REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

FOR THE YEAR ENDED 30 JUNE 2018

ICT Authority

INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

Table of Content
Page

I.	KEY ICT AUTHORITY INFORMATION AND MANAGEMENT	ii
II.	THE BOARD OF DIRECTORS	vi
III.	MANAGEMENT TEAM	x
IV.	CHAIRMAN'S STATEMENT	xiv
V.	REPORT TO THE CHIEF EXECUTIVE OFFICER	xvi
VI.	CORPORATE GOVERNANCE STATEMENT	xviii
VII.	MANAGEMENT DISCUSSION AND ANALYSIS	xi
VIII.	CORPORATE SOCIAL RESPONSIBILITY STATEMENT	xxvi
IX.	REPORT OF DIRECTORS	xxvii
X.	STATEMENT OF DIRECTORS' RESPONSIBILITIES	xxviii
XI.	REPORT OF THE AUDITOR GENERAL FOR THE YEAR ENDED 30 JUNE 2018	xxx
XII.	STATEMENT OF FINANCIAL PERFOMANCE	1
XIII.	STATEMENT OF FINANCIAL POSITION	2
XIV.	STATEMENT OF CHANGES IN NET ASSETS	3
XV.	STATEMENT OF CASHFLOWS	5
XVI.	STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS	6
XVII.	NOTES TO THE FINANCIAL STATEMENTS	8
XVIII.	APPENDIX I: PROGRESS OF FOLLOW UP OF AUDIT RECOMMENDATIONS	40
XIX.	APPENDIX II: PROJECTS IMPLEMENTED BY THE AUTHORITY	46
XX.	APPENDIX III:INTER ENTITY TRANSFERS	47
XXI.	APPENDIX IV: REVOLVING FUND ARREAS LIST	49

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), The Kenya ICT Board, 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 2018 and who had direct fiduciary responsibility were:

	Name	Designation
1.	John Sergon, EBS	Ag. Chief Executive Officer (appointed in April 2018)
2.	Robert Mugo	Ag. Chief Executive Officer up to March 2018
3.	Eunice Kariuki	Director Partnerships, Innovation and Capacity Development
4.	Paul Ronoh	Director Programmes and Standards
5.	Felix Ongaga	Director Corporate Services(left ICTA in July 2017)
6.	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.

(f) ICT Authority Headquarters

P.O Box 27150-00100
Telposta Towers
12th Floor, Kenyatta Avenue
Nairobi, Kenya

ICT Authority Contact

Tel: +254-20-2089061
Nairobi, Kenya
Email: communications@ict.go.ke
Website: www.icta.go.ke

(g) Banker

Citibank NA, Citibank House, Upper Hill Road,
P.O Box 30711-00100
Tel: +254-20-2711221
Nairobi, Kenya

Kenya Commercial Bank
Kencom House, Moi Avenue,
P.O. Box 48400-00100,
Nairobi, Kenya

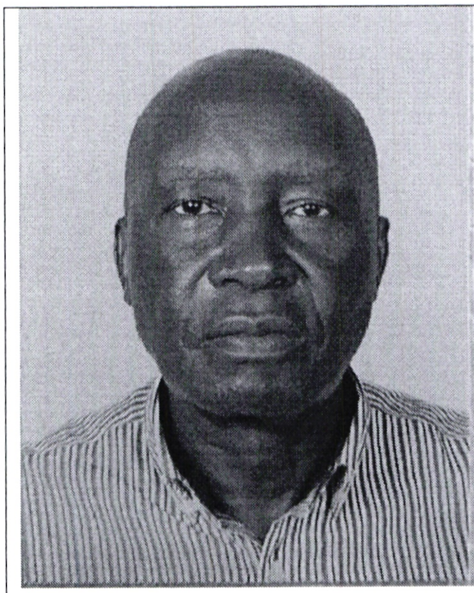
(h) Independent Auditor

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

(i) Principal Legal Adviser

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

II. THE BOARD OF DIRECTORS

	**Hon. Edwin Yinda** is the Chairman for ICT Authority. He was appointed Chairman on 18 April 2018. He is a businessman and a former Member of Parliament. He has worked for various shipping companies. He has held various positions including; Managing Director and shareholder of Span Freight Shipping Ltd, Director and Shareholder of Cent Savvy Investments Ltd, Chairman and Main shareholder Venus Tea Brokers Ltd, Chairman and Executive Director Supply Linkages Ltd, Board Member St. Andrews school, Turi and Trustee of Wema Centre He holds a diploma in Port and Shipping Administration from the University of Wales, United Kingdom
	**Mr. Jerome Ochieng** is the Principal Secretary for ICT and Innovation. Until his appointment, he was the 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 the Institute of Management Information Systems (IMIS), UK.

II. THE BOARD OF DIRECTORS (continued)

Abraham Ondeng is the alternate to the PS Ministry of Information, Communications and Technology. He is the Deputy Secretary in the State Department of ICT and Innovations, Ministry of ICT. He has over 15 years' experience in the field of administration and project management in the ministry.

He has been involved in the conceptualization and implementation of various ICT projects. He has also been involved in the preparation of various policy documents. He served in Konza Technopolis Development Authority as Director of Management services and in the Ministry as Assistant Secretary, Undersecretary before rising to the position of Deputy Secretary.

He holds Masters in Business Administration from ESAMI/MAASTRICT School Of Management and currently pursuing a Masters in Project Planning and Management from University of Nairobi. He is a Member of KIM as well as a Member for African Association for Public Administration and Management

Eng. Eliud Waithaka is the alternate to the PS Ministry of Land, Housing and Urban Development. He is the 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)

II. THE BOARD OF DIRECTORS (continued)

Stanley Kamunguya is the alternate to the PS The National Treasury and Ministry of Planning. He is the Ag. Director, Integrated Financial Management Information System (IFMIS) at The National Treasury.

He is experienced and trusted IT Professional with a good mix of business and technical skills gained in over Twelve years of IT Consulting with a focus on Business & IT Transformations, Business development and project management in both private and public sector projects. A team leader focused on meeting business needs by delivering excellent service and effectively prioritizing multiple mission critical tasks..

He holds of a Bachelor's degree in Computer Science and Engineering, PMP, ITIL v3, CISA, CRISC among other professional qualifications.

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 South-eastern University, Washington D.C. Ms Sirma has also published in different journals in the area of Cyber Security/Information Security. She is a member of Institute of Electrical and Electronics Engineers (IEEE).

