

REPUBLIC OF KENYA



16 OCT 2018

OFFICE OF THE AUDITOR-GENERAL

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by the Leader of
the Majority Party
on Tuesday 16 October
2018

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
INFORMATION COMMUNICATION
TECHNOLOGY AUTHORITY**

**FOR THE YEAR
ENDED 30 JUNE 2017**



INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30TH JUNE 2017

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

THE INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY
ANNUAL REPORTS AND FINANCIAL STATEMENT FOR THE YEAR ENDED
30TH JUNE 2017

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I. ICT AUTHORITY INFORMATION AND MANAGEMENT

(a) Background information

The information and communications Technology Authority was established in August 2013 by merging the Government Information Technology Service (GITS) and E-Government services in line with the Executive Order No.2 of 2013 on the Reorganization of Government, under Legal Notice No. 183 of 2013. At Cabinet level, the ICT Authority is represented by the Cabinet Secretary for Information, Communications and Technology who is responsible for the general policy and strategic direction of the ICT Authority.

(b) Principal Activities

The principal activity of the ICT Authority is to rationalize and streamline the management of all Government of Kenya ICT functions. Its broad mandate entails enforcing ICT standards in Government and enhancing the supervision of its electronic communication. The Authority also promotes ICT literacy, capacity, innovation and enterprise in line with the Kenya National ICT Masterplan 2017.

(c) Key Management

The ICT Authority management is under the following key organs:

- Board of Directors
- Chief Executive Officer
- Senior Management Team

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

Name	Designation
1. Robert Mugo	Ag. Chief Executive Officer
2. Eunice Kariuki	Director Partnerships, Innovation and Capacity Development
3. Paul Ronoh	Director Programmes and Standards
4. Felix Ongaga	Director Corporate Services
5. Joshua N. Muiruri	Ag. Director Shared Services

(e) Fiduciary Oversight Arrangements

(i) Finance Committee

The Finance Committee of Board ensures effective financial management of the ICT Authority. They therefore review and monitor the budget of the institution. The committee also ensures that the tendering, procurement and disposal of assets are administered as per Government and Donor regulations. On a quarterly basis, the management presents a financial report to the committee.

(ii) Human Resource Committee

The objective of the Human Resources Committee is to assist the Board in discharging its duty to oversee the establishment of appropriate Human Resource policies and strategies that provides the Authority with the capability to achieve its short and long term objectives. The committee reviews, monitors and makes recommendations to the Board on human resources strategy and policies that pertain to staffing, compensation, benefits, and related issues of strategic importance that directly affect ICT Authority ability to recruit, develop and retain the highly-qualified staff needed for it to achieve its mandate.

(iii) e-Gov ITES Committee

The information Technology Enabled Services Committee offers the technical advice to the Board in relation to the projects and programmes of the Authority. The ITES committee oversees the implementation of the projects under the GOK and TCIP Project and make the recommendations to the Board.

(iv) Audit Committee

The Board has constituted an Audit Committee which meets four times a year or as necessary. Its responsibilities include review of the integrity of the financial statements and formal announcements relating to the organizations financial performance, accounting standards and maintaining oversight on internal control systems.

(v) Project Governance Oversight Committee

The Project Governance Oversight Committee serves as the governing committee for the work done by the Project Management team at the Authority. The purpose of the committee is to provide approvals, guidance, resolutions and to review the project implementation throughout the lifecycle of each project. The committee ensures good governance which sets the stage for success of the Project.

**THE INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY
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(f) ICT Authority Headquarters

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(h) Banker

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P.O Box 30711-00100
Tel: +254-20-2711221
Nairobi, Kenya

(i) Independent Auditor

Auditor-General
Anniversary Towers, University Way
P.O. Box 30084-00100
Nairobi, Kenya

(j) Principal Legal Adviser

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

II. THE BOARD OF DIRECTORS



Eng. Victor Kyalo-Principal Secretary in charge of ICT & Innovation at the Ministry of ICT.

He is a Communications Engineer with wide experience in systems design, integration and project management. He has been involved in the information systems networking/telecommunications for the last 25 years both in deployment of solutions and in training at the University level.

He holds a MSc. Electronics (Eindhoven University), BSc. Electrical Engineering (University of Nairobi) and is currently pursuing MSc. Economics (University of Nairobi). He is a registered engineer (Kenya), a member of Institute of Electrical and Electronics Engineers (IEEE) and a member of Project Management Institute (PMI).



Eng. Eliud Waithaka- Acting Chief Engineer (Electrical) in the Ministry of Land, Housing & Urban Development.

He has worked in the Ministries of Transport and Communication, Public Works and Lands, Housing and Urban Development for 32 years.

He holds Bachelor of Science in Electrical Engineering from University of Nairobi. He is also a registered Electrical Engineer and an associate member of the Institution of Engineers of Kenya (IEK)



Mr. Jerome Ochieng-Director of the Integrated Financial Management Information System (IFMIS) at the National Treasury.

He has 17 years' work experience in the field of information and communication technology in the Public Service. At an Administrative level, he has served as a Manager ICT with Public Procurement Oversight Authority for 6 years. At operational level, he has a stint of 8 years' experience rising within the ranks to the position of Asst. Director ICT in the Department of Government Information Technology Services.

He holds a Master's' Degree in Information Engineering from the University of the Ryukyus, Okinawa, Japan and is undertaking a Master's in Business Administration from (ESAMI). He is a registered fellow of the Computer Society of Kenya and a Licentiate Member of IMIS, UK.



Ms Jerotich Sirma-is a lecturer of Information Systems at Egerton University, Nakuru Town Campus College.

Ms Sirma has enormous experience spanning over 20 years in the field of information systems. She has worked for IBM Corporation and other private and public sectors in the United States of America by managing, deploying and performing systems integration as well as implementation and infrastructure analysis of large scale systems.

She is currently pursuing a PhD in Business Information Systems in the School of Informatics and Innovative Systems at Jaramogi Oginga Odinga University of Science & Technology. She holds an MBA from Howard University, Washington D.C. and BS in Computer Information Systems from Southeastern University, Washington D.C. She is a member of Institute of Electrical and Electronics Engineers



Ms Mercy Pendo is an Accountant at the Malindi Water and Sewerage Company Sacco. She previously worked as an Assistant in the Internal Audit Department of the same organization. She holds a Bachelor's Degree in Economics and Finance from Kenyatta University.



Robert Mugo-Ag. CEO and Secretary up to 21st March 2018

Robert has 18 years' experience as the Chief Technical Officer at Wananchi Group, Chief Information Officer at Safaricom, CEO at Flashcom, Technical Director at UUNET and Head of Technical Operations at African Online.

He has also held senior positions in industry bodies including the Telecommunications Service Providers of Kenya, the Telecommunications Network Operators Association and Africa CDMA Forum.

He holds a BSc in Electrical Engineering and an MBA in Strategic Management from University of Nairobi and is an alumnus of the Pan African Advanced Management Program.

III. MANAGEMENT TEAM



John Sergon, EBS - Ag. Chief Executive Officer with effect from 22nd March, 2018.

He holds MSc. Management Information Systems (MIS) from Bowie State University, Mary Land USA. He did his Bachelor of Business Administration (Accounting Option) from the University of District Columbia, Washington DC, USA in 1988. He sat for his A level Certificate in 1981 from Alliance High School and also sat for his O level certificate from the same institution and attained Division 1.

He has served a Director ICT in the Ministry of ICT since 2013. Previously he served as Director in the directorate of e- Government, cabinet officer from April, 2008 to September, 2013. He worked in the National Security Intelligence services between July, 1999 and April, 2008. He was responsible for overall policy direction in ICT investments. He as a Deputy Chief Scientific Advisor at DoD on part time basis. Between Jan 1995 and July 1999 he served as MIS Specialist/Consultant parastatal reforms program funded by the World Bank Funded Project under the Ministry of Finance. He Served as Computer Programmer at Kenya Commercial Bank Limited charged with the responsibilities of designing and maintaining the bank's ICT systems. He was part-time lecturer at Moi University and Strathmore College from February, 1992 to October, 1993. Between 1985 and 1991 he worked for various organizations in the US mainly ICT. He started his career as Clerical Officer at Barclays Bank of Kenya in 1982 where he worked up to September, 1984.

He was awarded Elder of Burning Spear (EBS) 2nd Clause on 12th December, 2000 for distinguished service to the Republic Service as well Most Valuable Player (MVR) from University of District of Columbia, DC in 1988



Robert Mugo-Ag, Chief Executive Officer up to 21st March 2018

Robert has 18 years' experience as the Chief Technical Officer at Wananchi Group, Chief Information Officer at Safaricom, CEO at Flashcom, Technical Director at UUNET and Head of Technical Operations at African Online.

He has also held senior positions in industry bodies including the Telecommunications Service Providers of Kenya, the Telecommunications Network Operators Association and Africa CDMA Forum.

He holds a BSc in Electrical Engineering and an MBA in Strategic Management from University of Nairobi and is an alumnus of the Pan African Advanced Management Program.



Kipronoh Ronoh Paul-Director Programmes and Standards

Ronoh has held key senior positions as Head of ICT and Quality Management system at Kenya Urban Roads Authority and Head of ICT at Civil Aviation Authority.

He holds an MBA and B.Sc. in Computer Science from the University of Nairobi.

Mr. Ronoh also holds professional qualifications in Microsoft certified Systems Engineer (MCSE) and Cisco Certified Network Associate (CCNA)



Eunice Kariuki-Director Partnerships, Innovation and Capacity Development

Eunice was the Marketing Director at Kenya ICT Board and doubled up as a Deputy CEO for 7 years. She has worked for Microsoft as a Public Sector Account Manager. She also worked for Records & Archives Management Systems company, Eastman Kodak Avro International Aerospace, UK.

Eunice holds an MBA in Strategic Management, B.Sc. in Business Studies, a Higher National Diploma in Business Information Technology and Chartered Institute of Marketing (CIM) Diploma. She is a member of the CIM and institute of Directors.



