

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

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REPORT

OF



THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COMMUNICATIONS AUTHORITY OF KENYA

FOR THE YEAR ENDED 30 JUNE 2014

Paper Laid
By the leader of majority party, Hon. Aden Duale on Tuesday 25/8/2015



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**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
30 JUNE 2014**

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

COMMUNICATIONS AUTHORITY OF KENYA

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COMMUNICATIONS AUTHORITY OF KENYA

I. Key Authority Information

a) The Mandate and Activities

The principal activity of the Authority is the licensing and regulation of the communications sector on behalf of the Government of Kenya. The Communications Authority of Kenya was established in 1998 by an Act of parliament through *Kenya Information and Communications Act, 1998 (Cap 411A)*.

b) Registered Office

CA Centre
Waiyaki Way
PO Box 14448 - 00800
Nairobi

c) Legal Advisor

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

d) Auditors

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

e) Bankers

Kenya Commercial Bank
Sarit Centre Branch
P O Box 30081 - 00800
Nairobi

Co-op Bank
Westlands Branch
P O Box ,66589 - 00800
Nairobi

Citibank NA
P O Box 30071- 0010
Nairobi

f) Results

The results (statement of financial performance) of the Authority for the year ended June 30, 2014 are set out on page 1 to 17.

COMMUNICATIONS AUTHORITY OF KENYA

II. Directors

	NAME	Date of Appointment	Expiry of Term
1	Mr. Ngene Bedan Gituku - Chairman	14/09/2012 Expired 02/04/2014 Re-appointed 14/05/2014	
2	Mr. Joseph Tiampati Ole Musuni	Ministry of Information Communication & Technology beginning 27 th June 2013.	
4	Mr. Mutea Iringo, EBS	Ministry on Interior and Coordination of National Government on 27 th June 2013.	
5	M/s. Beatrice Adhiambo Opee	6/2/2012 Expired on 02/04/2014 Re-appointed on 20/05/2014	
3	Dr. Kamau Thugge	The National Treasury beginning 27 th June 2013.	
6	Mr. Peter Simani Ldhituachi	02/02/2011	Deceased on 21 st September 2013
7	Dr. Monica J. kerrets- Makau (Phd)	21/02/2011	02/04/2014
8	Mr. Aloys Ang'asa	21/02/2011	02/4/02014
9	Mr. Samuel Kamarkor Rutto	18/12/2012	02/04/2014
10	Mr. Francis Okumu Ngesa	22/05/2013	02/04/2014
11	Mr. Kennedy Monchere Nyaundi	20/05/2014	
12	M/s. Grace Mwendwa Munjuri	20/05/2014	
13	Mr. Peter Munywoki Mutie	20/05/2014	
14	Prof. Levi Obonyo	20/05/2014	
15	M/s. Helen Kinoti	20/05/2014	
16	Mr. Wilbert Kipsang Choge	20/05/2014	
	Alternate Directors		
1	Amb. Bruce Madete / Mr. Henry Mungasia		
2	Mr. Christopher Kariuki / Mr. John M.Njoroge		
3	M/s. Beatrice Gathirwa		

COMMUNICATIONS AUTHORITY OF KENYA

III. Corporate Governance

The Board of Directors regards corporate governance as critical to the success of the Authority. The Board is responsible for ensuring proper and sound corporate governance as set out in the Kenya Information and Communications Act, 1998 (Cap 411A) The Act vests the Board with the twin functions of decision making and oversight.

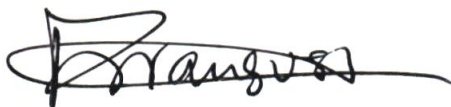
The Board acknowledges the importance of good corporate governance in building a competitive and vibrant ICT industry and enhancing stakeholder confidence in the regulatory environment. To this end, the Board provides leadership and strategic direction for the Authority in fulfilment of its statutory mandate.

The business of the Board is conducted in accordance with best regulatory practices anchored in principles of accountability and transparency as well as compliance with relevant laws and regulations. In this context, the Authority discharges its mandate based on strong corporate governance principles through application of high and consistent ethical standards.

