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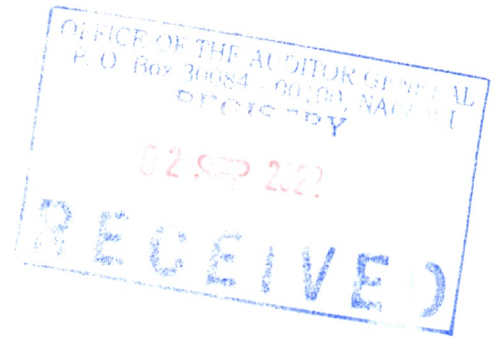
Mainah Wanjiku

THE AUDITOR-GENERAL

ON

**NUMERICAL MACHINING COMPLEX
LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2021**



Numerical Machining Complex Ltd

ANNUAL REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2021**

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

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I. KEY ENTITY INFORMATION

Background information

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

Principal Activities

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

Directors

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

Name	Position	Appointed Date
Maj. Gen. (Rtd) PASTOR AWITTA, MGH, EBS, ndc(K), Psc' USA	Chairman	Appointed on 17 th October 2019
Eng. David Mwadali	Managing Director	Appointed on 18 th February 2020.
Prof. Elijah Biamah	Member	Appointed on 30 th October 2019
Mr. Phillip Nyingi	Alternate to Chief of Staff and Head of Public Service	Appointed on 3 rd September 2015
Mr. Douglas Manyara	Alternate to Principal Secretary, National Treasury	Appointed on 6 th July 2020
Eng. Francis Gitau	Alternate to PS Ministry of Transport and Infrastructure	Appointed on 3 rd September 2015
Mr. James Nyambune	Alternate to Principal Secretary in the Ministry of Education.	Appointed on 7 th August 2015
Mr. George Makateto	Alternate to Principal Secretary, Ministry of Industry, Investment and Trade	Appointed on 7 th August 2018
Ms. Julia Wanjiru	Appointed as an alternate to the PS Ministry of Defence in May 2019	Appointed on May 2019
Eng. Stanley Kaguongo	Independent Member	Appointed on 10 th May 2018, Retired on 9 th May 2021
Prof. Angelina Nduku Kioko	Independent Member	Appointed on 10 th May 2018, Retired on 9 th May 2021
Mr. Samuel Kamau	Independent Member	Appointed on 3 rd May 2019
Eng. James Bett	Independent Member	Appointed on 10 th May 2018, Retired on 9 th May 2021

Corporate Secretary

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Susan Mungai
P.O. Box 70660-00400
Nairobi

Registered Office

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

Corporate Headquarters

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

Corporate Contacts

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E-mail: enquiries@nmc.go.ke
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Corporate Bankers

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

Independent Auditors






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

Principal Legal Advisers

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

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II. THE BOARD OF DIRECTORS

	<p>Maj. Gen. (Rtd) PASTOR AWITTA, MGH, EBS, ndc(K), Psc' USA (69 years) <i>Chairman</i> He joined the Board on 17th October 2019. He is a retired Major General of Kenya Navy. He has vast experience in logistics and procurement.</p>
	<p>Prof. Elijah K. Biamah, PhD, MBS, MEIK (69 years) <i>Member</i> He joined the Board on 30th October 2019. He is a professor of Environment and Water Systems Engineering, School of Engineering, University of Nairobi. Safety Health and Environmental Expert for major roads and multipurpose.</p>
	<p>Mr. Phillip Nyingi (54 years) <i>Member</i> Appointed as an alternate to Head of Public Service on 3rd September 2015. He comes with a M.A (Development Studies) from the International Institute of Social Studies of Erasmus University, Netherlands and a post graduate Diploma in Corporate Governance from KCA university, Nairobi.</p>
	<p>Mr. Douglas Manyara (39 Years) <i>Member</i> He is Alternate Director to the PS/ National Treasury and Planning. He holds Master of Arts in Economics (MA Economics) and Master of Business Administration (MBA) both degrees from the University of Nairobi and a Bachelors of Arts degree in Economics and Mathematics from the Egerton University. He has over 10 years' experience in Research, Policy formulation and Analysis, Budgeting, Project Planning and Appraisal, Resource Mobilization and Monitoring and Evaluation</p>
	<p>Eng. Francis Gitau (56 Years) <i>Member</i> Alternate to PS Ministry of Transport and Infrastructure. He comes with 28 years of experience. He is a registered Consultant Engineer with the EBK and holds a Bsc Civil Engineering from the UON, an Executive Masters of Business Administration from JKUAT and is currently undertaking an Msc (Transportation) degree from the University of Nairobi. He is the Chairman of the Mechanical Transport Fund and serves as the Infrastructure Secretary in the State Department of Infrastructure.</p>

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	<p>Mr. James Nyambune (56 years) <i>Member</i></p> <p>He was appointed to the Board on 7th August 2015 as alternate to the PS in the Ministry of Education. He holds a Bachelor of Technology in Education, Moi University and Masters of Philosophy in Technology Education from University of Eldoret.</p>
	<p>Eng. Stanley Kaguongo (60 Years) <i>Member</i></p> <p>He was appointed to the Board on 17th April 2015 as an independent Director. A registered engineer with EBK, holds a BSc. Civil Engineering from UON and MSc in International Construction Management. He has over 30 years' experience in the field of civil and structural engineering designs and contract administration.</p>
	<p>Mr. George Makateto (51 years) <i>Member</i></p> <p>He was appointed on 7th August 2018 as an alternate to the Permanent Secretary, Ministry of Industrialization, Trade & Enterprise Development (MOITED). He holds MPhil in Technology Education (Automotive Engineering) and Bachelor of Technology Education (Automotive Option). He also holds a Kaizen certification, ISO Certification EIA Renewable energy & RIO- SIYB.</p> <p>He has 25 years' experience in accreditation and quality assurance, industrial development, promotion and productivity improvement.</p>
	<p>Mr. Samuel Kamau (41 years) <i>Member</i></p> <p>He was appointed on 3rd May, 2019 and he is a prominent business man.</p>
	<p>CPA Julia Ng'ang'a (43 years) <i>Member</i></p> <p>Appointed as an alternate to the PS Ministry of Defence in May 2019. Ms. Ng'ang'a holds an MBA in Finance and a Bachelor's degree in Economics from the University of Nairobi. She is also a Certified Public Accountant and a member of ICPAK. She has over 14 years' experience in Public Finance having worked as a Finance Officer in various Government Ministries.</p>

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	<p>Prof. Angelina Nduku Kioko (63 Years) <i>Member</i> She was appointed to the Board on 17th April 2015. She holds a Doctorate of Philosophy in Linguistics from Monash University, Australia and has wide experience as a Professor of English and Linguistics (USIU-A).</p>
	<p>Eng. James Bett (63 Years) <i>Member</i> He was appointed to the Board on 27th April 2015 as an independent Director. He is a registered engineer with EBK and holds a Masters Degree in Industrial Engineering and management from University of Sierra Leone. He has wide experience in the sugar and tea industries.</p>
	<p>Eng. David Mwadali (59 years) <i>Managing Director</i> He was appointed Managing Director on 18th February 2020. A registered engineer with EBK and IEK. He holds BSc Mechanical Engineering and MBA in project management both from UON. He has over 30 years' experience Railways maintenance and operations.</p>
	<p>CS. Susan Mungai, <i>Company Secretary</i> Susan is the Ag. Company Secretary and a Member of ICPSK M/No. 2031. She holds an MBA in Strategic Management (USIU), Bsc. IBA in Marketing & Entrepreneurship (USIU), CPS (K) and a Diploma in Human Resource Management (Kenya Poly). Has over 10 years' experience handling Board matters and strategy.</p>

III. MANAGEMENT TEAM

	<p>Eng. David Mwadali</p> <p><i>Managing Director</i></p> <p>He holds BSc Mechanical Engineering and MBA in project management both from UON.</p>
	<p>Eng. Michael Thubi</p> <p><i>Research & Design Manager. Retired from 1st May 2021</i></p> <p>He holds a Bsc Mechanical Engineering (UoN) and Msc. Advanced Manufacturing Technology-University of Manchester.</p>
	<p>Eng. Zachariah Magondu</p> <p><i>Maintenance Manager, Appointed Research & Design Manager from 1st May 2021</i></p> <p>He holds Msc Mechanical and Aerospace Engineering (Tottori University) and a Bsc. Manufacturing Engineering (Egerton University)</p>
	<p>Dr. Charles Kireru</p> <p><i>Head of Human Resources and Administration.</i></p> <p>He holds Ph.D. (JKUAT); (MSc) (JKUAT); B. Arts (Egerton) and Higher National Diploma in Human Resource Management(KNEC)</p>
	<p>CPA Patrick Kariuki</p> <p><i>Finance Manager</i></p> <p>He holds an MBA (Finance and Accounting) from Mt Kenya University and BBM(Accounting) from Moi University, CPAK and CPS(Finalist).</p>