Felix Ongaga-Director Corporate Services

Felix has 16 years of experience in Public Sector and 12 years in the private Sector. He holds an MBA in Strategic Management and an undergraduate degree in Accounting from University of Nairobi. He is a fellow of Association of Chartered Certified Accountants (ACCA)



Joshua N. Muiruri- Ag. Director Shared Services

He is also the Head of Infrastructure and applications. Previously he was the Deputy Director, Government Information Technology Services (GITS) for six (6) years. He was ICT Manager between 2005 and 2008 at National Statistical Systems/STATCAP Project, at Kenya National Bureau of Statistics. He previously worked with Ministry of Finance and planning as IT Consultant, ICT (Data Processing) with World Bank.

He holds MSc Degree in Information Systems from the University of Nairobi (2001), MBA Executive from Kenyatta University (2011), a post graduate diploma in Computer Science from University of Nairobi.(1990) and BSc Statistics and Computer Sciences (1987)

IV. CHAIRMAN'S STATEMENT

The ICT Authority in collaboration with various stakeholders is spearheading the delivery of ICT services in conformity with the Kenyan constitution and Vision 2030 economic blueprint.

The Authority is tasked with rationalizing and streaming the management of all Government of Kenya ICT functions. Its broad mandate entails enforcing ICT standards in Government and enhancing the supervision of its electronic communication. The Authority also promotes ICT literacy, capacity, innovation and enterprise.

To achieve our vision of delivering trustworthy and transformative ICT leadership we are guided by the National ICT Masterplan 2017. The plan, details what we need to do for Kenya to transition to a knowledge society and become a regional ICT hub. The foundations for the achievement of this are ICT Human Capital & workforce development, Integrated ICT Infrastructure and integrated information infrastructure. The pillars are e-government services, ICT as a driver of industry, developing ICT businesses.

In the financial year 2016/2017, the Authority has continued to implement the Strategic plan.

This has been done through the themes of; Shared services; ICT Innovation and Enterprise; Information Security; ICT Human Capital and ICT governance.

The board is also working with the Public Service Commission to finalize on the authority functions and lead to the harmonization of former entities of ICT board, E-government and Government Information Technology Services (GITS).

The main projects during this period include; Digital Literacy Programme (DLP), Presidential Digitalent Programme (PDTP), County Connectivity project, Government Enterprise Architecture Framework, National Optic Fibre Backbone (NOFBI), Network Operation Centre help desk, Data Centers, Transport Integrated Management System (TIMS), Capacity building projects and Ministry ICT Automations.

To achieve our goals, we continue to work with our development partners like World Bank through the Transparency and Communications Infrastructure Project (KTCIP), numerous other private sector stakeholders and the academia.

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As we look to the next fiscal year, we are committed to continue delivering on our mandate and strategic plan. We will continue to work on many of the projects from the previous year, while building momentum on new ones.

We also plan to ensure that the Authority work is well understood and communicated among the various stakeholders. The Authority will also undertake quarterly monitoring and evaluation of these priority projects in order to ensure that the completion rate and cost efficiency of each project is 100%. Our main challenge still lies in inadequate funding of our operations and projects. As per our delivery model, we plan to work closely with all partners and especially the ICT businesses and academia.

We appreciate the support, advice and encouragement that we have received from you all and look forward to much improved partnerships.



CHAIRMAN

V. REPORT OF THE AG. CHIEF EXECUTIVE OFFICER

The ICT Authority is now on its fourth year. In August 2013, we were given an expanded mandate of overseeing and managing all ICT Projects across government with a view to a whole of government approach. This will harmonize expertise and implementation. A major role of the authority is that of growing local capacity with a focus to skill development and harnessing local ICT businesses. Other objectives of the authority include; implementing and managing efficient use of data, infrastructure and systems in the public sector through integration and sharing; establishing and maintaining secure ICT infrastructure and systems. In addition, the authority promotes business value through ICT innovation and enterprise as well as delivers trusted electronic public services.

These objectives are enshrined in the country laws and policies, key among them being, Vision 2030, Jubilee manifesto, the National ICT Masterplan 2017, the Broadband and National Cyber Security Strategy 2014.

For the past year, we have been working on operationalizing the structures in the organization. As per our strategic plan, our approach is focused into five key thematic areas namely Shared Services, ICT Innovation & Enterprise, Information security, ICT Human Capital and ICT Governance. So far many of the staff positions have been filled out, while we continue to harmonize the working systems in the organization.

Our source of income remains largely Government of Kenya and World Bank through the Kenya Transparency Infrastructure Project (KTCIP). Other development partners are the Belgium government who supported the County Connectivity project. In the period under review we dedicated more resources towards project implementation with focus on those with the greatest impact to the county's development. This includes projects, country transforming projects like the Digital Literacy Programme (DLP), capacity building initiatives like the Presidential Digital Talent Innovation building exercises. We looked into initiatives that will improve efficiency, accountability and transparency in government like IFMIS re-engineering and digitization and county ICT Transformation project.

Going forward we plan to concentrate on projects that further our interests I offering expertise advise to the industry and making Kenya a top regional ICT hub and a globally competitive digital economy. These include projects at the County levels, dedicating enough resources in building capacity across board, growing local ICT business and promoting a culture of innovation. Cultivating partnerships will be critical in realizing all our goals.

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On information Security, we plan to work on sensitizing workshops of ICT officers in government. Other projects will be working on are the Development of the Government Enterprise Architecture (GEA) framework in which we are developing ICT Standards for the whole of Government.

Two main Programmes that have far reaching impacts in the country development landscape are also being implemented by the Authority. These are the Digital Literacy Programme (DLP) and the Presidential Digital Talent Programme (PDTP).

In the PDTP initiative, we will ensure that the 400 management trainees are matched with suitable placements in the job market.

We plan to conduct a customer satisfaction survey and monitor our projects on a regular basis. We have faced various challenges in our implementation of our mandate. This includes, limited funding which interferes with our ability to deliver on our promises and expectations, limited capacity and expert skill as well as change management hurdles from within the organization and the whole of government. However, we remain optimistic that we will tackle the challenges and achieve some milestones.

As I conclude, I would like to express deep appreciation to the Government of Kenya for their support and commitment in support of ICT growth in the country. I would also like to recognize our development and strategic partners as well as public and private organizations who are important in our achieving our objectives. We are thankful to all county governments who have collaborated with us in our various projects and events. We remain grateful to all the citizens of Kenya for giving us the opportunity to serve them.



John Sergon, EBS

Ag. CHIEF EXECUTIVE OFFICER

VI. CORPORATE GOVERNANCE STATEMENT

The Board of the ICT Authority is responsible for the overall management of the organization and is accountable to its stakeholders for ensuring that the organization complies with the law and the highest standards of best practices in corporate governance and quality service delivery. The Authority's Board is committed to integrity in accordance with the generally accepted corporate practices and endorse the developed principles of good corporate governance.

The Board

The Board is made up of 10 Members representing various stakeholders. The Board consists of the following members

- (a) Non-executive chairman
- (b) Principal Secretary, Ministry of Information, Communication and Technology
- (c) Principal Secretary, The National Treasury
- (d) Principal Secretary, Ministry of Land, Housing and Urban Development
- (e) Six persons appointed by the Cabinet Secretary by virtue of their specialist Knowledge and distinguished service and experience in matters relating to information and communication technologies, e-government-commerce, law, finance or human resources.

Committees of the Board

The Board has four standing committees, which meet regularly under the terms of reference set by the Board. They are:

- i. Human Resource Committee
- ii. Finance committee
- iii. e-Gov ITES committee
- iv. Audit committee
- v. The mandate of each committee is explained above.

Internal Control System

The ICT Authority has put into place policies, procedures, regulations and financial controls to ensure that the financial reporting is reliable, operations are effective and efficient, and there is accuracy in accounting information. These cover procedures for obtaining authority for transactions and for ensuring compliance with laws and regulations that have significant implications. Procedures are also

in place to ensure that assets are subject to proper physical controls and that the organization remains structured to ensure appropriate segregation of duties. In reviewing the effectiveness of the systems of internal control, the Authority takes into account the results of all the work carried out to audit and review the activities of the institution. Monthly meetings for management and quarterly meetings by Authority to review financial status of the institution are held by senior management to monitor performance and to agree on measures for improvement.

Risk Management Policy

Recent trends in Public Sector Management have laid emphasis on transparency and accountability. This has resulted in increased focus in governance of public institutions and the incorporation of risk management and financial controls. It is on this basis that ICT Authority is committed to managing risks to an acceptable level across all areas of its operations to achieve producer, user and suppliers, service providers, and contractors. ICTA recognizes that risk management is an integral part of the management process and wants this to become part of the culture of the organization. To effect this, the ICT Authority had communicated to all staff their role in risk management, and provide the means for employees to play that role. As a public institution ICT Authority will work closely with other government agencies and departments to ensure that collaborative risk management arrangements are in place. The ICT Authority is committed to implementing all regulatory requirements and the risk management framework will be useful component of ensuring compliance. In addressing risk, ICTA will ensure transparency and accountability and seek to identify and address all areas where there are needs for improvement in risk management or risk reduction.

Risk Management shall form an integrated part of planning, controlling and reporting procedures in ICTA. ICTA is committed to implementing the risk management framework for effective operations. The policy is intended to provide a framework for managing risk associated with changing roles and responsibilities within the ICT Authority. The Risk Management Policy sets out the process to manage and mitigate against present and potential risks faced by the ICT Authority.

The Authority also has an effective internal audit and Governance functions that report to the Audit Committee of the Board and the Authority has effective complaints and anti-corruption mechanism in place.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

SECTION A

The entity's operational and financial performance

The Authority had requested for Ksh.203 Million from the National Treasury through the line Ministry MOICT to cater for recurrent expenditure, KShs. 134 Million for Presidential Digital Talent Programme (PDTP), KShs. 550 Million for Shared Services, KShs. 13.4 Billion for Digital Learning Programme (DLP) and Ksh.25 Million for NOFBI. Other funds requested were under the TCIP and EARTTDF World Bank projects being undertaken by the Authority.