Auditors

The Auditors, Messrs, Auditor - General is responsible for the statutory audit of the Authority in accordance with the with Section 20 of the Kenya Information and Communications Act, 1998

By Order of the Board



Francis Wangusi, MBS
Director General
COMMUNICATIONS AUTHORITY OF KENYA

COMMUNICATIONS AUTHORITY OF KENYA

IV. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 20(2) of the Kenya Information and Communications Act of 1998 (CAP 411A), Public Financial Management Act of 2012 and the State Corporations Act (CAP 429), require the Directors to prepare financial statements in respect of that Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year/period and the operating results 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.

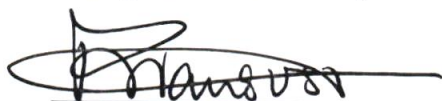
The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes: (i) maintaining 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) safeguarding the assets of the Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the KICA 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, 2014, and of the Authority's financial position as at that date. The Directors further confirm 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.

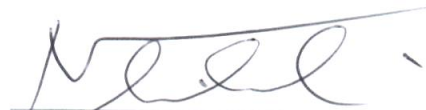
Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Authority's financial statements were approved by the Board on 29th September 2014 and signed on its behalf by:



Director General



Chairman

REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COMMUNICATIONS AUTHORITY OF KENYA FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Communications Authority of Kenya as set out on pages 1 to 17, which comprise the statement of financial position as at 30 June 2014, 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 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. Disputed Contract payments

On 29 November 2002, the Authority awarded the tender for supply and installation of demountable office partitions with a firm at a contract sum of Kshs.45,195,200. The Authority also awarded the tender for supply and installation of carpets and vertical window blinds on a sub-contract agreement with the first firm at a tender sum of Kshs.12,619,846, resulting to a total contract sum of Kshs.57,865,046. Although the project was supposed to be completed on 14 July 2003, it was completed one year later on 23 June 2004. The payments to the contractor were based on work done as per the project quantity surveyor's and the Architect's valuations and the Architect's certificates. After the final payment of Kshs.1,286,319.45 in September 2005, the contractor raised a dispute claiming of Kshs.1,277,961.90 being interest for delayed settlement of interim certificate No. 6. The Management has explained "that the delay" had been occasioned by a dispute over the material used by the contractor, which the project manager noted differed from those specified in the Bill of Quantities.

Further, on 5 December 2006 the contractor wrote to the Authority (Commission) claiming Kshs.51,378,300.40 in respect of purported losses and expenses incurred on the project due to delay of 45 days.

The Authority disputed the claim and the contractor subsequently lodged an arbitration claim before an arbitrator. Consequently the Arbitrator ruled that the Authority was to pay Kshs.47,284,879.45 for the claims and costs of arbitration of Kshs.2,783,370 all totalling Kshs.50,068,249.45, failure to which the amount shall attract simple interest at a rate of 18% per annum until payment is made in full. On 5 March 2015 the Board approved release of Kshs.51,860,882.75 held in the Escrow account and undertook to pay other outstanding sums of money amounting to Kshs.18,103,040 all totalling Kshs.69,963,922.75. In the circumstances, It has not been possible to confirm that Kshs.69,963,922.75 is a proper charge to public funds.

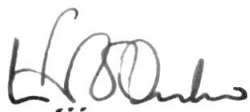
2. Unsupported Board Sitting Allowances

Examination of Board of Directors' records revealed that sitting allowances totalling Kshs.11,594,000 was paid to various Board Directors during the year under review, out of which sitting allowances totalling Kshs.6,942,000 was not supported by notices of the meeting, agenda for the meeting and the respective Board minutes. Although the management has explained that Board of Directors are invited to participate in official events where no minutes are taken such as stakeholders consultation forums, performance contract negotiation and signing, meeting with staff management and Ministry officials, official events such as shows and staff parties, no evidence of such invitation was availed for audit review.

In the circumstances, it has not been possible to confirm that the unsupported sitting allowances totalling Kshs.6,942,000 is a proper charge to public funds.