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	<p>Ms Zipporah Samoei</p> <p><i>In-charge of Sales & Marketing.</i></p> <p>She is a Diploma holder of Marketing by the Chartered Institute of Marketing. She is an Associate Member CIM.</p>
	<p>Fredrick Okumu Otieno</p> <p><i>Manager, Supply Chain Management.</i></p> <p>He holds MBA (SCM) and a BCOM (Finance). He is registered with CIPS and has CPA Part 2.</p>
	<p>Eng. Pius Githu</p> <p><i>Production Manager, Appointed Maintenance Manager 1st May 2021</i></p> <p>He holds Bachelors of Technology in Production Engineering, Diploma in Information Technology and Certificate in Precision Machining Technology.</p>
	<p>Eng. Hannington Koech</p> <p><i>Manager Foundry</i></p> <p>He holds Bachelors of Science Mechanical Engineering.</p>
	<p>CPA James Mwangi.</p> <p><i>Internal Audit Manager.</i></p> <p>He holds MBA (Finance Option) and Bachelors of Business Administration (Finance and Accounting), CPAK and CISA (On-going)</p>
	<p>CS. Susan Mungai,</p> <p><i>Company Secretary</i></p> <p>She holds an MBA in Strategic Management (USIU), Bsc. IBA in Marketing & Entrepreneurship (USIU), CPS (K) and a Diploma in Human Resource Management (Kenya Poly)</p>

IV. CHAIRMAN'S STATEMENT

During the FY2020/21, NMC had revenue target of Kshs.260 million to be achieved by June 2021. As at the end of the financial year, the achieved performance was Kshs.104.0 million representing 40% of the target, this is an improvement compared to 27% achieved in the FY2019/2021.

The company strives to build on its heritage and wealth of experience to deliver quality products to our customers for business growth and improved shareholders value. During the financial year, the 3rd and 4th quarters the company managed to enhance its efficiency and productivity to which resulted in the increased revenue. However, Covid-19 pandemic effects is still crippling the company but despite the challenges, the Board and Management team remained focused on putting in place measures to enable the company strengthens its financial position.

The Company's turnaround strategy is in line with Big 4 Agenda under the manufacturing pillar will no doubt better the position of the company in the long-term sustainable growth across its business.

Future prospects

Moving forward the company is projecting to achieve revenue target of Kshs.260M in the coming financial year. This will be actualized through manufacture of steel fittings, manufacture of saddles, brake blocks, general spares and grinding media balls. The organization has received test result of grinding media balls and would start rolling out the product for mass production for the cement and mining sector which is expected to increase revenue.

Appreciation

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



**Maj. Gen. (Rtd) PASTOR AWITTA, MGH, EBS, ndc(K), Psc' USA
Chairman**

V. REPORT OF THE MANAGING DIRECTOR

During the year under review, NMC made several achievements in regard to sourcing of orders for purposes of meeting its revenue targets and putting in place strategies that will enable the organization to be self-sustaining. NMC had also planned to finalized and launch its revised Strategic Plan which articulates the process of implementing the turn-around strategy and the foundation for future growth. In addition, in the year under review the restructuring of NMC as a State Corporation commenced, subsequently the ownership changed in April 2021 where NMC remained a company owned by Kenya Railways (51%) and Kenya Shipyards Limited (49%).

Due to Covid-19 pandemic situation in the country the launch of NMC strategic plan did not materialize and is planned to be done in the new financial year.

Company performance

NMC increased its sales revenue from Kshs.69.8M in FY2019/2020 to Kshs.104M during the financial year which represent 49% increase.

The operating loss was Kshs.40,004,498 during the financial year 2020/2021 compared to Kshs. 8,885,440 in the FY2019/2020. This was mainly attributed to increased cost of production. Results for the year were as below: -

- Revenues increased by 49% to stand at Kshs. 104M from Kshs.69.8M
- The loss before tax increased from Kshs.8.9M to Kshs.40.00M.

During the year under review, NMC received a grant of Kshs.144.06M for recurrent expenditure. On development funds, NMC received Kshs.59M for modernizing and refurbishment of NMC facility.

With the Governments support, NMC focuses on modernizing its facilities for projects that will yield high return on investment and immensely contribute to being the driver of industrialization in Kenya. Two (2) Induction furnaces have been installed and are in operation, the rehabilitation of two (2) Cupola furnaces commenced and laboratory equipment were procured. The company will also finalize on the on-going projects aimed at modernization of the foundry and machining workshop facilities.

With the continued Government support, NMC shall focus on the Big 4 Agenda in manufacturing, Agriculture, Affordable housing and healthcare. NMC will capitalize on the opportunities available to manufacture various products namely; brick making machines, grinding media balls, hospital beds, water pumps and spare parts.

NMC in collaboration with Bamburi Cement have carried tests on grinding media balls and soon this product will be rolled out to the cement industry. Also, NMC has designed and manufactured a prototype three function Hospital bed and has been approved by KEBS for use in health sector. It is expected that these two products will also contribute to the budgeted revenue target of Kshs.260M in the financial year 2021/2022.

Appreciation

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



Eng. David Mwadali
Managing Director

VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021

Section 81 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the national government entity's performance against predetermined objectives.

Numerical Machining Complex limited has 1 strategic pillars/ themes/issues and objectives within the current Strategic Plan for the FY 2018- FY 2024. These strategic pillars/ themes/issues are as follows:

Pillar /theme/issue 1: Economic

Numerical Machining Complex Limited develops its annual work plans based on the above one pillar. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The *Company* achieved its performance targets set for the FY 2020/2021 period for its economic strategic pillar, as indicated in the diagram below:

Strategic Pillar/Theme /Issues	Objective	Key Performance Indicators	Activities	Targets	Achievements
Economic and Macro	To achieve excellence in manufacturing and service provision.	No. of tons	Castings of ferrous and non-ferrous metal	65 tons	98.4 tons
Economic and Macro	To achieve excellence in manufacturing and service provision	No. of pieces	Manufacturing of transmission parts	42,621 pcs	258,900 pcs
Economic and Macro	To strengthen NMCs institutional capacity	% Completion rate of modernization-	Modernization of foundry plant and CNC workshop	40%	31.1%
Economic and Macro	To achieve long term financial sustainability	Profitability (ROI)	Increase sales revenues	0.7%	-4.18%

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Economic and Macro	To catalyse industrialization in Kenya by leveraging nature resource endowment	% completion	Establishment of integrated Iron & steel Mill		0.031%
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VII. CORPORATE GOVERNANCE STATEMENT

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

BOARD OF DIRECTORS

The Board of Directors of the Numerical Machining complex Ltd comprises of the Chairman who is appointed by the President, the Managing Director is appointed by the CS Ministry of Industrialization on recommendation by the Board. The Board has varied and extensive skills in the areas of business engineering management. The directors' responsibilities are set out in the Statement of Directors Responsibilities.

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

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

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

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

Board Charter

A draft Board charter has been drafted awaiting review and approval for operationalization by the Board before the end of FY 2021/2022

Code of Ethics

The board has a code of ethics which is given to all Board directors on appointment.

Board Induction and training

A new member of the Board is inducted by the SCAC and training on corporate governance is facilitated by the company other board members.

Board Evaluation FY 2020/2021

Board evaluation was conducted in August 2021 and SCAC presented the report and improvement plan given.

Conflict of Interest.

All Board and Committees, an agenda on conflict of interest is included and minuted.

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Composition of the Board and Committees is as follows:

Name of Director	Board Position	Board Committees			
		Human Resource	Audit & Risk	Finance & Technical	Land Ad-hoc
Maj. Gen. (Rtd.) Pastor Awitta	Chairman				
Prof. Elijah K. Biamah	Alternate to the Vice Chancellor University of Nairobi	√			√
George Makateto	Alternate to PS, Ministry of Industry, Investments and Trade			√	√
Eng. Francis Gitau	Alternate to PS, Ministry of Transport and Infrastructure			√	
Philip M Nyingi	Alternate to PS, Chief of Staff & Head of Public Service	√			
James Nyambune	Alternate to PS Ministry of Education	√		√	Chair
Prof. Angelina Kioko	Member	Chair			√
Eng. James K Bett	Member			Chair(Technical)	
Eng Stanley Kaguongo	Member		Chair		
Julia Wanjiru	Alternate to PS Ministry of Defence			Chair(Finance)	
Samuel Kamau	Member			√	
Douglas Manyara	Member		√		

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

Total No. of Meetings	Board Meetings	Board Committees				Disciplinary Ad-hoc	Finance & Audit
		Human Resource	Audit & Risk	Finance & Technical	Land Ad- hoc		
	13	4	2	5	0	3	1
Maj. Gen. P. Awitta	13\13						
George Makateto	11\13			4/5			
Philip M, Nyingi	9\13	4\4				1\3	
James Nyambune	13\13	4\4		4\5		2\3	
Prof. Angelina Kioko	13\13	4\4				3\3	
Eng. James K. Bett	13\13			5\5		3\3	
Eng. Stanley Kaguongo	13\13		2\2			3\3	1\1
Eng. Francis Gitau	0\13			0\5			
Julia Wanjiru	10\13			4\5			1\1
Samuel Kamau	11\13			5\5			1\1
Douglas Manyara	10\13		2\2				1\1
Prof. Elijah. K. Biamah	13\13	4\4				3\3	

