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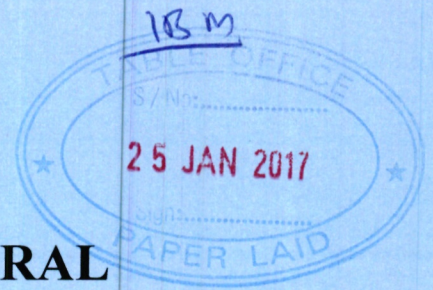
OFFICE OF THE AUDITOR-GENERAL

REPORT

PAPER LAID BY THE  
MAJORITY PARTY LEADER  
(HON ADEN DUARIE, MP)  
ON 25/01/2017

OF

THE AUDITOR-GENERAL



ON

THE FINANCIAL STATEMENTS OF  
NATIONAL COMMUNICATIONS SECRETARIAT

FOR THE YEAR  
ENDED 30 JUNE 2016





**NATIONAL  
COMMUNICATIONS  
SECRETARIAT**

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI

28 DEC 2016

**RECEIVED**

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**NATIONAL COMMUNICATIONS SECRETARIAT**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
30<sup>TH</sup> JUNE 2016**

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

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## **I. KEY ENTITY INFORMATION AND MANAGEMENT**

### **a) Background information**

The National Communications Secretariat was established by Section 84 of the Kenya Information and Communications Act, 1998.

### **b) Principal Activities**

The Principal activity/mission of the Secretariat is defined in the Kenya Information and Communications Act, Section 84(2) of 1998 as to advise the Government on adoption of a communication policy which :-

1. promotes the benefits of technological development to all users of postal and telecommunication facilities;
2. fosters national security, economic prosperity and the delivery of critical social services through posts and telecommunications;
3. facilitates and contributes to the full development of competition and efficiency in the provision of services both within and outside Kenya; and
4. fosters full and efficient use of telecommunication resources including effective use of radio spectrum by the Government in a manner which encourages the most beneficial use thereof in the public interest.

### **c) Key Management**

The Secretariat's day-to-day management is under the following key organs:

- Communication Secretary; and
- Principal Secretary, Ministry of Information, Communication and Technology.

### **d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2016 and who had direct fiduciary responsibility were:

<b>Designation</b>	<b>Name</b>
Acting Communications Secretary	Daniel O. Obam
Communication Legal Expert	Joseph N. Kihanya
Communication Technology Expert	Vincent O. Adul
Human Resources and Admin Officer	Sally Chenyisa Malova
Accountant	Nelly Awinja Nandwa



e) Headquarters

P. O. Box 10756 – 00100  
9<sup>th</sup> Floor Transcom House  
Community –Ngong Road  
**NAIROBI**, Kenya

f) Contacts

Telephone: (254) 20 2719953  
Email: [info@ncs.go.ke](mailto:info@ncs.go.ke)  
Website: [www.ncs.go.ke](http://www.ncs.go.ke)

g) Entity Bankers

Kenya Commercial Bank Ltd  
Capital Hill Branch  
**NAIROBI**, Kenya



h) Auditors

Auditor-General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084  
GPO 00100  
**NAIROBI**, Kenya

i) Principal Legal Adviser

The Attorney General  
State Law Office, Harambee Avenue  
P.O. Box 40112, GPO 00200  
**NAIROBI**, Kenya

j)The Key Management

 <p><b>Eng. Daniel Onyango Obam</b> <b>Acting Communications Secretary</b></p>	<p>D.O.B 20/05/1960</p> <p>Engineer Obam holds a BSc in Electrical Engineering and MSc in Engineering Management. He has wide experience in the ICT industry within the Radio frequency Spectrum and Broadcasting sectors having previously worked in KBC and in WorldSpace Corporation before joining the Secretariat in January 2003.</p>
 <p><b>Eng. Vincent Otieno Adul</b> <b>Communications Technology Expert</b></p>	<p>D.O.B 12/06/1960</p> <p>Engineer Adul holds a BSc in Electrical Engineering, MSc in Information Systems and MSc in Electrical Engineering. He has wide experience in Communications Technology having worked in Kenya Power, Safaricom Limited and Metropol Credit Reference Bureau Ltd, Lectured Computer Science at the department of Electrical and Information Engineering of the University of Nairobi before his appointment to National Communications Secretariat in October 2012.</p> <p>He is a corporate member of the Institute of Engineers of Kenya(IEK), Engineers registration Board(EBK), Member of the Institute of Electrical and Electronic Engineers(IEEE Region 8), and the Institute of Engineering Technology(UK)</p>