Qualified Opinion

In my opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS) and comply with the Kenya Information and Communications Act, Cap 411A of 2009.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

26 June 2015

Communications Authority of Kenya
Statement of Financial Performance
For the Year Ended 30 June 2014

	Note	2014 Kshs'000	2013 Restated Kshs'000
Revenue from non-exchange transactions			
License Fees	3	<u>6,318,816</u>	<u>5,897,773</u>
Revenue from exchange transactions			
Finance income	4	933,882	1,234,747
Other Income	5	9,517	169,503
		<u>943,399</u>	<u>1,404,250</u>
Total revenue		<u>7,262,215</u>	<u>7,302,023</u>
Expenses			
Employee costs	6	787,506	663,416
Directors fees	7	28,584	32,350
Depreciation and Amortization Expense	17	97,383	85,365
Repairs and maintenance	8	89,976	42,206
General expenses	9	1,230,978	960,133
Total Expenses		<u>2,234,427</u>	<u>1,783,471</u>
Other gains/(losses)			
Gain on sale of assets	10	613	1,737
Gain on foreign exchange transactions		1,986	(489)
Surplus before tax		<u>5,030,387</u>	<u>5,519,799</u>
Taxation	11(a)	1,509,116	-
Remittance of Surplus	11(b)	-	4,967,819
Surplus for the period		<u>3,521,271</u>	<u>551,980</u>

The income and expenditure account is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 17.

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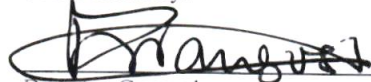


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Communications Authority of Kenya
Statement of Financial Position
As at 30 June 2014

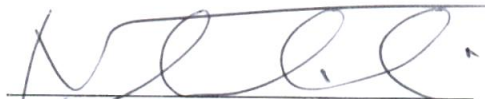
		2014	2013
	Note	Kshs'000	Restated Kshs'000
ASSETS			
Current Assets			
Cash and cash equivalents	12	10,376,490	9,848,129
Receivables from non-exchange transactions	13	894,079	623,816
Receivables from exchange transactions	14	423,382	294,832
Tax Recoverable	11(c)	315,054	1,877
Total Current Assets		12,009,005	10,768,654
Non Current Assets			
Property, plant and equipment	17	1,612,460	1,504,483
Total Non-Current Assets		1,612,460	1,504,483
TOTAL ASSETS		13,621,465	12,273,138
LIABILITIES			
Current Liabilities			
Provisional Surplus Remittance		-	4,964,232
Trade and other Payables from exchange transactions	15	2,714,532	292,457
Payments received in advance	16	674,543	288,913
Total Current Liabilities		3,389,075	5,545,602
TOTAL LIABILITIES		3,389,075	5,545,602
Net Assets		10,232,390	6,727,536
Owners Equity	18	741,965	741,965
Revaluation reserve	23 (a)	380,681	380,681
Accumulated Surplus	23(b)	9,109,744	5,604,890
Total Net assets and Liabilities		10,232,390	6,727,536

The Financial Statements set out on pages 1 to 17 were signed on behalf of the Board of Directors by:



Director General
Francis W. Wangusi, MBS

Date...29th September 2014



Chairman of the Board
Bedan N. Gituku

Date...29th September 2014

Communications Authority of Kenya
Statement of Changes in Net Assets
For the Year Ended June 30, 2014

	Note	Owners Equity Kshs'000	Revaluation Reserve Kshs'000	Accumulated Surplus Kshs'000	Total Reserves Kshs'000
At July 1, 2012		741,965	380,681	5,051,032	6,173,678
Total Comprehensive Income		-	-	5,519,799	5,519,799
Dividends Paid		-	-	(4,967,819)	(4,967,819)
Tax recoverable				1,877	
At June 30, 2013		741,965	380,681	5,604,890	6,725,658
Accrual Adjustment 2012/13				298	298
Directors Fees 2012/13				(11,250)	(11,250)
Remittance Adjustments				(3,587)	(3,587)
Tax recoverable transferred to tax account				(1,877)	(1,877)
Restated At June 30, 2013		741,965	380,681	5,588,473	6,711,119
At July 1, 2013		741,965	380,681	5,588,473	6,711,119
Total Comprehensive Income				3,521,271	3,521,271
At 30 June 2014		741,965	380,681	9,109,744	10,232,390

