

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

MECHANICAL AND TRANSPORT FUND

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

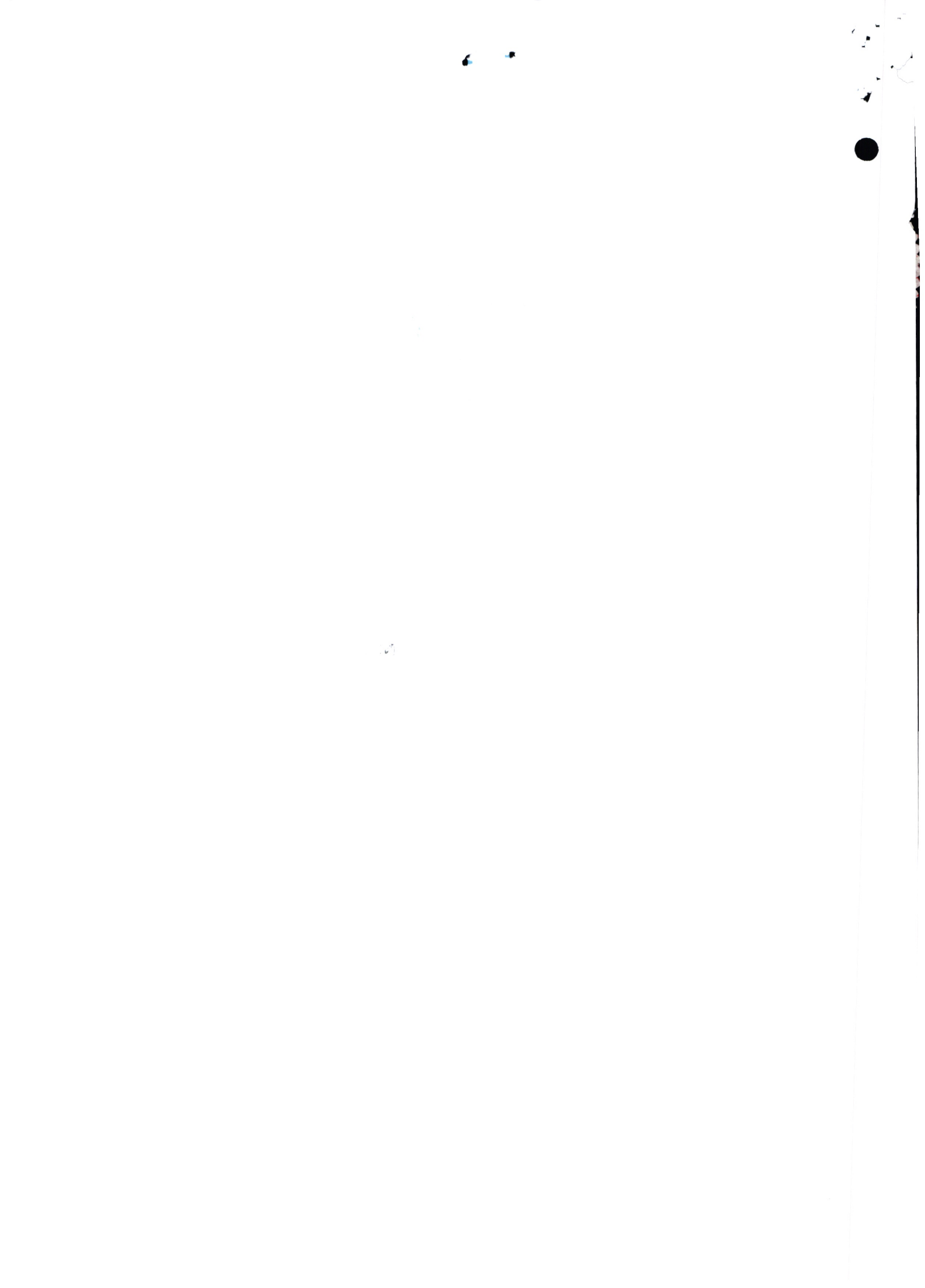
**STATE DEPARTMENT FOR
INFRASTRUCTURE**

PARLIAMENT
OF KENYA
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Christine

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TABLED BY: LOM
Christine







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

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

REVISED ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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

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

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

(b) Principal Activities

The principle activity of the department include the following;

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

(c) Key Management

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

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

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June, 2020 and who had direct fiduciary responsibility were:

S/NO	DESIGNATION	NAME
1	Principal Secretary	Prof.Arch Paul M Muringa PHD,CBS,Corp.Arch,Maak,Mkip).
2	Chairman MTF Management Committee	Eng.Francis Gitau.
3	Ag.Chief Engineer (Mechanical)	Eng.Maurice s Nabende.