**Mr. Joseph Ndung'u Kihanya**  
**Communications Legal Expert**

D.O.B 13/10/1971

Mr. Kihanya holds a LLB and a LLM in Media, Communication and Information Technology Law.


He joined National Communications Secretariat in 2007 after working at Kencell Communications Ltd, Communications Law Centre, United States International University and Council of Legal Education, Kenya School of Law.



**Miss Sally Chenyisa Malova**  
**Human Resources and Administrative  
Officer**

D.O.B 11/03/1977

Sally Chenyisa Malova is a Human Resources professional and qualified communicator having worked in sectors of Information Communications Technology and Petroleum industries in various organizations in Eastern Africa region. Sally has worked as the Human Resources and Administrative Officer at the National Communications Secretariat since 2003. Previously, she was the General Manager at the Petroleum & Industrial Services Ltd –Uganda & Rwanda. Sally has over 10 years-experience having competently worked in managerial positions in Quality Management, General Management and Human Resource Management.

		<p>D.O.B 09/08/1982</p> <p>Nelly Nandwa is a Certified Public Accountant of Kenya</p> <p>Nelly joined National Communications Secretariat in 2005.</p>	
<p><b>Miss Nelly Awinja Nandwa</b> <b>Accountant</b></p>			

## II.REPORT OF THE COMMUNICATIONS SECRETARY/CHIEF EXECUTIVE OFFICER

### a) Introduction

During the 2015/2016, the National Communications Secretariat experienced budgetary constraints owing to inadequate funding that had persisted from 2014/2015. Once again, the approved budget for the Secretariat was far below what had been requested for. These challenges have, however, not hampered the Secretariat in participating and executing its mandate at national regional or international levels. The activities at these level have involved participation in deliberations at policy, legal and regulatory levels in addition to projects. For example, we have continued to support the Kenya Broadcasting Corporation in the APD Project for rollout of sites to extend and enhance the footprints for digital terrestrial TV reception, assisted the Ministry of ICT in making presentations on legal instruments at the relevant National Assembly and Senate Committees, continued to participate in conjunction with the ICT regulator, Communications Authority of Kenya in various National Preparatory Committee for Radio Communications, Standardization and Development among others.

### b) National, Regional and International Activities

The Secretariat was able to successfully execute its mandate through effective participation in the following national and international activities:-

- ❖ The commencement and coordination of the review of the National ICT Policy 2006;
- ❖ Participation within the ICT Cluster of the Northern Corridor Integration Projects (NCIP). The particular emphasis were on Data Accessing Frameworks, promotion of reduction of data roaming charges within the One Network Area ;
- ❖ Development of Guidelines for One Network Area for Telecommunications within the Northern Corridor Region;
- ❖ Participation in the review of Broadcasting Regulations;
- ❖ Participation in the ongoing development of the National Addressing System Policy;
- ❖ Participation in the ongoing deliberations on the Data Protection, Access to Information and Computer and Cyber Crime Bills which are before the National Assembly and Senate;
- ❖ Participation in the World Radio Conference 2015(WRC-15) as delegates of the Government of Kenya.
- ❖ Coordinate the participation in the GSMA World Congress, 2016 by the Ministry of ICT
- ❖ Participation in ICANN activities as Kenya government representative in the Governance Advisory Council (GAC) of Internet Corporation for Assigned Names and Numbers (ICANN)
- ❖ Providing technical support for the ongoing KBC, APD Project for rollout of digital sites as means of extension and enhancement of the Digital Terrestrial Television (DTT) footprint to unserved and underserved areas of the country.

The Secretariat successfully executed its advisory role in the above undertakings and progressed them upstream for necessary action.