Communications Authority of Kenya
Statement of Cash Flow
For the Year Ended June 30 2014

	Note	<u>2014</u>	<u>2013</u>
		Kshs'000	Kshs'000
OPERATING ACTIVITIES			
Cash generated from/(used in) Operations	19(a)	<u>6,585,746</u>	<u>4,315,122</u>
Provisinal surplus at 90% Remittance to Treasury Paid		(4,964,232)	(6,298,815)
Taxation Paid		(1,822,293)	-
		<u>(6,786,525)</u>	<u>(6,298,815)</u>
Net Cash generated from/(used in) Operations		<u>(200,778)</u>	<u>(1,983,693)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(205,361)	(168,476)
Proceeds from disposal of assets		618	1,768
Interest received		933,882	1,234,747
Net cash generated from/(used in) Investing activities		<u>729,140</u>	<u>1,068,039</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<u>528,361</u>	<u>(915,654)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		9,848,129	10,763,783
CASH AND CASH EQUIVALENTS AT END OF YEAR	19(b)	<u><u>10,376,490</u></u>	<u><u>9,848,129</u></u>

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements as set out on pages 5 to 17

Communications Authority of Kenya
Statement of Comparison of Budget and Actual Amounts
for the Year Ended June 30 2014

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference
	2013-2014	2013-2014	2013-2014	2013-2014	2013-2014
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Revenue					
FREQUENCY SPECTRUM MGNT FEES	5,500,000	-	5,500,000	5,556,103	(56,103)
ANNUAL OPERATING LICENCE	755,097	-	755,097	759,749	(4,652)
APPLICATION FEES	728	-	728	1,063	(335)
RENT INCOME	4,302	-	4,302	4,412	(110)
INTEREST INCOME	500,000	-	500,000	933,882	(433,882)
OTHER INCOME	-	-	-	7,705	(7,705)
TYPE APPROVAL	1,520	-	1,520	1,901	(381)
TOTAL INCOME	6,761,647	-	6,761,647	7,264,814	(503,167)
Expenses					
SALARIES AND ALLOWANCES	828,543	-	828,543	751,330	77,213
TRAINING EXPENSE	125,875	-	125,875	125,897	(22)
MEDICAL EXPENSES	38,000	-	38,000	36,176	1,824
COMPLIANCE, MONITORING AND ENFOR	13,087	-	13,087	13,021	66
REPAIRS AND MAINTENANCE	44,869	48,677	93,546	89,976	3,569
COMPUTER SOFTWARE	39,190	-	39,190	33,064	6,126
CORPORATE AFFAIRS EXPENSE	15,700	-	15,700	14,865	835
CONSUMER AFFAIRS EXPENSE	87,711	(15,000)	72,711	68,690	4,021
UPU -ADMN.COUNCIL EXPENSE	-	-	-	-	-
ADVERTISEMENTS	125,200	(10,000)	115,200	104,008	11,192
MEETINGS & CONFERENCES	205,600	-	205,600	205,553	47
EXHIBITIONS	60,000	-	60,000	59,941	59
UTILITIES EXPENSE	23,638	-	23,638	23,274	364
POSTAGE AND TELEPHONE EXPENSE	34,792	-	34,792	23,253	11,539
RENT & RATES	6,745	-	6,745	7,058	(313)
CONSULTANCY FEE	94,733	-	94,733	80,689	14,044
AUDIT FEES	1,967	-	1,967	1,491	477
LEGAL FEES	40,000	4,823	44,823	44,819	4
FINANCE COSTS	1,700	-	1,700	1,707	(7)
SECURITY	37,044	-	37,044	37,042	1,635
INSURANCE EXPENSE	15,940	-	15,940	15,802	138
PRINTING AND STATIONERY	24,350	-	24,350	22,539	1,811
HOUSE KEEPING EXPENSE	7,701	-	7,701	6,659	1,042
PERIODICALS AND PUBLICATIONS EXPENSE	7,724	-	7,724	6,544	1,180
STAFF WELFARE EXPENSE	33,432	-	33,432	33,524	(92)
TRANSPORT EXPENSE	15,750	-	15,750	15,698	52
SUBSCRIPTIONS EXPENSE	89,893	-	89,893	87,567	2,326
SPORTING ACTIVITIES	22,448	-	22,448	21,034	1,415
CORPORATE SOCIAL RESPONSIBILITY	32,900	-	32,900	31,794	1,106
USO EXPENSE	45,180	-	45,180	22,020	23,159
NATIONAL COMMUNICS. SECRET'AT	80,000	-	80,000	80,000	-
COMMUNICATIONS APPEALS TRIB.	2,000	-	2,000	485	1,515
DIRECTOR'S FEES / ALLOWANCES	55,452	-	55,452	28,584	26,868
DIGITAL MIGRATION EXPENSE	154,450	(28,500)	125,950	39,943	86,007
BROADCASTING ADVISORY COUNCIL EXPENSE	-	-	-	-	-
USO ADVISORY.COUNCIL EXPENSE	15,000	-	15,000	2,996	12,004
Total Expenditure	2,426,614	0	2,426,614	2,137,044	289,570
Surplus for the period	4,335,033	(0.00)	4,335,033.34	5,127,770.72	(792,737.38)