The Board of Management approved the budgets in line with the activities to be undertaken by the Authority. However, the funds were not sufficient to cover fully the operations of the Authority. A supplementary budget was therefore requested. During the year, the Authority received an approval for a supplementary budget of Ksh.114 Million for the recurrent expenditure and KShs. 3.9 Billion for DLP through the parent Ministry.

SECTION B

Entity's compliance with statutory requirements

The Authority has fully complied with all statutory requirements. This includes timely submission of PAYE, HELB, N.S.S.F and N.H.I.F to respective institutions during the Four Quarters of the Financial Year ending June 30, 2017.

SECTION C

Key projects and investment decisions the entity is planning/implementing

During the Financial Year 2016/2017, the Authority did not have any investments. The key projects undertaken included the Kenya Transparency Communication and Infrastructure Project (TCIP) and East Africa Regional Transport, Trade and Development facilitation Project (EARTTDF) which are World Bank funded projects. The TCIP project came to an end in December 2016 while the EARTTDF project is ongoing.

SECTION D

Major risks facing the entity

The major risk facing the Authority includes:

(a) The budgetary allocations. The budgetary allocation is not sufficient for the Authority to staff optimally as per the staffing requirements. This affects the implementation of the programs planned by the Authority in the Strategic Plan 2013-2018.

(b) Delays in the disbursement of funds. This causes a delay in the implementation of the annual work plan. This therefore affects the subsequent year work plan causing the Authority not to carry out its mandate in a timely manner.

SECTION E

Material arrears in statutory/financial obligations

The Authority has a pending bill of USD. 3,163,384 relating to IBM research lab.

SECTION F

The entity's financial probity and serious governance issues

The Authority was audited during the financial year 2015-2016 and a certificate of the audit submitted to the management. The external auditor did not raise any serious governance issues. They also didn't raise any issued with the financial probity of the Authority except for the basis of qualification of the Financial Statement.

However, during the year the Finance team and the Corporate Services Director were suspended over a fraud related case. They were suspected to have withdrawn over Kshs. 150 Million from the Authority's accounts. This matter is under investigation by competent Government Agencies.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

This is about how ICTA takes account of its economic, social and environmental impact in the way it operates as a public organization. By demonstrating our commitment to corporate social responsibility (CSR), we aim to align our values, purpose and strategy with the needs of our employees, Local community and society at large, while embedding such responsible and ethical principles into everything we do.

Though the Authority does not have a CSR policy in place, we endeavor to have one in place in the near future. Nevertheless, as a parastatal, our dealing with our clients, suppliers and the local community principles in an effort to support reducing our energy, procurement, transport, water use and other business usage to reduce our carbon footprint and environmental impact.

We endeavor to reduce the environmental impact by reducing all our transportation requirements whether possible and use such facilities as web-ex and conference call facilities. We use vehicles that are regularly services and checked with regards to their emission levels and economically use their fuel. We also source and buy our requirements locally to promote the local industries. We have also sensitized staff to ensure that all lights and equipment is switched off when not required, and ensuring that water is used efficiently. Other measures include printing in double sided and recycling waste.

On local community, the authority ensures that our work with the local community involves working and supporting local and national charities, and encouraging volunteer work in community activities

The Authority will also ensure that we deal responsibly, openly and fairly with suppliers by ensuring that we use local suppliers as much as possible and that we will endeavor to pay them on time.

The Authority continue to forge public private partnership when undertaking the activities in order to ensure we make a significant positive difference in the society.

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the ICT Authority affairs.

Principal activities

The principal activities of the entity are to:-

- Rationalize and streamline the management of all Government of Kenya ICT functions;
- Enforce ICT standards in Government and enhancing the supervision of its electronic communication; and
- Promote ICT literacy, capacity, innovation and enterprise in line with the Kenya National ICT Masterplan 2017.

Results

The results of the entity for the year ended June 30, 2017 are set out on page 1 to 20.

Directors

The members of the Board of Directors who served during the year are shown on page vi to vii.

Auditors

The Auditor General is responsible for the statutory audit of the ICT Authority in accordance with the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board



John Sergon, EBS

Chief Executive Officer/Board Secretary

Date: 22/5/18

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Public Finance Management Act, 2012 and the State Corporations Act Cap 446, require the Directors to prepare financial statements in respect of the ICT Authority, which give a true and fair view of the state of affairs of the authority for that year/period. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year June 30,2017 .This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authorities financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with Accrual Basis Accounting Method under the International Public Sector Accounting Standards (IPSAS) and the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the authority's financial statements give a true and fair view of the state of authority's transactions during the financial year ended June 30, 2017, and of the authority's financial position as at that date. The Directors further confirm that the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the authority's financial statements as well as the adequacy of the systems of internal financial control.

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

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30TH JUNE 2017**

Approval of the financial statements

The authority's financial statements were approved by the Board on its behalf by:

John Sergon, EBS

Ag. CHIEF EXECUTIVE OFFICER.....

CHAIRMAN, BOARD OF DIRECTORS.....

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON INFORMATION COMMUNICATION TECHNOLOGY AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Information Communication Technology Authority set out on pages 1 to 30 which comprise the statement of financial position as at 30 June 2017, 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1. Going Concern

During the year under review, the Authority recorded a loss of Kshs.2,416,530,129 thereby reducing accumulated surplus of Kshs.1,238,019,496 as at 30 June 2016 to accumulated deficit of Kshs.1,178,510,633 at 30 June 2017. Further, current liabilities of Kshs.1,648,526,597 exceed current assets of Kshs.386,104,327 resulting into a negative working capital of Kshs.1,262,422,270. This indicates that the Authority was unable to meet its financial obligations as and when they fell due. The Authority is therefore technically insolvent and the financial statements are prepared on a going concern basis on the assumption that it will continue to receive financial support from Government, bankers, creditors and donors.

2. Unsupported Grants Income

The statement of financial performance for the year ended 30 June 2017 reflects grants income figure of Kshs.21,955,964,489 which differs with the parent Ministry's figure of Kshs.22,062,190,772 by an unreconciled difference of Kshs.106,226,283.

Report of the Auditor-General on the Financial Statements of Information Communication Technology Authority for the year ended 30 June 2017

In the circumstances, it has not been possible to confirm that grants income figure of Kshs.21,955,964,489 is fairly stated.

Other Incomes

Note 3 to the financial statements reflects interest income of Kshs.21,622,699 whose source, nature and supporting analysis was not provided for audit review.

In the circumstances, it has not been possible to confirm the validity and completeness of the financial statements for the year ended 30 June 2017.

3. Directors Costs

The Statement of financial performance as at 30 June 2017 reflects directors costs of Kshs.14,422,928 paid to board members at diverse dates whose supporting analysis indicating the payees and purpose of payment was not availed for audit review.

In the absence of the supporting documents, it has not been possible to confirm the propriety of director's costs totaling Kshs.14,422,928.

4. General Expense

4.1 Unsupported Payment of Legal Fees

Included in general expenses figure of Kshs.203,136,419 under note 8 to the financial statements is an amount of Kshs.7,875,154 in respect of legal fees paid to a law firm during the year under review and whose nature and analysis was not availed for audit review. Further, no evidence to show that the law firm was cleared by the Attorney General as required by the AG letter reference AG/con/6/6247 dated 16 April 2014 was availed for audit review.

4.2 Unsupported Travel Expenditure

Included in general expense figure of Kshs.203,136,419 under note 8 is an amount of Kshs.13,998,208 in respect of domestic and foreign travel expenses whose analysis and supporting documents were not availed for audit review.

In the circumstances, it has not been possible to confirm the regularity of the domestic and foreign travel expenditure totalling Kshs.13,998,208.

5. Unexplained expenses

Note 9 to the financial statements reflects Kshs.167,223,283 described as unexplained expenses for the year ended 30 June, 2017. Examination of the unexplained expenses revealed the following anomalies:

5.1 Unsupported/Irregular Travel Costs

Included in unexplained expenses figure of Kshs.167,223,283 under note 9 to the financial statements is an amount of Kshs.67,537,503 in respect of travel costs whose

supporting information was not availed for audit review. Although the management has explained that travel cost was in respect of project inspection and field visits, no documents such as payment vouchers, work tickets and inspection reports were availed for verification.

Consequently, it has not been possible to confirm the regularity of expenditure totaling Kshs.67,537,503.

5.2 Personal Emoluments

Further, included in the unexplained expenses figure of Kshs.167,223,283 are amounts of Kshs.65,045,212 and Kshs.1,745,625 described as personal emoluments and other staff costs respectively and whose nature and supporting analysis was not availed for audit review. Available information indicates that these payments were made at diverse dates to a commercial bank under various Sacco names which could not be linked to the Authority's employees.

In the circumstances, it has not been possible to confirm the propriety of expenditure totaling Kshs.66,790,837 reported in the financial statements.

5.3 County Connectivity Project and NOFBI Project Expenses

Included in unexplained expenses figure of Kshs.167,223,283 under note 9 is an amount of Kshs.11,892,990 and Kshs.8,355,266 described as NOFBI project and county connectivity project expenses respectively whose nature and supporting analysis/documents were not availed for audit review.

In the circumstances, it has not been possible to confirm the propriety of the projects expenditure totaling Kshs.20,248,256.

5.4 Digital Literacy Program (DLP) Operations

The Digital Literacy Program (DLP) operations figure of Kshs.276,380,286 under note 11 to the financial statements and (DLP) operations amount of Kshs.13,009,628 in note 9 all totaling Kshs.289,389,914 could not be confirmed as the nature and supporting documents were not availed for audit review.

In the circumstances, it has not been possible to confirm the propriety of expenditure totaling Kshs.289,389,914 and whether it is a proper charge to public resources.

6. Special Grant Expenses

Note 11 to the financial statements reflects Kshs.19,416,330,031 described as special grants expenses. However, examination of the special grants expenses revealed the following anomalies:

6.1 Digital Literacy Programme – Devices

As disclosed in note 11 to the financial statements the Authority paid an amount of Kshs.18,377,274,086 in respect of digital literacy program – devices out of which

payments totaling Kshs.15,151,069,367 was supported by nine (9) letters of credit (LCs) and whose payment vouchers were not availed for audit review.