### **c) Internal Operational Activities**

During the year under review, the Secretariat continued to support its ageing fleet of three (3) vehicles that it has owned since 2006/2007 fiscal due to inadequate budgetary allocation to enable replacement. It is our hope and wish that funds permitting, we should be able to dispose and replace these units going forward, as with time, they are becoming less and less efficient occasioning high maintenance costs. It was also established that there was a need to strengthen and also allow for succession planning and to this end the Secretariat has been involved in the process of preparing the necessary plans for

restructuring and capacity enhancement of the institution, during the 2016/2017 Financial Year.

This has been informed by the ever changing ICT sector and demand for rapid research in policy, legal and regulatory issues that affect the regional and global arena, requiring fast turnaround of policy advisory if the nation is to keep pace with the rapid technological changes.

### **III. CORPORATE GOVERNANCE STATEMENT**

The National Communications Secretariat upholds good corporate governance principles at all times and recognizes the need to conduct its affairs and operations with fairness, honesty, accountability and transparency in its operations.

Currently as constituted, the Secretariat does not have a board but as a statutory body, is headed by the Communications Secretary who is answerable to the Principal Secretary of the parent ministry i.e. currently the Ministry of Information Communication and Technology. The Secretariat has four key divisions headed by Experts and are supported by a Human Resource and Administrative section. These divisions are:-

- ❖ Radio Spectrum Policy and Management Division.
- ❖ Communication Technology Division.
- ❖ Communication Economics Division.
- ❖ Communications Legislation and Treaties Division.

All members of key management have extensive experience in their areas of expertise in private and public sectors that is applied in executing its statutory mandate which entails providing prompt, timely and objective policy advisory services on ICTs to the Government through the Ministry of ICT.

In pursuit of the laid down regulations, the Secretariat has ensured that it adheres fully to established policy and regulatory frameworks governing public institutions. As an example, pursuant to the Accounting Standards, the Secretariat has successfully adopted and reported its accounts using the International Public Sector Accounting Standards (IPSAS).



Further, the Secretariat has ensured full compliance with the migration of its procurements to the e-Procurement platform using the Integrated Financial Management Information System (IFMIS) portal.

In addition, pursuant to the newly enacted Public Procurement and Disposal Act 2015, efforts have been channeled towards putting in place logistics to execute and oversee all matters of procurement in accordance with the Act.

#### **IV. CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

In executing its mandate, National Communications Secretariat is committed to upholding ethical and responsible principles in its advisory role in order to contribute to advancement of ICT sector while improving the quality of life of its employees and their families which in turn impacts the local community and the society at large.

The Secretariat continues to mentor university students majoring in ICT-based programmes through its Internship Program. Tertiary students from accredited Universities who apply for internship are inducted following successful interviews. The Secretariat team participated in major international events key amongst them is the ITU World Radio Communications Conference 2015(WRC-15), where the current Ag. Communications Secretary Eng. Daniel Obam, holding the current chair of the Radio Communications Advisory Group, was elected to the Chair of the African Group during the conference. The Communications Legal Expert, Mr. Joseph Kihanya currently represents the Government of Kenya in the Government Advisory Council (GAC) in ICANN.

A crucial focus of the Secretariat's Corporate Social Responsibility during the coming years will be on conservation of the environment with emphasis on e-waste management. This will be our contribution towards reducing e-waste effluent discharge and negative externalities to the environment as part of our collective effort to reduce the national carbon footprint.

If our budgetary resource allow we hope that FY 2016/2017 will be a more successful year in identifying and executing a good Corporate Social Responsibility programme(s).

## **V.STATEMENT OF ACCOUNTING OFFICER RESPONSIBILITIES**

Section 84 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Accounting Officer to prepare financial statements in respect of the Secretariat, which give a true and fair view of the state of affairs of the Secretariat at the end of the financial year/period and the operating results of the Secretariat for that year/period. The Accounting Officer is also required to ensure that the Secretariat keeps proper accounting records which disclose with reasonable accuracy the financial position of the Secretariat. The Accounting Officer is also responsible for safeguarding the assets of the Secretariat.