II. THE BOARD OF DIRECTORS (continued)

	**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.

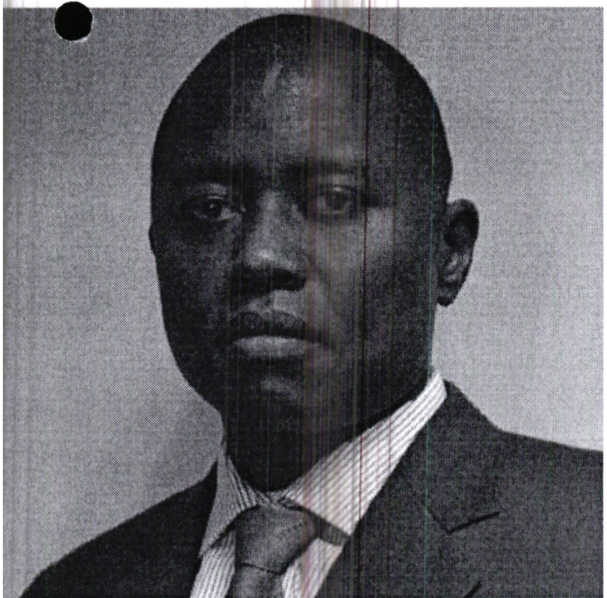
III. MANAGEMENT TEAM

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 as 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 served 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.

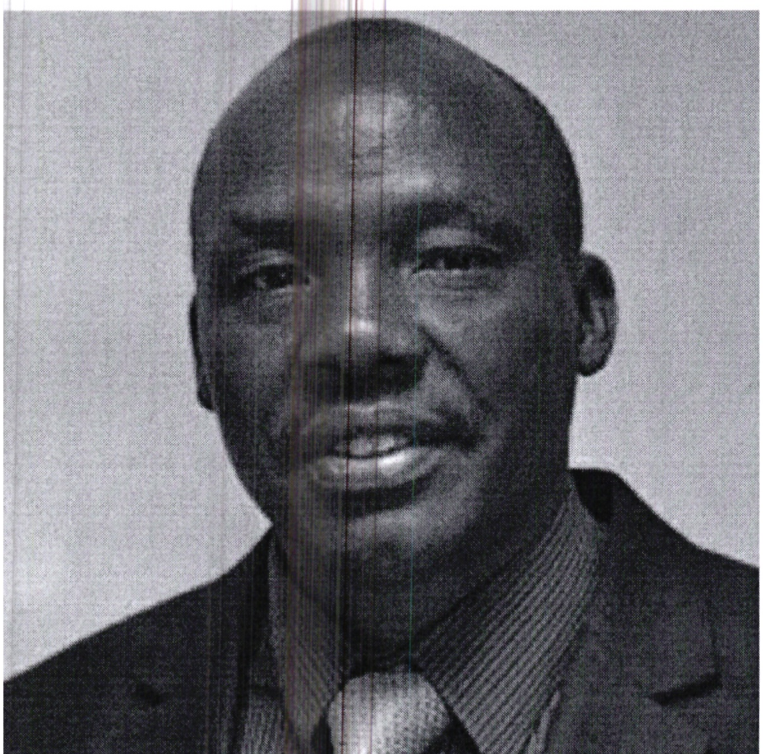
He was awarded Elder of Burning Spear (EBS) 2nd Clause on 12th December, 2000 for distinguished service to the Republic Service as well Most Valuable Player (MVR) from University of District of Columbia, DC in 1988



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 6 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). He left ICT Authority in July 2017.

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 2017/2018, 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 Eastern Africa Regional Transport, Trade and Development Facilitation (EARTTDF), numerous other private sector stakeholders and the academia.

IV. CHAIRMAN'S STATEMENT (continued)

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.

Hon. Edwin Yinda

CHAIRMAN

V. REPORT OF THE AG. CHIEF EXECUTIVE OFFICER

The ICT Authority is now on its fifth 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 filed 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 Eastern Africa Regional Transport, Trade and Development Facilitation (EARTTDF). 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

V. REPORT OF THE AG. CHIEF EXECUTIVE OFFICER (continued)

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.

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 compiles 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.

The conduct of the Board is governed by the terms of a Board Charter ensuring that its role is independent from that of management. It covers Board responsibilities, the conduct of meetings, conflict of interest, Board effectiveness and evaluation and information confidentiality among other matters.

The Board meets quarterly or more often if business so dictates. During its meetings it considers reports from the various board committees and matters related to the general strategy of the Company.

Committees of the Board

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

VI. CORPORATE GOVERNANCE STATEMENT (continued)

i. Human Resource Committee
ii. Finance Committee
iii. e-Gov/ITES Committee
iv. Audit Committee

The mandate of each committee is explained in part I (e) above.

Board Meetings

The Board has a work plan in place. Meetings of the full Board are held at least once every quarter. The notice agenda and Board papers are circulated in advance of each meeting.

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

VI. CORPORATE GOVERNANCE STATEMENT (continued)

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

1. Financial Performance

The Authority had requested for Ksh.8,571 million from the National Treasury through the line Ministry MOICT to cater for recurrent expenditure and project expenses, KShs. 134 Million for recurrent expenses, KShs. 136 million for Presidential Digital Talent Programme (PDTP), KShs. 550 Million for Shared Services, KShs. 6,704 million for Digital Learning Programme (DLP) and Ksh.25 Million for NOFBI. Other funds requested were KShs. 15 million and 800 million for TCIP and EARTTDF respectively which are 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 requested for a supplementary budget but received a total budget of KShs. 7,166 million after a budget cut of KShs.1,405 million during the supplementary budget. However the Ministry also gave KShs. 370,000,000 for NOFBI 11 Expansion project which is kept in an escrow account as per the EXIM bank of China and the Government of Kenya agreement. The project is estimated to end on March 20th 2020. The Total expenditure for the period was KShs. 6,304 Million against an actual income of KShs.6,855 resulting into a surplus of KShs.550 million.

2. Operational Performance

The Authority is tasked with the responsibility of rationalising and streamlining the management of all Government of Kenya ICT functions. Our broad mandate entails enforcing ICT standards in Government and enhancing the supervision of its electronic communication. We also promote ICT literacy, capacity, innovation and enterprise in line with the Kenya National ICT Masterplan 2017.

Some of the core functions and from which the performance indicators are derived from include:

- Set and enforce ICT standards and guidelines for the human resource, infrastructure, processes and system and technology for the public office and public service including deployment and management of all ICT staff in the public service;
- Facilitate and regulate the design, implementation and use of ICTs in the public service;
- Promote ICT literacy and capacity;
- Promote e-Government services;
- Facilitate optimal electronic, electronic form, electronic record and equipment use in public service
- Promote ICT Innovation and enterprise;
- Establish, develop and maintain secure ICT infrastructure and systems
- Supervise the design, development and implementation of critical ICT projects across the public service.

Implement and manage the Kenya National Spatial Data Initiative

SECTION B

Entity's compliance with statutory requirements

ICT Authority is fully compliant with the statutory laws and regulations. There are no major non-compliance concerns that may expose the entity to potential contingent liabilities. There is one case between ICT Authority and Osano & Associates where if the court rules against ICT Authority, there will be a negative exposure to the Authority's current and future operations of KShs 64 million.

In addition, 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 Financial period ending June 30th 2018.

SECTION C

Key projects and investment decisions the entity is planning/implementing

The key Project that is currently being implemented is East Africa Regional Transport, Trade and Development Facilitation Project (EARTTDFP) which is a regional initiative agreed and jointly financed by the Government of Kenya and the International Development Association for the component to be implemented by the Kenya Government agencies.

