

# **REPORT OF THE AUDITOR-GENERAL ON THE NATIONAL TRANSPORT AND SAFETY AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2021**

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## **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**

### **Qualified Opinion**

I have audited the accompanying financial statements of the National Transport and Safety Authority set out on pages 1 to 32, which comprise the statement of financial position as at 30 June, 2021 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Transport and Safety Authority as at 30 June, 2021, 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.

### **Basis for Qualified Opinion**

#### **Unreconciled Cash and Cash Equivalents**

As disclosed in Note 16 to the financial statements, the statement of financial position reflects cash and cash equivalents balance of Kshs.155,693,271 as at 30 June, 2021. The balance includes an amount of Kshs.17,659,099 in respect of an operations account maintained at KCB Bank which was at variance with the cash book balance of Kshs.6,823,025. Further, the balance includes an unreconciled amount of Kshs.5,469,136.32 that has been carried forward since 2018.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.155,693,271 could not be confirmed.

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 were no key audit matters to report in the year under review.

#### **Other Matter**

#### **Unresolved Prior Year Matters**

Various prior year issues remained unresolved as at 30 June, 2021 and were not disclosed under the progress on follow up of auditor's recommendations section of other information accompanying 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, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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. Obsolete Smart Driving License

As disclosed in Note 21 to the financial statements, the statement of financial position reflects a balance of Kshs.457,499,791 in respect of inventory. The inventory includes an amount of Kshs.450,387,367 in respect of specialized materials out of which Kshs.395,576,537 relates to smart driving licenses.

Review of records relating to the smart driving licenses revealed that the Authority entered into a 3-year contract commencing on 8 March, 2017 with a local bank for the supply, delivery, installation and maintenance of Second-Generation smart card-based driving licenses and associated services at a contract sum of USD.21,094,282.41.

Information available indicates that on 3 March, 2017, the bank entered into a sub-contract with another firm for the supply, delivery, installation and maintenance of Second-Generation smart card-based driving license and associated services pursuant to the award of tender and execution of the contract between the Authority and the bank. However, the ownership of the printing technology for smart driving licenses and the role of the bank (main contractor) was not clearly spelled out in the contract. Further, under clause 9.0 of the sub-contract, the bank was required to pay the sub-contractor all amounts paid to it by the Authority under the main contract with no deductions whatsoever.

The sub contracted firm was to supply 5,000,000 smart cards driving licenses by 31 December, 2019 to the bank as outlined under clause 6.20 (the firm's obligations) of the sub-contract. However, as at 30 June, 2021, a closing balance of 1,273,174 blank smart driving licenses cards were still at the Authority's Head Office stores. Included in the number of 1,273,174 are 296,000 blank smart cards valued at Kshs.91,108,800 that have been rendered obsolete due to changes in printing technology. It was not explained how value for money would be derived in the receipt and continued storage of obsolete stocks of blank smart driving license cards.

According to the agreement, the contract was originally supposed to run up to 8 March, 2020, with an extension of two years ending 8 March, 2022. The Authority Management has not justified the extension of the contract for two years and no evidence of contingency arrangements in place to ensure that service delivery is not disrupted in case the contract is discontinued.

## **2. Non- Maintenance of Retentions Register and Deposits Cash book**

The statement of financial position reflects a balance of Kshs.29,202,557 in respect of retention payable which, as disclosed in Note 19 to the financial statements, represents funds held by the Authority on behalf of various service providers. However, the Authority did not maintain a retentions or deposits register and a deposits cash book during the year under review. This was contrary to Regulation 100 of the Public Finance Management (National Government) Regulations, 2015 which requires Accounting Officers to keep in all offices concerned with receiving cash or making payments a cash book indicating the receipts and payments and to maintain such other books and registers as may be necessary for the proper maintenance and production of the accounts of the Vote for which they are responsible.

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

## **3. Irregular Payment of Board Allowances**

The statement of financial performance and the corresponding disclosure Note 15 to the financial statements reflects an amount of Kshs.21,178,452 in respect of Board expenses. The Board expenses include an amount of Kshs.145,600 irregularly paid to two Board Members in form of per diem for participating in three meetings that were held virtually.

The Board expenses of Kshs.21,178,452 also includes an amount of Kshs.2,011,532 in respect of other allowances (travel and subsistence) out of which Kshs.579,660 relates to mileage claims paid to Board Members who used their cars when travelling to attend Board meetings. The Board Members used cars with the engine rating of more than 1800cc contrary to Clause C (3) of the Office of the President Circular No. OP/CAB.9/1A of 11 March, 2020 on Management of State Corporations that requires reimbursement of mileage claim to be capped at 1800cc engine capacity of a vehicle.

In the circumstances, the regularity of the sitting and mileage allowances totaling Kshs.725,260 paid to the Board Members could not be confirmed.

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 on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities which 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, except for the matter described in the basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance, I confirm that,

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**

### **Audit Committee and Internal Audit Function**

Review of the Authority's internal audit function revealed that although there was an Audit Committee, there were no approved Audit Committee and Internal Audit Charters. In addition, there was no evidence that the internal audit work plan for the year under review had been approved by the Audit Committee.

In the circumstances, risk management processes and governance checks might not have been adequately addressed in absence of the approved charters.

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 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 the Board of Directors**

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 which are free from material misstatement, whether due to fraud or error, and for assessment of the effectiveness of the internal control, risk management and overall governance.

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

The Board of Directors is 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 which 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 on whether, in all material respects, 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, 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 which 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 which 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 Authority's 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 which 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 which may cast significant doubt on the Authority'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 Authority to cease 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 which 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 which 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 which may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**08 August, 2022**