The Accounting Officer is responsible for the preparation and presentation of the Secretariat's financial statements, which give a true and fair view of the state of affairs of the Secretariat for and as at the end of the financial year ended on 30<sup>th</sup> June, 2016. 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 entity;
- (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 Secretariat;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

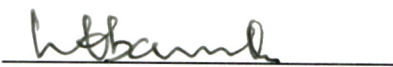
The Accounting Officer accepts responsibility for the Secretariat's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act.

The Accounting Officer is of the opinion that the Secretariat's financial statements give a true and fair view of the state of National Communication Secretariat(NCS) transactions during the financial year ended 30<sup>th</sup> June , 2016, and of the Secretariat's financial position as at that date. The Accounting Officer further confirm the completeness of the accounting records maintained for the Secretariat, which have been relied upon in the preparation of the Secretariat's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Accounting Officer to indicate that the Secretariat 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 Secretariat's financial statements were approved by the Management on \_\_\_\_\_31<sup>st</sup> July \_\_\_\_\_ 2016 and signed on its behalf by:



**Ag. Communications Secretary**



**Principal Secretary**

Date: 09/12/16

Date: 22/12/2016

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON NATIONAL COMMUNICATIONS SECRETARIAT FOR THE YEAR ENDED 30 JUNE 2016

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of National Communications Secretariat set out on pages 14 to 33, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **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 47 of the Public Audit Act, 2015.

#### **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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions. 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

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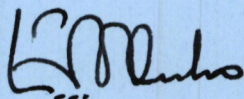
*Report of the Auditor-General on National Communications Secretariat for the year ended 30 June 2016*

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 Secretariat'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 audit opinion.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of National Communications Secretariat as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Information and Communications Act, Cap 411A of the Laws of Kenya.



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

**Nairobi**

**13 December 2016**

**VI. AUDITORS REPORT**

**VII. STATEMENT OF FINANCIAL PERFORMANCE**  
For the year ended 30<sup>th</sup> June 2016

	Note	2015-2016 Kshs	2014-2015 Kshs
<b>Revenue from non-exchange transactions</b>			
Government Grants	3	80,000,000	75,648,960
<b>Total Revenue from non-exchange transactions</b>		<b>80,000,000</b>	<b>75,648,960</b>
<b>Revenue from exchange transactions</b>			
Bank Interest earned	4	733,184	547,952
Income from disposal of fixed assets	4	17,000	42,850
<b>Total Revenue from exchange transactions</b>		<b>750,184</b>	<b>590,802</b>
<b>Total Revenue</b>		<b>80,750,184</b>	<b>76,239,762</b>
<b>Expenses</b>			
Employee costs	5	56,083,035	55,005,287
Depreciation and amortization expense	6	1,346,132	1,587,342
Administrative and Operating Costs	7	30,291,911	36,072,861
General expenses	8	139,200	139,200
<b>Total expenses</b>		<b>87,860,278</b>	<b>92,804,690</b>
<b>Surplus for the period</b>		<b>(7,110,094)</b>	<b>(16,564,928)</b>

The notes set out on pages 22 to 32 form an integral part of the Financial Statements.

**VIII. STATEMENT OF FINANCIAL POSITION**

As at 30<sup>th</sup> June 2016

<b>Assets</b>		<b>2015-2016</b>	<b>2014-2015</b>
<b>Current assets</b>	<b>Note</b>	<b>Kshs</b>	<b>Kshs</b>
Cash and cash equivalents	9	8,383,515	19,662,723
Receivables from non-exchange transactions	10	6,571,039	6,869,447
		<b>14,954,554</b>	<b>26,532,170</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	3,309,876	3,885,737
Intangible Assets	12	22,712	45,356
		3,332,588	3,931,093
<b>Total assets</b>		<b>18,287,142</b>	<b>30,463,263</b>
<b>Liabilities and Reserves</b>			
<b>Current liabilities</b>			
Trade and other payables from non-exchange transactions	13	8,316,460	11,005,910
<b>Non – Current Liabilities</b>			
Trade and other payables from non-exchange transactions	14	1,972,629	4,096,973
<b>Total Liabilities</b>		10,289,089	15,102,883
<b>Reserves</b>			
Revaluation Reserve			
Capital Replacement Reserve	15	2,946,046	3,198,279
Accumulated Reserves	15	8,382,221	8,382,221
	15(a)	(3,330,214)	3,779,880
		<b>7,998,053</b>	<b>15,360,380</b>
<b>Total liabilities and Reserves</b>		<b>18,287,142</b>	<b>30,463,263</b>