PROJECT OBJECTIVES

Through this project of East Africa Regional Transport, Trade and Development Facilitation Project, the Government of Kenya aims at achieving the following development objectives:

1. Contribute to extend the geographic reach of broadband networks including enhanced international connectivity for both South Sudan and Kenya; and
2. Contribute to improved delivery of public services.

ICT COMPONENT

The ICT component in the EARTTDFP project is to enhance internet connectivity through construction of approximately 600 kilometers of high capacity fiber optic cable and associated connections alongside the Eldoret to Nadapal - Nakodok road with provision for fiber spurs and rings to connect schools, hospitals, other strategic locations including pastoralist road side markets, export processing zones, rest stops, community centers and service centers along the Nadapal- Nakodok road.

PROJECT ACTIVITIES

1. Enhance capacity building along the Eldoret to Nadapal - Nakodok route for communities to appreciate and understand the importance of information and communication infrastructure;
2. Educate the communities the benefits of adopting information technology in to everyday life;

3. The Construction of the link between Eldoret to Lokochogio will ensure service continuity in case the Eldoret to Nadapal – Nakodok optic fiber cable is cut;
4. Construction of approximately 600 kilometers of high capacity fiber optic cable along the Eldoret to Nadapal - Nakodok road;
5. Placement of point of presence equipment along the Eldoret to Nadapal - Nakodok development corridor to facilitate connections to schools, hospitals, other strategic locations;
6. Provide various spurs and rings to facilitate the ability of other implementing agencies to position their infrastructure as part of the development of a smart roads network.

STATUS

- Contract signed- **June 22, 2018** for the rehabilitation of the Optic Fibre Cable: Eldoret- Nadapal optic fibre cable;

UPCOMING PROCUREMENTS

- Main Cable- Optic Fibre Cable- Eldoret- Nadapal/ Nakodok route. Planned advertisement date- **last week of August 2018**
- Consultancy Services- policy and business model for the commercialization of optic fibre services along the Eldoret- Nadapal route. Planned advertisement date- **August 7, 2018.**

SECTION D

Major risks facing the entity
1. 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
2. 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 cash and cash equivalents are available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Authority's reputation. Prudent liquidity risk management strategies that the Authority has put in place includes (i) prospectively assessing the need for funds to meet obligations and (ii) ensure the availability of cash to fulfill those needs at the appropriate time by coordinating the various sources of funds available to the Authority under normal and stressed conditions.

3. Operational risks arises from the execution of the Authority's day to day functions towards achieving its objectives. Examples of such risks include cyber risk, data security, IT Failure, insufficient internal controls etc. The Authority has taken these measures to mitigate such risks (i)enhanced organizational capability in ensuring safety of staff (ii) staff sensitization on adherence to internal policies under various departments such as Finance, Human Resources and Procurement(iii)continuous upgrade of current infrastructure to prevent and minimize IT related risks such as computer hacking.

SECTION E

Material arrears in statutory/financial obligations

The Authority has a pending bill of KShs. 806,548,222 relating to IBM research lab, Oracle, Professional Marketing services and Microsoft.

SECTION F

The entity's financial probity and serious governance issues

There are currently no major financial improbity facing the Authority during the quarter under review. There are also no serious governance issues among the Board of Directors and top management including conflict of interest. This is because the Authority has in place strong corporate governance structures.

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, 2018 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, 2018 are set out on page 1 to 39.

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: ......22/01/2019......

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 30,2018 .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, 2018, 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.

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

....

Hon. Edwin Yinda
CHAIRMAN, BOARD OF DIRECTORS

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HARAMBEE

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer Opinion

I have audited the accompanying financial statements of Information and Communications Technology Authority set out on pages 1 to 49, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of cash flows and statement 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.

Basis for Disclaimer of Opinion

1. Cash and Cash Equivalents

1.1 Cash Balance Reconciliation

The statement of financial position reflects a balance of Kshs.838,916,829 in respect of cash and cash equivalents as at 30 June 2018. An analysis on bank accounts transactions during the year of the bank accounts whose details are at note 19 (a) to the financial statements revealed differences in expected year end bank balances as shown below:

	Citibank GoK Account Kshs.	Citibank PDTP Account Kshs.
Opening Balance	191,791,936	27,837,987
Add:		
Receipts during the Year	961,671,231	107,350,298
Less:		
Payments during the Year	(948,218,516)	(125,376,142)
Expected Closing Balance	169,244,651	9,812,143
Recorded Closing Balance	135,352,802	32,983,089
Difference	33,891,848	(23,170,946)

The above differences have not been explained or reconciled.

1.2 Board of Survey-Cash Balance

No Board of Survey was conducted as at 30 June 2018. Further, it is not possible to confirm the reported cashbook balance for the bank accounts as the actual balances as at 30 June 2018 as the cashbook had not been verified as at that date by persons independent of updating transactions in the records.

Under the circumstances, the cash and cash equivalents balance of Kshs.838,916,829 as at 30 June 2018 could not be ascertained.

2. Unexplained and Unsupported Adjustments

The financial statements submitted to the Auditor General on 28 September 2018 were revised and an amended set submitted on 22 January 2019. However, the movements on certain accounts balance between the first set and the final set as detailed below were not supported by fully explained adjustments.

Account Name	Final Set Balance Kshs.	First Set Balance Kshs.	Unexplained Difference Kshs
Other Income	10,186,031	0	10,186,031
Employees Cost	195,845,352	218,769,948	22,924,596
Directors Cost	12,720,908	10,330,672	2,390,231
General Expense	93,224,492	81,045,577	12,178,915
Miscellaneous Expenses	9,698,118	0	9,698,118
Unexplained Expenses	0	5,974,410	5,974,410
TCIP Project Expenses	71,614,921	117,470,423	(45,835,502)
EARTTDF IDA Expenses	40,927,785	54,891,676	(13,963,891)
Receivables from Exchange Transaction	876,150,968	877,613,968	1,463,000
Payables from Exchange Transaction	2,017,748,562	2,055,969,755	(38,221,193)
Salaries and Wages	111,693,629	120,800,052	9,106,423
Housing Benefits and Allowances	21,453,424	19,568,272	1,975,152
Travel Motorcar, Accommodation Subsistence and Allowance	10,678,915	15,793,325	(5,114,410)
Chairman's Honoraria	194,667	690,000	765,333
CEOs Salaries	6,654,778	2,766,133	3,888,645
Board Sitting Allowances	2,396,000	1,838112	2,212,188
Other Board Allowances	3,475,463	4,766,432	(1,290,969)
Legal Expenses	2,370,000	870,000	1,500,000
Unexplained Personal Emolument	3,723,708	0	3,723,708

Account Name	Final Set Balance Kshs.	First Set Balance Kshs.	Unexplained Difference Kshs
Shared Services (Government Internet Connectivity and IRU Telcom Services	537,913,070	492,057,567	45,855,503
Grants Receivable	874,263,478	875,726,478	1,463,000
Trade Payable	2,013,866,579	977,825,435	1,036,041,144

In view of the foregoing, the accuracy, completeness and validity of the financial statements as at 30 June 2018 cannot be confirmed.