The roles of the various Board committees are as below:

Audit & Risk Committee	Held 2 meetings during the year
Composition	The committee comprises of three non-executive Directors. It invites on need basis the Managing Director & Finance Manager to its meetings. External auditors are also invited to attend the meetings when necessary.
Terms of reference	<ul style="list-style-type: none"> • Examining quarterly, half-year and annual financial statements, • Discussing audit plan with the internal auditor before commencement of the annual audit • Consideration of audit findings by the external auditors • Reviewing the function, independence, operations and findings of the Internal Audit Department • Reviewing risks affecting the Company and management strategies in addressing them • Ensuring adherence with the code of ethics and integrity in financial transactions of the Company.
Human Resource Committee	Held 4 meetings during the year
Composition	The committee comprises of four Directors. It invites the Managing Director and the Head of Human Resource and Administration to its meetings.
Terms of reference	<ul style="list-style-type: none"> • Appointment of, and terms and conditions of service for the Managing Director; • Appointment, promotion and disciplinary issues of management. • Remuneration structure for staff; • Performance bonus for the Managing Director and staff; • Human resources policies and corporate organisational structure to support business
Finance & Technical Committee	Held 5 meetings during the year
Composition	The committee comprises of four Directors. It invites the Production Manager, Research & Development Engineer, Finance Manager, Sales and Marketing manager and Supply Chain Manager to its meeting.
Terms of reference	<ul style="list-style-type: none"> • The committee advises the Board on strategies to enhance performance of the Company.

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	<ul style="list-style-type: none"> • The two committees review the Company’s Strategic Plan, annual corporate strategic plan and annual corporate budget, financial and technical Performance. • It is also responsible for monitoring major projects under implementation. • Directing strategies for improving revenue and customer experience.
Land Ad-Hoc Committee	No meetings during the year
Composition and terms of reference	During the year, the board formed the land ad-hoc committee to discuss and deliberate on pertinent issues pertaining to NMC land in Athi-River land. The matters discussed included: Processing of title deeds for 500 acres sold off and securing of the remaining parcel of land i.e 1200 acres from further encroachment and master plan utilization.
Disciplinary Committee	Held 3 meetings during the year
Composition and terms of reference	During the year, the board formed the Disciplinary ad-hoc committee to discuss and deliberate on possible loss of fund during procurement and payment process.

Directors' Remuneration

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

Details of Directors' emoluments during the year are shown on page 27 in the financial statements.

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

VIII. MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance.

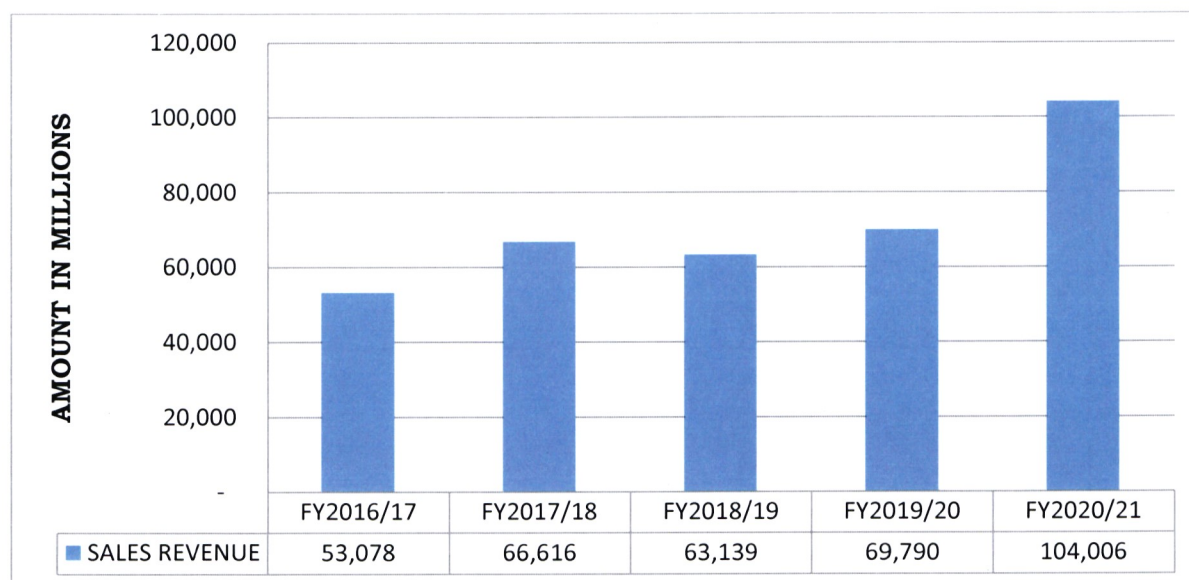
During the year under review the company’s turnover increased by 49% to stand at Kshs 104M from Kshs 69.8M reported in the FY 2019/2020. The increase was mainly attributed to sale of steel fitting components, fabrication works, casting products, machine tools, training and sale of engineering software.

Sales Revenue for the last Five (5) Years

The graph below shows the sales revenue for the last Five years. From the graph, it can be noted that the sales revenue has been on an increase for the last three years.

FINANCIAL YEAR	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Revenues in Kshs' 000	53,078	66,616	63,139	69,790	104,006

The graph below shows the sales revenue for the last Five years. From the graph, it can be noted that the sales revenue has been on an increase for the last three years.



Ongoing Investment

The company has a key project of Modernization of Foundry and CNC working whose estimated cost in Kshs 1.788B. Currently the project is at 31% complete.

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During the year under review the staff costs increased by 15% from Kshs 135M to Kshs. 155M. This increase in staff remuneration can be attributed to house allowance harmonization implemented by the management following Board approval.

During the year 2020/2021 the company incurred a loss of Kshs 40.0M an increase from a loss of Kshs 8.9M reported in the year 2019/2020.

The challenges identified were mainly in production cost which included:

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

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

- Reduction of cash conversion cycle.
- Frame work contract with suppliers to ease delivery of material inputs and in conformity with PPAD Act 2015.
- Investment in equipment and in house galvanizing plant to enhance production efficiencies.
- Negotiate credit terms with our main suppliers in order to improve on cash flow.

Statutory Requirements

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

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

Economic Environment

Economic recovery from the effects of the COVID-19 pandemic continued in the third quarter of 2021 as a result of the gradual easing of containment measures instituted to curb the spread of the disease. Real GDP grew by 9.9 per cent in the third quarter of 2021 compared to a contraction of 2.1 per cent in the same quarter of 2020.

Manufacturing sector grew by 9.5 per cent in the third quarter of 2021 compared to a 1.7 per cent contraction in the same period of 2020. This growth enables NMC to supply the steel fittings, industrial components and other necessary items to the various industries.

IX. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

Numerical Machining Complex exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, putting the customer/Citizen first, delivering relevant goods and services, and improving operational excellence. Below is an outline of the organization's policies and activities that promote sustainability.

i) Sustainability strategy and profile -

The company is diversifying its products, and the areas of focus will be on fast moving products which includes manufacture of Cement media balls, automotive spare parts and hospital beds. The purpose is to ensure more products are locally made instead of imports to drive the agenda of Buy Kenya Build Kenya. When this is actualized NMC will be able to sustain itself and also contribute to the economy of the country by being one of the drivers of the BIG 4 Agenda.

ii) Environmental performance

NMC is guided by NEMA regulations in the disposal of the company metal waste products such as metal chips and scrap metals are disposed by recycling through our foundry activity. In addition all the waste oils or procured used oil are used to fire our furnaces as part of our disposal activities.

iii) Employee welfare

We have a policy which guide on the following:-

1. The hiring process stipulated in NMC human resource manual does not discriminate on gender.
2. NMC has undertaken training/capacity building for all staff on Kaizen. Also departmental staff training on specific areas of operation were carried out.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

3. There is OSHA committee in place to articulate, formulate and implement matters relating to Safety to be compliance with Occupational Safety and Health Act of 2007, (OSHA)
4. The organization carry out appraisal of staff performance which has been cascaded by the Board.

iv) Market place practices-

The organization should outline its efforts to:

a) Responsible competition practice.

Most of our orders are acquiring through competitive tendering process and thus responsible competition is observed and where the order is received through direct procurement we ensure fair pricing for the products so that it can reflect the prevailing market prices.

b) Responsible Supply chain and supplier relations

All our purchase follow the laid done rules in PPDA 2015 and Regulation 2020 and directive issued by National Treasury from time to time.

c) Responsible marketing and advertisement

NMC establishment has a marketing department which is responsible advertisement and deliver of finished product.

d) Product stewardship

NMC has a quality assurance department and also ISO Certified.

Corporate Social Responsibility / Community Engagements

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

During the year under review Numerical Machining Complex Ltd supported the parent Ministry of Industrialization, Trade & Enterprise Development in the afforestation program aimed at improving the national forest cover.