The Financial Statements set out on pages 15 to 18 were signed on behalf of the Management by:

**DANIEL OBAM, HSC**  
**Ag. COMMUNICATIONS SECRETARY**  
**NATIONAL COMMUNICATIONS SECRETARIAT**

**SAMMY ITEMERE**  
**PRINCIPAL SECRETARY, STATE DEPARTMENT**  
**OF TELECOMMUNICATION AND BROADCASTING**  
**MINISTRY OF INFORMATION, COMMUNICATION**  
**AND TECHNOLOGY**

Date.....09/12/16.....

Date.....22/12/2016.....

**VIII. STATEMENT OF CHANGES IN NET ASSETS**

For the year ended 30<sup>th</sup> June 2016

	Revaluation Reserve	Capital Replacement Reserve	Accumulated Reserve	Total
	Kshs	Kshs	Kshs	Kshs
Balance as at 30-Jun-14	4,073,196	8,382,221	20,344,808	32,800,225
Surplus/(deficit)for the period	(874,917)	-	(16,564,928)	(17,439,845)
Transfers to/from accumulated surplus				
<b>Balance as at 30<sup>th</sup> June 2015</b>	<b>3,198,279</b>	<b>8,382,221</b>	<b>3,779,880</b>	<b>15,360,380</b>
Surplus/(deficit) for the period	(252,233)		(7,110,094)	(7,362,326)
<b>Balance as at 30<sup>th</sup> June 2016</b>	<b>2,946,046</b>	<b>8,382,221</b>	<b>(3,330,214)</b>	<b>7,998,053</b>

## IX. STATEMENT OF CASH FLOWS

For the year ended 30<sup>th</sup> June 2016

	Note	2015-2016 Kshs	2014-2015 Kshs
<b>Cash flows from operating activities</b>			
Surplus/Deficit in			
Operations		(7,110,094)	(16,564,928)
<b>Adjustments for non-cash items</b>			
Depreciation and impairment		1,346,132	1,587,342
<b>Operating Surplus before working capital changes</b>		<b>(5,763,962)</b>	<b>(14,977,586)</b>
Decrease in Accounts Receivable	10	298,408	184,433
Decrease in Accounts Payable	13 - 14	(4,813,793)	3,337,978
<b>Net cash flows from operating activities</b>		<b>(10,279,347)</b>	<b>(11,455,175)</b>
<b>Cash flows from investing activities</b>			
Purchase of property	11	(999,861)	(2,505,573)
Purchase of software	12	-	(68,000)
<b>Net cash flows used in investing activities</b>		<b>(999,861)</b>	<b>(2,573,573)</b>
Cash flows from financing activities		-	-
Net cash flows used in financing activities		-	-
<b>Net decrease in Cash and Cash equivalents</b>		<b>(11,279,208)</b>	<b>(14,028,748)</b>
Cash and cash equivalents at 1 July 2015		19,662,723	33,691,471
<b>Cash and cash equivalents at 30<sup>th</sup> June 2016</b>	<b>9</b>	<b>8,383,515</b>	<b>19,662,723</b>