3. Public Contributions and Donations

The statement of financial performance reflects an amount of Kshs.5,616,529 (2017-Kshs.2,000,000) shown in note 6 to the financial statements in respect of public contributions and donations. However, no documentation was provided to demonstrate the basis of capturing the amounts recorded in the financial statements as they had no contract or any form of agreement between the Authority and the donor.

Consequently, the accuracy, completeness and validity of Public Contributions and Donations balance of Kshs.5,616,529 could not be ascertained.

4. Digital Village Revolving Fund

The statement of financial position reflects an asset of Kshs.45,193,389 in respect of Digital Village Fund. The balance represents loans advanced to entrepreneurs to set up information hubs and were to be repaid within 9 years. However, the balance is in arrears and there has been no collection during the year under review. No provision for impairment of this asset has been created in the financial statements even though recovery is clearly doubtful. Further, the analysis of the composition of the revolving fund balance totalling Kshs.45,193,389 was not made available for audit examination. Additionally, there has been no interest charged on the revolving fund balance even though the loan has remained unpaid for the last twelve months. No documentation was provided for audit verification to support the non-charging of interest to the outstanding loan balance.

Under the circumstances, the accuracy, completeness and validity of the Revolving Fund balance of Kshs.45,193,389 as at 30 June 2018 could not be confirmed.

5. Employee Costs

The statement of financial performance for the year ended 30 June 2018 reflects an amount of Kshs.195,845,352 in respect of employee costs. However, the salaries and wages, housing benefit and allowances as per payroll analysis amounted to Kshs.125,011,767 while salaries and wages, housing benefit and allowances as per note 9 to the financial statements totals to Kshs.133,237,053 with salaries and wages as Kshs.111,693,629 and housing benefits and allowances as Kshs.21,543,424. The resultant difference of Kshs.8,225,286 has not been explained or reconciled.

Further, the employee cost of Kshs.195,845,352 for the year ended 30 June 2018 include salaries and wages totaling Kshs.111,693,629. However, there was a decrease in salaries and wages from Kshs.161,412,876 in the year 2016/2017 to Kshs.111,693,629 resulting in a reduction of Kshs.49,719,247 which has not been explained or reconciled. In addition, the housing benefits and allowances during the year totalled Kshs.21,543,424 while the same expenditure in 2016/2017 was only Kshs.1,910,649 resulting in a variance of Kshs.19,542,775 that was not explained or reconciled.

In consequence, the accuracy of employees cost of Kshs.195,845,352 for the year ended 30 June 2018 could not be ascertained.

6. NOFBI Escrow Account

The statement of financial position and note 24 of the financial statement reflects NOFBI II expansion Escrow Account liability of Kshs.361,619,304 as at 30 June 2018. The Authority holds equivalent monies in an Escrow bank account in respect of the National Optic Fibre Backbone (NOFBI) Project for onward payment to the lenders when loan repayments fall due which as at 30 June 2018 the account also had a balance of Kenya Shillings equivalent of Kshs.361,619,304. However, the financial statements of the Authority do not have any borrowing component reported on its statement of financial position that justifies the creation of this escrow account.

Consequently, the accuracy and justification of the escrow account balance of Kshs.361,619,304 as at 30 June 2018 could not be confirmed as the corresponding loan is not reflected on the financial statements and the completeness of the financial statements could not be confirmed.

7. Transparency Communication Infrastructure Project (TCIP) Expenses

The statement of financial performance for the year ended 30 June 2018 and note 17 to the financial statements reflects a figure of Kshs.71,614,921 in respect of TCIP expenses all of which has been explained to relate to seven consultants allegedly working on IFMIS system and information security system. However, there were no documented contracts of engagement between the Authority and the consultants neither were there any terms of reference for engagement of these consultants that was made available for audit examination. Further, the Authority undertakes payment of the consultants who are not under Authority's jurisdiction of operation and had no basis of determining what the consultants had delivered as there were no pre-agreed performance indicators. Further, the source of funding for the extra expenditure amounting to Kshs.1,614,921 has not been explained since the funding for the project reflected on note 7(b) of the financial statements amounts to only Kshs.70,000,000.

Under the circumstances, it was not possible to confirm the propriety, accuracy and value for money in respect of TCIP expenses totaling Kshs.71,614,921 as at 30 June 2018.

8. Payables from Exchange Transactions

The statement of financial position and note 23 of the financial statements reflects a balance of Kshs.2,017,748,562 in respect of payables from exchange transactions as at

30 June 2018. The balance comprise of trade payables of Kshs.2,013,886,579, audit fees of Kshs.1,392,000 and staff gratuity of Kshs.2,469,983.The trade payables of Kshs.2,013,886,579 has not been fully supported as the listing provided has an unexplained brought forward balance of Kshs.1,616,064,717. Further, the trade payable balance includes audit fees of Kshs.696,000 which is also included as a separate item elsewhere. The listing also has unexplained debits in payables totaling Kshs.415,062,940 that have not been matched to any invoice.

Consequently, the accuracy and validity of the payables from exchange transactions balance of Kshs.2,017,748,562 as at 30 June 2018 could not be confirmed.

9. National Optic Fibre Infrastructure (NOFBI)

The NOFBI project that is being implemented by the Authority is being funded by Export Import Bank of China to the tune of RMB 1,110,000,000 made up of two loans. One of RMB 460,000,000 with management dated 8 October 2012 and the other one amounting to RMB 650,000,000 with the agreement dated 19 May 2016. Although the Authority has started funding the repayment of the loan through the opening and operation of the Escrow account, the loan has not been recorded in the financial statements. Further, though the NOFBI project network is being used by most of the data service providers in the Country, and the project manager was supposed to be bill users to fund the loan repayments. However, there has been no billing done for the last four years it has been operational neither has there been any service provision framework in place between NoFBI project managers and the data/internet service providers who have been using the facility. The Government has therefore been funding the operation of private commercial entities without recovering the cost which amounts to non-prudent use of public resources. No explanation has been provided for the exclusion of the loan in the accounting records.

Under the circumstances, the legality, validity, propriety and justification of the loan totaling RMB 1,100,000,000 (Kshs.16,500,000,000) to be repaid by the Authority and in effect the Kenyan tax payers cannot be ascertained.

10. Miscellaneous Expenses

The statement of financial performance and note 14 to the financial statements reflect miscellaneous expenses of Kshs.9,698,118 (2017- Kshs.167,223,224) as at 30 June 2018. The miscellaneous expenditure of Kshs.9,698,118 includes expenses described as personal emoluments amounting to Kshs.3,723,708 and Travel costs amounting to Kshs.5,974,410 whose nature and supporting documents were not made available for audit review. The amounts allegedly relate to unexplained expenses incurred through fraudulent activities where employees withdrew cash without supporting documentation and charged it to inappropriate expense accounts. Even though the issue which involves a total of Kshs.176,921,342 includes Kshs.167,223,224 for financial year 2016/2017 is under investigation by the Director of Criminal Investigations, the amount has not been recognized as a receivable until the conclusion of the investigation.