Consequently, it has not been possible to confirm the propriety of expenditure totalling Kshs.15,151,069,367.

6.2 Digital Literacy Program Proof of Concept

Further, included in note 11 special grants expenses figure of Kshs.19,416,330,031 is an amount of Kshs.18,377,274,086 in respect of digital literacy program-devices. The amount of Kshs.18,377,274,086 also includes Kshs.603,081,668 being supply of laptops as proof of concept. However, after supply and commissioning of the laptops, the implementing committee went round to inspect the laptops and noted that all the laptops had factory defects and were supposed to be replaced by the supplier. However, as at the time of audit in March 2018, there was no evidence to show that the laptops were replaced. Consequently, it has not been possible to confirm the propriety of expenditure totalling Kshs.603,081,668.

6.3 Further, included in presidential digital talent programme balance of Kshs.143,183,776 is an amount of Kshs.1,585,583 whose supporting analysis was not availed for audit review.

6.4 Included in the shared services figure of Kshs.550,000,000 under note 11 to the financial statements is an amount of Kshs.237,861,639 whose supporting documents/analysis were not availed for audit review.

6.5 Included in note 11 to the financial statements is an amount of Kshs.28,319,396 in respect of County connectivity project expenses whose supporting documents were not availed for audit review.

Consequently, the propriety of County connectivity, Presidential Digital Talent Program and shared services expenses totaling Kshs.267,766,618 could not be confirmed.

7. Cash and Cash Equivalents

The statement of financial position cash and cash equivalents' balance of Kshs.334,641,327 as at 30 June 2017 could not be confirmed since the respective cash books and bank reconciliation statements were not availed for audit review.

In addition, and as disclosed in note 14 to the financial statements, the cash and cash equivalents' balance of Kshs.334,641,327 was arrived at after netting off Kshs.122 in respect of TCIP account. This is Contrary to the International Public Sector Accounting Standards No 1 (48) which states that assets and liabilities, and revenue and expenses shall not be offset unless required or permitted by an IPSAS. The TCIP account was overdrawn after transferring Kshs1,009,381,871 at diverse dates to the Authority's main account No.300085016 without the National Treasury approval. Further, no information on how Kshs.1,009,381,871 was utilized was availed for audit review.

In the circumstances, the Authority was in breach of the Law and it has not been possible to confirm the accuracy, validity and completeness of the cash and cash equivalents' Kshs.334,641,327.

8. Unclear TCIP Expenditure Paid at the National Treasury

Note 12 to the financial statements reflects TCIP project expenses figure of Kshs.4,336,318,489 which includes an amount of Kshs.3,133,384,811 reflected as category 1 (Telcom services). The figure of Kshs.3,133,384,811 also includes Kshs.3,003,608,152 which differs with the ministry's ledger figure of Kshs.3,109,834,436 by an unreconciled variance of Kshs.156,226,283.

In the circumstances, it has not been possible to confirm the validity and completeness of TCIP Projects expenses of Kshs.4,336,318,489.

9. Payables from Exchange Transactions

As disclosed in note 18 to the financial statements, the payables from exchange transactions' balance of Kshs.1,648,526,597 includes an amount of Kshs.1,616,064,717 in respect of supplier accounts but whose supporting documents/analysis was not availed for audit review.

In the circumstances, it has not been possible to confirm the validity and propriety of the payables from exchange transactions balance of Kshs.1,616,064,717.

10. Statement of Cash Flows

The statement of cash flows for the year ended 30 June 2017 recomputed decrease in receivables amounted to Kshs.6,188,044,650 as opposed to the reported figure of Kshs.6,251,347,051 by an unreconciled variance of Kshs.63,302,401. Further, the statement excludes a decrease of Kshs.63,302,401 in the revolving fund.

Consequently, it has not been possible to confirm the accuracy of the statement of cash flows.

11. Transparency Communication and Infrastructure Project (TCIP) Expenses

The above project was managed and implemented by Information Communication and Technology Authority (ICTA) until 31 December 2016 when it ended. The project's statement of receipts and payments for the 6 month period ended 31 December 2016 reflects Kshs.3,133,384,811 in respect of Telcom services. However, examination of Telcom services revealed that the project management awarded several contracts in six months from July to December 2016 as highlighted below:

11.1 Provision of Dedicated Hosted Hardware Infrastructure Tender No. ICTA/KTCIP/DP/03/2016-2017

On 9th December 2016, the Authority's management through direct procurement method, awarded a contract for the provision of dedicated hosted hardware infrastructure to a firm at a contract price of USD 664,667.00 equivalent to

Kshs.68,460,701 for a duration of 18 months. The contract was however not included in the projects annual procurement plan and thus was not budgeted for. This is contrary to section 53 (2) of The Public Procurement and Asset Disposal Act, 2015 which states that the accounting officer shall prepare an annual procurement plan which is realistic in a format that set out in the regulations within the approved budget prior to commencement of each financial year as part of the annual budget preparation process.

The direct procurement method was also contrary to section 91(1) of the Public Procurement and Asset Disposal Act, 2015 which provides that open tendering shall be the preferred procurement method for procurement of goods, works and services of such magnitude. Further, no tender evaluation, inspection and acceptance committees' minutes were availed for audit review. This is a violation of the Public Procurement and Disposal Regulations. The Authority is therefore in breach of the Public Procurement and Assets Disposal Act, 2015 and regulations of the World Bank procurement procedures.

In the circumstances, it has not been possible to confirm, the regularity of expenditure totaling Kshs.68,460,701.00 on provision of dedicated hosted hardware infrastructure.

11.2 Implementation of Framework Contracts and Shared Services Platform Tender No. ICTA/TCIP/ICB/DC/2/2016

On 30 June 2016 the Authority awarded a contract for supply of 16,000 licenses under phase 1(one) to provide communication and collaboration between the various government ministries to a firm at a contract price of USD 5,974,2014.81 equivalent to Kshs.615,343.095.43. It was however noted that the contract was not included in the annual procurement plan and was therefore not budgeted. This is contrary to section 53(2) of the Public Procurement and Asset Disposal Act, 2015 which states that, an accounting officer shall prepare an annual procurement plan which is realistic in a format that set out in the regulations within the approved budget prior to commencement of each financial year as part of the annual budget preparation process.

The contract was awarded through direct procurement method as opposed to open tendering as required by section 91(1) of Public Procurement and Asset Disposal Act, 2015 which provides that open tendering shall be the preferred procurement method for procurement of goods, works and services of such magnitude. In addition, no tender evaluation and inspection and acceptance committees' minutes and evidence of tender security was availed for audit review. Further, there was no evidence to show that the services were requisitioned for as required by the Public Procurement and Disposal Regulation, 2006. The Authority is therefore in breach of the law and World Bank procurement procedures.

In the circumstances, it has not been possible to confirm, the regularity of expenditure totalling Kshs.615,343,095 on the shared services platform.

11.3 Provision of Hardware Licenses-Shared Services Platform-Tender No. ICTA/TCIP/DC/1/2016

Included in the cost of Telecom Services figure of Kshs.3,133,384,811 is an amount of Kshs.834,829,652 (USD. 8,105,142.26) in respect of a contract awarded to a firm on 23 November 2016 to provide hardware licenses for the phase 1 of the shared services platform which was to provide communication and collaboration between the various government ministries. This project was however not included in the project annual procurement plan and was therefore not budgeted for in contravention of section 53(2) of the Public Procurement and Asset Disposal Act,2015.In addition, direct procurement method was used instead of open tendering method for a project of this magnitude as required by section 91(1) of the Public Procurement And Asset Disposal Act,2015.In addition, no tender evaluation and inspection and acceptance committees' minutes and tender security for the entire procurement process was availed for audit review. The authority is in breach of the law and World Bank procurement procedures.

A visit to the data center on 17 march 2018 revealed that the center is not in operation.

In the circumstances, it has not been possible to confirm, the propriety of expenditure totaling Kshs.834,829,692 on hardware licenses.

11.4 Supply of Geographical Information System and Cloud Hosting for ICTA Tender No. ICTA/TCIP/DC/03/2016-2017

Further, included in the cost of Telecom Services figure of Kshs.3,133,384,811 is an amount of Kshs.178,880,067 (USD 173,670.56) in respect of a contract awarded to a firm on 14 November 2016. The contract was not in the project's annual procurement plan and therefore was not budgeted for in contravention of section 53(2) the Public Procurement and Asset Disposal Act, 2015. Further, procurement method was used contrary to section 91(1) of Public Procurement and Asset Disposal Act, 2015 which provides that open tendering shall be the preferred procurement method for procurement of goods, works and services of such magnitude. In addition, no tender, evaluation and inspection and acceptance committees' minutes were availed for audit review. The project management is in breach of the law and World Bank procurement procedures.

In the circumstances, it has not been possible to confirm the regularity and probity of expenditures totaling Kshs.178,880,067 on supply of geographical system and cloud hosting.

11.5 Procurement of Consultancy Services-Tender No. ICTA.TCIP/RFP/28/2015 - 2016

On 15 May 2016, the project management entered into a contract with affirm for provision of consultancy services on monitoring and evaluation review of the project at a contract price of Kshs.69,795,413. Examination of the contract documents revealed that one of the objectives of the consultant was to provide recommendations to improve the design and performance of the implementation of the project which was coming to an end on 31 December 2016. It was however noted that this contract was not in the

project annual procurement plan contrary to Section 53(2) of the Public Procurement and Asset Disposal Act, 2015 which requires that an accounting officer shall prepare an annual procurement plan which is realistic in a format set out in the regulations within the approved budget prior to commencement of each financial year as part of the annual budget preparation process.

Consequently, it has not been possible to confirm the regularity and probity of expenditure of Kshs.69,795,413 and whether the stakeholders received value for money on procurement of the consultancy services.