**X. STATEMENT OF COMPARATIVE OF BUDGET AND ACTUAL AMOUNTS**

**For The Year Ended 30<sup>th</sup> June 2016**

	<b>Original budget</b>	<b>Adjustments</b>	<b>Final budget</b>	<b>Actual on comparable basis</b>
	<b>2015-2016</b>	<b>2015-2016</b>	<b>2015-2016</b>	<b>2015-2016</b>
<b>Revenue</b>	<b>Kshs</b>		<b>Kshs</b>	<b>Kshs</b>
	<b>Kshs</b>		<b>Kshs</b>	
Transfers from the Government entities/units	222,782,010	(142,782,010)	80,000,000	80,000,000
Revenue from Exchange Transactions	-	750,184	750,184	750,184
<b>Total income</b>	<b>222,782,010</b>	<b>(143,532,194)</b>	<b>80,750,184</b>	<b>80,750,184</b>
<b>Expenses</b>				
Employee Costs	112,068,905	(55,985,870)	56,083,035	56,083,035
Depreciation and Amortization expense	7,575,000	(6,228,868)	1,346,132	1,346,132
Administrative and Operating Costs	102,859,705	(72,611,457)	30,291,911	30,291,911
General Expenses	278,400	-	139,200	139,200
<b>Total expenditure</b>	<b>222,782,010</b>	<b>(134,826,195)</b>	<b>87,860,278</b>	<b>87,860,278</b>
<b>Surplus/deficit for the period</b>	<b>-</b>	<b>8,705,999</b>	<b>(7,110,094)</b>	<b>(7,110,094)</b>

## **XI. NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 30<sup>th</sup> June 2016**

### **1. Statement of compliance and basis of preparation – IPSAS 1**

The Secretariat'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 and all values are rounded to the nearest one (1) shilling. 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 – IPSAS 23**

##### **Transfers from other government entities**

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.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>th</sup> JUNE  
2016 (CONTINUED)**

**ii. Revenue from exchange transactions – IPSAS 9**

In the course of the financial year, the Secretariat earned interest income from cash deposits in the gratuity savings account. In addition, the Secretariat also earned income from disposal of fully depreciated assets.

**b) Budget information – IPSAS 24**

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 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) Property, plant and equipment – IPSAS 17**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment/revaluation 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 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>th</sup> JUNE 201 (CONTINUED)

The depreciation is calculated on straight line basis and the applicable depreciation rates are as shown below:

▪ Computers and Accessories	30%
▪ Furniture and fittings	12.5%
▪ Motor Vehicles	25%

### **d) Intangible assets – IPSAS 31**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite. The intangible assets are amortized over a period of 3 years at the rate of 33.33% per annum on a straight line basis.

### **e) Provisions – IPSAS 19**

The Secretariat has made provision for Audit fees and Staff Gratuity for the year ended 30<sup>th</sup> June, 2016

### **f) Revaluation Reserve**

The Secretariat created and maintains a revaluation reserve for the motor vehicles .

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE  
2016 (CONTINUED)**

**g) Employee benefits – IPSAS 25**

**Retirement benefit plans**

The Entity provides retirement benefits for its employees under defined contribution plan with the National Social Security Fund. In addition, the Secretariat operates a Gratuity Scheme for its employees. The applicable rate is 31% of basic salary and accrued over a period of three years.

The provision for gratuity for the year ended 30<sup>th</sup> June 2016 has been debited in the Statement of Comprehensive Income while the gratuity outstanding has been reflected in the Statement of Financial Position as at 30<sup>th</sup> June 2016 as accounts payable.

**h) Research and development costs**

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>th</sup> JUNE  
2016 (CONTINUED)**

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

**i) Related parties – IPSAS 20**

The Secretariat regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise of the Principal Secretary, Cabinet Secretary and the other officials of the Government of Kenya.

**j) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank. Bank account balances include amounts held at the Kenya commercial bank at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized employees which were not surrendered or accounted for at the end of the financial year.

**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.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>th</sup> JUNE  
2016 (CONTINUED)**

**l) Significant judgments and sources of estimation uncertainty – IPSAS 1**

The preparation of the Secretariat'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.

**m) 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
- 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

**n) Subsequent events – IPSAS 14**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30<sup>th</sup> June, 2016.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>th</sup> JUNE  
2016 (CONTINUED)**

**3. Transfers from other government entities/units**

	<b>2015-2016</b>	<b>2014-2015</b>
	<b>Kshs</b>	<b>Kshs</b>
Operational grant	80,000,000	75,648,960
<b>Total Government grants</b>	<b>80,000,000</b>	<b>75,648,960</b>

	<b>2015-2016</b>	<b>2014-2015</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>4. Revenue from Exchange Transactions</b>		
Bank interest earned	733,184	547,952
Income from disposal of assets	17,000	42,850
	<b>750,184</b>	<b>590,802</b>