In consequence, the accuracy of the surplus for the year totaling Kshs.584,770,086 cannot be confirmed and the accounting treatment of miscellaneous expenses of Kshs.9,698,118 for the year and Kshs.167,223,224 for year 2016/2017 is inappropriate.

11. Unappropriated Expenditure

The general expenses balance of Kshs.93,224,492 for the year ended 30 June 2018 includes travel expenditure amounting to Kshs.2,647,470 that had no justification or basis of incurrence. The expenditure was incurred through imprest advanced to a person not employed by the Authority and therefore could not be justified. Further, the payment of the said imprest was against the provision of Public Finance Management Act, 2015 and Public Finance Management Act (Regulation), 2016.

As a result, the propriety of the general expenses balance of Kshs.93,224,492 for the year ended 30 June 2018 could not be confirmed.

12. Property, Plant and Equipment

The statement of financial position reflects a property, plant and equipment balance of Kshs.25,366,134 as at 30 June 2018. However, the Authority has excluded incurred expenditure on National Optic Fibre Backbone Infrastructure to the extent of RMB 1,110,000,000 from this balance. Further, the intention of the project was to have provision of internet connectivity at reasonable cost throughout the country and although the project was completed in the year 2016 and there has been commercial usage of the cable as evidenced by the fact that there is no revenue that has been reported in the financial statements since the completion of the project. Additionally, although the infrastructure created was to be used to revenue generation for more than one year, the cost of the infrastructure has not been capitalized as property, plant and equipment neither does the Authority maintain an inventory record of where the cable has been installed.

Under the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.25,366,134 as at 30 June 2018 could not be ascertained.

13. Special Grant Expenses

13.1 NOFBI Project Expenses

The statement of financial performance for the year 30 June 2018 reflect special grant expenditure of Kshs.5,838,429,720 which is disclosed on note 16 to the financial statements including National Optic Fibre backbone infrastructure (NOFBI) expenses amounting to Kshs.26,855,207 (2016/2017 – Kshs.40,192,487). NOFBI expenditure includes travel expense for imprest issued to Authority staff and Ministry staff for activities in relation to the project which is being implemented by the State Department of ICT and Innovation and therefore not justified as Authority's expenditure. Although the expenditure is purportedly for undertaking monitoring and evaluation of the projects implementation, no documentation in form of operation framework and annual monitoring and evaluation plan between the State Department of ICT and Innovation and Authority has been provided for audit review to show that the Authority was tasked to undertake monitoring and evaluation activities on behalf of the State Department of ICT and Innovation. In addition, the imprest request were not supported by any requisition from State Department of ICT and Innovation to the Authority requiring them to undertake the monitoring and evaluation activity.

Consequently, the propriety, accuracy and justification of NOFBI project expenditure for the year ended 30 June 2018 of Kshs.26,855,207 could not be confirmed.

13.2 County Connectivity Project Expenses

The statement of financial performance for the year 30 June 2018 reflect special grant expenditure of Kshs.5,838,429,720 which is disclosed on note 16 of the financial statements include County Connectivity Project (CCP) expenses amounting to Kshs.17,057,166 (2016/2017 – Kshs.28,319,396). CCP expenditure relates to travel expense for imprest issued to Authority staff and Ministry staff for a project which is being implemented by the State Department of ICT and Innovation and therefore not justified as the Authority's expenditure. Although the expenditure is purportedly for undertaking monitoring and evaluation of the projects implementation, no documentation in form of operation framework and annual monitoring and evaluation plan between the State Department of ICT and Innovation and Authority has been provided for audit review to show that the Authority was tasked to undertake monitoring and evaluation activities on behalf of the State Department of ICT and Innovation. In addition, the imprest request were not supported by any requisition from State Department of ICT and Innovation to Authority requiring them to undertake the monitoring and evaluation activity.

Consequently, the propriety of CCP project expenditure for the year ended 30 June 2018 of Kshs.17,057,166 could not be ascertained.

13.3 Digital Literacy Programme (DLP) Operations

The statement of financial performance for the year ended 30 June 2018 reflect special grant expenses of Kshs.5,838,429,720 which is disclosed on note 16 of the financial statements and includes Digital Literature Programme Operations expenses amounting to Kshs.207,700,078 (2016/2017-Kshs.276,380,286). The amount relates to the operating costs for the program. The amount however, includes cost of purchase of two vehicles worth Kshs.21,972,001 which were delivered after the year end thereby overstating the expenditure.

Consequently, the propriety and value for money of the Digital Literacy Program Operations expenditure of Kshs.207,700,078 for the year ended 30 June 2018 could not be confirmed.

13.4 Shared Services

The statement of financial performance for the year ended 30 June 2018 indicates special grant expenditure of Kshs.5,838,429,720 which is disclosed on note 16 of the financial statements include shared services expenditure of Kshs.537,913,070 (2016/2017-Kshs.550,000,000). The expenditure relates to Government Internet that had the following issues identified:

i. Expenditure of Kshs.80,000,000 for supply of the IRU Bandwidth from a vendor which has no active supply contract in place and the procurement documentation were not made available for audit review. The figure could also not be supported by any documentation.

ii. Expenditure amounting to Kshs.18,039,693 for maintenance of Government Data Centre Cooling System has been recognized in the expenditure for the year ended 30 June 2018. The expired maintenance contract provided in support of the amount reflects a contract sum payable of Kshs.9,882,052 yielding an unexplained difference of Kshs.8,157,641.

iii. In addition, the maintenance contract which commenced on 28 September 2015 and expired on 27 September 2016 has been extended on two occasions thereby ending on 31 March 2018. The documentation for the procurement process to support the contract extension were not provided for audit examination. It is not possible to ascertain if the extension was in line with procurement regulations.

iv. The expenditure of Kshs.41,464,917 in respect of equipment maintenance at the Government Data Centre is based on an expired contract with an amount contract sum payable of Kshs.24,921,031 resulting in an unexplained variance of Kshs.16,543,886. In addition the maintenance contract which started on 28 September 2015 and expired on 27 September 2016 has been extended twice covering upto 30 June 2018. No documentation was provided to demonstrate the extensions were done in full compliance with the Public Procurement and Disposal of Assets Act 2015 and its regulations.

v. Although it is clear that there was bandwidth procured for use at Government offices across the country at a cost of Kshs.80,000,000, no information was provided to show the utilization of this bandwidth in any Government office detailing the bandwidth available, bandwidth utilized and any surplus. Consequently, it is not possible to determine the propriety and whether there is value for money in the transaction.

In view of the foregoing, the accuracy, completeness, propriety and legality of the special grant expenses of Kshs.5,838,429,720 as at 30 June 2018 could not be ascertained.

14. Eastern Africa Regional Transport, Trade and Development Facilitation Project

14.1 Annual work Plan and Budget

The Annual Work Plan and Budget was not submitted to Donor for approval on 1 May each fiscal year before implementation as required by the Donor- (International Development Association-IDA) Finance Agreement-Schedule 2 F which states that

Annual Work Plan and budget be submitted to Donor for approval on 1st May each fiscal year before implementation.

The project was therefore operating on an unapproved budget thus in breach of the Financing agreement.