Communications Authority of Kenya

Notes to the Financial Statements

For the Year Ended June 30 2014

1. 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 Authority and all values are rounded to the nearest thousand (Ksh000). 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.

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

License Fees

The Authority recognizes revenues from license fees when Income is recognised upon issuance of licence for annual operating and / or payment of frequency licence fees. Type approval and other fees are recognized as and when realised. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Authority and the fair value of the asset can be measured reliably.

ii) Revenue from exchange transactions

Interest income

The net Interest income includes interest realised on government securities, placements, and bank balances.

Other Income

Type approval and other fees are recognized as and when realised. This recognition is when the outcome of the transaction can be estimated reliably. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Communications Authority of Kenya

Notes to the Financial Statements (Continued...)

For the Year Ended June 30 2014

b) Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Authority. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Authority 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

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 Authority operates and generates taxable income.

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.

d) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. 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 Authority 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. Depreciation is charged on a straight line basis over the estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives:

▪ Buildings and improvements	40 years
▪ Plant & machinery	10 years
▪ Radio equipment	10 years
▪ Computers	3 years
▪ Motor vehicles	5 years
▪ Office furniture and fittings	8 years
▪ Office equipment	5 years

Communications Authority of Kenya

Notes to the Financial Statements (Continued...)

For the Year Ended June 30 2014

e) Financial instruments

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 Authority determines the classification of its financial assets at initial recognition.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are stated at original invoiced amounts, less an estimate made for doubtful receivables. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off in the year in which they are identified through the provision for bad and doubtful debts account.

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.

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.

g) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements. Authority to state the reserves maintained and appropriate policies adopted.

Communications Authority of Kenya

Notes to the Financial Statements (Continued...)

For the Year Ended June 30 2014

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

Post-employment benefits

The Authority's employees are eligible for retirement benefits under a defined contribution plan provided through separate funds.

Contributions to defined contribution plan are charged to the income statement as incurred. Any difference between the charge to the income statement and the contributions payable is recorded in the balance sheet under other receivables or other payables.

j) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the prevailing rate of exchange on the date of the transaction. Bank balances denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from this running balance in the cashbook and the bank balance, are recognized as income or expenses in the period in which they arise.

k) Related parties

The Authority regards a related party as a person or an Authority with the ability to exert control individually or jointly, or to exercise significant influence over the Authority, or vice versa. The Government of Kenya is the principal shareholder of the Authority, holding 100% of the Authority's equity interest.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests to authorised public officer's institutions which were not surrendered or accounted for at the end of the financial year.

Communications Authority of Kenya

Notes to the Financial Statements (Continued...)