11.6 Lack of Support Documentation

The project statement of receipts and payments for the 6 months' period ended 31 December 2016 reflects total receipts of Kshs.3,993,111,915 which include amounts utilized at the National Treasury for direct payments totalling Kshs.3,003,608,153. This amount was directly paid to various contractors for contracts entered into by the project management instead of remitting the funds to the project bank accounts as required under schedule 2(c) of the financing agreement. It is not clear and management has not explained why payment vouchers for the project activities were forwarded to the National Treasury for payment instead of paying directly from the project account.

Further, the amount of Kshs.3,993,111,915 includes an amount of Kshs.3,369,725 under proceeds from domestic and foreign grants whose supporting documents or analysis were not availed for audit review.

In the circumstances, it has not been possible to confirm the accuracy, validity and completeness of total receipts figure of Kshs.3,993,111,915 reflected in the project financial statements for the six (6) month period ended 31 December 2016.

11.7 Failure to Withhold or Remit VAT

During the year under review the project management deducted withholding VAT at the rate of 6% from its suppliers amounting to Kshs.202,708,840. However, no documentary evidence in form of withholding tax certificates from Kenya Revenue Authority (KRA) were availed for audit review. Failure to remit withholding tax to KRA may attract penalties which could have been avoided. Consequently, the management is in breach of the law.

11.8 Unclear Refund of PAYE

In addition, it was observed that a consultant was refunded a total amount of Kshs.1,190,326 in respects of Pay as You Earn (PAYE) deducted in prior years. No satisfactory explanation was provided as to why the consultant was refunded the amount and the source of funding. It was also not clear if the money deducted as PAYE had been remitted to KRA and if so whether a refund of the same from KRA had been received by the Authority. In the circumstances, it has not been possible to confirm the regularity of the refund of Kshs.1,190,326 made to the consultant and the project management is in breach of Tax laws.

11.9 Unsupported Expenditure

The project's statement of receipts and payments for the six months period ended 31 December 2016 reflects training cost of Kshs.156,098,775 which includes an amount of Kshs.24,862,703.00 being training expenditure for Integrated Financial Management Systems (IFMIS) held in Arusha, Tanzania on diverse dates during the year under review. However, no information supporting this expenditure such as list of participants and the cost for each participant were availed for audit review. In the circumstances, it has not been possible to confirm the propriety of expenditure totalling Kshs.24,862,703 reflected on project financial statement for the six months period ended 31 December 2016.

11.10 Unclear Cash Transactions

Examination of the project bank account revealed that on 18 July 2016 an amount of Kshs.1,778,875,000 was withdrawn from the project bank account No.0300085005 at Citibank Upper hill, branch. Further, on 22 December 2016 Kshs.1,540,500,000 was deposited into the same bank account. No explanation has been provided for the nature and source of these funds and no evidence of any authority to use the project funds on unrelated activities was availed for audit review. In addition, on 28 April 2017 an amount of Kshs.85,904,541 was transferred from the project Citi Bank account No.0300085005 to Kenya Information Technology Authority (ICTA) Bank account No.0300085005 at Citi Bank upper Hill branch. It is not clear and management has not explained why the amount was transferred to the Authority account at the time when the project was about to come to a closure.

It was further noted that the project management opened and operated a bank account No.0300084007 designated as MOICT-TCIP at Citibank upper hill branch, without authority from the National Treasury as required by section 28(1) of the Public Finance Management Act, 2012 which states that the National Treasury shall authorize opening, operating and closing of the bank account and sub accounts for all National Government Entities.

Additionally, the project management transferred Kshs.6,892,088 to the project account on 24 April 2017 when the project was under the grace period. No evidence on how these funds were utilized was availed for audit review as this transaction was done after the closure of the project. In the circumstances, it has not been possible to confirm the accuracy, validity and completeness of the project transactions for the six (6) months period ended 31 December 2016.

12. Prior Year Unresolved Matters

12.1 Digital Village Fund Surrender Value and Accrued Interest

12.2 Revolving Fund

As previously reported and as disclosed in note 16 to the financial statements, TCIP project received a grant of Kshs.108,495,790 from World Bank/IDA for onward lending to digital village entrepreneurs to establish information hub that offer ICT services. The

entrepreneurs are supposed to pay back the loan for future lending to other entrepreneurs. On 3 November 2010, the Authority entered into a contract with Family Bank to operationalize the disbursement of loans to entrepreneurs for a period of 24 months. Available records indicate that as at 30 June 2016 Family Bank had disbursed loans totaling Kshs.75,844,647 out of which Kshs.45,193,389 had fallen in arrears representing 60% of the total loans disbursed. The balance of Kshs.30,651,258 remained with the bank even though Family Bank was supposed to disburse the whole amount. In addition, a report by Deloitte and Touché who were engaged by the Authority to conduct a comprehensive monitoring and evaluation assessment on Pasha Digital Village Fund project, revealed that the Pasha projects had been facing challenges and lack efficiency, inflexibility of the loan repayment and weak relationship of the Authority with the Family bank. The project ended on 31 December 2016 and the Authority vide letter Ref No. ICTA/FIN/001 dated 26 April 2017 instructed Family Bank to reconcile the final fund balance and transfer the amount to ICTA account No.030085016 at Citibank upper Hill.

The final fund balance as at the closure of the project was Kshs.82,884,004 including interest earned over time of Kshs.19,581,602.00. The total amount of Kshs.82,884,004 was transferred to the ICTA account by Family bank as per the Authority instructions. It is however not clear and the management has not explained how the amount of Kshs.82,884,004 transferred to the Authority was utilized.

12.3 Interest on Revolving Fund

Further, note 16 to the financial statements reflects accrued interest of Kshs.19,581,602 on the revolving fund and loan arrears totaling Kshs.45,193,389. The management has however not availed detailed yearly analysis supporting accrued interest of Kshs.19,581,602 and how the loan arrears of Kshs.45,193,389 will be recovered.

In the circumstances, it has not been possible to confirm the accuracy validity and completeness of interest amounting to Kshs.19,581,602 on revolving fund for the year ended 30 June 2017 and when the loan arrears of Kshs.45,193,389 will be recovered.

12.4 Failure to use Enterprise Resource Planning System (ERP)

As reported in 2015/2016 project report, the Authority procured an Enterprise Resource Planning Software (ERP) from a firm at a cost of Kshs.62,952,452 through tender No. ICTA/KTCIP/ICB/32/2015-2016 for supply, delivery, installation and commissioning of the system. The ERP system was to integrate the activities of all departments including procurement, human resource and finance. A review of the ERP system in the month of April 2018 revealed that it was not operational. Available information also indicates that no timeline for final change over and commissioning of the new system was mentioned in the contract document. It is not clear and management has not explained why the supplier was paid full contract sum of Kshs.62,953,452 while the system is not operational contrary to the terms and conditions of the contract agreement.

In the circumstances, it has not been possible to ascertain if the stakeholders obtained value for money from the Enterprise Resource Planning Software worth Kshs.62,952,452.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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 such 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.

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 the management either intends to liquidate the Authority or cease operations, or have no realistic alternative but to do so.

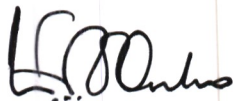
Management is responsible for the submission of the financial statement to Auditor General in accordance with provision of section 47 of the Public Audit Act 2015.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Authority's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of Information and Communications Technology Authority in accordance with ISSAI 30 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

11 July 2018

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ANNUAL REPORTS AND FINANCIAL STATEMENT FOR THE YEAR ENDED
30TH JUNE 2017

XI. STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2017

	Note	2016-2017 Kshs	2015-2016 Kshs
Revenue from non-exchange transactions			
Grants income	1	21,955,964,489	9,437,322,332
Public Contributions & Donations	2	2,000,000	11,974,098
Revenue from exchange transactions			
Other income	3	21,622,699	8,735,290
Total revenue		21,979,587,188	9,458,031,720
Expenses			
Employee costs	4	223,893,946	178,936,391
Directors costs	5	14,422,928	13,394,847
Depreciation expense	6	13,352,114	15,847,974
Repairs and maintenance	7	2,026,380	1,902,491
General Expenses	8	203,136,419	97,993,633
Unexplained Expenses	9	167,223,282	0
Finance costs	10	1,935,777	1,105,152
Other Expenses			
Special Grant Expenses	11	19,416,330,031	5,823,670,185
TCIP Project Expenses	12	4,336,318,489	2,449,943,056
EARTTDF IDA Grants	13	17,477,950	0
Total expenses		24,396,117,317	8,582,793,729
Surplus/(deficit) for the period		(2,416,530,129)	875,237,991


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30TH JUNE 2017

XII. STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

	Note	2016-2017 Kshs	2015-2016 Kshs
Assets			
Current assets			
Cash and cash equivalents	14	334,641,327	940,395,380
Receivables from exchange transactions	15	51,463,000	6,239,507,650
		386,104,327	7,179,903,030
 Revolving Fund			
Digital Village Fund	16	45,193,389	108,495,790
 Non-current assets			
Property, plant and equipment	17	38,718,248	44,940,955
		470,015,964	7,333,339,775
 Liabilities			
Current liabilities			
Payables from exchange transactions	18	1,648,526,597	6,095,320,279
		1,648,526,597	6,095,320,279
 Net assets			
Accumulated surplus/ (Deficit)	19	(1,178,510,633)	1,238,019,496
		470,015,964	7,333,339,775

The Financial Statements were signed on behalf of the Board of Directors by:

Oliver Pyoko
Manager, Finance and Accounting

 Date 22/5/18

John Sergon, EBS
Ag. Chief Executive Officer

 Date 22/5/18

Chairman, Board of Management

 Date 22/5/18

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XIII. STATEMENT OF CHANGES IN NET ASSETS
For the year ended 30 June 2017