(e) Entity Headquarters

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

(f) Entity Contacts

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

(g) Entity Bankers

Kenya Commercial Bank
Industrial Area Branch
1102590339

(h) Independent Auditors

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

(i) Principal Legal Adviser

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

Mechanical and Transport Fund

Annual Report 2019-2020

i.	Infrastructure Secretary	Chairman	Eng. Francis Gitau
ii.	Ag. Chief Engineer (Mechanical)	Secretary	Eng. Maurice s. Nabende
iii.	Chief Engineer (Roads).	Member	Eng. James .M. Kungu
iv.	Director Human Resource Management and Development	Member	Mrs. J k Gichomo
v.	Chief Finance Officer	Member	Mr. Philip Wachira
vi.	Chief Economist	Member	Mr. John Kimani
vii.	Deputy Accountant General	Member	Mrs Sophie Mwangashi

SECRETARIAT

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

III. CHAIRMAN'S STATEMENT

I am delighted to present the Mechanical and Transport Fund Annual report and financial statements for the year 2019-2020. During the period, the Mechanical and Transport Fund performed dismally to the expectations and aspirations of the fund due to emergence of COVID 19 which led to lockdowns.

Further there was serious staff deficiency in critical staffing which has led the fund not to perform optimally.

FINANCIAL PERFORMANCE

During the year, significant steps were taken to strengthen the Business Fundamentals which ensured that the Fund countered the risk that hampered the fund. Major among these were; Strengthening of internal controls, introduction of systems to ensure efficiency and effectiveness of execution of the objectives of the fund; purchase of new equipment and training of staff. It was expected that the measures employed by the Mechanical and Transport Fund management committee would mitigate against their affirmation risk.

APPRECIATION

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

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

Mechanical and Transport Fund Management looks forward to working closely with our key stakeholders Ministry of Transport, Infrastructure, Housing and Urban Development Departments, Roads Authorities' KeNHA, KURA, KERRA, County Governments, private sector and other GOK Agencies in furtherance of Mechanical and transport fund.



Eng. FRANCIS CITAU,
CHAIRMAN,
MTF - MANAGEMENT COMMITTEE.

IV. REPORT OF THE CHIEF ENGINEER (MECHANICAL)

The performance of the Mechanical and Transport Fund in the financial year 2019-2020 faced enormous challenges that included declaration of Covid 19 Pandemic and operation inefficiency that greatly impacted the fund success. During the year under review, the management embraced operational efficiency through provision of services by ensuring availability and serviceability of Vehicles, Plant and Equipment; Procurement of new plant and equipment to replace those that were found to be uneconomical to repair.

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

ACHIEVEMENT: -

During the period under review, 2019/2020 Financial Year, the following was achieved through the Fund: -

1. Increased availability and serviceability of vehicles, plant and equipment.
2. Identification and disposal of vehicles, plant and equipment that was uneconomical to repair,
3. Procurement of additional vehicles, plant and equipment,
4. Improvements to the Central and County Mechanical workshops including re-equipping of the same in order to provide quality services for effective and efficient utilization of available resources,
5. Training of staff at Kenya school of Government.

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

CHALLENGES: -

The following challenges greatly affected Mechanical and Transport Fund performance and its operation for the 2019/2020 financial year.

1. Covid 19 Pandemic
2. High prices of materials and spare parts.
3. Adverse Climate changes.
4. Staff deficiency due to retirement and natural attrition.

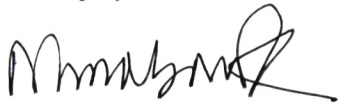
INTERNAL CONTROLS: -

It is worthwhile to point out that the Division has strengthened internal controls with a view mitigating organizational and operational risk. The following has been implemented:

1. Introduction of Fuel Cards System to counter Fuel pilferage to ensure accountability
2. Introduction of enterprise resource program to ensure efficiency in service delivery
3. Installation of CCTV to improve security.