For the Year Ended June 30 2014

m) Comparative figures

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

n) Significant judgments 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, are described below. The Authority based its assumptions and estimates on parameters available when the consolidated 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 Authority. 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 Authority
- 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



Communications Authority of Kenya
Notes to the Financial Statements (Continued...)
For the Year Ended June 30 2014

Provisions

Provisions were raised and management determined an estimate based on the information available. 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.

Assumptions were used in determining the provision for bad debtors based on long outstanding non-payment and various cancellations and revocation.

o) 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, 2014.

Communications Authority of Kenya
Notes to the Financial Statements (Continued...)
For the Year Ended June 30 2014

	2014	2013
	Kshs'000	Restated Kshs'000
3. Revenue from non-exchange transactions		
Annual frequency license fees	5,556,103	5,285,104
Annual operating license fees	759,749	609,722
Application Fees	1,063	1,055
Type approval fees	1,901	1,891
	<u>6,318,816</u>	<u>5,897,773</u>
4. Revenue from exchange transactions		
Cash Investments and fixed deposits	1,140,503	1,450,994
Taxes	(206,620)	(216,246)
	<u>933,882</u>	<u>1,234,747</u>
5. Other income		
Sale of tender documents	866	1,055
Staff Rent	4,412	4,241
Postal Development	33	-
Penalties	4,206	23,989
Bad and Doubtful Debts Recovery	-	140,218
	<u>9,517</u>	<u>169,503</u>
6. Employee costs		
Employee related costs - salaries and wages	532,665	460,456
Contribution to pensions and medical	100,006	73,507
Travel and other allowances	71,065	59,430
Housing benefits and allowances	83,770	70,023
Total Employee Costs	<u>787,506</u>	<u>663,416</u>
7. Directors fees		
Sitting allowance	11,594	10,764
Monthly fees	726	984
Telephone allowance	65	96
Traveling Expenses	11,316	14,230
Board Welfare	726	-
Training-Directors	4,156	6,276
Total	<u>28,584</u>	<u>32,350</u>

Communications Authority of Kenya
Notes to the Financial Statements (Continued...)
For the Year Ended June 30 2014

	2014	2013
	Kshs'000'	Restated Kshs'000'
8. Repairs and Maintenance		
Property	69,807	20,996
Equipment	14,884	17,065
Motor Vehicles	5,285	4,145
Total Repairs and Maintenance	89,976	42,206
9. General expenses		
Training	125,897	112,782
Enforcement & Compliance	13,021	19,592
Computer software	33,064	14,650
Corporate affairs	14,865	312,570
Consumer Affairs	68,690	5,276
Advertising	104,008	-
Meetings and conferences	205,553	-
Exhibitions	59,941	-
Utilities	23,274	14,383
Postage and telephone	23,253	12,417
Rent and Rate	7,058	8,225
Consultancy fees	80,689	40,311
Accrued-Audit fees	1,491	1,788
Legal fees	44,819	21,091
Bank charges	1,707	33,688
Security	37,042	1,375
Insurance	15,802	11,139
Printing and stationery	22,539	21,356
House keeping	6,659	5,284
Periodicals and publications	6,544	3,905
Staff welfare	33,524	39,945
Transport Expense	15,698	11,299
Subscriptions	87,567	90,772
Sporting Activites	21,034	-
Corporate Social responsibility	31,794	32,579
Universal Service Obligation	22,020	24,490
Universal Postal Union-Admin. Council	-	2,190
National Communications Secretariat	80,000	80,000
Communications Appeals Tribunal	485	-
DTC Allowances	39,943	36,155
Broadcasting Advisory Council	-	1,962
Universal Advisory Council	2,996	908
Total general expenses	1,230,978	960,133
10. Gain on sale of assets		
Disposal of assets	613	1,737

Communications Authority of Kenya
Notes to the Financial Statements (Continued...)
For the Year Ended June 30 2014

