,128,841
Deficit for the year		(244,328,166)	(128,695,987)
<i>Non-cash adjustments: -</i>			
Interest received		(1,886,691)	(2,531,002)
Sale on asset disposal		29,977,156	(26,130,755)
Depreciation		255,620,992	276,051,688
Operating income before working capital changes		29,482,230	118,693,944
Movement in Working Capital			
Increase Debtors/prepayments		(7,855,125)	(72,653,331)
Decrease in Inventories		17,756,208	25,456,585
Decrease in Trade & Other Payables		(5,916,566)	(9,941,387)
Decrease in outstanding imprest		-	542,400
Net Change in working Capital		3,984,517	(56,595,733)
Net cash flows from/ (used in) operating activities	17	33,466,747	62,098,211
Cash flows from investing activities			
Purchase of plant, machinery and equipment			
Purchase of furniture		(94,990)	(40,600)
purchase of computer		(477,491)	-
purchase of office equipment		(592,760)	-
Asset disposal		(29,977,156)	26,130,775
Interest income		1,886,691	2,531,002
Net cash flows from/ (used in) investing activities		(29,255,706)	28,621,157
Cash flows from financing activities		-	-
Net cash flows from financing Activities		-	-
Net increase/(decrease) in cash & Cash equivalents		4,211,041	90,719,347

MECHANICAL AND TRANSPORT FUND

Annual Report and Financial Statements for the year ended June 30, 2023.


Cash and cash equivalents at 1 July 2022	12	121,978,454	31,259,107
Cash and cash equivalents at 30 June 2023		126,189,495	121,978,454

The Financial Statements set out on pages 1 to 22 were signed on behalf of the Board of Directors by:


Sign.

Date. 28/12/23

Eng. Joseph M. Mbugua, CBS
Accounting Officer


Sign.

Date. 28/12/2023

Eng. Richard G. Thitai OGW.
Chief Engineer (Mechanical)


Sign.

Date. 28/12/2023

Dr. Eric Maina Gatimu
Head of Accounting Unit
ICPAK M/No. 9365

MECHANICAL AND TRANSPORT FUND
Annual Report and Financial Statements for the year ended June 30, 2023.

17. Statement of Comparison of Budget and Actual amounts for the year ended 30 June 2023

Recurrent and Development Combined

Receipt/expense item	Original budget	Adjustments	Final budget	Actual on comparable basis	Budget utilization difference	% of utilization
	A	B	C=a+b	D	E=c-d	F=d/c %
Receipts						
Receipts from Hire of Equipment	745,325,554.00	0	745,325,554	218,735,142	(526,590,412)	29%
Receipts from sale of Vehicles, Plant and Equipment	15,000,000.00	0	15,000,000	29,977,156	14,977,156	200%
Receipts from sales and fees for services	20,000,000.00	0	20,000,000	33,964,472	13,964,472	170%
Bank Interest Received	500,000.00	0	500,000	1,886,691	1,386,691	377%
Total receipts	780,825,554	-	780,825,554	284,563,461	496,262,093	
Payments						
Contractual Employees	22,200,000	-	22,200,000	14,802,797	7,397,203	67%
Electricity expenses	8,500,000	-	8,500,000	3,975,508	4,524,492	47%
Water and sewerage charges	1,700,000	-	1,700,000	1,199,279	500,721	71%
Telephone, Telex, Facsimile and Mobile Phone Services	3,505,429	-	3,505,429	3,434,630	70,799	98%
Internet connections	10,200,000	-	10,200,000	10,719,573	(519,573)	105%
Courier and Postal Services	1,000,000	-	1,000,000	172,911	827,089	17%
Domestic Travel	34,368,287	-	34,368,287	34,150,467	217,820	99%
Monitoring & Evaluation	10,000,000	-	10,000,000	447,000	9,553,000	4%
Travel costs (airlines, bus, railway e.t.c)	1,500,000	-	1,500,000	-	1,500,000	0%
Accommodation	1,500,000	-	1,500,000	-	1,500,000	0%
Publishing and Printing Services	1,500,000	-	1,500,000	1,170,300	329,700	78%
Advertising, Awareness and Publicity Campaigns	2,000,000	-	2,000,000	401,000	1,599,000	20%
Trade Shows and Exhibitions	592,120	-	592,120	-	592,120	0%
Travel Allowance	2,099,873	-	2,099,873	3,356,400	(1,256,527)	160%
Book Allowance	1,000,000	-	1,000,000	-	1,000,000	0%

MECHANICAL AND TRANSPORT FUND

Annual Report and Financial Statements for the year ended June 30, 2023.