ACKNOWLEDGEMENTS

I wish to commend the entire team of Mechanical and Transport Division during this troubled time for their display of zeal to ensure that the fund continued offering seamless services to its client portfolio.



Eng. MAURICE S. NABENDE,
Ag. CHIEF ENGINEER (MECHANICAL).

V. MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A**Operational and financial performance**

The performance of the Mechanical and Transport Fund in the financial year 2019-2020 was affected by economic challenges that faced the entire Country during the episode of COVID 19. Accordingly, even due to the aforementioned challenge the fund has continued to offer un-paralalled service to its client portfolio In addition, the fund procured sophisticated equipment with the intention of modernising the institution.

SECTION B**Entity's compliance with statutory requirements**

Mechanical and Transport Fund Management has continued to observe , subscribe and adhere to the Gazette Notice No. 140 of 2003 and the Public Finance Management Act, 2012 and its regulations of 2015 thereof.

SECTION C**Key projects**

Mechanical and Transport Fund is undertaking roads maintenance projects in various Counties in the country. Some of the project being undertaken by the fund includes: Meru, Nairobi metropolitan service, Kisii, Bungoma, Nyandarua and Nyamira.

IV. MANAGEMENT DISCUSSION AND ANALYSIS Continued**Major risks facing the entity**

1. Shortage of key staff occasioned by high retirement and natural attrition.
2. Weather conditions
3. High cost of machine maintenance
4. Unpredictable economic cycles

SECTION E

Material arrears in statutory/financial obligations

The fund has significant financial obligations.

SECTION F

The entity's financial probity and serious governance issues

There is no major financial improbity as reported by internal audit function external auditors, or other National Government Agencies ; and there are no serious governance issues among the Committee or member of the committee and top management including conflict of interest.

VI. STATEMENT OF THE ACCOUNTING OFFICER AND FUND CO-ORDINATOR RESPONSIBILITIES

In reference to Section 81 of the Public Finance Management Act 2012 and Legal Notice No. 140 thereof, require the Accounting Officer, State Department for Infrastructure and the Chief Engineer (Mechanical) to prepare Financial Statements of the Mechanical and Transport Fund which give a true and fair view of the state of affairs of the Fund at the end of the government accounting period. The accounting officer and the Chief Engineer (Mechanical) are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the Fund. They are responsible for safeguarding the assets of the Fund.

. This responsibility includes and not limited to:


1. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period,
2. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund,
3. 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 misstatement whether due to fraud or error,
4. Safeguarding the assets of the Fund,
5. Selecting and applying appropriate accounting policies,
6. Making accounting estimates that are reasonable in the circumstances.

The Accounting Officer and the Chief Engineer (Mechanical), accepts responsibility of the Fund's financial statements, which have been prepared in adherence to accounting policies supported by reasonable and prudent judgements and estimates in conformity with Public Sector Accounting Standards board advisory (IPSAS) policies and Financial Reporting advice. The Accounting Officer and the Chief Engineer (Mechanical) are of the opinion that the financial statements give a true and fair view of the state of the Fund financial position as at 30th June, 2020. The Accounting Officer and the Chief Engineer (Mechanical) further, confirm the completeness of the accounting records maintained for the Fund which have been relied upon in the preparation of the financial statements as well as the adequacy of the internal control systems.


Nothing has come to the attention of the Accounting Officer and the Chief Engineer (Mechanical) to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

ACCOUNTING OFFICER,

Prof. Arch Paul M. Maringa (PHD), CBS, Corp. Arch., Maak, Mkip.

Sign ...  Date.....

Ag. CHIEF ENGINEER (MECHANICAL),

Eng. Maurice S. Nabende. Sign  Date 4/6/2021

REPUBLIC OF KENYA

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Enhancing Accountability

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Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON MECHANICAL AND TRANSPORT FUND FOR THE YEAR ENDED 30 JUNE, 2020 - STATE DEPARTMENT FOR INFRASTRUCTURE

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Mechanical and Transport Fund set out on pages 1 to 17, which comprise the statement of financial position as at 30 June, 2020, statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Mechanical and Transport Fund as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents of Kshs.34,676,685. However, the bank reconciliation statement contained long outstanding items comprising; Kshs.12,833,366 receipts in cashbook not in bank statement, payments in cashbook not in bank statement amounting to Kshs.4,248,066 and receipts in the bank statement not in the cashbook of Kshs.33,874,527.