14.2 Unrealistic Budget

A comparison of the budget and actual amounts statement confirmed that the budget was very unrealistic especially on project salaries and purchase of goods and services where the unutilized budget were 63% and 83% respectively. No plausible explanations have been provided for this anomaly.

14.3 Delayed Project Implementation

The project was started in November 2015 with an estimated completion date of December 2021. As at the time of audit the project was 50% to completion time wise. The total estimated budget/funding for the project amounts to SDR 18,500,000 (USD 29,500,000) and equivalent Kshs.2,979,795,000 (at the exchange rate of 1USD to Kshs.101.01). The accumulated expenditure up to 30 June 2018 amounts to Kshs.58,405,735 which translates to approximately 1.7% of the estimated budget of the entire project. Expenditure level casts doubt on absorption of the project funds within the project period.

In view of the foregoing, the project might not achieve its objective within the stipulated time.

15. Prior Year Issues

15.1 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.

15.2 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.

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

15.3 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.

15.4 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.

15.5 General Expense

15.5.1 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.

15.5.2 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.

15.5.3 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:

15.6 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.

15.7 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.

15.8 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.

15.9 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.

15.10 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:

15.10.1 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.

15.10.2 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.

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.

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.

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.

15.11 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.

15.12 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.

15.13 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.

15.14 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.

15.15 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:

15.15.1 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 addition, as at 31 March 2019, the dedicated hardware that was procured in 2016 was yet to be installed and operationalized though fully paid for. In addition, the details of distribution of 16,000 user licenses among the Governmental departments for use of shared service platform were not availed for audit verification.

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.

15.15.2 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.

15.15.3 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 in March 2019 revealed that the hardware procured in 2016 was 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.

15.15.4 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 addition, the users and the host department holding the Geographical Information System including what it is being used for and details of its utilization/access since purchase were not provided and therefore could not be verified.

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.

15.15.5 Procurement of Consultancy Services-Tender No.CTA.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.

15.15.6 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.

15.15.7 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.

15.15.8 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.

15.15.9 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.

15.15.10 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. 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 my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1) (a) of the Public Audit Act, 2015. 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 my audit conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards Accrual Basis and for maintaining effective internal 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 and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the International Public Sector Accounting Standards Accrual basis of accounting unless the management either intends to liquidate the or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the 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.

In addition, my responsibility is to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

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

02 April 2019

XI. STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2018

	Note	2017/2018	2016/2017
Revenue from non-exchange transactions			
	Note	KShs	KShs
Public Contributions & Donations	6	5,616,529	2,000,000
Grants income	7	6,846,818,478	21,955,964,489
Revenue from exchange transactions			
Other income	8	10,186,031	21,622,699
Total revenue		**6,862,621,037**	**21,979,587,188**
Expenses			
Employee costs	9	195,845,352	223,893,946
Directors costs	10	12,720,908	14,422,928
Depreciation expense	11	13,352,114	13,352,114
Repairs and maintenance	12	1,139,478	2,026,380
General expenses	13	93,224,492	203,136,419
Miscellaneous Expenses	14	9,698,118	167,223,282
Finance costs	15	898,064	1,935,777
Other Expenses			
Special Grant Expenses	16	5,838,429,720	19,416,330,031
TCIP Project Expenses	17	71,614,921	4,336,318,489
EARTTDF IDA Grants Expenses	18	40,927,785	17,477,950
Total expenses		**6,277,850,951**	**24,396,117,317**
Surplus/(deficit) for the period		**584,770,086**	**(2,416,530,129)**

XII. STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Note	2017/2018 KShs	2016/2017 KShs
Assets			
Current assets			
Cash and cash equivalents	19	838,916,829	334,641,327
Receivables from exchange transactions	20	876,150,967	51,463,000
Pasha Fund	21	45,193,389	45,193,389
		1,760,261,186	**386,104,327**
Non-current assets			
Property, plant and equipment	22	25,366,134	38,718,248
Total assets		**1,785,627,319**	**470,015,964**
Liabilities			
Current liabilities			
Payables from exchange transactions	23	2,017,748,562	1,648,526,597
Non-Current Liabilities			
NOFBI II Expansion Escrow Account	24	361,619,304	-
Total liabilities		**2,379,367,866**	**1,648,526,597**
Net assets			
Accumulated (Deficit)/Surplus	25	(593,740,547)	(1,178,510,633)
Total net assets and liabilities		**1,785,627,319**	**470,015,964**

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

CPA Oliver Pyoko
Manager, Finance and Accounting ....Date....22/01/2019..................

John Sergon, EBS
Ag. Chief Executive Officer ....Date........22/01/2019...............

Chairman, Board of Management ....Date........22/01/2019...............

XIII. STATEMENT OF CHANGES IN NET ASSETS
For the year ended 30 June 2018

	Ordinary share capital	Revaluation reserve	Fair value adjustment reserve	Retained earnings	Proposed dividends	Capital/ Development Grants/Fund	Total
At July 1, 2016	-	-	-	**1,238,019,496**	-	-	**1,238,019,496**
Revaluation gain	-	-	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-	-	-
Fair value adjustment on quoted investments	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	(2,416,530,129)	-	-	**(2,416,530,129)**
Capital/Development grants received during the year	-	-	-	-	-	-	-
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	-	-
Dividends paid – 2016	-	-	-	-		-	-
Interim dividends paid – 2017	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-
At June 30, 2017	-	-	-	**(1,178,510,633)**	-	-	**(1,178,510,633)**
At July 1, 2017	-	-	-	**(1,178,510,633)**	-	-	**(1,178,510,633)**
Issue of new share capital	-	-	-	-	-	-	-
Revaluation gain	-	-	-	-	-	-	-
Transfer of excess depreciation on revaluation	-	-	-	-	-	-	-
Deferred tax on excess depreciation	-	-	-	-	-	-	-
Fair value adjustment on quoted investments	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	584,770,086	-	-	584,770,086
Capital/Development grants received during the year	-	-	-	-	-	-	-

Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	-	-
Dividends paid – 2017	-	-	-	-	-	-	-
Interim dividends paid – 2018	-	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-	-
At June 30, 2018	**-**	**-**	**-**	**(593,740,547)**	**-**	**-**	**(593,740,547)**

XIV. STATEMENT OF CASH FLOWS
For the year ended June 2018

	2017-2018	2016-2017
Cash flows from operating activities	**KShs**	**KShs**
Surplus for the year before tax	584,770,086	(2,416,530,129)
Adjusted for:		
Depreciation	13,352,114	13,352,114
Payables	-	0
	598,122,200	**(2,403,178,015)**
Working capital adjustments:		
Decrease/ (Increase) in receivables	(824,687,968)	6,251,347,051
Increase/ (Decrease) in payables	730,841,269	(4,446,793,682)
Net cash flows from operating activities	**504,275,502**	**(598,624,646)**
Cash flows from investing activities		
Purchase of property, plant and equipment	-	(7,129,407)
Net cash flows used in investing activities	**-**	**(7,129,407)**
Net increase/(decrease) in cash and cash equivalents	**504,275,502**	**(605,754,053)**
Cash and cash equivalents at 1 July	334,641,327	940,395,380
Cash and cash equivalents at 30 June	**838,916,829**	**334,641,327**