Receipt/expense item	Original budget	Adjustments	Final budget	Actual on comparable basis	Budget utilization difference	% of utilization
	A	B	C=a+b	D	E=c-d	F=d/c %
Tuition Fees	3,766,172	-	3,766,172	1,046,056	2,720,116	28%
Catering Services	5,100,000	-	5,100,000	4,815,624	284,376	94%
Boards, Committees, Conferences and Seminars	3,630,705	-	3,630,705	3,531,456	99,249	97%
Purchase of coffins	500,000	-	500,000	263,000	237,000	53%
Tyres and Tubes	99,000,000	-	99,000,000	17,309,769	81,690,231	17%
Purchase of Uniforms and Clothing- Staff	2,000,000	-	2,000,000	124,100	1,875,900	6%
Supplies for Production (Steel, Copper, and Timber for Spare parts)	1,000,000	-	1,000,000	-	1,000,000	0%
General Office Supplies (papers, pencils, forms, small office equipment)	10,744,628	-	10,744,628	5,996,771	4,747,857	56%
Supplies and Accessories for Computers and Printers	6,000,000	-	6,000,000	2,414,278	3,585,722	40%
Sanitary and Cleaning Materials Supplies and Services	2,000,000	-	2,000,000	720,965	1,279,035	36%
Refined Fuels and Lubricants for Transport	16,000,000	-	16,000,000	45,781,815	(29,781,815)	286%
Oils & Lubricants- Other	23,486,458	-	23,486,458	11,044,096	12,442,362	47%
Bank Operating charges	1,258,341	-	1,258,341	356,573	901,768	28%
Contracted guards and cleaning services	60,910,343	-	60,910,343	45,201,318	15,709,025	74%
Membership fees and subscriptions	1,000,000	-	1,000,000	659,300	340,700	66%
Contracted Professional Services	10,000,000	-	10,000,000	-	10,000,000	0%
Maintenance of Vehicles	10,000,000	-	10,000,000	3,041,786	6,958,214	30%
Maintenance of Plant, Machinery and Equipment	122,834,003	-	122,834,003	54,253,623	68,580,380	44%
Maintenance of buildings and stations - Non-Residential	1,189,445	-	1,189,445	113,150	1,076,295	10%
Maintenance of Internet Server, computers, Printers and software	3,000,000	-	3,000,000	2,767,090	232,910	92%
Purchase of Office Furniture and Fittings	2,500,000	-	2,500,000	-	2,500,000	0%
Upgrade and install closed circuit surveillance system	2,000,000	-	2,000,000	-	2,000,000	0%
Motor graders	28,600,000	-	28,600,000	-	28,600,000	0%
Bulldozer	30,000,000	-	30,000,000	-	30,000,000	0%

MECHANICAL AND TRANSPORT FUND

Annual Report and Financial Statements for the year ended June 30, 2023.

Receipt/expense item	Original budget	Adjustments	Final budget	Actual on comparable basis	Budget utilization difference	% of utilization
	A	B	C=a+b	D	E=c-d	F=d/c %
Low beds	5,000,000	-	5,000,000	-	5,000,000	0%
Excavators	78,000,000	-	78,000,000	-	78,000,000	0%
Dump Trucks (Tippers)	100,000,000	-	100,000,000	-	100,000,000	0%
Prime Mover	22,000,000	-	22,000,000	-	22,000,000	0%
Single Drum Roller	16,000,000	-	16,000,000	-	16,000,000	0%
Supervisory Vehicles	11,639,750	-	11,639,750	-	11,639,750	0%
Total payments	780,825,554	0	780,825,554	273,270,635	507,554,919	
Surplus/ Deficit			-	11,292,829	11,812,399	

MECHANICAL AND TRANSPORT FUND
Annual Report and Financial Statements for the year ended June 30, 2023.

Budget Notes

Explanations for Discrepancies.

Particulars	Remarks
4-251-0000-3510701 -Receipts from user fees of equipment.	<ol style="list-style-type: none"> 1. Delay in release of funds by National Government to various Government Agencies, Authorities and some County Governments who are our main clients. 2. High competition especially from NYS, Private contractors and County Governments which have purchased their own Road construction Equipment. Further, Private Contactors charge very low rates for survival due to less activities in road construction and impact of pending bill. 3. High pending bills and operational costs in the road sector.
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.	<ol style="list-style-type: none"> 1. High prices of tyres, oils & lubricants and spare parts as result of inflation. 2. High cost of maintaining aging equipment resulting in maintenance backlog. 3. Prioritizing repairs and maintenance for cost effectiveness.
4-251-0000-2211201 - Fuel.	The variance of Ksh. 29,781,815 in fuel is as result of County roads projects amounting to Kes 38,588,564 where the clients paid for fuel into our account and the same was not included in the annual approved budget.
4-251-0000-2210301 Domestic Travel Allowances and Expenses.	The total of Kshs. 34,150,467 is inclusive of project allowances amounting to Kshs 16,183,320.00 paid to our staff working in the county roads projects whereby the clients paid for dry rates for hire of equipment, fuel and plant operators' allowances which were not included in the annual approved budget.