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

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

X. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30th June 2021 which show the state of the company's affairs.

Principal activities

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

Results

The results of the company for the year ended 30th June 2021 are set out on page one (1) during the year the company made a loss of Kshs 40,004,498 (Kshs. 8,885,440 – 30th June 2020)

Directors

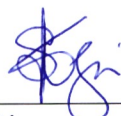
The members of the Board of Directors who served during the year are shown on page (v-vii) In accordance with Regulation of the state corporations Act (Cap 466). The Board of Directors was appointed from 27th April 2015.

Auditors

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

By Order of the Board

Susan Mungai



23/7/22

Name

Signature

Date

XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2021. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act)

Annual Reports and Financial Statements

For the year ended June 30, 2021


STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2021, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The entity's financial statements were approved by the Board on _____ 2022 and signed on its behalf by:

Signature 
Name
Chairperson of the Board/Council

Signature 
Name Ag. David MWAALI
Accounting officer

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NUMERICAL MACHINING COMPLEX LIMITED FOR THE YEAR ENDED 30 JUNE, 2021

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 Government achieves value for money and that such funds are applied for 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 Numerical Machining Complex Limited set out on pages 1 to 44, which comprise the statement of financial position as at 30 June, 2021, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of

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

In my opinion, 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, the financial position of Numerical Machining Complex Limited as at 30 June, 2021 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and do not comply with the Public Finance Management Act, 2012 and Companies Act, 2015.

Basis for Adverse Opinion

1.0 Property, Plant and Equipment

1.1 Unconfirmed Value of Investment Property

As previously reported, the statement of financial position and as disclosed in Note 12 to the financial statements, reflects a balance of Kshs.290,000,000 in respect to investment property. However, the following observations were noted:

1.1.1 Long Outstanding Debtors

As previously reported, the Government of Kenya in 1994 allocated the Company land measuring approximately 703.59 hectares in Mavoko, Athi River. In 2001, the Company with the consent of the Government sold part of the land measuring 242.89 hectares to individuals and other entities whose title deeds have not been fully processed and released. The Company continued to pay rates based on the original title deed up to 2009. Further, a net amount of Kshs.6,640,310 due from the individuals from the sale of the land has remained unpaid since 2001. The recoverability of the debt therefore remained doubtful.

1.1.2 Encroached Land

The remaining portion of the unsold land measuring approximately 460.70 hectares was not fenced and had been encroached by informal settlers and other parties who had put up permanent structures. Further, the portion of land was revalued at Kshs.290 million in 2009 and the revaluation gain of Kshs.158,993,190 arising thereon approved by the Board for inclusion in the financial statements in October, 2016. However, the Company has not revalued its assets in the last twelve (12) years contrary to Paragraph 31 of International Accounting Standard No. 16 – Property, Plant and Equipment which requires that revaluations be carried out regularly, so that the carrying amounts of assets do not differ materially from their fair values as at the reporting dates. In addition, the encroachment by the informal settlers had led to impairment of the land.

1.1.3 New Title Deed

On 14 January, 2003 a new title deed was issued to the Company for a parcel of land measuring approximately 202.4 hectares under unclear circumstances. A letter from the Ministry of Lands dated 17 February, 2009 indicated that the title deed had been subdivided and new Land References (LR's) numbers given. Further, Management did not provide the new title deed for audit verification.

In the circumstances, the accuracy, ownership, valuation and security of the investment property balance of Kshs.290,000,000 as at 30 June, 2021 could not be confirmed.

1.2 Lack of a Fixed Assets Register

The statement of financial position and as disclosed under Note 11 to the financial statements, reflects Kshs.255,260,032 in respect to property, plant and equipment. However, the balance was not supported with a fixed assets register indicating the address, area, dates of acquisition, capital expenditure and other pertinent details as required under Regulation 143(1) of Public Finance Management (National Government) Regulations, 2015.

In the circumstances, it could not be confirmed that the assets of the Company had been properly safeguarded and that the reported property, plant and equipment balance of Kshs.255,260,032 was fairly stated.

2.0 Variances Between the Financial Statements and the Supporting Schedules

Review of the balances reflected in the financial statements and the respective supporting schedules revealed variances as detailed below:

Component	Note	Financial Statements (Kshs.)	Supporting Schedules (Kshs.)	Variance (Kshs.)
Casting of Ferrous Foundry Products	4	10,688,718	12,607,889	(1,919,171)
Manufacture of General Spares and Components	4	16,360,289	16,984,720	(624,431)
Training and Sale of Engineering Software	4	10,533,674	10,932,891	(399,217)
Engineering Services	4	320,088	315,163	4,925
Trade and Other Payables	20	185,427,232	180,093,819	5,333,413

In the absence of reconciliations, explanations and analysis of the variances, the accuracy and completeness of the reported balances as at 30 June, 2021 could not be confirmed.

3.0 Unsupported Inventories

The statement of financial position reflects a balance of Kshs.66,726,189 for inventories as disclosed under Note 13 to the financial statements. However, the inventories schedules and stock-taking sheets were not provided for audit review.

In the circumstances, the existence of the inventories and the accuracy of the balance of Kshs.66,726,189 in respect to inventories as at 30 June, 2021 could not be confirmed.

4.0 Trade and Other Payables

4.1 Unsupported Debit Balances

The statement of financial position and as disclosed under Note 20 to the financial statements reflects a balance of Kshs.185,427,232 in respect to trade and other payables. However, the schedule provided for audit reflected debit balances amounting Kshs.8,776,865. Further, the trade and other payables balance includes a balance of Kshs.92,174,175 for which supporting documents were not provided for audit.

4.2 Long Outstanding Payables

As previously reported, Note 20 to the financial statements reflects a balance of Kshs.67,042,486 relating to other payables. Included in the balance, however, is an amount of Kshs.57,782,747 relating to a tax liability that had been outstanding since 1999 and which continued to attract penalties and interests.

4.3 Undeclared Trade Payables

Available information revealed that the Company received orders worth Kshs.26,597,000 for manufacture of machines for the Constituency Industrial Development Centres under the Ministry of Industrialization, Trade and Enterprise Development some years back. However, review of records showed that the Company had produced goods costing Kshs.9,496,329 against paid up orders of Kshs.26,597,000 resulting to a balance of Kshs.17,100,671 owed to the State Department of Industrialization. However, the liability has not been disclosed in the Company's financial statements for the year ended 30 June, 2021.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.185,427,232 as at 30 June, 2021 could not be confirmed.

5.0 Trade and Other Receivables

As previously reported, the statement of financial position and as disclosed in Note 14 to the financial statements, reflects a balance of Kshs.138,796,908 for trade and other receivables which is net of provision for bad and doubtful debts of Kshs.29,251,399. However, the following observations were noted.

- (i) The balance includes an amount of Kshs.3,917,160 relating to staff receivables of which Kshs.1,971,336 related to unrecovered salary advances from staff who have since left the Company's service.
- (ii) The balance also includes Kshs.6,753,214 in respect of other receivables comprising of Kshs.112,904 related to car loan to a former employee which had been outstanding since 2012 and receivables of Kshs.6,640,310 from Athi River land sales which remained unpaid since 2001.
- (iii) The balance includes deposits and prepayments of Kshs.42,914,741 of which a balance Kshs.1,544,762 had been outstanding for a long period. Although the

Management explained that the amount related to deposits for tenders and performance bonds the Company participated in, no evidence in support of the same was provided for audit.

- (iv) The balance includes Kshs.113,047,243 in respect of trade receivables which further includes a debt of Kshs.17,019,282 due from the defunct M/s Rift Valley Railways. The recoverability of this long outstanding debt is therefore doubtful.
- (v) The balance includes credit balances of Kshs.418,459 and Kshs.322,670 in respect of account advances and salary advances respectively. Management has not explained what these balances represent.
- (vi) The reported receivables balance was net of a provision for bad and doubtful debts amounting to Kshs.29,251,399. However, evidence of Management review of all outstanding receivables, assessment for impairment and efforts of recovery were not provided for audit.

In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs.138,796,908 as at 30 June, 2021 could not be confirmed.

6.0 Material Uncertainty in Relation to Going Concern

The statement of profit or loss and other comprehensive income reflects a loss of Kshs.40,004,498 (2019/2020 - loss Kshs.8,885,440) thus increasing the accumulated loss from Kshs.1,626,920,066 to Kshs.1,666,924,564 as at 30 June, 2021. However, evidence of Management's formal assessment of the Company's ability to continue as a going concern was not provided.

In the circumstances, the Company's ability to continue as a going concern without financial support from the Government and its creditors could not be confirmed.

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

Key Audit Matters

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

Other Matter

1. Budgetary Control and Performance

As reflected in the statement of comparison of budget and actual amounts, the Company's budgeted revenue from both National Government grants and internally generated revenue was Kshs.513,418,000 while the actual revenue realized was Kshs.354,469,000 resulting to under-collection of Kshs.158,949,000 or 31% of the projected collection. Similarly, the Company projected to spend Kshs.505,331,000 on various budget lines but the actual expenditure was Kshs.394,473,000 resulting to an under-expenditure of Kshs.110,858,000 or 22% of the projected expenditure.