	<b>2015-2016</b>	<b>2014-2015</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>5. Employee Costs</b>		
Employee related costs - salaries and wages	41,115,452	48,324,122
Employee related costs - contributions to pensions and medical aids	14,774,583	6,202,165
Leave allowance	193,000	479,000
<b>Employee costs</b>	<b>56,083,035</b>	<b>55,005,287</b>

	<b>2015-2016</b>	<b>2014-2015</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>6. Depreciation and amortization expense</b>		
Property, plant and equipment	1,346,132	1,587,342
<b>Total depreciation and amortization</b>	<b>1,346,132</b>	<b>1,587,342</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>th</sup> JUNE  
2016 (CONTINUED)**

	<b>2015-2016</b>	<b>2014-2015</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>7. Administrative and Operating Costs</b>		
Travelling - Local	3,215,421	3,504,116
External Travelling, Visa fees and Air ticket	20,589,762	24,282,843
Tuition fees -Local	2,431,151	2,409,242
Tuition fees – External	-	343,525
Stakeholder's Conferences	-	209,967
Research and Assistant	112,500	94,000
Postage, Telephone and Internet	1,263,931	1,302,764
Bank Charges	160,754	132,713
Repairs and Maintenance	-	160,730
Cleaning	257,630	848,478
Office Entertainment	597,381	580,733
Motor Vehicles running Expenses	1,345,118	1,454,701
Printing and stationery	318,263	483,179
Computer software	-	-
Miscellaneous	-	141,150
Uniforms	-	124,720
<b>Total Administrative and Operating Costs</b>	<b>30,291,911</b>	<b>36,072,861</b>
	<b>2015-2016</b>	<b>2014-2015</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>8. General Expenses</b>		
Audit fees	139,200	139,200
<b>Total General Expenses</b>	<b>139,200</b>	<b>139,200</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>th</sup> JUNE  
2016 (CONTINUED)**

<b>9. Cash and Cash equivalents</b>	<b>2015-2016</b>	<b>2014-2015</b>
	<b>Kshs</b>	<b>Kshs</b>
Bank - NCS Current A/C	3,591,121	4,414,349
Bank - NCS Gratuity A/C	4,792,394	15,248,373
<b>Total Cash and Cash equivalents</b>	<b>8,383,515</b>	<b>19,662,722</b>
<b>10. Receivables from non-exchange contracts current receivables</b>	<b>2015-2016</b>	<b>2014-2015</b>
	<b>Kshs</b>	<b>Kshs</b>
Staff debtors	548,539	668,586
Prepayments	6,022,500	6,200,861
<b>Total receivables from non-exchange contracts</b>	<b>6,571,039</b>	<b>6,869,447</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>th</sup> JUNE  
2016 (CONTINUED)**
**11. Property Plant and Equipment**

	Motor Vehicle	Furniture Fittings and Equipment	Computers	Total
Cost	Kshs	Kshs	Kshs	Kshs
As at 1 July 2014	12,511,458	1,913,130	4,681,844	19,106,432
Additions	-	245,393	2,260,180	2,505,573
Disposals	-	(56,690)	(2,021,504)	(2,078,194)
Boarded assets 11(a)	-	-	(580,625)	(580,625)
<b>As at 30<sup>th</sup> June 2015</b>	<b>12,511,458</b>	<b>2,101,833</b>	<b>4,339,895</b>	<b>18,953,186</b>
Additions	-	713,141	286,720	999,861
Disposals	-	-	-	-
<b>As at 1 July 2016</b>	<b>12,511,458</b>	<b>2,814,974</b>	<b>4,626,615</b>	<b>19,953,047</b>
<b>Depreciation and impairment</b>				
As at 1 July 2014	10,474,860	1,052,136	3,759,657	13,373,020
As at 30 <sup>th</sup> June 2015	11,349,777	1,258,175	2,459,497	15,067,449
Depreciation	-	291,247	1,032,242	1,323,489
Revaluation Loss	252,233	-	-	252,233
Disposals	-	-	-	-
<b>As at 30<sup>th</sup> June 2016</b>	<b>11,602,010</b>	<b>1,549,422</b>	<b>3,491,739</b>	<b>16,643,171</b>
<b>Net Book values</b>				
<b>As at 30<sup>th</sup> June 2016</b>	<b>909,448</b>	<b>1,265,552</b>	<b>1,134,876</b>	<b>3,309,876</b>
<b>As at 30<sup>th</sup> June 2015</b>	<b>1,161,681</b>	<b>843,658</b>	<b>1,880,398</b>	<b>3,885,737</b>