18. Notes to the Financial Statements

1. General Information

Mechanical and Transport Fund is established by and derives its authority and accountability from Exchequer and Audit Act Legal Notice No 140 of 2003 [LN. 53/2011]. The Entity is wholly owned by the Government of Kenya and is domiciled in Kenya.

The Entity's principal activities are.

- Provision of vehicles, plant and equipment at gazetted user fees to both public and private sector.
- Mechanical and Transport Services at gazetted user fees to both public and private sectors.
- Sale of boarded vehicles, plant equipment and stores to the public.

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 Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Mechanical and Transport Fund accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Mechanical and Transport Fund.

The financial statements have been prepared in accordance with the PFM Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. Summary of Significant Accounting Policies

a) Revenue Recognition

i) Revenue from Non-Exchange Transactions

Fees

The Entity recognizes revenues from fees when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefit

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

or service potential associated with the asset will flow to the Entity and the fair value of the asset can be measured reliably.

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. 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.

ii) Revenue from Exchange Transactions

Rendering of Services

The Entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

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.

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.

Notes to the Financial Statements (Continued)**Summary of Significant Accounting Policies (Continued)****b) Budget Information**

The original budget for FY 2022/2023 was approved on 16th July 2022. 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.

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.

c) Property, Plant and Equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

d) Basis of Depreciation

The diminishing balance method is applied whereby the book value of plants, machinery and vehicles goes on decreasing as its existence continues. A certain percentage of the current book value is taken as the depreciation. Depreciation is in accordance with Mechanical Engineering of Plants, Machinery, Vehicles and Equipment valuation policy.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

e) Intangible Assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

f) Financial Instruments

(i) Financial Assets

Initial Recognition and Measurement

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

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Impairment of Financial Assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or an Entity of financial assets is impaired. A financial asset or an Entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- a) The debtors or an Entity of debtors are experiencing significant financial difficulty.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

- b) Default or delinquency in interest or principal payments
- c) The probability that debtors will enter bankruptcy or other financial reorganization.
- d) Observable data indicates a measurable decrease in estimated future cash flows (e.g., changes in arrears or economic conditions that correlate with defaults)

(ii) Financial Liabilities

Initial Recognition and Measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition., All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

g) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- i) Raw materials: purchase cost using the weighted average cost method.
- ii) Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Mechanical and Transport Fund.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

h) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

i) Nature and Purpose of Reserves

The Entity creates and maintains reserves in terms of specific requirements.

j) Changes in Accounting Policies and Estimates

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

k) Related Parties

The Mechanical and Transport Fund regards a related party as a person or an Entity with the ability to exert control individually or jointly, or to exercise significant influence over the Mechanical and Transport Fund, or vice versa. Members of key management are regarded as related parties and comprise the Directors/Fund Managers, Fund Accountant and Accounting Officer.

l) 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 financial year. 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.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

m) Comparative Figures

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

n) 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, 2023.

4. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Entity's financial statements in conformity with IPSAS 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.

a) 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 consolidated 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. (*see IPSAS 1.140*)

b) Useful Lives and Residual Value

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

- (i) The condition of the asset based on the assessment of experts employed by the Entity.
- (ii) The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- (iii) The nature of the processes in which the asset is deployed.
- (iv) Availability of funding to replace the asset.
- (v) Changes in the market in relation to the asset

MECHANICAL AND TRANSPORT FUND

Annual Reports and Financial Statements for the year ended June 30, 2023.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

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 40.

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.

MECHANICAL AND TRANSPORT FUND

Annual Reports and Financial Statements for the year ended June 30, 2023.

Notes to the Financial Statements (Continued)**5. Hire of Equipment and Service Rendered**

	2022 - 2023	2021 - 2022
	Kshs	Kshs
Receipts during the year	218,735,142	545,018,298
Miscellaneous income	33,964,472	63,752,799
Bank interest income	1,886,691	2,531,002
Total	254,586,305	611,302,099

6. Sale of Boarded Items

	2022 - 2023	2021 - 2022
	Kshs	Kshs
Sale of boarded items	29,977,156	26,130,755
Total	29,977,156	26,130,755

7. Travel / Subsistence Allowance

Description	2022 - 2023	2021 - 2022
	Kshs	Kshs
Domestic travel/subsistence allowance	17,967,147	34,270,659
Project allowances	16,183,320	60,396,792
Total subsistence allowance	34,150,467	94,667,451
Monitoring and evaluation	447,000	5,914,000
Travel allowance	3,356,400	1,300,200
Membership fees and Subscription	659,300	-
Total	38,613,167	101,881,651

8. Routine Maintenance Motor Vehicle, Plant and Equipment, Fuel & Lubricants, ICT Equipment's and Other Assets

Description	2022 - 2023	2021 - 2022
	Kshs	Kshs
Routine Maintenance of vehicles	3,041,786	
Routine Maintenance of Plant & Machinery	54,253,623	
Tyres and tubes	17,309,769	188,536,185
Fuel for Operations	7,193,251	12,513,240
Fuel for Projects	38,588,564	73,109,216
Oils and Lubricants	11,044,096	
Routine Maintenance & Other assets	113,150	-
Routine Maintenance comps, printers	2,767,090	253,859
Totals	134,311,329	274,412,500