The revenue under-performance and the under-expenditure may have had a negative impact on the planned goals and objectives of the Company.

Further, the statement of comparison of budget and actual amounts reflects over-absorption of the budget totalling Kshs.130,797,144 under various budget items, as detailed below:

Item	Budget (Kshs.)	Expenditure (Kshs.)	Over Expenditure (Kshs.)
Training	7,200,000	25,485,506	18,285,506
Bank Charges and commissions	450,000	808,201	358,201
Legal Fees	0	2,924,084	2,924,084
Salaries and Wages of Sales Personnel	0	6,889,803	6,889,803
Marketing and Promotional Expenses	0	2,339,550	2,339,550
Total	7,650,000	38,447,144	(30,797,144)

There was no evidence that the Company sought and obtained approval to reallocate funds across the various budget lines reflected in the above table, contrary to Section 12 of the State Corporations Act which provides that no state corporation shall, without the prior approval in writing of the Minister and the Treasury, incur any expenditure for which provision has not been made in an annual estimates prepared and approved in accordance with section 11 of the Act.

2. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2021. Management did not provide satisfactory reasons for the delay in resolving the prior year audit issues. Further, some of the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Understaffing

The Company had an approved staff establishment of two hundred (200). However, as at 30 June, 2021, only one hundred and thirty-eight (138) staff were in post staff, resulting to a shortfall of sixty-two (62) staff. Further, three (3) officers were placed at lower job groups than the ones provided under the staff establishment guidelines.

Inadequate staffing may give rise to inadequate segregation of duties which may impair effective service delivery to the citizens. Further the Management was in contravention of the established staff guidelines.

2.0 Lack of Approved Human Resource Instruments

The Company did not provide evidence that the organizational structure, staff grading and establishment, career guidelines and human resource policy and procedures manual had been approved as required by the State Corporations Advisory Committee's Circular No. OP/SCAC.9/21/1/1 of 15 May, 2017.

In the circumstances, Management was in breach of the guidelines.

3.0 Failure to File Human Resource Compliance Reports

Section G and Paragraph 2 of the State Corporations Circular Ref: OP/CAB.9/1A dated 11 March, 2020 requires all State Corporations to file with the State Corporations Advisory Committee (SCAC) the Human Resource Compliance Reports, including payroll reports for all cadres of staff by 31 July of each year. However, the Company did not file the reports with the State Corporations Advisory Committee as required.

In the circumstances, the Management was in breach of the guidelines.

4.0 Payments to Suppliers not in the Prequalified List

The statement of profit or loss and other comprehensive income and as disclosed under Note 8 to the financial statements reflects an amount of Kshs.224,813,618 in respect to administration costs. However, the expenditure included an amount of Kshs.1,139,776 paid to various firms that were not in the Company's prequalified list of suppliers during the year under audit. This is contrary to Section 57(1) of the Public Procurement and Asset Disposal Act, 2015 which requires the head of the procurement function of a

procuring entity to maintain and update lists of registered suppliers, contractors and consultants in the categories of goods, works or services according to its procurement needs.

In the circumstances, Management was in breach of the law.

5.0 Use of Manual Quotations

During the year under review the Company procured goods and services worth Kshs.22,083,874 using manual quotations. This is contrary to Part F IV(B) of Executive Order No.2 of 2018, which requires the National Treasury to ensure that by 1 January, 2019, all public procuring entities undertake all their procurement through the e-procurement module.

In the circumstances, Management was in breach of the Circular.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Lack of a Risk Management Policy

The Company did not have in place a risk management policy and, therefore, had no approved processes and guidelines on how to mitigate operational, legal and financial risks such as identifying business risks relevant to financial reporting objectives, estimating the significance of the risks, assessing the likelihood of their occurrence and deciding about actions to address those risks

In the circumstances, the Company may not be in a position to evaluate, rank and prioritize critical risks and channel resources towards mitigating identified risks.

2.0 Lack of Information Communication Technology (ICT) Strategic Plan

The Company did not have an approved ICT strategic plan. Further, the Company did not have an information technology continuity plan and a disaster recovery plan kept off site. Also, no evidence of backups stored in a secure offsite storage facility was provided. This is contrary to Section 3.6 the Code of Governance for State Corporations (Mwongozo), which requires the Board to establish an ICT Policy which is aligned to the objectives of the organization, establish an ICT function in the organization, integrate ICT in the operations of the organization, ensure an appropriate business continuity plan is in place and ICT related risks are identified and managed while utilizing ICT in monitoring the performance of the Organization.

Failure to develop business continuity plan and disaster recovery plan and establish off site backup facilities may expose the Company to possible loss of business in the event of disasters.

3.0 Non-Automation of the Financial Reporting Process

Review of the financial reporting processes revealed that the Company continued to have significant manual interventions in its financial processes. Similarly, review of the inventory records revealed that the Company did not have an Inventory Management System that describes the processes, documentation and responsibilities of persons involved in the management of inventory contrary to Regulation 23(1)(d) of the Public Finance Management (National Government) Regulations, 2015 which requires accounting officers to be accountable to the National Assembly for measures taken to prepare financial reports that reflect a true and fair financial position of the entity.

4.0 Lack of a Board Charter

The Company had not developed a Board Charter defining its roles, responsibilities and functions in the governance of the organization as required by the Code of Governance for State Corporations (Mwongozo). The Code requires the Board to develop and adopt a Board Charter and to periodically review the Charter.

In the circumstances, the effectiveness of the Board may have been negatively affected.

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, I report based on my audit, that:

- i. 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;

- ii. In my opinion, adequate accounting records have not been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are not in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

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

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

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how the 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 control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related

disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

27 July, 2022

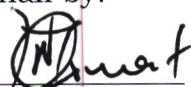
XIII. STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021

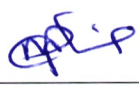
	Not e	2020-2021	2019-2020
		Kshs	Kshs
REVENUES			
Revenue	4	104,072,005	69,789,783
Cost of sales	5	(160,430,178)	(109,315,623)
Gross profit		(56,358,173)	(39,525,840)
Grants from the National Government	6	250,338,871	203,376,113
Other Income	7	57,775	1,000
TOTAL REVENUES		194,038,473	163,851,273
OPERATING EXPENSES			
Administration Costs	8	(224,813,618)	(164,039,026)
Selling and Distribution Costs	9	(9,229,353)	(8,697,687)
TOTAL OPERATING EXPENSES	10	(234,042,971)	(172,736,713)
PROFIT/(LOSS) BEFORE TAXATION		(40,004,498)	(8,885,440)
INCOME TAX EXPENSE/(CREDIT)		0	0
PROFIT/(LOSS) AFTER TAXATION		(40,004,498)	(8,885,440)
OTHER COMPREHENSIVE INCOME			
Fair value through comprehensive income		0	0
Surplus or deficit on revaluation of PPE		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(40,004,498)	(8,885,440)


XIV. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Note	2020-2021	2019-2020
		Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	11	255,260,032	252,055,667
Investment property	12	290,000,000	290,000,000
Total Non-Current Assets		545,260,032	542,055,667
Current Assets			
Inventories	13	66,726,189	49,535,596
Trade and other receivables	14	138,796,908	91,647,641
Bank and cash balances	15	212,598,582	356,464,511
Total Current Assets		418,121,679	497,647,748
TOTAL ASSETS		963,381,711	1,039,703,415
		=====	=====
EQUITY AND LIABILITIES			
Capital and Reserves			
Capital	16	1,214,024,646	1,214,024,646
Revaluation reserve	17	158,993,190	158,993,190
Retained earnings	19	(1,666,924,564)	(1,626,920,066)
Capital Grants		1,071,861,207	1,118,991,162
Proposed dividends			
Capital and Reserves		777,954,479	865,088,932
Non-Current Liabilities			
Total Non-Current Liabilities			
Current Liabilities			
Trade and other payables	20	185,427,232	174,614,483
Total Current Liabilities		185,427,232	174,614,483
TOTAL EQUITY AND LIABILITIES		963,381,711	1,039,703,415
		=====	=====

The financial statements were approved by the Board on _____ 2022 and signed on its behalf by:


Eng. David Mwadali
Managing Director


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


MGH, EBS.ndc(K), Psc USA Pastor Awitta
Chairman

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XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2021

	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Capital Development Grants/Fund	Total
At July 1, 2019	1,214,024,646	158,993,190	-	(1,575,524,195)	-	886,288,076	683,781,717
Issue of new share capital	-	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-	-	-
Fair value adjustment on quoted investments	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	(8,885,440)	-	-	(8,885,440)
Capital/Development grants received during the year	-	-	-	-	-	297,400,000	297,400,000
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	(64,696,914)	(64,696,914)
Dividends paid - 2019	-	-	-	-	-	-	-
Revaluation on Inventory (Note 15)	-	-	-	(42,510,431)	-	-	(42,510,431)
Interim dividends paid - 2020	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-
At June 30, 2020	1,214,024,646	158,993,190	0	(1,626,920,066)	0	1,118,991,162	865,088,932

Numerical Machining Complex Ltd

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At July 1, 2020	1,214,024,646	158,993,190	0	0	(1,626,920,066)	0	1,118,991,162	865,088,932
Issue of new share capital	-	-	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-	-	-	-
Fair value adjustment on quoted investments	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	(40,004,498)	-	-	(40,004,498)
Capital/Development grants received during the year	-	-	-	-	-	-	59,148,916	59,148,916
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	-	(106,278,871)	(106,278,871)
Dividends paid – 2019	-	-	-	-	-	-	-	-
Interim dividends paid – 2020	-	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-	-
At June 30, 2021	1,214,024,646	158,993,190	0	0	(1,666,924,564)	0	1,071,861,207	777,954,479

The ordinary share capital of Kshs 1,214,024,646 represents initial seed money from GoK in setting up the complex.