	Attributable to the owners of the controlling entity				Minority interest	Total
	Self-insurance reserve	Capital replacement reserve/Capital Reserve	Revaluation Reserve	Accumulated surplus		
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Balance as at 1 July 2015	-	-	-	162,961,758	-	162,961,758
Surplus/(deficit) for the period	-	-	-	875,237,991	-	875,237,991
Transfers to/from accumulated surplus	-	-	-	199,819,747	-	199,819,747
Transfer of excess depreciation on revaluation			-	-		-
Grants received during the year						-
Revaluation gain						-
Balance as at 30 June 2016	-	-	-	1,238,019,496	-	1,238,019,496
Balance as at 1 July 2016	-	-	-	1,238,019,496	-	1,238,019,496
Surplus/(deficit) for the period	-	-	-	(2,416,530,129)	-	(2,416,530,129)
Transfers to/from accumulated surplus	-	-	-	-	-	-
Transfer of excess depreciation on revaluation						-
Grants received during the year						-
Revaluation gain						-
Balance as at 30 June 2017	-	-	-	(1,178,510,633)	-	(1,178,510,633)

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30TH JUNE 2017

XIV. STATEMENT OF CASH FLOWS
For the year ended June 2017

	2016-2017	2015-2016
	Kshs	Kshs
Cash flows from operating activities		
Surplus for the year before tax	(2,416,530,129)	875,237,991
<u>Adjusted for:</u>		
Depreciation	13,352,114	15,847,974
Payables	0	199,819,747
	(2,403,178,015)	1,090,905,713
Working capital adjustments:		
Decrease/ (Increase) in receivables	6,251,347,051	(6,237,768,909)
Increase/ (Decrease) in payables	(4,446,793,682)	5,859,689,707
Net cash flows from operating activities	(598,624,646)	712,826,511
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,129,407)	(24,444,563)
Net cash flows used in investing activities	(7,129,407)	(24,444,563)
Net increase/(decrease) in cash and cash equivalents	(605,754,053)	688,381,948
Cash and cash equivalents at 1 July 2016	940,395,380	252,013,433
Cash and cash equivalents at 30 June 2017	334,641,327	940,395,380

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XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget		Adjustments		Final budget		Actual on comparable basis		Performance difference	% Variance	Variance Explanations
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017			
Revenue	Kshs		Kshs		Kshs		Kshs		Kshs		
GOK Recurrent	203,000,000	114,000,000	0	317,000,000	317,000,000	317,000,000	0	0	0%		
Shared Services	550,000,000	0	0	550,000,000	550,000,000	550,000,000	0	0	0%		
NOFBI	25,000,000	0	0	25,000,000	25,000,000	25,000,000	0	0	0%		
PDTP	134,000,000	0	0	134,000,000	134,000,000	134,000,000	0	0	0%		
Digital Literacy Programme	13,408,000,000	3,900,000,000	0	17,308,000,000	17,308,000,000	17,308,000,000	0	0	0%		
TCIP IDA Funds	530,856,336	3,109,211,731	0	3,640,068,067	3,534,464,489	3,534,464,489	105,603,578	3%			
EARTTDF IDA Funds	37,500,000	0	0	37,500,000	37,500,000	37,500,000	A 0	0%			
County Connectivity Project (CCP)	0	50,000,000	0	50,000,000	50,000,000	50,000,000	0	0%			
Contributions & Donations	0	0	0	0	2,000,000	2,000,000	(2,000,000)	100%	a		
Other incomes	0	0	0	0	21,622,699	21,622,699	(21,622,699)	100%	b		
Total income	14,888,356,336	7,173,211,731	7,173,211,731	22,061,568,067	21,979,587,188	21,979,587,188	81,980,879				
Expenses											
Employee Costs	84,000,000	114,000,000	0	198,000,000	223,893,946	223,893,946	(25,893,946)	-13%	c		
Director Costs	10,000,000	0	0	10,000,000	14,422,928	14,422,928	(4,422,928)	-44%	d		
Depreciation expenses	0	0	0	0	13,352,114	13,352,114	(13,352,114)	-100%	e		
Repair and maintenance	1,000,000	0	0	1,000,000	2,026,380	2,026,380	(1,026,380)	-103%	f		
General expenses	108,000,000	0	0	108,000,000	203,136,419	203,136,419	(95,136,419)	-88%	g		
Finance Costs	0	0	0	0	1,935,777	1,935,777	(1,935,777)	-100%	h		
Unexplained Expenses	0	0	0	0	167,223,283	167,223,283	(167,223,283)	-100%	i		
Other Expenses											
Shared Services	550,000,000	0	0	550,000,000	550,000,000	550,000,000	0	0%			
NOFBI Project	25,000,000	0	0	25,000,000	40,192,487	40,192,487	(15,192,487)	-61%	j		

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PDTP	134,000,000	0	134,000,000	143,183,776	(9,183,776)	-7%
Digital Literacy Programme	13,408,000,000	3,900,000,000	17,308,000,000	18,653,654,372	(1,345,654,372)	-8%
TCIP IDA Funds	530,856,336	3,109,211,731	3,640,068,067	4,336,318,489	(696,250,422)	-19%
EARTTDF IDA Funds	37,500,000	0	37,500,000	17,477,950	20,022,050	53%
CCP project	0	50,000,000	50,000,000	28,319,396	21,680,604	43%
IBM Research Lab	0	0	0	980,000	(980,000)	43%
Total expenditure	14,888,356,336	7,173,211,731	22,061,568,067	24,396,117,317	(2,334,549,250)	

Surplus for the period

- - (2,416,530,129)

Variance Explanations

- a) These were donations from Safaricom for Connected workshop which was not budgeted for. The amount was spent for that specific function
- b) This was Interest income from The Pasha fund.
- c) The employee costs exceeded the budget because of underbudgetting.
- d) More meetings were held than planned.
- e) Was not budgeted
- f) more repairs were done in the year under review
- g) More consumables were purchased
- h) Included in the general budget but was separated for reporting purposes
- i) Under investigation
- j) More monitoring and evaluation activities than anticipated
- k) Some of the expenses were paid after the closure of the project.
- l) The project was still at the initial stages.
- m) Funds came in after the end of the financial year
- n) Paid to IBM research lab contract negotiation team

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XVI. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Authority is established by and derives its authority and accountability from Legal Notice No.198 amended order 2013. The Authority is wholly owned by the Government of Kenya and is domiciled in Kenya. The Authority's principal activity is to rationalize and streamline the management of all Government of Kenya ICT functions. Its broad mandate entails enforcing ICT standards in Government and enhancing the supervision of its electronic communication. The Authority also promotes ICT literacy, capacity, innovation and enterprise in line with the Kenya National ICT Masterplan 2017.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Authority's 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 entity. The accounting policies have been consistently applied to all the years presented.

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

3. ADOPTION OF THE NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard	Impact
IPSAS 33: First time adoption of Accrual Basis IPSAS	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.</p> <p><i>The entity adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the entity.</i></p>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Standard	Impact
<p>IPSAS 34: Separate Financial Statements</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements. <i>The entity does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply/ the entity is a parent company and has prepared consolidated financial statements and therefore the standard does not apply.</i></p>
<p>IPSAS 35: Consolidated Financial Statements</p>	<p>Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following:</p> <ul style="list-style-type: none"> - Its power over the other entity - Its exposure or rights to variable benefits from involvement with the other entity - Its ability to control the nature, timing and amount of benefits from the other entity. <p>Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35. <i>The entity does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</i></p>
<p>IPSAS 36: Investments in Associates and Joint Ventures</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest. <i>The entity does not have investments in associates or joint ventures.</i></p>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Standard	Impact
IPSAS 37: Joint Arrangements	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.</p> <p><i>The entity does not have an interest in a joint arrangement and therefore the standard does not apply.</i></p>
IPSAS 38: Disclosure of Interests in Other Entities	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows.</p> <p><i>The entity does not have an interest in other entities and therefore the standard does not apply.</i></p>

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	<p>Applicable: 1st January 2018</p> <p>The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.</p>
IPSAS 40: Public Sector Combinations	<p>Applicable: 1st January 2019:</p> <p>The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.</p>

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2017.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

Revenue from non-exchange transactions

Transfers from government

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.

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.

b) Budget information

The original budget for FY 2016-2017 was approved by the National Assembly on 8th June 2016. The Authority's 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

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. The Authority does not pay corporate taxes as its owned by the Government.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate

NOTES TO THE FINANCIAL STATEMENTS (Continued)

d) Property, plant and equipment

Property and equipment are stated at Cost less Accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Depreciation

Depreciation on Fixed Assets is calculated to write down their cost over their useful lives on a straight-line basis at the following rates:

Asset	Percentage (%)
Motor vehicle	25
Furniture and fittings	12.5
Computers and IT equipment	30

e) Financial Instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or an entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

f) Provisions

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs

g) Nature and purpose of Reserves

The Authority creates and maintains reserves in terms of specific requirements.

h) Changes in accounting policies and estimates

The Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

i) Employee Benefits

Retirement Benefit Plans

The Authority contributes to a statutory defined contribution scheme, the National Social Security Fund. Contributions to NSSF are determined by the National Social Security Fund Act (Cap 258). The number of staff employed by the Authority as at 30th June 2017 was 60. The rate for computation of gratuity is 31% of the basic pay accrued on monthly basis.

j) Cash and cash equivalents

For the purpose of the cash flow statement, Cash and cash equivalents comprise cash on hand and cash at bank and bank deposits. Cash equivalent are recognized to compromise short term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Bank account balances include amounts held at the accounts at the Citi Bank at the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

k) Comparative figures

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

l) Transactions of Foreign Currencies

Transactions denominated in foreign currencies during the year are converted into Kenya Shilling at rates ruling at the transaction dates.

5. SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.
IPSAS 1.140

Useful lives and residual values

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

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

Provisions

Provisions were raised and Management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 15.