MECHANICAL AND TRANSPORT FUND**Annual Reports and Financial Statements for the year ended June 30, 2023.****Notes to the Financial Statements (Continued)****9. Administrative Expenses**

Description	2022 - 2023	2021 - 2022
	Kshs	Kshs
Printing & Publishing	1,170,300	
Advertising & information supplies services	401,000	2,923,437
Communication –T/Phone, M/Phones	3,434,630	3,321,920
Communication- internet	10,719,573	5,017,259
Catering services	4,815,624	
Boards, Committees & conferences	3,531,456	8,241,838
Courier & Postal Services	172,911	233,940
Uniforms	124,100	126,000
Computer supplies and Accessories	2,414,278	4,781,207
Sanitary and cleaning materials	720,965	1,221,755
General Office Supplies	5,996,771	9,914,899
Electricity expenses	3,975,508	3,810,722
Water & Sewerage	1,199,279	882,678
Purchase of coffins	263,000	-
Bank charges	356,573	453,499
Tuition fees	1,046,056	3,900,260
Basic wages for Temporary employees	14,802,797	20,570,327
TOTALS	55,144,821	65,399,741

10. Depreciation

Description	2022 - 2023	2021 - 2022
	Kshs	Kshs
Depreciation for the year	255,620,992	276,051,688

11. Security Services

Description	2022 - 2023	2021 - 2022
	Kshs	Kshs
Payment for Security Services during the year	45,201,318	48,383,260

12. Cash and Cash Equivalents

Description	2022 - 2023	2021 - 2022
	Kshs	Kshs
Cash and Cash Equivalents	126,189,495	121,978,474

MECHANICAL AND TRANSPORT FUND**Annual Reports and Financial Statements for the year ended June 30, 2023.****Notes to the Financial Statements (Continued)****13. Current Receivables from Exchange Transactions**

Description	2022 - 2023	2021 - 2022
	Kshs	Kshs
Kisii County Government	48,710,152	48,710,152
Nairobi metropolitan services	36,337,417	36,337,417
GDC Project-Baringo	7,855,125	-
Total current receivables	92,902,694	85,047,569

14. Inventories

Description	2022 - 2023	2021 - 2022
	Kshs	Kshs
Stationery & Detergents	2,300,291	2,686,363
Fuel, Lubricants and oils	1,985,381	1,237,799
Spare parts and meters	22,191,989	39,761,897
Total inventories	26,477,661	43,686,059

MECHANICAL AND TRANSPORT FUND

Annual Reports and Financial Statements for the year ended June 30, 2023.

Notes to the Financial Statements (Continued)

15. Property, Plant and Equipment

YEAR ENDED 30TH JUNE 2023	SUPERVISORY VEHICLES (BELOW 3 TON)	PLANTS AND EQUIPMENT	TRUCKS (OVER 3 TON)	COMPUTER EQUIPMENT & ACCESSORIES	OFFICE EQUIPMENTS	ICT INFRASTRUCTURE & TELEPHONY	OFFICE FURNITURE	TOTAL
<i>Rate</i>				<i>10%</i>	<i>10%</i>	<i>10%</i>	<i>10%</i>	
Cost	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
As At 01.07.2021	236,274,479	5,458,118,985	1,014,310,268	32,566,761	22,337,114	10,156,326	37,091,706	6,810,855,639
Additional	0	0	0	0	0	0	40,600	40,600
Total As At 30.06.2022	236,274,479	5,458,118,985	1,014,310,268	32,566,761	22,337,114	10,156,326	37,132,306	6,810,896,239
Additional	0	0	0	477,491	4,106,515		94,990	4,678,996
As At 30th June 2023	236,274,479	5,458,118,985	1,014,310,268	33,044,252	26,443,629	10,156,326	37,227,296	6,812,061,480
Depreciation								
As At 30.06.2021	137,591,360	2,210,551,648	481,402,474	21,321,152	19,661,014	9,423,334	20,345,706	2,900,296,688
Period Charge	7,820,799	209,182,385	45,480,922	2,415,978	1,465,538	66,636	3,713,231	270,145,489
Disposal		24,908,775						24,908,775
As At 30.06.2022	145,412,159	2,394,825,258	526,883,396	23,737,130	21,126,552	9,489,970	24,058,937	3,145,533,402
Depreciation	6,864,519	206,147,424	35,597,281	2,222,129	1,378,260	59,972	3,351,407	255,620,992
Disposal	6,705,960	3,375,000	0	0	0	0		10,080,960
As At 30 June 2023	145,570,718	2,597,597,682	562,480,677	25,959,259	22,504,812	9,549,942	27,410,344	3,391,073,434
Net Book Values								
As At 30 June 2023	90,703,761	2,860,521,303	451,829,591	7,084,993	425,062	606,384	9,816,952	3,420,988,046
As At 30 June 2022	90,862,320	3,063,293,727	487,426,872	8,829,631	1,210,562	666,356	13,073,369	3,665,362,837