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XVI. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	2020-2021	2019-2020
		Kshs	Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	21	(17,105,507)	50,587,612
Net cash generated from/(used in) operating activities		(17,105,507)	50,587,612
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	11	(79,630,467)	(2,207,489)
Net cash generated from/(used in) investing activities		(79,630,467)	(2,207,489)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in capital grants		(47,129,955)	232,703,087
<i>(See the movement in statement of changes in Equity)</i>			
Net cash generated from/(used in) financing activities		(47,129,955)	232,703,087
INCREASE IN CASH AND CASH EQUIVALENTS		(143,865,929)	281,083,210
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		356,464,511	75,381,301
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	15	212,598,582	356,464,511

XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2021

	Original budget		Adjustments		Final budget		Actual on comparable basis		Performance difference		Percentage Variation
	2020-2021	Kshs '000'	2020-2021	Kshs '000'	2020-2021	Kshs '000'	2020-2021	Kshs '000'	2020-2021	Kshs '000'	
Revenue											
Sale of goods	260,000	260,000	-	-	260,000	104,072	104,072	(155,928)	(60%)		
Transfers from the Government	134,000	144,060	10,060	144,060	144,060	144,060	0	0	0		
Other income-Deferred & Miscellaneous	109,358	109,358	-	109,358	109,358	106,337	106,337	(3,021)	(3%)		
Total income	503,358	513,418	-	513,418	513,418	354,469	354,469	(158,949)			
Expenses											
Compensation of employees	169,345	169,345		169,345	169,345	161,941	161,941	7,404	4%		
Use of goods and services	132,043	132,043	-	132,043	132,043	69,136	69,136	62,907	48%		
Other payments	193,883	203,943	10,060	203,943	203,943	163,396	163,396	40,547	20%		
Total expenditure	495,270	505,331	-	505,331	505,331	394,473	394,473	110,858			
Surplus for the period	8,087	8,087	-	8,087	8,087	(40,004)	(40,004)	(48,091)			

1. Sale of goods

The company did not achieve 60% of the projected revenues. These revenues were to be generated from diversified product lines. This was affected by cash inflow inadequacy and difficulties in getting production inputs as a result of delays caused by the impact of the COVID -19 pandemic.

2. Use of goods and service.

Production materials consumed during the year gave a variance of 48%. This variance was attributed by the low level of production.

3. Other payments

The amounts projected to be spent on other payments could not be achieved, indicating a variance of 20%. These amounts had been projected basing on the sales target which was not met. This in effect means that some of expenses projected could not be incurred and were not incurred.

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XVIII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Application of New and Revised International Financial Reporting Standards (IFRS)

i. New and amended standards and interpretations in issue effective in the year ended 30 June 2021.

Title	Description	Effective Date
IAS 39- Financial Instruments: Recognition and Measurement	IAS 39 "Financial Instruments: Recognition and Measurement" outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Financial instruments are initially recognized when an entity becomes a party to the contractual provisions of the instrument and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument (typically amortized cost or fair value). Special rules apply to embedded derivatives and hedging instruments.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted. <i>The standard is not relevant to NMC Ltd for FY 2020/21)</i>
IFRS 4- Insurance Contracts (Superseded)	IFRS 4 "Insurance Contracts" applies, with limited exceptions, to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. In light of the IASB's comprehensive project on insurance contracts, the standard provides a temporary exemption from the requirements of some other IFRSs, including the requirement to consider IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" when selecting accounting policies for insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted. <i>The standard is not relevant to NMC Ltd for FY 2020/21)</i>
IFRS 7- Financial Instrument Disclosures	IFRS 7 "Financial Instruments: Disclosures" requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted. <i>The standard is not relevant to NMC Ltd for FY 2020/21)</i>

Title	Description	Effective Date
IFRS 16- Leases	IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted. <i>The standard is not relevant to NMC Ltd for FY 2020/21)</i>

The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Application of New and Revised International Financial Reporting Standards (IFRS)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.

Title	Description	Effective Date
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. <i>The standard is not relevant to NMC Ltd for FY 2020/21)</i>
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted. <i>The standard is not relevant to NMC Ltd for FY 2020/21)</i>
IAS 16 — Property,	IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most	The amendments are effective for annual

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Title	Description	Effective Date
Plant and Equipment	types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, or depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.	periods beginning on or after January 1, 2022. Early application is permitted. <i>The standard is relevant to NMC Ltd for FY 2020/21)</i>
IAS 37 — Provisions, Contingent Liabilities and Contingent Assets	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted. <i>The standard is not relevant to NMC Ltd for FY 2020/21)</i>
IAS 41 — Agriculture	IAS 41 "Agriculture" sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted. <i>The standard is not relevant to NMC Ltd for FY 2020/21)</i>
IFRS 1 — First-time Adoption of International Financial Reporting Standards	IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

Title	Description	Effective Date
	comply with each IFRS effective at the end of its first IFRS reporting period.	<i>The standard is not relevant to NMC Ltd for FY 2020/21)</i>
IFRS 3 — Business Combinations	IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier. <i>The standard is not relevant to NMC Ltd for FY 2020/21)</i>
IFRS 17 — Insurance Contracts	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.	The IASB tentatively decided to defer the effective date of IFRS 17, Insurance Contracts to annual periods beginning on or after January 1, 2022. [The IASB has also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS

Title	Description	Effective Date
		4) to defer the fixed expiry date of the amendment also to annual periods beginning on or after January 1, 2023.] <i>The standard is not relevant to NMC Ltd for FY 2020/21)</i>

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

i. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020/2021

NOTES TO THE FINANCIAL STATEMENTS (Continues)

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

Revenue is measured based on the consideration to which the entity expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The entity recognizes revenue when it transfers control of a product or service to a customer.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

b) In-kind contributions

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

c) Property, plant and equipment

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

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

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement. Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

d) Depreciation and impairment of property, plant and equipment

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

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

Freehold Land	Nil
Buildings and civil works	50years or 2% the unexpired lease period
Plant and machinery	8 years or 12.5%
Motor vehicles, including motor cycles	5 years or 20%
Computers and related equipment	3 years or 33.33%
Office equipment, furniture and fittings	8 years or 12.5%

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

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

e) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives . The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

f) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

g) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

h) Right of Use Asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

i) Fixed interest investments (bonds)

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

j) Quoted investments

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

k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities that are not quoted in the Securities Exchange.

l) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

m) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

n) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

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

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

o) Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

r) Borrowings

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

s) Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

t) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2020. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs. 200 per employee per month.

u) Provision for staff leave pay

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

v) Exchange rate differences

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

w) Budget information

The original budget for FY 2020-2021 was approved by the National Assembly on 5th August, 2020. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of Kshs. 10,060,000 on the 2019-2020 budget following the governing body's approval.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

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

NOTES TO THE FINANCIAL STATEMENTS (Continues)

a) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

b) Comparative figures

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

c) 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, 2021.

5. Significant Judgments and Sources of Estimation Uncertainty

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

NOTES TO THE FINANCIAL STATEMENTS (Continues)

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 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.

b) Useful lives and residual values

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

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

c) Provisions

Provisions were raised and management determined an estimate based on the information available.

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.