	2014 Kshs'000	2013 Restated Kshs'000
11. Taxation and Remittance of Surplus		
(a) Taxation charge		
Taxation based on the adjusted profit for the year at 30%	1,509,116	-
	<u>1,509,116</u>	<u>-</u>
(b) Remittance of Surplus		
Remittance of 90%	-	4,967,819
	<u>-</u>	<u>4,967,819</u>
(c) Taxation Account		
At the beginning of the Year	(1,877)	-
Income tax charge for the year	1,509,116	4,967,819
Under/(over) provision in prior year/s	-	-
Income tax paid during the year	(1,822,293)	(4,969,697)
At end of the year	<u>(315,054)</u>	<u>(1,877)</u>
12. Cash and Cash Equivalents		
Bank	9,876,055	9,758,129
Cash-on-Hand	436	
Cash equivalent (Treasury Bills)	500,000	90,000
	<u>10,376,490</u>	<u>9,848,129</u>
13. Receivables from non-exchange transactions		
Licensee fee receivables	1,138,570	868,306
Accumulated Provision for bad and doubtful debts	(244,491)	(244,491)
Total non-current receivables	<u>894,079</u>	<u>623,816</u>
14. Receivables from exchange transactions		
Prepaid expenses	42,770	51,984
Other Receivables	380,612	242,848
Total receivables	<u>423,382</u>	<u>294,832</u>
15. Trade and Other Payables		
Corporation tax at 30%	-	4,964,232
Trade payables	266,534	246,558
Remittance to treasury	2,359,220	-
Universal Service Fund Levy	56,766	-
Accruals- Directors fees	-	-
Audit Fees- accrued	1,491	1,788
Employee Remittances	30,522	44,110
	<u>2,714,532</u>	<u>292,457</u>
16. Payments received in advance		
Annual frequency license fees	5,380	285,383
Annual operating license fees	669,163	3,530
	<u>674,543</u>	<u>288,913</u>

Communications Authority of Kenya
Notes to the Financial Statements (Continued...)
For the Year Ended June 30 2014

17. Property, Plant and Equipment

	Freehold Land	Buildings and Civil Works	Plant and Machinery	Motor Vehicles	Computers & Related Equipment	Office Equipment, Furniture and Fittings	Capital Work In Progress	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
At July 1, 2012	698,723	399,166	12,452	79,471	59,256	494,842	75,714	1,819,624
Additions	-	428	-	5,110	28,136	44,054	90,748	168,476
Transfers/Adjustments	-	21,356	-	-	-	2,858	(24,214)	-
Disposals	-	-	-	(3,150)	(1,683)	(206)	-	(5,039)
At June 30, 2013	698,723	420,950	12,452	81,431	85,708	541,548	142,248	1,983,060
Additions	-	872	3,588	30,627	58,999	32,684	78,591	205,361
Transfers/Adjustments	-	95,076	-	-	-	7,079	(102,154)	-
Disposals	-	-	-	-	-	(2,854)	-	(2,854)
At June 30, 2014	698,723	516,898	16,040	112,058	144,708	578,457	118,684	2,185,567
Depreciation and Impairment	-	54,019	6,735	49,706	41,302	246,458	-	398,220
At July 1 2012	-	10,714	1,141	9,558	13,257	50,694	-	85,365
Depreciation	-	-	-	-	-	-	-	-
Impairment	-	-	-	(3,150)	(1,672)	(186)	-	(5,008)
Disposals	-	64,733	7,876	56,114	52,886	296,967	-	478,577
At June 30, 2013	-	10,286	1,228	11,290	17,485	57,094	-	97,383
Depreciation	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	(2,854)	-	(2,854)
Disposals	-	75,019	9,104	67,404	70,371	351,208	-	573,107
At June 30, 2014	698,723	441,878	6,935	44,653	74,337	227,249	118,684	1,612,460
Net Book Values	698,723	441,878	6,935	44,653	74,337	227,249	118,684	1,612,460
At June 30, 2014	698,723	356,216	4,576	25,317	32,823	244,581	142,248	1,504,483
At June 30, 2013	-	-	-	-	-	-	-	-

Communications Authority of Kenya
Notes to the Financial Statements (Continued...)
For the Year Ended June 30 2014

18. Owners Equity

Owners equity is comprised of the net of assets and liabilities vested to Communications Authority of Kenya by the Government of Kenya following the split of the defunct Kenya Posts and Telecommunications Corporation through Legal Notice Number 155 of 5 November 1999.

