

REPORT OF THE AUDITOR-GENERAL ON NATIONAL TRANSPORT AND SAFETY AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Transport and Safety Authority set out on pages 1 to 30, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Transport and Safety Authority as at 30 June, 2019 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 the Public Finance Management Act, 2012 and the National Transport and Safety Authority Act, 2012.

Basis for Qualified Opinion

1. Receipts for National Urban Transport Improvement Project (NUTRIP)

As disclosed in Note 7 to the financial statements, the Authority received an amount of Kshs.36,000,000 for NUTRIP Project Cr.5140 KE, which is funded by the World Bank, to facilitate payment of specified transactions as per the State Department for Transport letter Ref. MOT&I/ACCTS/033/VOL. III (74) of 25 January, 2019. However, no satisfactory explanation was provided on the circumstances under which the transfer was made to the Authority. It was also not explained why the State Department for Transport, being the implementing agency for the project, could not make the payments.

Further, the documents provided in support of the payments indicated that the transactions were for the financial years 2016/2017 and 2017/2018. Although Management explained that the payments were related to 20% GOK counterpart funding owed to suppliers for equipment delivered under the project in the previous financial years, no evidence was provided to confirm that the bills or invoices were still outstanding.

In the circumstances, the validity of the receipt for NUTRIP Project and propriety of the expenditure of Kshs.36,000,000 could not be confirmed.

2. Unsupported Revenue from Foreign Motor Vehicle Travel Permits Fees

The statement of financial performance reflects an amount of Kshs.1,837,420,733 being revenue earned from rendering services which includes an amount of Kshs.65,752,925 relating to foreign motor vehicle travel permit fees. The fee payable by the applicants for

the permits was dependent on the duration of the applicants' stay within the country and the engine capacity of the vehicles used. However, supporting documents including form C32 or Carnet used for applications and renewal of the permits as well as reconciliations of the permits applied for, permits issued and the revenue received were not provided for audit verification. Although Management explained that the fee is collected by a different government agency, evidence of the measures in place to ensure that all revenue due was collected and accounted for was not provided for audit review.

Consequently, the completeness and accuracy of the revenue amount of Kshs.65,752,929 in respect of foreign motor vehicle travel permits fees could not be confirmed.

3. Technical Operational Costs

3.1. Misstatement of Expenses

The statement of financial performance reflects an expenditure of Kshs.1,054,376,096 under general expenses (operating expenses) which, as disclosed in Note 13(i) to the financial statements, includes amounts of Kshs.34,200,655 and Kshs.28,476,544 in respect of smart-card driving license expenses and specialized materials and supplies expenses respectively. However, a scrutiny of records revealed that the reported smart-card driving license expenses were overstated by Kshs.1,990,820 while the reported amount of Kshs.28,476,544 for specialized materials and supplies was understated by Kshs.2,355,092.

3.2. Printing of Third License Stickers

Included in the expenditure of Kshs.1,054,376,096 under general expenses (operating expenses) is an amount of Kshs.105,222,540 relating to printing of third-party license stickers. The amount specifically relates to the expensed cost of the Radio Frequency Identification (RFID) stickers issued in the period under review. The schedule provided in support of the expenditure indicated an opening balance of 808,000 stickers and a closing balance of 446,000 stickers translating into 362,000 stickers issued in the period.

However, stores ledger and stock control card No. 291523 reflected a balance of 818,000 stickers as at 30 June, 2018 and a balance of 470,000 stickers at the close of the financial year on 30 June, 2019 translating into 348,000 stickers issued in the financial year 2018/2019, resulting to an unexplained difference of 14,000 stickers leading to an estimated overstatement of the printing of third-party license stickers expenditure by Kshs.4,069,380.

4. Unsupported Total Cash Flow Movement for General Expenses

The statement of cash flows reflects a total cash flow movement of Kshs.918,304,484 arrived at by deducting accrued expenses (creditors) amount of Kshs.318,072,780 from the total general expenses of Kshs.1,054,376,096 and adding back 2017/2018 financial year creditors settled amount of Kshs.182,001,169. However, a schedule in support of the creditors balance was not provided for audit.

