REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NATIONAL TRANSPORT AND SAFETY AUTHORITY

FOR THE YEAR ENDED 30 JUNE, 2024

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON NATIONAL TRANSPORT AND SAFETY AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2024

PREAMBLE

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

A. Report on 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 the 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 the Government achieves value for money and that such funds are applied for the intended purpose; and,

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, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report aim to address the Auditor-General's statutory roles and responsibilities 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 National Transport and Safety Authority set out on pages 1 to 40, which comprise of the statement of financial position

as at 30 June, 2024, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for 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, 2024, 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 National Transport and Safety Authority Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Inaccuracies in Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment balance of Kshs.1,319,387,662 which, as disclosed in Note 25 to the financial statements includes an amount of Kshs.272,374,308 in respect of land and buildings. Review of land ownership documents and progress report on land ownership revealed that out of fifteen (15) parcels of land earmarked for motor vehicle inspection centres across the country, only two (2) parcels had been issued with title deeds. Management indicated that they were following up on the issue of title deeds with National Land Commission (NLC) and had obtained letters of allotment on six (6) parcels of land. However, the remaining nine (9) parcels of land were not supported by either allotment letters or ownership documents such as title deeds.

Further, the balance of Kshs.272,374,308 excluded value for land occupied by the National Transport and Safety Authority (NTSA) inspection teams throughout the country which had not been valued.

In the circumstances, the accuracy and ownership of the property, plant and equipment balance 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.

Emphasis of Matter

Long Outstanding Trade and Other Payables

The statement of financial position and as disclosed in Note 30 to the financial statements reflects a balance of Kshs.638,562,858 in respect of trade and other payables. Included in the balance is Kshs.104,246,038 being amount outstanding for more than one (1) year. Management did not provide an explanation why payables were not settled when due. Failure to settle payables when due may attract penalties and interest charge on outstanding amount resulting to additional costs.

My opinion is not modified in respect of this matter.

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

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of internal Controls, Risk Management and Governance. Although the issues were subsequently presented before the Public Investment Committee, they remained unresolved as at the time of the audit in November, 2024.

Other Information

The Management is responsible for the other information set out on page v to xciv which comprise of Key Entity Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the Director General, Statement of Performance against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Authority's financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of 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. Inefficient Reporting Module in Transport Information Management System

As previously reported, the Authority through Transparency and Communication Infrastructure Project implemented by the Information Communication and Technology Authority (ICTA) procured a Transport Integrated Management System (TIMS) from a vendor at a contract price of Kshs.186,480,294 to manage all vehicle registrations, inspections, and driver licensing in Kenya. The new system was commissioned in March, 2023 for which the Authority has no control as there was no contract for adoption of the system and the system has been migrated to E-Citizen.

It was also observed that:

- That the system was not able to generate the revenues transactions per region.
- Not able to generate a comprehensive report on all applications made and expected revenues.
- TIMS access rights provided to the Authority user departments did not allow for the generation and export of comprehensive transactional reports for licensing and vehicle registration.
- NTSA users of the licensing and motor vehicle registration departments have limitations in the current access levels to meet their reporting requirements. The employees can only access and produce highly summarised reports for applications done.

Review of the system in the year under review revealed no improvement in this system.

In the circumstances, the value for money incurred on the system could not be confirmed.

2. Failure to Enforce Smart Driving License and Un-Utilized Smart Card Driving Licenses

As previously reported, the Authority entered into a contract with the National Bank of Kenya consortium on 8 March, 2017 for the supply, delivery, installation and maintenance of five (5) million second-generation smart card-based driving licenses at a contract sum of Kshs.2,028,991,964.

Review of the project status as at 30 June, 2024 revealed that 1,637,930 or 33% of total contracted cards had been printed since inception an indication of very low performance.

Further, 572,674 cards valued at Kshs.176,269,057 are still in the Authority's store after a total of 1,750,000 cards were returned to the supplier to reduce un-invoiced stock earlier delivered. The uptake for the cards is still low and Management did not demonstrate efforts to improve the situation.

In the circumstances, the value for money expended on this project could not be confirmed.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 and based on the audit procedures performed, except for the effects of the matter described in the Basis for Conclusion on the Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Weaknesses in ERP System

Review of the Authority's operations revealed that the Authority procured an ERP system at a cost of kshs.15,000,000 in March, 2015. The system was intended to have modules to assist efficient financial management and operation processes. However, it was noted that the performance of the system was below expectation in that it was very slow in processing commands and generating reports resulting in challenges in service delivery. Management indicated that they were in the process of initiating procurement of a new system. Further, the ERP inventory system module was not able to generated stock balances. As a result, it was not possible to compare the physical stock count balances of Kshs.207,274,600 against the system generated balances.

In the circumstances, the value for money incurred on purchase of the ERP 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 about whether effective processes and systems of internal controls, 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 the Management and those Charged with Governance

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards for Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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 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 conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

27 December, 2024