MECHANICAL AND TRANSPORT FUND**Annual Reports and Financial Statements for the year ended June 30, 2023.****Notes to the Financial Statements (Continued)****16. Trade and Other Payables**

	2022 - 2023	2021 - 2022
Description	Kshs	Kshs
Gyto Success Ltd	3,766,900	-
Teknohub Ltd	2,363,930	-
Telkom Kenya	6,573,543	-
Trade payables	12,704,373	-
Deposit for the year	5,072,622	13,729,635
Tender refunds	(1,653,720)	11,728,998
Amount utilized on sale	(2,285,028)	5,703,820
Other payables	1,133,874	19,754,813
Total trade and other payables	13,838,247	19,754,813

17. Cash Generated from Operations

Description	2022 - 2023	2021 - 2022
	Kshs	Kshs
Deficit for the year	(244,328,166)	(103,239,402)
Adjusted for:		
Depreciation	255,620,992	276,051,688
Non-cash grants received	(1,886,691)	(2,531,002)
Gains on disposal of assets	29,977,156	1,221,979
Working Capital Adjustments		
Increase Debtors/prepayments	(7,855,125)	(72,653,331)
Decrease in Inventories	17,756,208	24,908,775
Decrease in Trade & Other Payables	(5,916,566)	(9,941,387)
Decrease in outstanding imprest	-	542,400
Net Cash Flow From Operating Activities	33,466,747	114,359,720

MECHANICAL AND TRANSPORT FUND**Annual Reports and Financial Statements for the year ended June 30, 2023.****Notes to the Financial Statements (Continued)****18. Government Grant.**

A loan agreement was entered into between the Governments of the Republic of Korea and the Republic of Kenya on 15 th April, 2005 concerning Economic Development Cooperation Fund (EDCF) 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 10 th May, 2005 concerned the financing and the implementation of Road Maintenance Equipment Renewal Project. The loan Repayment was negotiated by the National Government to repay in forty (40) semi-annual consecutive instalments on date of 20 th April and 20 th October at an interest rate of 1% from the 11 th 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 a directive 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)
Grant from Government of Japan	241,596,000
Total Government Grant	2,373,678,347

19. Events after the Reporting Period

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

20. Ultimate and Holding Entity

The Entity ultimate parent is the Government of Kenya.

21. Currency

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

MECHANICAL AND TRANSPORT FUND

Annual Reports and Financial Statements for the year ended June 30, 2023.

22. Appendix

Appendix 1: Implementation Status of Auditor-General's Recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1. Unsupported Cash and Cash Equivalents Balance	The statement of financial position reflects cash and cash equivalents balance of Kshs. 121,978,474. Review of the bank reconciliation statement for the month of June, 2022 revealed payments in the cash book of Kshs. 6,092,571 whose breakdown on the date of payment or receipt and details of payee or paying party were not provided. In addition, no records were provided to show when the outstanding balances cleared from the books of accounts.	The management provided the breakdown thereof.	Resolved.	June 30 th 2023
2. Inaccuracies in Intangible Assets	The statement of financial position and as disclosed in Note 15 to the financial statements reflects a Nil balance for intangible assets. However, the audited			

MECHANICAL AND TRANSPORT FUND

Annual Reports and Financial Statements for the year ended June 30, 2023.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>financial statements for 2020/2021 financial year reflected intangible assets balance of Kshs.5,906,199. Management has provided for audit the movement schedule of the balance from Kshs.5,906,199 to the Nil balance reported in the year under review. Further, and as previously reported, the nil intangible assets balance excludes an ERP system procured by the World Bank through the Kenya Transport Sector Support Programme (KTSSP) in the year 2019 at a cost of Kshs.12,397,245 with an aim of integrating its business operations.</p>	<p>The management had the software amortized to its residual value hence the NIL value. However the management is currently renewing the licence of the software and further carry out the re-valuation to allow for amortization.</p>	<p>Unresolved</p>	<p>June 30th 2023</p>
<p>3 Property, Plant and Equipment</p>	<p>The statement of financial position and Note 14 to the financial statements reflect property, plant and equipment balance of Kshs.3,640,633,941.</p>			

MECHANICAL AND TRANSPORT FUND

Annual Reports and Financial Statements for the year ended June 30, 2023.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>However, and as previously reported, the following anomalies were noted</p> <p>i. The historical cost of property, plant and equipment balance of Kshs.6,810,896,239 as at 30 June, 2022 was not supported by an updated fixed asset register. The assets register presented for audit had various gaps in purchase prices, location, logbook number, and year of purchase.</p> <p>ii. Physical verification of assets revealed that the assets had not been tagged and therefore difficult to verify the details against the register and existence of the assets.</p> <p>iii. Available information indicated that the Fund occupies several parcels of land in the Country, their details and values have not been disclosed in the</p>	<p>The management has commenced updating the register in line with the recommendation of the Auditor</p>	<p>Unresolved</p>	<p>June 30th 2023</p>