In the circumstances, the accuracy of the reported cash and cash equivalents balance of Kshs.34,676,685 could not be confirmed.

2. Trade and Other Payables – Pending Bills

According to Note 16 to the financial statements, the statement reflects trade and other payables totalling to Kshs.70,469,907 (2019: Kshs.24,460,277) as at 30 June, 2020. The balance constitutes pending bills balance of Kshs.56,382,898 and unrefunded deposits amounting to Kshs.14,087,009. However, Management did not provide supporting schedules or register for the deposits. Management has not explained why the bills were not settled during the year when they occurred.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

3. Outstanding Imprest

The statement of financial position reflects outstanding imprest of Kshs.1,336,898 as at 30 June, 2020. However, the imprest register provided for audit review reflected total outstanding imprest of Kshs.4,549,966, resulting to an unexplained variance of Kshs.3,213,068.

Further, the balance includes an amount of Kshs.4,549,966 which has been outstanding from various staff for over six months. Failure to surrender imprest is contrary to Regulation 93(5) of the Public Finance Management Regulations, 2015 which requires imprest to be surrendered or accounted for within seven (7) working days after returning to duty station.

Management was therefore, in breach of the law.

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

Key Audit Matters

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

Other Matter

1. Budget Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,000,000,000 and Kshs.701,179,614 respectively resulting to a deficit of Kshs.298,820,386 or 30% of the budget. Similarly, the fund spent an amount of Kshs.706,834,470 against an approved budget of

Kshs.1,000,000,000 resulting to under expenditure of Kshs.293,165,530 or 29.3% of the budget. The Fund's expenditure was limited to the amount realised.

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

2. Unresolved Prior Year Audit Matters

In the audit report of the previous year, a number of issues were raised under the Report on Financial Statements. However, Management has not resolved the issues nor disclosed all the prior year matters as provided by the Public Sector Accounting Standards Board, (IPSASB) templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

Compliance with the Public Procurement and Asset Disposal Act, 2015

The statement of financial performance reflects a balance of Kshs.192,919,891 under routine maintenance of vehicles which includes an amount of Kshs.1,560,000 being repairs through LPO number 976310 which was signed on 10 January, 2020. However, the post-inspection report was dated 6 January, 2020 indicating that the inspection was done before the LPO was signed contrary to the Public Procurement and Asset Disposal Act, 2015.

The Management is therefore in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Lack of Audit Committee

Section 73(5) of the Public Finance Management Act, 2012 provides that every national government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations. However, the Fund did not have an Audit Committee in place.

In the circumstances, the effectiveness of internal controls, risk management and governance of the Fund could not be confirmed.

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

Responsibilities of Management and those Charged with Governance

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

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are

in compliance with the authorities which govern them, and that public resources are applied in an effective way.

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


Nancy Gathungu
AUDITOR-GENERAL

NAIROBI

24 May, 2021


VIII. STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30th JUNE 2020

Revenue		<u>2019-2020</u>	<u>2018-2019</u>
	Note	Kshs	Kshs
Hire of Equipment and Miscellaneous Services	3	675,303,020	1,001,701,067
Sale of Boarded Items	4	<u>25,876,594</u>	<u>9,981,826</u>
Total Revenue		<u>701,179,614</u>	<u>1,011,682,893</u>
Expenses			
Travel and subsistence allowance	5	93,149,540	127,191,169
Routine Maintenance of Vehicles, Equipment and other assets	6	349,497,800	481,697,336
Administrative expenses	7	73,825,737	68,065,129
Depreciation	8	302,571,054	283,093,572
Security services	9	<u>38,680,648</u>	<u>42,765,200</u>
Total Expenses		<u>857,724,774</u>	<u>1,002,812,406</u>
Deficit /Surplus for the Year		<u>(156,545,160)</u>	<u>8,870,487</u>