Provisions are measured at the Management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Revenue from non-exchange transactions

Note 1. Income	2016/2017	2015/2016
	Kshs	Kshs
GoK Recurrent Funds	317,000,000	247,764,800
Shared Services	550,000,000	557,295,024
GoK Gratuity Funds	0	15,000,000
GoK NOFBI	25,000,000	25,000,000
IBM Research Lab	0	120,000,000
TCIP	3,534,464,489	2,631,166,625
EARTTDF IDA Grants	37,500,000	76,595,883
Presidential Digital Talent Programme	134,000,000	145,000,000
Digital Literacy Programme	17,308,000,000	5,619,500,000
County Connectivity Project	50,000,000	0
Total	21,955,964,489	9,437,322,332

1b) Transfers from Ministries, Departments and Agencies

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income Kshs	Amount deferred under deferred income Kshs	Amount recognised in capital fund. Kshs	Total grant income during the year Kshs	2015-2016 Kshs
Ministry of ICT	18,952,356,336	0	0	18,952,356,336	9,437,322,332
The National Treasury	3,003,608,153	0	0	3,003,608,153	0
Total				21,955,964,489	

Note 2. Public Contributions & Donations

	2016/2017	2015/2016
	Kshs	Kshs
Project Donations	0	11,974,098
Other Incomes-	2,000,000	0
Total	2,000,000	11,974,098

Note 3. Other Income

	2016/2017	2016/2017
	Kshs	Kshs
Conference Sponsorship		5,590,000
Automation Survey		2,235,000
Interest Income-Digital Village Revolving Fund	21,622,699	910,290
Total revenue from conference fees	21,622,699	8,735,290

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 4. Employee costs

	2016/2017	2015/2016
	Kshs	Kshs
Personal Emoluments	161,412,876	119,665,920
Gratuity	36,211,638	15,000,000
Other allowances	1,910,649	37,034,711
Medical Costs	16,079,902	7,093,760
Other staff costs	8,278,881	142,000
Employee costs	223,893,946	178,936,391

Note 5. Directors Expenses

	2016/2017	2015/2016
	Kshs	Kshs
Sitting Allowances	4,230,000	6,520,400
CEO,s Salary	4,301,744	3,182,144
Honoraria	1,371,989	880,000
Telephone allowance	0	77,000
Travelling and Accommodation	502,911	2,073,486
Other Board Expenses	4,016,284	661,817
Total remuneration to the Board	14,422,928	13,394,847

Note 6. Depreciation expense

	2016/2017	2015/2016
	Kshs	Kshs
Furniture & Equipment	10,660,436	10,660,436
Computers	1,487,178	5,187,538
Motor Vehicles	1,204,500	0
Total depreciation expense	13,352,114	15,847,974

Note 7. Repairs and maintenance

	2016/2017	2015/2016
	Kshs	Kshs
Furniture & Equipment	323,570	890,012
Motor Vehicles	988,248	1,012,479
Other repairs	714,562	0
Total repairs and maintenance	2,026,380	1,902,491

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 8. General expenses

	2016/2017	2015/2016
	Kshs	Kshs
Travel costs	31,138,773	18,294,914
Printing, Advertising and Info Supplies	9,102,522	40,965,328
Membership fees, dues and subscriptions	1,061,138	211,378
Fuel and Lubricants	801,082	77,131
Office and General supplies	58,685,380	8,962,065
Hospitality supplies and Services	12,168,591	12,178,576
Rent and rates	39,747,690	11,468,687
Training	37,395,637	1,654,243
Contracted and Utilities Supplies	4,464,452	2,789,312
Legal Fees	7,875,154	0
Audit Fees	696,000	696,000
Total general expenses	203,136,419	97,993,633

Note 9. Unexplained Expenses

	2016/2017	2015/2016
	Kshs	Kshs
Personal Emoluments	65,045,212	0
Other Staff Costs	1,745,625	0
Travel Costs	67,537,503	0
Digital Literacy Program- Operations	13,009,628	0
NOFBI	8,355,266	0
County Connectivity Project	11,892,990	0
Legal Deposits	(363,000)	0
	167,223,283	0

Note 10. Finance Costs

	2016/2017	2015/2016
	Kshs	Kshs
Bank Charges	1,935,777	1,105,152

Note 11. Special Grants Expenses

	2016/2017	2015/2016
	Kshs	Kshs
Shared Services (Government Internet Connectivity and IRU Telcom Services)	550,000,000	268,864,391
NOFBI Project	40,192,487	17,645,164
Presidential Digital Talent Program	143,183,776	20,407,235
Digital Literacy Program – Devices	18,377,274,086	5,310,991,734
Digital Literacy Program – Operations	276,380,286	31,158,923
County Connectivity Project Expenses	28,319,396	55,768,919
IBM Research Lab	980,000	118,833,819
	19,416,330,031	5,823,670,185

THE INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 12. TCIP Project Expenses

	2016/2017	2015/2016
	Kshs	Kshs
Category 1 (Telecom Services)	3,133,384,811	2,331,219
Category 2 (Goods)	0	1,647,246,981
Category 3 (Consultants)	10,093,223	678,137,617
Category 5 (Grants)	0	5,811,609
Category 6 (Capacity Building)	156,028,663	61,173,823
Category 7 (Operating)	1,036,811,792	55,241,807
Total project costs	4,336,318,489	2,449,943,056

Note 13. EARTTDF IDA Grants

	2016/2017	2015/2016
	Kshs	Kshs
EARTTDF IDA Grants	17,477,950	0
Total project costs	17,477,950	0

Note 14. Cash and cash equivalents

	2016/2017	2015/2016
	Kshs	Kshs
Cash in hand	0	0
Cash at Bank (East Africa)	59,117,933	336,380,477
Cash at Bank (GoK Account)	191,791,936	458,602,946
Cash at Bank (Project Account)	(122)	6,825,975
Cash at Bank (PDTP Account)	27,837,987	116,788,996
Call Account (USD) (\$538,932.38 @103.7117)	55,893,593	21,796,986
Total cash and cash equivalents	334,641,327	940,395,380

The cash and cash equivalent comprises of cash in hand and cash in the bank held at Citi Bank, Upper Hill Road Branch with the following Accounts: East Africa (300085035, Kshs), GoK Funds (300085016, Kshs), Project (300085005, Kshs) , PDTP (300085024, Kshs) and Call (300085043, USD).

Note 15. Receivables from exchange transactions

	2016/2017	2015/2016
	Kshs	Kshs
Staff Advances	0	85,000
Deposits	1,463,000	363,000
Accenture	0	0
Ministry of ICT	0	1,796,067
Revenue Receivables	50,000,000	6,237,263,583
Total receivables	51,463,000	6,239,507,650

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 16. Revolving Fund

	2016/2017	2015/2016
	Kshs	Kshs
Digital Villages Revolving Fund	45,193,389	108,495,790

The TCIP Project received grant from World Bank/ IDA for onward lending to Digital Village entrepreneurs to establish information hub that offer ICT services. The entrepreneurs are supposed to pay back the loan for future lending to other entrepreneurs.

The status report of the fund as at 30th June 2017 is as follows:

Fund Paid to Family Bank	108,495,790
Add: Total Accrued Interest	<u>19,581,603</u>
Total Fund Value	128,077,393
Less: Loan amount in arrears	<u>45,193,389</u>
Fund Balance	<u>82,884,004</u>

The fund balance of Kshs. 82,884,004 was refunded to the Authority on 19th May 2017. The interest income of Kshs. 19,581,603 has been included in the interest income.

Note 17. Property, Plant and Equipment

	Motor Vehicle Kshs	Computers Kshs	Office furniture & Equipment Kshs	Total Kshs
Year ended 30 June 2016:				
Cost				
As 1 July 2015	6,441,000	12,195,822	65,934,900	84,571,722
Acquisitions/ Additions	-	5,095,972	19,348,591	24,444,563
At 30 June 2016	<u>6,441,000</u>	<u>17,291,794</u>	<u>85,283,491</u>	<u>109,016,285</u>
Depreciation				
As 1 July 2015	6,441,000	9,998,203	31,788,153	48,227,356
Charge for the year	-	5,187,538	10,660,436	15,847,974
At 30 June 2016	<u>6,441,000</u>	<u>15,185,741</u>	<u>42,448,589</u>	<u>64,075,330</u>
Net Book Value				
At 30 June 2016	<u>-</u>	<u>2,106,053</u>	<u>42,834,902</u>	<u>44,940,955</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Year ended 30 June 2017:

Cost

As 1 July 2016	6,441,000	17,291,794	85,283,491	109,016,285
Acquisitions/ Addition	4,278,200	2,851,207	-	7,129,407
At 30 June 2017	10,719,200	20,143,001	85,283,491	116,145,692

Depreciation

As 1 July 2016	6,441,000	15,185,741	42,448,589	64,075,330
Charge for the year	1,204,500	1,487,178	10,660,436	13,352,114
At 30 June 2017	7,645,500	16,672,919	53,109,025	77,427,444

Net Book Value

At 30 June 2017	3,073,700	3,470,082	32,174,466	38,718,248
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Note 18. Payables from exchange transactions

	2016/2017	2015/2016
	KShs	KShs
Staff Gratuity Costs	31,765,880	39,042,603
Audit fees	696,000	696,000
Supplier Accounts	1,616,064,717	6,053,234,481
Accrued Consultancy Fees	0	0
Payroll Deductions payables	0	2,347,195
Total trade and other payables	1,648,526,597	6,095,320,279

**Note 19. Accumulated Surplus/
(Deficit)**

	2016/2017	2015/2016
	KShs	KShs
Accumulated Surplus/ (Deficit) b/d	1,238,019,496	162,961,758
Adjustment for Payables	0	199,819,747
(Deficit)/Surplus for the year	(2,416,530,129)	875,237,991
Accumulated (Deficit)/Surplus c/d	(1,178,510,964)	1,238,019,496

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Note 20. Variance between Budget and Actual Amount

The variance between the budget and actual income received was as a result of incomes budgeted in Supplementary II which were received during the financial year. The variance between budgeted and actual expenditure is as a result of balances that were carried forward from the previous period, these were utilized in the current period causing the differences between the budget and actual performance.

Note 21. Contingent Liability

Tender No.ICTA/KTCIP/RFP/2014 for consultancy services for Strategic Information Communication Partner for Kshs.64,264,000 for Osano and Associates. This is a matter under investigation by competent government agencies. ICT Authority takes note that there is a possibility of litigation arising out of investigations. There is also a possibility that legal fees and/or damages may arise in the event that the case is determined in favour of the contractor.