MECHANICAL AND TRANSPORT FUND

Annual Reports and Financial Statements for the year ended June 30, 2023.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	financial statements as the Management has not obtained ownership documents for the land.			
4. Unsupported and Irregular Travel and Subsistence Allowance	The statement of financial performance and as disclosed Note 5 to the financial statements reflect travel and subsistence allowances of Kshs. 101 ,881 ,651 which includes domestic travel and subsistence allowance of Kshs.34,270,659 out of which a sampled amount of Kshs.4,589,480 was paid as meal allowances to various officers during lunchtime and late in the evening as detailed in Appendix I attached. It was however noted that the same was not occasioned by any extra duties, thus amounting to double compensation. Further, travel and subsistence allowances include project allowances amounting to Kshs.60,396,792. However,	The term Meal Allowance was erroneously used rather this amount paid in accordance with Human Resource Manual of 2016 as Overtime Allowance C.19 that prescribes payment of allowances to officers in Job Group J and below. The management was guided by the Human Resource Manual of 2016 part C.17 on Allowances.	Resolved	June 30 th 2023

MECHANICAL AND TRANSPORT FUND

Annual Reports and Financial Statements for the year ended June 30, 2023.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	an examination of documents revealed that there were no regulated rates to guide in the payment of allowances for attendants, supervisors, operators, drivers and mechanics			
5. Unsupported Expenditure on Routine Maintenance	The statement of financial performance and as disclosed in Note 6 to the financial statements reflects routine maintenance of vehicles, equipment and other assets amount of Kshs.274,412,500. Included in this expenditure is Kshs.188,536,185 spent on routine maintenance of vehicles and tyres and tubes. However, examination of payment records and other supporting documents revealed that expenditure amounting to Kshs.18,035,050 was not properly accounted for as detailed in Appendix II attached. In addition, included in the	The purchase of gravel was guided by Framework Contracts. The institution purchases on behalf of the client in view of executing the project in seamless manner.	Resolved	June 30 th 2023

MECHANICAL AND TRANSPORT FUND

Annual Reports and Financial Statements for the year ended June 30, 2023.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>routine maintenance of vehicles, tyres and tubes expenditure of Kshs.188,536, 185 are payments totalling to Kshs.8,981 ,250 in respect of gravels and quarry wastes which do not relate to maintenance of vehicles, plants and equipment. Further, although the gravels and quarries were procured and received, no records were provided to show how they were used.</p>			
6. Receivables	<p>The statement of financial position and as disclosed under Note 12 to the financial statements reflects receivables balance of Kshs.85,047,569. Included in this balance is Kshs.48,710,152 for Kisii County Government which remained outstanding from 2018/2019 financial year. It was also noted that in a letter Ref No: KSI/CEC/TEP/2022/ (256) dated 1 1 October,</p>	<p>The management has written to both institutions seeking payments of the amounts owed.</p>	Unresolved	June 30 th 2023

MECHANICAL AND TRANSPORT FUND

Annual Reports and Financial Statements for the year ended June 30, 2023.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>2022, the County acknowledged an amount of Kshs.48as the balance owed to the Fund resulting to an unexplained variance of Kshs.710,152. Further, included in the receivables balance is Kshs.36,337,417 owing from Nairobi Metropolitan Services (NMS). However, no confirmation has been provided from the NMS confirming the balance. In addition, Management did not provide the Fund's debt collection policy document for audit review.</p>			
7. Trade and Other Payables	<p>The statement of financial position and as disclosed in Note 16 to the financial statements reflect trade and other payables balance of Kshs.19,754,813 as at 30 June, 2022. Included in the balance is an opening balance of Kshs.13,729,635 relating to customer tender deposits</p>	<p>The management has taken steps to implement the conditions indicated on the tender document that if 120 days lapse, the deposits will be automatically forfeited to the institution.</p>	Resolved	June 30 th 2023

MECHANICAL AND TRANSPORT FUND

Annual Reports and Financial Statements for the year ended June 30, 2023.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	dating back to financial year 2017/2018. No explanation has been provided for holding the deposits for long.			
8. Wrong Classification of expenditure	The statement of receipt and payment under Note 6 to the financial statement reflects a balance of Kshs.274, 412,500 on routine maintenance of vehicles, equipment and other assets. Included in this balance is Kshs.188, 536,185 spent on routine maintenance of vehicles and Tyres and Tubes. However, examination of ledgers, payment records and other supporting documents revealed the Funds spent Kshs.8, 981,250 on payments for Gravels and quarry wastes, an expenditure which does not relate to maintenance of vehicles, plants and equipment. The expenditure may have been reallocated and not used for the intended purpose.	The fund operates in a manner where the regulations governing it, it is allowed to collect funds that are incidentals to the project some of this incidentals are not budgeted since they are unforeseen hence the misclassification.	Resolved	June 30 th 2023