IX. STATEMENT OF FINANCIAL POSITION
AS AT 30th JUNE, 2020

		<u>2019-2020</u>	<u>2018-2019</u>
Assets	<u>Notes</u>	<u>(Kshs)</u>	<u>(Kshs)</u>
<u>Non- Current Assets</u>			
Intangible Assets	10	5,906,199	5,906,199
Property, Plants & Equipment	11	4,151,714,372	4,221,770,805
Total Non- Current Assets		<u>4,157,620,571</u>	<u>4,227,677,004</u>
<u>Current Assets</u>			
Inventories	12	75,356,867	135,404,233
Receivables from non-exchange transactions	13	10,694,099	8,804,788
Outstanding imprest	14	1,336,898	1,777,133
Cash and cash equivalents	15	34,676,685	16,557,492
Total Current Assets		<u>122,064,549</u>	<u>162,543,646</u>
Total Assets		<u>4,279,685,120</u>	<u>4,390,220,650</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Trade & other payables from exchange transactions	16	70,469,907	24,460,277
Total Current Liabilities		<u>70,469,907</u>	<u>24,460,277</u>
Government Grant	18	2,373,678,347	2,373,678,347
Reserves		1,992,082,026	1,983,211,539
Accumulated deficit		(156,545,160)	8,870,487
Total Liabilities and Reserves		<u>4,209,215,213</u>	<u>4,365,760,373</u>
Net assets and Liabilities		<u>4,279,685,120</u>	<u>4,390,220,650</u>

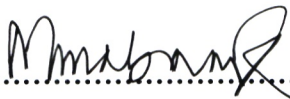
ACCOUNTING OFFICER,
Prof .Arch PAUL M. MARINGA (PHD), (CBS, Corp. Arch.,Maak, Mkip).

Sign ... 

..... Date

Ag. CHIEF ENGINEER (MECHANICAL).

Eng. MAURICE S. NABENDE.

Sign.  Date. 4/6/2021

**X. STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30th JUNE, 2020**

	<u>Reserves</u>	<u>Government Grant</u>	<u>Total</u>
	<u>Kshs</u>	<u>Kshs</u>	<u>Kshs</u>
Balance as at 1ST July 2018	1,983,211,539	2,373,678,347	4,356,889,886
Surplus for the period	<u>8,870,487</u>		<u>8,870,487</u>
As at 30 th June 2019	<u>1,992,082,026</u>	<u>2,373,678,347</u>	<u>4,365,760,373</u>
Balance As At 1 st July 2019	<u>1,992,082,026</u>	<u>2,373,678,347</u>	<u>4,365,760,373</u>
Deficit for the period	<u>-156,545,160</u>	-	<u>-156,545,160</u>
Balance as At 30 June 2020	1,835,536,866	2,373,678,347	<u>4,209,215,213</u>

XI. STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30th JUNE, 2020

	<u>2019-2020</u>	<u>2018-2019</u>
	<u>Kshs</u>	<u>Kshs</u>
<u>OPERATING ACTIVITIES</u>		
Surplus for the year	-156,545,160	8,870,487
<i>Non-cash adjustments:-</i>		
Interest received	(970,590)	(492,683)
Sale of asset disposal	(25,876,594)	(9,981,826)
Depreciation	302,571,054	283,093,572
Adjustments due to prior depreciation calculation errors	(80,833,870)	(219,523,208)
Operating income before working capital changes	38,344,840	61,966,342
Movement in Working Capital		
Increase Debtors/prepayments	-1,889,311	25,127,858
Decrease in Inventories	60,047,366	106,321,711
Increase in Trade & Other Payables	46,009,630	(3,547,768)
Decrease in outstanding imprest	440,235	(1,165,214)
Net Change in working Capital	104,607,920	126,736,587
<i>Net cash used by/from operating activities</i> 17	142,952,760	188,702,929
<u>INVESTING ACTIVITIES</u>		
Purchase of plant, machinery and equipment	(151,680,750)	(309,713,100)
Purchase of furniture	-	(4,861,680)
Purchase of computers equipment and accessories	-	(8,086,460)
Purchase of Office equipment	-	-
Purchase of ICT Infrastructure & Telephony	-	-
Asset disposal	25,876,594	9,981,826
interest income	970,590	492,683
<i>Net cash used in Investing activities</i>	(124,833,566)	(312,186,731)
<u>FINANCING ACTIVITIES</u>		
GoK Capital Grant		
Net Cash from Financing Activities		
<u>Net (decrease)/increase in cash and cash equivalents</u>	18,119,194	(123,483,802)
cash and cash equivalents as at 1st July 2019 15	16,557,492	140,041,294
cash and cash equivalents as at 30th June 2020 15	34,676,686	16,557,492