19. Notes to the Statement of Cash Flow

a) Cash generated from/(used in) operations

	2014		2013
	Kshs'000		Restated Kshs'000
Surplus for the year before tax	5,030,387		5,519,799
Adjustments for:			
Depreciation of property, plant & equipment	97,383		85,365
Loss/Gain on sale of assets	(613)		(1,737)
Foreign Exchange Gain or Loss	(1,986)		-
Amortisation of Pension	9,824		9,824
Directors Honoraria	(11,250)		(7,700)
Remittance adjustment	(3,587)		
Interest Received	(933,882)		(1,234,747)
	<u>(844,112)</u>		<u>(1,148,995)</u>
Working capital adjustments	<u>4,186,275</u>		<u>4,378,504</u>
Decrease in Prepaid expense			
Increase in receivables from exchange transactions	(137,764)		(10,655)
Increase in receivables from non-exchange transactions	(270,263)		(388,304)
Increase in payments received in advance	385,630		247,932
Increase in trade and other payables	2,421,868		95,345
Net Working Capital Changes	<u>2,399,471</u>	-	<u>(55,682)</u>
Net cash flows from operating activities	<u>6,585,746</u>	-	<u>4,315,122</u>
b) Cash and cash equivalents			
Cash in hand and at bank	9,876,490		9,758,129
Treasury Bills	500,000		90,000
	<u>10,376,490</u>		<u>9,848,129</u>

Communications Authority of Kenya
Notes to the Financial Statements (Continued...)
For the Year Ended June 30 2014

20. Investments

The Authority has no investments in immovable properties / any investments during the Financial Year 2013/2014

21. Taxation and Remittance of 90% of certified Audited net surplus to Treasury

The Authority paid Kshs.4.969 billion as per the Finance Act 2010 and 1.822 Billion corporation tax as per Public Financial Management Act 2012 during the year to the National Treasury and KRA respectively which was as per certified audited accounts for the year ended June 30 2013.

22. Contingent Liabilities

There are ongoing litigations out of the ordinary course of the business of the Authority.

The litigations are part heard and, accordingly, no contingent liabilities are anticipated in respect of the same that may be quantified.

23. Revaluation Reserve and Accumulated Surplus

(a) Revaluation Reserve

The Authority valued its assets in 2006. This was done by a professional valuer.

The valuation due during the year was delayed due unavoidable processes but will be done in the next financial year.

(b) Accumulated Surplus

	2014 Kshs.'000'	2013 Kshs.'000'
Restated At June 30, 2013 (As per note 24 below)	Retained Suplus	Retained Suplus
Total Comprehensive Income	5,588,473	5,051,032
Dividends	3,521,271	5,519,799
Tax Recoverable	-	(4,967,819)
Net Surplus as at June 30 2014	9,109,744	1,877 5,604,890

24. The Comparative items have been restated by the following amounts

	2013 Kshs.'000'
Retained Surplus as at June 30 2014	Retained Suplus
Payment of Directors Honoraria for the year	5,604,890
Accrued Auditors Fees Adjustments	(11,250)
Prepaid Remittance adjustments	298
Tax recoverable transferred to tax account	(3,587)
Restated Net Surplus as at June 30 2013	(1,877) 5,588,473

25. Net surplus Remittance to Treasury

The Authority during the year 2012/13 had proposed to remit 90% of its audited net surplus to The National Treasury in accordance with the Finance Act 2010

	2013 Kshs.'000'
90% of Surplus	Retained Suplus
Prepaid remittance Financial year 2012-13	4,967,819
Remittance to treasury	1,877
	4,969,697

26. Short Term Deposits

	2014 Kshs.'000'	2013 Kshs.'000'
Kenya Commercial Bank	3,064,983	4,310,000
Citi Bank	-	990,000
Cooperative Bank	4,230,000	4,020,816
	7,294,983	9,320,816

27. Events after the reporting period

There are no material non-adjusting events after the reporting date.