In the circumstances, the accuracy and validity of the cash payments of Kshs.918,304,484 relating to general expenses as reflected in the statement cash flows could not be confirmed.

5. Unreconciled Differences Between the Statement of Financial Performance and the Statement of Comparison of Budget and Actual Amounts

The expenditure amounts for two items reflected in the statement of financial performance differs with amounts in the statement of comparison of budget and actual amounts as shown below:

Expenditure Item	Expenditure as per Statement of Financial Performance Kshs.	Expenditure as per Statement of Comparison of Budget and Actual Amount Kshs.	Variance Kshs.
Compensation of Employees	1,050,725,415	993,197,223	57,528,192
Goods and Services	69,627,236	1,211,157,369	(1,155,904,305)

Consequently, the accuracy of the expenditure amounts reported under these items could not be confirmed.

6. Long Outstanding Receivables

The statement of financial position reflects an amount of Kshs.218,849,949 under receivables from exchange transactions which, as disclosed in Note 16 to the financial statements, includes an amount of Kshs.61,655,788 relating to revenue collections through e-Citizen. The latter balance includes an amount of Kshs.32,469,685 for e-Citizen revenue generated between March and June, 2015. No satisfactory explanation was provided for failure to recover the long outstanding receivables to date.

Consequentially, the recoverability of the long outstanding receivable is, therefore, doubtful.

7. Inventories

7.1. Overstated Smart Card Inventories

The statement of financial position reflects inventories balance of Kshs.271,554,918 as at 30 June, 2019. The balance includes Kshs.98,661,768 being the cost of 297,174 blank smart cards held in the Authority's main store at the Head Office. The cards were valued at Kshs.332 instead of Kshs.307.80 per card as provided in the bid documents and the supplier's invoices leading to an overstatement of inventories as at 30 June, 2019 by Kshs.7,192,276. Although Management availed Journal Voucher No. 27 by which the inventories balance was increased by Kshs.7,192,276, details of the particular smart cards that led to the increase of the inventories balance were however, not provided for audit review.

7.2. Unaccounted for Radio Frequency Identification (RFID) Stickers

Also included in the inventories balance of Kshs.271,554,918 is an amount of Kshs.129,638,810 being the value of 446,000 RFID stickers in the Authority's main store as at 30 June, 2019. However, stores ledger and stock control card No. 29123 indicated that there were 470,000 RFID stickers in the store as at June 30, 2019. It was further observed that on 3 July, 2019 the stock control card No.29123 was replaced with stock control card No. 531342 wherein the balance brought forward was recorded as 446,000 stickers thereby, leading to 24,000 unaccounted for stickers. The unaccounted-for stickers had a value of Kshs.6,976,080 and would have generated Kshs.16,800,000 in revenue.

Although, Management provided Enterprise Resource Planning (ERP) system generated counter requisition and issue vouchers (S11s) indicating that the 24,000 stickers were issued in May, 2019, the reliability of the system generated documents was in doubt since they were not duly signed and due to the fact that Management had admitted having challenges in the implementation of the inventory module in the ERP system.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Transport and Safety Authority 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 are no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Contingent Assets - Motor Vehicle Inspection Centres

As disclosed in Note 4(g) to the financial statements under significant accounting policies-contingent assets, the Authority undertakes motor vehicle inspections in seventeen (17)

centers across the country which were handed over to the Authority by the Kenya Police Service in December, 2013. During the financial year 2018/2019, the Authority generated revenue amounting to Kshs.391,631,700 from motor vehicle inspections carried out at the centers. However, the fair value of the properties has not been reflected in the financial statements as required under Paragraph 14 of IPSAS 17 – Property, Plant and Equipment and Paragraph 41 of IPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets.

Further, no documentary evidence was provided for audit review of notification to The National Treasury regarding the transfer of the inspection Centres as required under regulation 143 (5) of the Public Finance Management (National Government) Regulations, 2015. In addition, the Authority is yet to obtain ownership documents for the inspection Centres.