(include provisions applicable for your organisation e.g provision for bad debts, provisions of obsolete stocks and how management estimates these provisions)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 REVENUE

	2020/2021	2019/2020
	Kshs	Kshs
Manufacture of Machine tools	590,088	1,462,142
Casting of ferrous foundry products	10,688,718	5,619,261
Manufacture of general spares & Components	16,360,289	42,474,330
General Fabrication	65,579,148	10,421,147
Training & Sale of Engineering software	10,533,674	9,695,509
Engineering Services	320,088	117,394
Net sales of goods	104,072,005	69,789,783

5 COST OF SALES

	2020/2021	2019-2020
	Kshs	Kshs
Cost of sales on goods	54,654,707	31,418,732
Cost of sales-Direct labour	91,294,104	71,077,655
Cost of sales on services-Electricity	14,259,381	6,819,236
Cost of sales on services-Water	221,986	
Total	160,430,178	109,315,623

6 GRANTS FROM NATIONAL GOVERNMENT

	2020/2021	2019-2020
	Kshs	Kshs
Recurrent grants received	144,060,000	138,679,200
Capital grants realized (see note below)	106,278,871	64,696,913
In Kind contributions/ donations		
Total	250,338,871	203,376,113

Name of the Entity sending the grant	Amount recognized in the Statement of Comprehensive Income KShs	Amount amortized under deferred income KShs	Amount recognised in capital fund. KShs	Total grant income during the year KShs	2019-2020 KShs
Ministry of Industry, Trade & Enterprise Development	144,060,000	106,278,871	59,148,916	309,487,787	436,079,200
Total	144,060,000	106,278,871	59,148,916	309,487,787	436,079,200

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 OTHER INCOME

	2020-2021	2019-2020
Description	Kshs	Kshs
Sale of tender documents	57,775	1,000
Other miscellaneous receipts	0	0
Total	57,775	1,000

8 (a) ADMINISTRATION COSTS

	2020-2021	2019-2020
Description	Kshs	Kshs
Staff costs (note 10b)	63,756,751	63,872,660
Directors' emoluments	6,121,086	5,117,378
Electricity and water	2,000,000	0
Communication services and supplies	1,013,269	1,029,266
Transportation, travelling and subsistence	4,805,661	1,473,130
Advertising, printing, stationery and photocopying	695,739	382,883
Staff training expenses	25,485,506	626,350
Hospitality supplies and services	1,697,925	1,562,524
Insurance costs	828,560	737,684
Staff medical costs	11,659,643	2,341,628
Bank charges and commissions	808,201	523,711
Office and general supplies and services	1,585,059	2,484,802
Auditors' remuneration	600,000	698,640
Legal fees	2,924,084	2,616,427
Consultancy fees	0	0
Repairs and maintenance	2,588,555	2,609,143
Provision for bad and doubtful debts	3,616,535	2,113,440
Depreciation	76,426,102	65,246,745
Other operating expenses	18,200,942	10,602,615
Total	224,813,618	164,039,026

NOTES TO THE FINANCIAL STATEMENTS (Continued)**8 (b) STAFF COSTS**

Description	2020/2021	2019/2020
	Kshs	Kshs
Salaries and allowances of permanent employees	137,622,805	124,917,847
Wages of temporary employees	6,692,407	211,884
Medical Insurance Schemes		
Employer's contributions to national social security schemes	320,000	289,200
Employer's contributions to pension scheme	9,270,533	7,768,241
Leave pay		
Gratuity provisions	1,116,000	1,215,524
Staff welfare	29,110	547,618
Sub-Total	155,050,855	134,950,314
Less: Direct Labour	(91,294,104)	(71,077,654)
TOTAL	63,756,751	63,872,660
The average number of employees at the end of the year was:		
Permanent employees – Management	11	11
Permanent employees – Unionisable	110	106
Temporary and contracted employees	17	11
Total	138	128

9 SELLING AND DISTRIBUTION COSTS

Description	2020/2021	2019/2020
	Kshs	Kshs
Salaries and wages of sales personnel	6,889,803	6,077,671
Marketing and promotional expenses	2,339,550	2,620,016
Total	9,229,353	8,697,687

10 OPERATING PROFIT/(LOSS)

	2020/2021	2019/2020
	Kshs	Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 10b)	63,756,751	63,872,660
Selling and distribution Expenses	9,229,353	8,697,687
Other Administration costs	74,293,145	26,990,163
Depreciation of property, plant and equipment	76,426,102	65,246,745
Provision for bad and doubtful debts	3,616,535	2,113,440
Directors' emoluments – fees	5,730,374	3,680,374
- other	390,712	1,437,004
Auditors' remuneration - current year fees	600,000	698,640
Total	234,042,972	172,736,713

Annual Reports and Financial Statements
For the year ended June 30, 2021

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 PROPERTY, PLANT AND EQUIPMENT

2021	Buildings & civil works	Plant and machinery/Tools and spares	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
COST OR VALUATION							
At July 1, 2020	59,294,829	1,199,238,772	27,181,661	69,712,397	9,377,363	11,076,103	1,375,881,125
Additions		76,586,986		3,043,481			79,630,467
Transfers							
Disposals							
At June 30, 2021	59,294,829	1,275,825,758	27,181,661	72,755,878	9,377,363	11,076,103	1,455,511,592
DEPRECIATION							
At July 1, 2020	21,444,364	997,041,832	27,181,661	69,357,733	8,799,868	-	1,123,825,458
Charge for the year	1,185,896	73,647,894		1,204,994	387,318		76,426,102
Impairment loss							
Eliminated on disposal							
At June 30, 2021	22,630,260	1,070,689,726	27,181,661	70,562,727	9,187,186	0	1,200,251,560
NET BOOK VALUE At June 30, 2021	36,664,569	205,136,032	0	2,193,151	190,177	11,076,103	255,260,032

Numerical Machining Complex Ltd

**Annual Reports and Financial Statements
For the year ended June 30, 2021**

2020	Buildings & civil works	Plant and machinery/Tools and spares	Motor vehicles, including, motor cycles	Computers & related equipment	Office equipment, furniture & fittings	Capital work in progress	Total
COST OR VALUATION							
At July 1, 2019	59,294,829	1,197,523,783	27,181,661	69,219,897	9,377,363	11,076,103	1,373,673,636
Additions		1,714,989		492,500			2,207,489
Transfers							
Disposals							
At June 30, 2020	59,294,829	1,199,238,772	27,181,661	69,712,397	9,377,363	11,076,103	1,375,881,125
DEPRECIATION							
At July 1, 2019	20,258,467	933,718,438	27,181,661	69,081,626	8,338,520	-	1,058,578,712
Charge for the year	1,185,897	63,323,393		276,107	461,349		65,246,746
Impairment loss							
Eliminated on disposal							
At June 30, 2020	22,054,364	977,041,831	27,181,661	69,357,733	8,799,869	0	1,123,825,458
NET BOOK VALUE At June 30, 2020	37,850,465	202,196,941	0	354,664	577,494	11,076,103	252,055,667

[Include a brief description of what the Capital Work in Progress relates to]

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

	Cost or Valuation	Normal Annual depreciation charge
Plant and machinery	777,418,128	97,177,266
Motor vehicles, including motor cycles	27,181,161	5,436,232
Computers and related equipment	69,219,897	23,073,299
Furniture and Fittings	6,911,588	863,949
	880,730,774	126,550,746
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 INVESTMENT PROPERTY

	2020-2021	2019-2020
	Kshs	Kshs
Opening valuation	290,000,000	290,000,000
Movements during the year		
Closing valuation	290,000,000	290,000,000
	=====	=====
DEPRECIATION (IF AT COST)		
At June 30	-	-
NET BOOK VALUE		
At June 30	290,000,000	290,000,000
	=====	=====

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

13 INVENTORIES

	2020-2021	2019-2020
	Kshs	Kshs
CNC Engineering stores	25,597,170	28,079,854
Foundry Engineering stores	40,273,895	20,200,912
Stationery and general stores	855,124	1,254,830
	_____	_____
	66,726,189	49,535,596
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 TRADE AND OTHER RECEIVABLES

	2020-2021	2019-2020
	Kshs	Kshs
Trade receivables (note 14 (a))	113,047,243	75,085,243
Deposits and prepayments	42,914,741	29,955,716
VAT recoverable	1,415,948	2,631,310
Staff receivables (note 14 (d))	3,917,160	2,857,021
Other receivables	6,753,215	6,753,214
Gross trade and other receivables	168,048,307	117,282,504
Provision for bad and doubtful receivable (note 14 (c))	(29,251,399)	(25,634,863)
Net trade and other receivables	138,796,908	91,647,641
	=====	=====

14 (a) TRADE RECEIVABLES

	2020-2021	2019-2020
	Kshs	Kshs
Gross trade receivables	113,047,243	75,085,243
Provision for doubtful receivables	(29,251,399)	(25,634,863)
	83,795,844	49,450,380
	=====	=====
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	22,721,074	4,282,303
Between 30 and 60 days	8,496,496	24,645,560
Between 61 and 90 days	6,505,435	(18,108,828)
Between 91 and 120 days	3,385,141	555,453
Over 120 days	71,939,097	63,710,755
	113,047,243	75,085,243
	=====	=====

14 (b) Reconciliation of Impairment Allowance for Trade Receivables

Description	2020-2021	2019-2020
	KShs	KShs
At the beginning of the year	113,047,243	75,085,243
Additional provisions during the year	(29,251,399)	(25,634,863)
Recovered during the year	0	0
Written off during the year	0	0
At the end of the year	83,795,844	52,835,510