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Supplementary I & II	Final budget	Actual on comparable basis	Performance difference	% Variance	Variance Explanatic
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018		
Revenue	KShs	KShs	KShs	KShs	KShs		
GOK Recurrent	341,060,000	0	341,060,000	255,795,000	(85,265,000)	-25%	a
Shared Services	550,000,000	(74,250,000)	475,750,000	475,750,000	0	0%	
NOFBI	25,000,000	95,600,000	120,600,000	120,600,000	0	0%	
Presidential Digital Talent Programme	136,680,000	0	136,680,000	102,510,000	(34,170,000)	-25%	
Digital Literacy Programme	6,704,000,000	(920,586,523)	5,783,413,478	5,783,413,478	0	0%	
TCIP IDA Funds	15,000,000	55,000,000	70,000,000	70,000,000	0	0%	
EARTTDF IDA Funds	800,000,000	(600,000,000)	200,000,000	0	(200,000,000)	-100%	b
County Connectivity Project (CCP)	0	38,750,000	38,750,000	38,750,000	0	0%	
Contributions & Donations	0	0	0	5,616,529	5,616,529	100%	c
Other incomes	0	0	0	10,186,031	10,186,031	100%	q
Total income	**8,571,740,000**	**(1,405,486,523)**	**7,166,253,478**	**6,862,621,037**	**(303,632,440)**		
Expenses							
Employee Costs	248,360,000		248,360,000	195,845,352	52,514,648	21%	d
Director Costs	20,000,000		20,000,000	12,720,908	7,279,092	36%	e
Depreciation expenses	0		0	13,352,114	(13,352,114)	-100%	f
Repair and maintenance	2,000,000		2,000,000	1,139,478	860,522	43%	g
General expenses	69,700,000		69,700,000	93,224,492	(23,524,492)	-34%	h
Finance Costs	1,000,000		1,000,000	898,064	101,936	-100%	i
Miscellaneous Expenses			0	9,698,118	(9,698,118)	-100%	j

Other Expenses							
Shared Services	550,000,000	(74,250,000)	475,750,000	537,913,070	(62,163,070)	-13%	
NOFBI Project	25,000,000	95,600,000	120,600,000	26,855,207	93,744,793	78%	k
PDTP Programme	136,680,000	0	136,680,000	125,376,143	11,303,857	8%	
DLP Programme	6,704,000,000	(920,586,523)	5,783,413,478	5,131,228,134	652,185,344	11%	l
TCIP Project	15,000,000	55,000,000	70,000,000	71,614,921	(1,614,921)	-2%	m
EARTTDF IDA Grants Expenses	800,000,000	(600,000,000)	200,000,000	40,927,785	159,377,720	80%	n
CCP project	0	38,750,000	38,750,000	17,057,166	21,692,834	56%	o
IBM Research Lab	0	0	0	0	(0	100%	p
Total expenditure	**8,571,740,000**	**(1,405,486,523)**	**7,166,253,478**	**6,277,850,951**	**888,402,526**		
Surplus for the period	**-**	**-**	**-**	**584,770,086**	**584,770,086**		

Variance Explanations

a) Quarter 4 recurrent was not released by the National Treasury through the MoICT
b) No funds for EARTTDF were release for the financial year under review.
c) Donations for connected summit and PDTP operations.
d) Employees costs was not exceeded as staff not recruited as required.
e) Less board meetings were conducted.
f) Depreciation was not budgeted for.
g) Less repairs and maintenance done than anticipated.
h) More office consumables purchased than budgeted for.
i) Less bank transactions conducted.
j) The amount is under investigation.
k) Less monitoring and evaluation activities done than anticipated
l) The DLP devices delayed due to delay in release of funds
m) Some of the expenses were paid after the closure of the project.
n) The project was still at the initial stages.
o) Less monitoring and evaluation activities done than anticipated
p) Paid to IBM research lab contract negotiation team
q) The other income relates to exchange loss due to revaluation of oracle bill and the escrow account.

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The ICT 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 2018

Standard	Impact
IPSAS 39: Employee Benefits	**Applicable: 1 January 2018** 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. *The standard had no impact to the entity.*

NOTES TO THE FINANCIAL STATEMENTS (Continued)......................................

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 40: Public Sector Combinations	**Applicable: 1 January 2019:** 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.

iii. Early adoption of standards

The entity did not early - adopt any new or amended standards in year 2018.

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

The entity recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. 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 entity and the fair value of the asset can be measured reliably.

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. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds

ii) Revenue from exchange transactions

Rendering of services

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)...

ii) **Revenue from exchange transactions (continued)**

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.

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the entity's right to receive payments is established.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) **Budget information**

The original budget for FY 2017-2018 was approved by the National Assembly on 24th March 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded reductions of KShs 1.4 billion on the 2017-2018 budget following the governing body's approval.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section XV of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

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.

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.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

NOTES TO THE FINANCIAL STATEMENTS (Continued)...

Transfers are made to or from investment property only when there is a change in use.

e) 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 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	25.0
Furniture and fittings	12.5
Computers and IT equipment	30.0

f) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership

NOTES TO THE FINANCIAL STATEMENTS (Continued)...

of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.
Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

g) Intangible assets

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

i) 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.

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 Entity determines the classification of its financial liabilities at initial recognition.

NOTES TO THE FINANCIAL STATEMENTS (Continued)...

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

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

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.

i) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

j) Provisions

Provisions are recognized when the Entity 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)...

Where the Entity 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 Entity 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.

k) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. The Authority does not maintain any reserves.

l) Changes in accounting policies and estimates

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

m) Employee benefits

Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold

NOTES TO THE FINANCIAL STATEMENTS (Continued)...

sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

n) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors 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 the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

o) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

p) Related parties

The Entity 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 the directors, the CEO and senior managers.

q) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise - any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

r) 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 the Central Bank of Kenya and 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 and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

s) Budget information

The original budget for FY 2017-2018 was approved by the National Assembly on 24th March 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded reductions of KShs. 1.4 billion on the 2017-2018 budget following the governing body's approval.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section xxx of these financial statements.

t) Comparative figures

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

u) 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, 2018.

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

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)......................................