2. Cash and Cash Equivalents

The Authority reported cash and cash equivalents balance of Kshs.212,936,095 as at 30 June, 2019, being the cash in hand and reconciled bank balances held in five (5) bank accounts with local commercial banks. However, monthly bank reconciliation statements for the bank accounts were not prepared and submitted to The National Treasury or to the Auditor-General as required under Regulation 90 of the Public Finance Management (National Government) Regulations, 2015. Management explained that the Cash and Bank Module of the Enterprise Resource Planning (ERP) system had a technical challenge which took a longtime to address resulting in delayed bank reconciliation exercise.

3. Failure to Secure Ownership for Smart Card-Based Driving License Application Software and Related Infrastructure

The Authority in March, 2017 signed a contract for supply, delivery, installation and maintenance of second-generation smart card-based driving license and associated services with a local bank - being a lead partner of the consortium that was to deliver the services at a contract sum of Kshs.2,028,991,484 (USD. 21,094,282) for a period of three (3) years ending on 8 March, 2020. The contract period was later extended for a period of twenty-four months effective from 8 March, 2020 to 8 March, 2022.

The contract sum included an amount of Kshs.431,309,012 for supply of application software and operating system, installation, testing, commissioning and other software related components. However, the Management has not secured ownership of the application software and related infrastructure including equipment such as signature pads, printers and the bulk printer used for printing the cards.

Sign-offs provided for audit verification indicated that the system had been tested and accepted by the Authority. The Authority had also paid the vendor an amount of Kshs.2,841,742 for the cost of training the staff on use the system. However, audit inspection at the smart card-based driving license production room at the Authority's Head Office revealed that printing of the cards was being undertaken by the project consortium staff. This cast doubt on whether the system and hardware were handed over to the Authority and on the continued usage of smart card-based driving licenses already

issued to the public upon the expiry of the contract between the Authority and the vendor. The Authority upon issuance of the five million smart cards provided for in the contract to the public is likely to incur additional costs in development, supply and installation of another software and related infrastructure which will be borne by the public.

In the circumstances, it could not be ascertained whether the Authority obtained value for money in acquiring and using the software and related infrastructure.

4. Overstocking of Blank Smart Cards

A review of stores ledger and stock control cards for the blank smart cards maintained by the Authority and an audit inspection at the Authority's stores revealed that the balance of the cards was 297,174 as at June 30, 2019. However, as of May, 2020 the stock balance had increased to 1,749,174 cards despite the slow usage of the Smart Cards. The Authority was, therefore, in contravention of Section 162(3) of Public Procurement and Asset Disposal Act, 2015 which provides that overstocking of any particular item shall be avoided and Regulation 83(2)(h) of the Public Finance Management (National Government) Regulations, 2015 which provides for managing inventories to the minimum level necessary for efficient and effective programme delivery. The Authority is likely to incur losses from pilferage, damage or deterioration of the excess cards.

5. Accountability for Inventory Items Issued in Bulk

The inventories balance of Kshs.271,554,918 reflected in the financial statements as at 30 June, 2019 includes amounts of Kshs.242,569,352 and Kshs.11,329,717 for the value of accountable items (held-for-sale inventories) held at the Authority's main store at the Head Office and at various regional offices, respectively. However, records of the movement of the items after being issued in bulk from the main store to the regional offices and to the user departments were not provided for audit verification. In addition, it was not clear why the Authority had not fully automated its inventory management processes in spite of having acquired the Enterprise Resource Planning (ERP) system in the financial year 2015/2016. It could, therefore, not be confirmed that preventative mechanisms were in place to eliminate theft, losses, wastage and misuse of the assets as required under Regulation 139(1) of the Public Finance Management (National Government) Regulations, 2015.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International 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 governance.

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with

Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

- Conclude on the appropriateness of the management’s use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority’s ability 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 Authority to cease sustaining 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 Authority 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

14 July, 2021