MECHANICAL AND TRANSPORT FUND

Annual Reports and Financial Statements for the year ended June 30, 2023.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Further, although the gravels and quarries were procured and received, no records were availed to show how they were used			
9. Non-Compliance with Authorized Staff Establishment	As a review of the Fund's authorized staff establishment revealed that in-post staff in various cadre were 981 against an authorized establishment of 2,695 resulting in a shortage of 1,714. The staff shortage noted if not addressed could impact negatively on the operations of the Fund.	The matter was discussed in MHRMAC and recommendations forwarded to PSC for consideration.	Unresolved	June 30 th 2023



.....
 Eng. Richard G. Thitai OGW
 Chief Engineer (Mechanical)
 Date: 28/12/2023.....

VALUATION PROCEDURE FOR PLANT

- 1 Deduct 8% of actual price(from original cost)
- 2 Deduct 12%of the remainder for the first 1440 hours.
- 3 Deduct 10%of the for every extra 1440 for the extra numbers of hours.
- 4 The remainder is the chargeable price for the buyer.

YEARS	HOURS	Discount Factor	Discount value	Remainder value. FSV
	0	0.08	0.08	92%
1	1440	0.12	0.1104	81%
2	2880	0.1	0.08096	73%
3	4320	0.1	0.072864	66%
4	5760	0.1	0.065578	59%
5	7200	0.1	0.05902	53%
6	8640	0.1	0.053118	48%
7	10080	0.1	0.047806	43%
8	11520	0.1	0.043025	39%
9	12960	0.1	0.038723	35%
10	14400	0.1	0.034851	31%
11	15840	0.1	0.031366	28%
12	17280	0.1	0.028229	25%
13	18720	0.1	0.025406	23%
14	20160	0.1	0.022865	21%
15	21600	0.1	0.020579	19%
16	23040	0.1	0.018521	17%
17	24480	0.1	0.016669	15%
18	25920	0.1	0.015002	14%
19	27360	0.1	0.013502	12%
20	28800	0.1	0.012152	11%

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VALUATION PROCEDURE FOR VEHICLES OVER 3 TON

- 1 Deduct 10% of actual price(from original cost)
- 2 Deduct 11.5%of the remainder for the first 20,000 Kms
- 3 Deduct 11.5%of the for every extra 20,000 for the extra numbers of km
- 4 The remainder is the chargeable price for the buyer.

	Mileage	Discount Factor	Discount value	Remainder value. FSV
	0	0.1	0.1	90%
1	20000	0.115	0.1035	80%
2	40000	0.115	0.091598	70%✓
3	60000	0.115	0.081064	62%
4	80000	0.115	0.071741	55%
5	100000	0.115	0.063491	49%
6	120000	0.115	0.05619	43%
7	140000	0.115	0.049728	38%✓
8	160000	0.115	0.044009	34%
9	180000	0.115	0.038948	30%
10	200000	0.115	0.034469	27%
11	220000	0.115	0.030505	23%
12	240000	0.115	0.026997	21%
13	260000	0.115	0.023892	18%
14	280000	0.115	0.021145	16%
15	300000	0.115	0.018713	14%



VALUATION PROCEDURE FOR SMALL VEHICLES (UPTO 3 TONS)

DIMINISHING BALANCE METHOD- STANDARD GRAPH

Under this method, the book value of the machine goes on decreasing as its existence continues. 10 percent of the initial cost is deducted immediately the vehicle leaves the show room and then a certain percentage based on life expectancy is taken as the annual depreciation.

- 1 Deduct 10% of actual price(from original cost)
- 2 Deduct 15%of the remainder for the first 20,000 Kms
- 3 Deduct 12.5%of the for every extra 20,000 for the extra numbers of km
- 4 Deduct cost of repairs and replacement.
- 5 Add estimated value of extras fitted to the vehicle.
- 6 The remainder is the chargeable price for the buyer.

	Mileage	Discount Factor	Discount value	Remainder value. FSV
	0	0.1	0.1	90%
1	20000	0.15	0.135	77%
2	40000	0.125	0.0956250	67% ✓
3	60000	0.125	0.0836719	59% ✓
4	80000	0.125	0.0732129	51%
5	100000	0.125	0.0640613	45% ✓
6	120000	0.125	0.0560536	39%
7	140000	0.125	0.0490469	34% ✓
8	160000	0.125	0.0429161	30%
9	180000	0.125	0.0375515	26% ✓
10	200000	0.125	0.0328576	23% ✓
11	220000	0.125	0.0287504	20% ✓
12	240000	0.125	0.0251566	18%
13	260000	0.125	0.0220120	15%
14	280000	0.125	0.0192605	13%
15	300000	0.125	0.0168530	12%



VALUATION GRAPH - for motor cycles
DIMINISHING BALANCE METHOD

- 1 Deduct 10% of actual price (from original cost)
- 2 Deduct 27% of the remainder for each year the item is in use
 The remainder is the chargeable price for the buyer.