11(a) Computers of Cost Ksh 580,625 were boarded for disposal during the financial year 2014-15 but were not disposable as at 30<sup>th</sup> June 2015 because they were fully written off, unserviceable and unprofitable. Therefore they were removed from the fixed assets register. The Ministry of Information, Communications and Technology donated two GK vehicles to the Secretariat in F/Y 2015/16 but the ownership has not yet been transferred to the Secretariat therefore they have not been recorded in assets register.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>th</sup> JUNE  
2016 (CONTINUED)**

<b>12. Intangible Assets</b>	<b>QuickBooks computer software 2014/15 Kshs</b>
<b>Cost</b>	
As at 30 <sup>th</sup> June 2015	68,000
Additions	-
Disposals	-
<b>As at 1 July 2016</b>	<b>68,000</b>
<b>Depreciation and impairment</b>	
As at 30 <sup>th</sup> June 2015	22,644
Depreciation	22,644
Disposals	-
<b>As at 30<sup>th</sup> June 2016</b>	<b>45,288</b>
<b>Net Book Values</b>	
As at 30 <sup>th</sup> June 2015	45,356
<b>As at 30<sup>th</sup> June 2016</b>	<b>22,712</b>

**13. Current Payables from Exchange  
Transactions**

	<b>2015-2016 Kshs</b>	<b>2014-2015 Kshs</b>
Outstanding Gratuity	8,128,478	10,611,918
NHIF	5,120	5,120
Provision for Audit Fees	139,200	139,200
Provision for leave allowance	-	88,000
Accrued expenses	43,662	161,672
<b>Total Payables</b>	<b>8,316,460</b>	<b>11,005,910</b>

**14. Non-Current Payables from  
Exchange Transactions**

	<b>2015-2016 Kshs</b>	<b>2014-2015 Kshs</b>
Outstanding Gratuity	1,972,629	4,096,973
	<b>1,972,629</b>	<b>4,096,973</b>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE  
2016 (CONTINUED)**

**15. Reserves**

	<b>2015-2016</b>	<b>2014-2015</b>
	<b>Kshs</b>	<b>Kshs</b>
Revaluation Reserves	2,946,046	3,198,279
Capital Replacement Reserves	8,382,221	8,382,221
Accumulated Reserves	(3,330,214)	3,779,880
<b>Total Reserves</b>	<b>7,998,053</b>	<b>15,360,380</b>

During the year motor vehicles were revalued at Ksh 2,946,046

**15. (a) Accumulated Reserves**

	<b>2015-2016</b>	<b>2014-2015</b>
	<b>Kshs</b>	<b>Kshs</b>
Balance B/F	3,779,880	20,344,808
Deficit for the Year	(7,110,094)	(16,564,928)
<b>Total</b>	<b>(3,330,214)</b>	<b>3,779,880</b>



Reference 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)
		in the management letter			
Payroll Preparation	It was observed that the Secretariat payroll is done using micro-soft excel which can be easily manipulated.	The Human Resource and Administrative officer had submitted a request to the tender committee for acquisition of an effective ERP	Procurement Officer	NOT RESOLVED	2016-2017
Capacity Constraints	It was noted that Key positions at the Secretariat were vacant	The Secretariat made a proposal for restructuring to MOICT, it was approved and sent to CAK for review	Communications /Ag. Communications Secretariat	NOT RESOLVED	UNKNOWN
Administrative and Operating Costs – External Travel	It was observed that more than 90% of the travel expenses was incurred by only three employees	The Secretariat will only attend to important meetings and will detail the budget for each travel	Communications/ Ag. Communications Secretary Experts	ONGOING	2016-17