**XII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE, 2020**

Item	Particulars	Budget	Actual	Variance
		Shs	Shs	Shs
	Revenue			
4-251-0000-3510701	Receipts from hire of equipment	921,500,000	637,515,849	283,984,151
4-251-0000-3520302	Receipts from sale of Boarded items	33,000,000	25,876,594	7,123,406
4-251-0000-3510803	Miscellaneous Services -Receipts from sales and fees for Services rendered &	45,000,000	36,816,581	8,183,419
4-251-0000-7310224	Bank interest	500,000	970,590	-470,590
	Total income	1,000,000,000	701,179,614	298,820,386
	Expenses			
4-251-0000-2210301	Domestic Travel Allowances and Expenses	38,033,072	89,794,629	-51,761,557
4-251-0000-2210401	Foreign Travel Allowances and Expenses	8,640,000	3,354,911	5,285,089
4-251-0000-2220102	Maintenance of Vehicles, Plant, Machinery and Equipment & Tyres and Tubes	300,771,280	228,136,975	72,634,305
4-251-0000-2211201	Fuel , Oils & Lubricants	55,706,048	120,363,661	-64,657,613
4-251-0000-2220103	Fit Equipment with Fleet management	3,000,000	0	3,000,000
4-251-0000-2220201	Maintenance of buildings and stations - Non Residential	1,000,000	997,164	2,836
4-251-0000-2220202	Maintenance of Internet Server, computers, Printers and software	4,594,300	0	4,594,300
4-251-0000-2220203	Asset protection	3,000,000	0	3,000,000
4-251-0000-2221106	Upgrade and installation of closed circuit surveillance system	4,000,000	0	4,000,000
4-251-0000-2221106	Steel, Copper, and Timber for Spare parts	1,296,000	0	1,296,000
4-251-0000-2210504	Printing, Advertising and information supplies Services	5,000,000	2,893,315	2,106,685
4-251-0000-2210504-2	Consultancy	7,000,000	0	7,000,000

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4-251-0000-2210201	Telephone, telex, facsimile, m/phone services & others	3,888,000	3,645,029	242,971
4-251-0000-2210202	Internet connections	4,184,000	10,434,934	-6,250,934
4-251-0000-2210203	Communication-Installation of WAN	2,888,000	0	2,888,000
4-251-0000-2210801	Hospitality services & Catering	6,000,000	6,173,511	-173,511
4-251-0000-2211101	Courier and postal services	1,000,000	253,003	746,997
4-251-0000-2211102	Trade Shows and Exhibitions	1,500,000	400,000	1,100,000
4-251-0000-2211103	Uniforms	6,615,600	1,192,045	5,423,555
4-251-0000-2211104	* Supplies , Accessories , Computers and Printers and usable	8,000,000	1,524,565	6,475,435
4-251-0000-2211106	Detergents, Fungicides, Insecticides and Sprays	1,000,000	1,962,755	-962,755
4-251-0000-2211107	*Supply of furniture and office equipment's	2,500,000	2,143,000	357,000
4-251-0000-2211108	Stationery and general office supplies	6,000,000	6,482,468	-482,468
4-251-0000-2210101	Electricity expenses	4,379,200	2,300,802	2,078,398
4-251-0000-2210102	Water and sewerage charges	2,223,900	1,521,959	701,941
4-251-0000-2211301	Bank Operating charges	691,200	289,055	402,145
4-251-0000-2210705	Training Expenses	17,584,400	6,704,908	10,879,492
4-251-0000-2110101	Payment for Temporary Employees	42,505,000	25,904,383	16,600,617
4-251-0000-2211305	Contracted guards and cleaning services	40,000,000	38,680,648	1,319,352
4-251-0000-3110701	Vehicles, plants and equipment and other machinery	420,000,000	151,680,750	268,319,250
		1,000,000,000	706,834,470	293,165,530

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Note:

Particulars

Remarks

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

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

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

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

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

1. High prices of tyres and spare parts.
2. High cost of maintaining aging equipment.
3. Increase of fleet of equipment.

* 4-251-0000-2211201 Fuel , Oils & Lubricants	The variance of Kshs. 64,657,613 in fuel oils & Lubricants is as a result of County roads projects where the clients paid for fuel into our account hence we were to pay for fuel which was not included in the budget.
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* 4-251-0000-2210301 Domestic Travel Allowances and Expenses	The variance of kshs. 51,761,557 is a result of allowances to our staff working in the county roads projects whereby the clients paid for dry rates for hire of equipment, fuel and plant operators' allowances.
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XIII. NOTES TO FINANCIAL STATEMENTS**1. Statement of compliance and basis of preparation – IPSAS 1**

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

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

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

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

b) Sale of goods

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

c) Interest income

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

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

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d) Basis of Depreciation

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

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

	2019-2020	2018-2019
	<u>Kshs.</u>	<u>Kshs.</u>
3. Hire Of Equipment and Services Rendered		
Receipts during the year	637,515,849	941,222,351
Miscellaneous income	36,816,581	59,986,033
Bank interest income	970,590	492,683
TOTALS	675,303,020	1,001,701,067
4. Sale of boarded items	25,876,594	9,981,826
	701,179,614	1,011,682,893
5. Travel/Subsistence Allowance		
Domestic travel/subsistence allowance	89,794,629	125,167,125
Foreign travel/subsistence allowance	3,354,911	2,024,044
TOTALS	93,149,540	127,191,169
6. Routine Maintenance vehicles		
Routine Maintenance of vehicles & Tyres and tubes	228,136,975	312,784,755
Fuel , oils and lubricants	120,363,661	164,842,632
Routine Maintenance & Other assets	997,164	1,992,039
Routine Maintenance comps, printers	-	2,077,910
TOTALS	349,497,800	481,697,336
7. Administrative expenses		
Printing, advertising & information supplies services	2,893,315	5,024,786

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Communication –T/Phone, M/Phones	3,645,029	2,842,000
Communication- internet	10,434,934	6,028,660
Hospitality supplies & services	6,173,511	5,987,589
Courier & Postal Services	253,003	394,403
Trade, Shows & Exhibitions	400,000	-
Uniforms	1,192,045	2,090,255
Computer supplies and Accessories	1,524,565	8,086,460
Detergents, Fungicides, Insecticides	1,962,755	870,350
Supply of furniture	2,143,000	
General Office Supplies	6,482,468	7,121,914
Utilities, - Electricity	2,300,802	4,079,732
Utilities, Water & Conservancies	1,521,959	1,144,802
Bank charges	289,055	463,890
Training	6,704,908	4,451,819
Basic wages for Temporary employees	25,904,383	18,734,469
consultancy	-	744,000
TOTALS	73,825,732	68,065,129
8. Depreciation	302,571,054	345,612,857
9. Security services		
Payments during the year	38,680,648	42,765,200

10. Intangible Assets**Bal B/F****5,906,199****5,906,199**

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11. Property, Plants & Equipment

Year ended 30th June 2020	SUPERVISORY VEHICLES (BELOW 3 TON)	PLANTS AND EQUIPMENT	TRUCKS (OVER 3 TON)	COMPUTER EQUIPMENT & ACCESS	OFFICE EQUIPMENTS	ICT INFRASTRUCTURE & TELEPHONY	OFFICE FURNITURE	TOTAL
<i>Rate</i>				10%	10%	10%	10%	
COST	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
As At 01.07.2019	229,814,479	5,403,518,985	894,409,518	32,566,761	22,337,114	10,156,326	34,545,611	6,627,348,794
Additional	6,460,000	54,600,000	88,477,750	0	0	0	2,143,000	151,680,750
As At 30.06.2020	236,274,479	5,458,118,985	982,887,268	32,566,761	22,337,114	10,156,326	36,688,611	6,779,029,544
DEPRECIATION								
As At 01.07.2019	117,007,974	1,775,768,671	375,530,785	16,170,849	16,223,332	9,087,149	14,955,358	2,324,744,118
Period charge	11,114,403	229,105,718	54,932,865	2,710,686	1,809,306	82,266	2,815,810	302,571,054
As At 30.06.2020	128,122,377	2,004,874,389	430,463,650	18,881,535	18,032,638	9,169,415	17,771,168	2,627,315,172
NET BOOK VALUE AS AT 30-06-2020	108,152,102	3,453,244,596	552,423,618	13,685,226	4,304,476	986,911	18,917,443	4,151,714,372