14 (c) PROVISION FOR BAD AND DOUBTFUL DEBTS

PROVISION FOR BAD BEBTS		
	2021	2020
	KSHS	KSHS
Debts balance As At 30.06.2020	113,047,243	75,085,243
Less:		
Specific Provisions	(25,167,021)	(22,249,733)
	87,880,222	52,835,510
Specific Provision Debts over six Years	25,167,021	22,249,733
General Provision-2% of 87,880,222	1,755,958	1,056,710
	26,922,979	23,306,443
	(23,306,443)	(21,193,004)
Decrease or increase in provision for bad debts	3,616,535	2,113,440
Provision for bad debts 2019/2020	25,634,863	23,521,424
Less/Add: Decrease in bad debts	3,616,535	2,113,440
	29,251,399	25,634,863

14 (d) STAFF RECEIVABLES

	2020-2021	2019-2020
	Kshs	Kshs
Gross staff loans and advances	3,917,160	2,857,021
Provision for impairment loss	(1,891,954)	(1,891,954)
Less: Amounts due within one year	(2,025,206)	(965,067)
Amounts due after one year	-	-
	=====	=====

15 BANK AND CASH BALANCES

	2020-2021	2019-2020
	Kshs	Kshs
Cash at bank	212,598,582	356,464,511
Cash in hand	0	0
	212,598,582	356,464,511
	=====	=====

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

Detailed analysis of cash and cash equivalents

Financial Institutions	Account Number	2020-2021 Kshs.	2019-2020 Kshs.
KCB Bank Ltd	1107169453	8,815,260	3,121,303
KCB Bank Ltd	1127662244	202,998,147	350,455,050
KCB Bank Ltd	1271475049	785,175	2,888,158
Total		212,598,582	356,464,511

16 ORDINARY SHARE CAPITAL

	2020-2021 Kshs	2019-2020 Kshs
Authorised:		
75,000,000 ordinary shares of Kshs.10 par value each	750,000,000	750,000,000
	=====	=====
Issued and fully paid:		
75,000,000 ordinary shares of Kshs. par value each	-	-
	=====	=====

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

17 REVALUATION RESERVE

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

18 FAIR VALUE ADJUSTMENT RESERVE

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

19 RETAINED EARNINGS

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

20 TRADE AND OTHER PAYABLES

	2020-2021	2019-2020
	Kshs	Kshs
Trade payables	43,834,308	29,366,758
Accrued expenses	74,550,438	77,403,451
Retention/ contract monies	0	0
Deposits	0	0
Employee payables	0	0
Other payables	67,042,486	67,844,274
	185,427,232	174,614,483
	=====	=====

21 NOTES TO THE STATEMENT OF CASH FLOWS

	2020-2021	2019-2020
	Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating loss	(40,004,498)	(8,885,440)
Depreciation	76,426,102	65,246,746
Amortisation	0	0
Inventory revaluation	0	(42,510,431)
(Gain)/loss on disposal of property, plant and equipment	0	0
Operating profit/(loss) before working capital changes	36,421,604	13,850,875
Increase in inventories	(17,190,593)	42,510,430
Increase in trade and other receivables	(47,149,267)	(20,882,040)
Increase in trade and other payables	10,812,749	15,108,347
Increase/(decrease) in retirement benefit obligations	0	0
Increase/(decrease) in provision for staff leave pay	0	0
Cash generated from/(used in) operations	(17,105,507)	50,587,612
(c) Analysis of cash and cash equivalents		
Short term deposits		-
Cash at bank	212,598,582	356,464,511
Cash in hand		
Balance at end of the year	212,598,582	356,464,511

22 RELATED PARTY DISCLOSURES

(a) Government of Kenya

The Government of Kenya is the principal shareholder of Numerical Machining Complex Ltd holding 100% through 49% by Kenya Shipyard Limited and 51% Kenya Railways Corporation. Other related parties include:

Other related parties include:

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

23 CAPITAL COMMITMENTS

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

	2020-2021	2019-2020
	Kshs	Kshs
Amounts authorised and contracted for	59,148,916	297,400,000
Amounts authorized but not contracted for	-	-
Less: Amounts included in Work in progress	-	-
	59,148,916	297,400,000
	=====	=====

24 CONTINGENT LIABILITIES

	2020-2021	2019-2020
	Kshs	Kshs
Disputed tax penalties	57,782,747	57,782,747
	_____	_____
	57,782,747	57,782,747
	=====	=====

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 FINANCIAL RISK MANAGEMENT

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

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

(i) Credit risk

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

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

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

27 FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2021				
Trade Receivable	112,964,931	41,025,833	71,939,098	(29,251,399)
Bank balances	212,598,582	212,598,582	-	-
Total	325,563,513	253,624,415	71,939,098	(29,251,399)
At 30 June 2020				
Trade Receivable	75,085,243	11,374,488	63,710,754	(25,634,863)
Bank balances	356,464,511	356,464,511	-	-
Total	431,549,754	367,838,999	63,710,754	(25,634,863)

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

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

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

ii) Liquidity risk management

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

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

27 FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk management (Continued)

	Less than 1 month	Between 1- 3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2021				
Trade payables	32,924,687	(2,877,761)	13,787,382	43,834,308
Total	32,924,687	(2,877,761)	13,787,382	43,834,308
At 30 June 2020				
Trade payables	11,895,469	759,041	16,712,427	29,366,937
Total	11,895,469	759,041	16,712,427	29,366,937

(iii) Market risk

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

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

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

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

27 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

a) Foreign currency risk

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

b) Interest rate risk

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

26 INCOPORATION

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

27 EVENTS AFTER THE REPORTING PERIOD

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

28 CURRENCY

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

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APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue/Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe:
1.	Lack of land Valuation, Issuance of title for sold land	<p>The resurveying and securing of the parcel had been halted by court cases since 2010. However, a ruling made on 29th March 2019 in favor of NMC has granted permission for the said activities.</p> <p>NMC is in the process of doing valuation of the property so that the actual value can be determined</p> <p>Processing of title deeds is currently underway and several titles have been issued to rightful owners of the sold parcels of land.</p> <p>A cabinet memo to install beacons, secure the parcel of land & remove squatters and revalue the investment property is in progress.</p>	Board of Directors/MD	On-going	June 2022
2.	Long outstanding Tax Payable	The management has been working closely with KRA to ensure the issue is amicably settled. A review of NMC tax position was to be conducted by KRA and recommendations sort to	MD/Finance Manager	In-Progress	June 2022

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		<p>address writing off of the long outstanding.</p> <p>The tax was estimates in 2014 and the audit team that did the assessment has since been moved. Our account has also been moved from Times tower to Sameer Park and currently at CBC Centre –Public sector division where our ITax is clean and TCC issued. Our letter to KRA in regards to this tax matter is yet to be addressed</p>			
3.	Trade Receivables	<p>The statement of financial position as at 30 June, 2020 reflects a figure of Kshs 75,085,243 for Trade and other Receivables. The following anomalies were noted;</p> <p>1. Reconciliation of the account is in progress to establish the actual balances of the debtors</p> <p>2. The management is in the process of compiling a report to table to the Board of Directors in order to have the amounts written off as per section 148 of the PFM Regulations.</p> <p>3. Measures have been put in place to ensure the credit limits of 60 days for customers are adhered to.</p>	Finance manager	In-Progress	June 2022
4.	Unconfirmed status of fixed Assets	<p>The management has taken measures to have a fixed asset register with a list of assets together with their location being identified. Further actions that the management intends to take are to include valuation of all assets to ascertain their fair market values. Valuation of these asset is in progress and will address this matter</p>	Finance Manager	In-Progress	June 2022

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5.	Trade and Others Payables	This includes a figure of Tax payable of Kshs. 57,782,747 which is dispute and being reassessed by KRA. Additionally there is a figure includes accrued tax on gratuity which require reconciliation of Kshs. 54,416,621	Finance Manager	In-Progress	June 2022
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Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

Accounting Officer

Name: Eng. David Mwadali

Managing Director

Signature



Date..... 23/08/2022

APPENDIX I1: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

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

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

Status of Projects completion

	Project	Total project Cost Ksh In Million	Total expended to date Ksh In Million	Completion % to date	Budget	Actual	Sources of funds
1	Modernization of Foundry & CNC workshop	1.788	557	31%	-	-	GoK

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

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APPENDIX III: INTER-ENTITY TRANSFERS


ENTITY NAME:		Numerical Machining Complex		
Break down of Transfers from the State Department for Industry				
FY 2020/2021				
a. Recurrent Grants				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		10/08/2020	12,005,000	2020/2021
		24/08/2020	12,005,000	2020/2021
		22/09/2020	12,005,000	2020/2021
		21/10/2020	36,015,000	2020/2021
		02/02/2021	36,015,000	2020/2021
		04/05/2021	36,015,000	2020/2021
		Total	144,060,000	
b. Development Grants				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		25/08/2020	59,148,916	2020/2021
		Total	59,148,916	
c. Direct Payments				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
			-	
			-	
			-	
		Total	0	
d. Donor Receipts				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
			-	
			-	
			-	
		Total	0	

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

Finance Manager
Numerical Machining Complex Ltd

Head of Accounting Unit
Ministry of Industry, trade and Enterprise Development

Sign -----

Sign -----

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

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