Some staff members are suspected to have stolen over Kshs.150 million. The matter is under investigation by competent government agencies. The Authority takes note that there is a possibility of litigation arising out of investigations. There is also a possibility that legal fees may arise. The amounts suspected to have been stolen are also included in the various expenditure line.

Note 22. Financial risk management

Exposure to credit, liquidity, operational and business continuity risk arises in the normal course of the Authority's operations. This note presents information about the authority's exposure to each of the above risks, policies and processes for measuring and managing risk.

i. Credit Risk

Credit risk is the risk of financial loss to the Authority if counter parties fail to meet their contractual obligations when they fall due. The authority's credit risk is primarily attributable to its bank balances. The credit risk on liquid funds with financial institutions is low, because the counter parties are banks with high credit-ratings.

ii. Liquidity risk

Liquidity risk is the risk of the Authority not being able to meet its obligations as they fall due. The Authority's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Authority's reputation. Prudent liquidity risk management includes maintaining sufficient cash to meet the authority's obligations.

	Less than 1 month Kshs	Between 1-3 months Kshs	Over 5 months Kshs	Total Kshs
At 30 June 2017				
Trade payables from exchange transactions	1,631,692,549	-	16,834,048	1,648,526,597

NOTES TO THE FINANCIAL STATEMENTS (Continued)

iii. Operational Risk

Operational risk is the risks of Authority undertakes when it attempts to operate within a given field or industry. The Authority faces several risks associated with operations especially regarding...

iv. Business Continuity Risk

The Authority takes cognizance of its risk factors and have taken appropriate measures and policies to make sure that the Authorities core business is not interrupted incase a disaster happens. The management through the risk management committee, the health and work environment committee, security committee and communication committee make sure that all aspects of security and continuity is enhance by implementing the policies in place

Note 23. Related party Balances

The Authority and other parties related to the Authority include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel.

Key management remuneration

	2017	2016
	KShs	KShs
CEO's compensation	4,301,744	3,182,144

Note 24. Ultimate and Holding Entity

The Authority is a state corporation under the Ministry of ICT. Its ultimate parent is the Government of Kenya.

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XVIII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Referen ce No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	It was not possible to confirm if and when the Digital Villages Revolving Fund loans arrears totalling Kshs. 45,193,389 will be fully recovered and whether the other incomes figure of Kshs. 8,735,290 for the year ended 30 June 2016 was fairly stated.		TCIP Programme Manager	Ongoing	

John Sergon, EBS
Ag. Chief Executive Officer

 Date 22/5/18

Chairman, Board of Directors

 Date 22/5/18

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APPENDIXES

APPENDIX 1: PROJECTS IMPLEMENTED BY THE AUTHORITY

Projects

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

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)
1. Kenya Transparency Communication and Infrastructure Project (TCIP)		World Bank			Yes
2. East Africa Regional Transport, Trade and Development Facilitation Project (EARTTDF)		World Bank			Yes

Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual per quarter	Sources
1	Kenya Transparency Communication and Infrastructure Project (TCIP)			100%			Treasury
2	East Africa Regional Transport, Trade and Development Facilitation Project (EARTTDF)						
3							

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APPENDIX 2: INTER ENTITY TRANSFERS

ENTITY NAME:		ICT AUTHORITY		
Break down of Transfers from the State Department of ICT				
FY 16/17				
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	Govt Recurrent	30/08/2016	50,750,000	FY 16/17
	PDTP funds	30/08/2016	33,500,000	FY 16/17
	Govt Recurrent	23/02/2017	50,750,000	FY 16/17
	Govt Recurrent	06/01/2017	50,750,000	FY 16/17
	PDTP funds	06/01/2017	33,500,000	FY 16/17
	Govt Recurrent	12/04/2017	164,750,000	FY 16/17
	PDTP funds	23/02/2017	33,500,000	FY 16/17
	PDTP funds	12/04/2017	33,500,000	FY 16/17
		Total	451,000,000	
b.	Development Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	DLP funds	23/09/2016	6,704,000,000	FY 16/17
	DLP funds	17/10/2016	6,704,000,000	FY 16/17
	IDA funds	22/12/2016	530,856,336	FY 16/17
	Govt Development	01/02/2017	550,000,000	FY 16/17
	NOFBI II	01/02/2017	25,000,000	FY 16/17
	DLP funds	23/03/2017	3,900,000,000	FY 16/17
	EARTTDF	08/05/2017	37,500,000	FY 16/17
		Total	18,451,356,336	
c.	Direct Payments			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	Interest Earned	10/07/2016	832,877	FY 16/17
	Interest Earned	10/07/2016	1,208,219	FY 16/17
	Interest Earned	19/05/2017	19,581,603	FY 16/17
		Total	21,622,699	
d.	Donor Receipts			

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	<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	<u>Indicate the FY to which the amounts relate</u>
Sponsorship - Safaricom	15/08/2016	2,000,000	
Total		2,000,000	

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

Manager Finance and Accounting
ICT Authority

Sign  -----

Head of Accounting Unit
Ministry of ICT

Sign -----

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APPENDIX 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/ Donor Transferring the funds	Date received	Nature: Recurrent/ Development/ Others	Total Amount - KES	Where Recorded/recognized					Total Transfers during the Year
	as per bank statement			Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
Ministry of ICT	30/08/16	Recurrent	50,750,000	50,750,000					50,750,000
Ministry of ICT	30/08/16	Recurrent	33,500,000	33,500,000					33,500,000
Ministry of ICT	23/09/16	Development	6,704,000,000	6,704,000,000					6,704,000,000
Ministry of ICT	17/10/16	Development	6,704,000,000	6,704,000,000					6,704,000,000
Ministry of ICT	22/12/16	Development	530,856,336	530,856,336					530,856,336
Ministry of ICT	06/01/17	Recurrent	50,750,000	50,750,000					50,750,000
Ministry of ICT	06/01/17	Recurrent	33,500,000	33,500,000					33,500,000
Ministry of ICT	01/02/17	Development	550,000,000	550,000,000					550,000,000
Ministry of ICT	01/02/17	Development	25,000,000	25,000,000					25,000,000
Ministry of ICT	23/02/17	Recurrent	50,750,000	50,750,000					50,750,000
Ministry of ICT	23/02/17	Development	3,900,000,000	3,900,000,000					3,900,000,000
Ministry of ICT	23/02/17	Recurrent	33,500,000	33,500,000					33,500,000
Ministry of ICT	12/04/17	Recurrent	164,750,000	164,750,000					164,750,000
Ministry of ICT	12/04/17	Recurrent	33,500,000	33,500,000					33,500,000
Ministry of ICT	08/05/17	Development	37,500,000	37,500,000					37,500,000
Ministry of ICT	30/06/17	Development	50,000,000	50,000,000					50,000,000
Total			18,902,356,336	18,902,356,336	0	0	0	0	18,952,356,336

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APPENDIX 4: RECORDING OF DIRECT TRANSFERS FROM THE NATIONAL TREASURY TO TCIP

	Borrower Ref	LOAN NO.	Beneficiary	CURRENCY	AMOUNT IN USD	EXCHANGE RATE	KES
28-Apr-17	TCIP WA 76 Direct	42840-001 0061	EASTRA SOLUTIONS LTD	USD	161,903.02	103.22	16,711,629.72
27-Apr-17	TCIP 68 Direct	42840-001 0060	MICROSOFT IRELAND OPERATIONS LTD	USD	953,150.10	103.22	98,384,153.32
27-Apr-17	TCIP WA 65 Direct	42840-001 0059	SAFARICOM LIMITED	USD	630,287.70	103.22	65,058,296.39
27-Apr-17	TCIP WA 66 Direct	42840-001 0058	EASTRA SOLUTIONS LTD	USD	161,903.00	103.22	16,711,627.66
27-Apr-17	TCIP WA 67 Direct	42840-001 0057	AH CONSULTING LTD	USD	468,108.00	103.22	48,318,107.76
25-Apr-17	TCIP WA 64 Direct	42840-001 0056	LANTECH (AFRICA) LIMITED	USD	104,505.15	103.22	10,787,021.58
25-Apr-17	TCIP WA 74 Direct	42840-001 0055	SINOSOFT CO LTD	USD	135,036.50	103.22	13,938,467.53
25-Apr-17	TCIP WA 71 Direct	42840-001 0054	GESTALT GILD LIMITED	USD	363,550.00	103.22	37,525,631.00
25-Apr-17	TCIP WA 70 Direct	42840-001 0053	PRICEWATERHOUSECOOPERS LIMITED	USD	81,060.00	103.22	8,367,013.20
25-Apr-17	TCIP WA 69 Direct	42840-001 0052	DIMENSION DATA	USD	681,184.75	103.22	70,311,889.90
28-Apr-17	TCIP WA 72 Direct	42840-001 0051	SMOOTHTEL AND DATA SOLUTIONS LTD	USD	164,687.22	103.22	16,999,014.85
28-Apr-17	TCIP WA 73 Direct	42840-001 0050	SMOOTHTEL AND DATA SOLUTIONS LTD	USD	6,228,712.34	103.22	642,927,687.73
13-Mar-17	TCIP 49 Direct	42840-001 0049	ESRI EASTERN AFRICA LTD	USD	1,870,840.10	103.22	193,108,115.12
13-Mar-17	TCIP 50 Direct	42840-001 0048	PRICEWATERHOUSECOOPERS LIMITED	USD	2,266,878.15	103.22	233,987,162.64
16-Mar-17	TCIP 48 Direct	42840-001 0047	TRANS BUSINESS MACHINES LTD	USD	1,246,764.18	103.22	128,690,998.66
11-May-17	TCIP WA 75 Direct	50920-001 0019	ORACLE TECHNOLOGY SYSTEMS (KENYA)	USD	407,000.00	103.22	42,010,540.00
1-May-17	TCIP WA 76 Direct	50920-001 0018	ORACLE TECHNOLOGY SYSTEMS (KENYA)	USD	133,391.35	103.22	13,768,655.15

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