<u>12. Inventory</u>	<u>2019-2020</u>	<u>2018-2019</u>
1. Spare parts, Paints &tyres	72,143,938	131,354,256
2. Fuel, Lubricants and oils	275,968	0
3. Stationery & computer items	<u>2,936,962</u>	<u>4,049,977</u>
Total	<u>75,356,867</u>	<u>135,404,233</u>
<u>13. Receivables from None. Exchange transactions</u>		
1. Geothermal Dev. Company- as at june 2020	10,694,099	8,804,788
	<u>10,694,099</u>	<u>8,804,788</u>
14. Outstanding imprest	<u>1,336,898</u>	<u>1,777,133</u>
15. Cash and cash Equivalents		
Cash and cash Equivalents	34,676,688	16,557,492
16. Trade & other payable from exchange transactions		
a) Sale of boarded items Tender Deposits ;		
Balance B/fwd.	20,455,677	24,383,045
Tender Deposits -Sale of boarded items	-	-
Refund -Sale of boarded items Of Deposits	<u>(6,368,668)</u>	<u>(3,927,368)</u>
Un-refunded Deposits	<u>14,087,009</u>	<u>20,455,677</u>
Other Creditors		
Pending bills as at 30th june 2020	<u>56,382,898</u>	<u>4,004,600</u>
Total payables	<u>70,469,907</u>	<u>24,460,277</u>

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17.Cash generated from operations		<u>2019-2020</u>	<u>2018-2019</u>
	Note	<u>Kshs</u>	<u>Kshs</u>
Surplus/Loss for the year		-156,545,160	8,870,487
<i>Non-cash adjustments:-</i>			
Interest received		(970,590)	(492,683)
Sale of asset disposal	4	(25,876,594)	(9,981,826)
Depreciation		302,571,054	283,093,572
Adjustments due to prior depreciation calculation errors		80,833,870	219,523,208
Operating income before working capital changes		38,344,840	61,966,342
Movement in Working Capital			
Increase/Decrease Debtors/prepayments		-1,889,311	25,127,858
Decrease in Inventories		60,047,366	106,321,711
Increase/Decrease in Trade & Other Payables		46,009,630	(3,547,768)
Increase/Decrease in outstanding imprest		<u>440,235</u>	<u>(1,165,214)</u>
Net Change in working Capital		104,607,920	126,736,587
Net cash flow from operating activities		<u>142,952,760</u>	<u>188,702,929</u>

<u>18. GOVERNMENT GRANT</u>	
<p>Particulars</p> <p>A loan agreement was entered into between the Governments of the Republic of Korea on 15th April, 2005 concerning EDCF (Economic Development Cooperation Fund) Loans to be extended to the Government of the Republic of Kenya or its designated agency for the implementation of projects to be agreed upon between those two Governments of KSHS. 1,963,016,499.15.</p> <p>The EDCF Loan arrangement dated 10th May, 2005 concerned the financing and the implementation of Road Maintenance Equipment Renewal Project.</p> <p>The loan Repayment was to be done by the National Government in forty (40) semi-annual consecutive instalments on date of 20th April and 20th October at an interest rate of 1% from the 11th year after the signing of the Loan agreement.</p>	1,963,016,500
<p>The National Government advanced the Mechanical and Transport Fund Kshs. 1,500,000,000.00 in the Financial year 2013-2014 to purchase Road Maintenance Equipment following an agreement to transfer 80% of MTF fleet to County Government.</p>	1,500,000,000
<p>Transfer 80% of MTF fleet to County Government.</p>	<u>(1,330,934,153)</u>
<p>Grant from Government of Japan</p>	241,596,000
<p>Total Government Grant</p>	<u>2,373,678,347</u>

XIV. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATION

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

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

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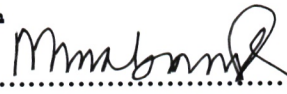
Guidance Notes:

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

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

Sign  Date

Ag. CHIEF ENGINEER (MECHANICAL).

Eng. MAURICE S. NABENDE. Sign  Date 4/6/2021