Year	Discount Factor	Discount value	Remainder value. (FSV)
0	0.1	0.1	90%
1	0.27	0.2430000	66%
2	0.27	0.1773900	48%
3	0.27	0.1294947	35%
4	0.27	0.0945311	26%
5	0.27	0.0690077	19%
6	0.27	0.0503756	14%
7	0.27	0.0367742	10%
8	0.27	0.0268452	7%
9	0.27	0.0195970	5%
10	0.27	0.0143058	4%



Trial Balance

Mechanical and Transport Division

For: June 2023

Income Statement

Account	Debits	Credits
Net Loss		244,328,166
2110200>2110201 (Contractual Employees)	14,802,797	
2210100>2210101 (Electricity expenses)	3,975,508	
2210100>2210102 (Water and sewerage charges)	1,199,279	
2210200>2210201 (Telephone, Telex, Fascimile and Mobile)	3,434,630	
2210200>2210202 (Internet connections)	10,719,575	
2210200>2210203 (Courier and Postal Services)	172,911	
2210300>145102 (Monitoring & Evaluation)	447,000	
2210300>2210301 (Domestic Travel)	34,150,467	
2210500>2210502 (Publishing and Printing Services)	1,170,300	
2210500>2210504 (Advertising, Awareness and Publicity)	401,000	
2210700>2210701 (Travel Allowance)	3,356,400	
2210700>2210711 (Tuition Fees)	1,046,056	
2210800>2210801 (Catering Services)	4,815,624	
2210800>2210802 (Boards, Committees, Conferences and	3,531,456	
2210800>2210808 (Purchase of coffins)	263,000	
2211000>2211006 (Tyres and Tubes)	17,309,769	
2211000>2211016 (Purchase of Uniforms and Clothing- Staff)	124,100	
2211100>2211101 (General Office Supplies)	5,996,771	
2211100>2211102 (Supplies and Accessories for Computers)	2,414,278	
2211100>2211103 (Sanitary and Cleaning Materials Supplies)	720,965	
2211200>2211201 (Refined Fuels and Lubricants for Transport)	45,781,815	
2211200>2211203 (Oils & Lubricants- Other)	11,044,096	
2211300>2211301 (Bank Operating charges)	356,573	
2211300>2211305 (Contracted guards and cleaning services)	45,201,318	
2211300>2211306 (Membership fees and subscriptions)	659,300	
2220100>2220101 (Maintenance of Motor Vehicle)	3,041,786	
2220200>2220201 (Maintenance of Plant, Machinery and	54,253,623	
2220200>2220205 (Maintenance of buildings and stations - Non	113,150	
2220200>2220210 (Maintenance of Internet Server,computers,	2,767,090	
4000 (Depreciation Expense)	255,620,992	
3510700>3510701 (Receipts from Hire of Equipment)		218,735,142
3510700>3510803 (Receipts from sales and fees for services)		33,964,473
3510700>3520302 (Receipts from sale of Vehicles, Plant and		29,977,156
3510700>7310224 (Bank Interest Received)		1,886,691
	528,891,628	528,891,628

Balance Sheet

8420 (KCB A/C (1102590339))	126,189,495	
7400 (Inventories)	24,097,900	
7310101 (Tender Deposits/Refunds)		1,133,874
6100>0010 (Supervisory Vehicles (Below 3 Ton) @Cost)	236,274,479	
6100>0020 (Supervisory Vehicles (Below 3 Ton) - Accum.		145,570,718
6200>0010 (Plant & Equipment @Cost)	5,458,118,985	
6200>0020 (Plant & Equipment - Accum. Depreciation)		2,597,597,682
6300>0010 (Trucks (Over 3 Ton) @Cost)	1,014,310,268	
6300>0020 (Trucks (Over 3 Ton) - Accum. Depreciation)		562,480,677
6400>0010 (Computer Equipment & Access @Cost)	33,044,252	
6400>0020 (Computer Equipment & Access - Accum.		25,959,256



6500>0010 (Office Equipment @Cost)	26,443,629	
6500>0020 (Office Equipment - Accum. Depreciation)		22,504,812
6600>0010 (ICT Infrastructure & Telephony @Cost)	10,156,326	
6600>0020 (ICT Infrastructure & Telephony - Accum.)		9,549,942
6700>0010 (Office Furniture @Cost)	37,227,296	
6700>0020 (Office Furniture - Accum. Depreciation)		27,410,343
5100 (Reserves)		1,279,041,302
5200 (Government Grants)		2,373,678,347
9100 (Payables Control)		13,838,247
7100 (Receivables Control)	92,902,570	
	7,058,765,200	7,058,765,200
Totals	7,587,656,828	7,587,656,828