6. PUBLIC CONTRIBUTIONS AND DONATIONS

Description	2017-2018	2016-2017
	KShs	KShs
Huawei Technologies	2,250,000	-
Avanti (Connected Summit)	776,231	-
SAP East Africa Limited (PDTP Operations)	2,590,298	-
Safaricom Ltd		2,000,000
	5,616,529	**2,000,000**
Reconciliation of public contributions and donations		
Balance unspent at beginning of quarter	-	-
Current year receipts	5,616,529	2,000,000
Conditions met - transferred to revenue	-	-
Conditions to be met - remain liabilities	**5,616,529**	**2,000,000**

7(a). TRANSFERS FROM OTHER GOVERNMENTS

Description	2017-2018	2016-2017
	KShs	KShs
Unconditional grants		
Operational grant	-	-
Other	-	-
	-	-
Conditional grants		
National housing grant	-	-
National infrastructure grant	-	-
Provincial health grant	-	-
Social services grant	-	-
Basic services subsidy	-	-
Transportation fund (international funding)	-	-
Other organizational grants	-	-
Total government grants and subsidies	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

7(b). REVENUE FROM MINISTRIES, DEPARTMENTS AND AGENCIES

	2017/2018	2016/2017
	KShs	KShs
GoK Recurrent Funds	255,795,000	317,000,000
Shared Services	475,750,000	550,000,000
GoK NOFBI	120,600,000	25,000,000
IBM Research Lab	0	0
TCIP	70,000,000	3,534,464,489
EARTTDF IDA Grants	0	37,500,000
Presidential Digital Talent Programme	102,510,000	134,000,000
Digital Literacy Programme	5,783,413,478	17,308,000,000
County Connectivity Project	38,750,000	50,000,000
Total	**6,846,818,478**	**21,955,964,489**

NOTES TO THE FINANCIAL STATEMENTS (Continued)...

7(c). TRANSFERS FROM MINISTRIES, DEPARTMENTS AND AGENCIES

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income	Amount deferred under deferred income	Amount recognized in capital fund.	Total grant income during the year	2017-2018
	KShs	KShs	KShs	KShs	KShs
1. Ministry of Information Communication and Technology	6,846,818,478	40,615,054	-	6,887,433,532	6,887,433,532
Total	**6,846,818,478**	**40,615,054**	**-**	**6,887,433,532**	**6,887,433,532**

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

8. OTHER INCOME

Description	2017-2018	2016-2017
	KShs	KShs
Interest Income -Digital Village Revolving Fund	-	21,622,699
Exchange gain/(loss)-oracle and escrow accounts revaluation	10,186,031	
Total other income	**10,186,031**	**21,622,699**

9. EMPLOYEE COSTS

Description	2017-2018	2016-2017
	KShs	KShs
Salaries and wages	111,693,629	161,412,876
Housing benefits and allowances	21,543,424	1,910,649
Employee related costs - contributions to pensions and Gratuity	38,315,923	36,211,638
Medical Expenses	17,990,657	16,079,902
Other Staff Costs	6,301,719	8,278,881
Employee costs	**195,845,352**	**223,893,946**

10. DIRECTORS COSTS

Description	2017-2018	2016-2017
	KShs	KShs
Chairman's Honoraria	194,667	1,371,989
CEO Salaries	6,654,778	4,301,744
Board Sitting Allowances	2,396,000	4,230,000
Other allowances	3,475,463	4,519,195
Total director emoluments	**12,720,908**	**14,422,928**

11. DEPRECIATION

Description	2017-2018	2016-2017
	KShs	KShs
Property, plant and equipment	13,352,114	13,352,114
Intangible assets	-	-
Total depreciation and amortization	**13,352,114**	**13,352,114**

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

12. REPAIRS AND MAINTANANCE

Description	2017-2018	2016-2017
	KShs	KShs
Vehicles	946,717	988,248
Furniture and fittings	71,260	323,570
Computers and accessories	13,500	-
Other	108,000	714,562
Total repairs and maintenance	**1,139,478**	**2,026,380**

13. ADMINISTRATION EXPENSES

Description	2017-2018	2016-2017
	KShs	KShs
Travel, motor car, accommodation, subsistence and other allowances	10,678,915	31,138,773
Advertising, Printing and Supplies	3,509,771	9,102,522
Membership fees, dues and subscriptions	45,700	1,061,138
Audit fees	696,000	696,000
Hospitality supplies and Services	6,613,846	12,168,591
Contracted and Utilities Supplies	3,477,824	4,464,452
Office and General Supplies	14,042,355	58,685,380
Fuel and oil	1,000,358	801,082
Legal expenses	2,370,000	7,875,154
Rent & Parking	45,547,937	39,747,690
Training	5,241,787	37,395,637
Other	-	-
Total general expenses	**93,224,492**	**203,136,419**

14. MISCELLANEOUS EXPENSES

Description	2017-2018	2016-2017
	KShs	KShs
Personal Emoluments	3,723,708	65,045,212
Other Staff Costs		1,745,625
Travel Costs	5,974,410	67,537,503
Digital Literacy Program- Operations		13,009,628
NOFBI		8,355,266
County Connectivity Project		11,892,990
Legal Deposits		(363,000)
Total Unexplained Expenses	**9,698,118**	**167,223,224**

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

15. FINANCE COSTS

Description	2017-2018	2016-2017
	KShs	KShs
Bank Charges	898,064	1,935,777
Total finance costs	**898,064**	**1,935,777**

16. SPECIAL GRANTS EXPENSES

Description	2017-2018	2016-2017
	KShs	KShs
Shared Services (Government Internet Connectivity and IRU Telcom Services)	537,913,070	550,000,000
NOFBI Project	26,855,207	40,192,487
Presidential Digital Talent Program	125,376,143	143,183,776
Digital Literacy Program - Devices	4,923,528,056	18,377,274,086
Digital Literacy Program - Operations	207,700,078	276,380,286
County Connectivity Project Expenses	17,057,166	28,319,396
IBM Research Lab	-	980,000
Total Special Grants Expenses	**5,838,429,720**	**19,416,330,031**

17. TCIP PROJECT EXPENSES

Description	2017-2018	2016-2017
	KShs	KShs
Category 1 (Telecom Services)		3,133,384,811
Category 3 (Consultants)	71,614,921	10,093,223
Category 6 (Capacity Building)		156,028,663
Category 7 (Operating)		1,036,811,792
Total project costs	**71,614,921**	**4,336,318,489**

18. EARTTDF IDA GRANTS EXPENSES

Description	2017-2018	2016-2017
	KShs	KShs
EARTTDF IDA Grants Expenses	40,927,785	17,477,950
Total EARTTDF IDA Grants	**40,927,785**	**17,477,950**

NOTES TO THE FINANCIAL STATEMENTS (Continued)...

19. CASH AND CASH EQUIVALENTS

Description	2017-2018	2016-2017
	KShs	KShs
Current account	477,297,524	334,641,327
Escrow Account	361,619,304	-
Total cash and cash equivalents	**838,916,829**	**334,641,327**

19 (a). DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS

		2017-2018	2016-2017
Financial institution	Account number	KShs	KShs
a) Current account			
Citi Bank GOK Account	300085016	135,352,803	191,791,936
Citi Bank PDTP Account	300085024	32,983,089	27,837,987
Citi Bank EARTTDF	300085035	18,190,148	59,117,933
Citi Bank Project	300085005	0	(122)
Citi Bank DLP Account (USD)	300085043	147,021,485	55,893,593
Kenya Commercial bank (KShs)	1219615692	143,750,000	0
b) Escrow Account			
Kenya Commercial bank (USD)	1219130680	361,619,304	
c) Others(specify)			
cash in hand	-	-	-
	Grand total	**838,916,829**	**334,641,327**

Note: The USD Rate as at 30th June 2018 as per Central Bank of Kenya was 1$=KShs. 101.05

20. RECEIVABLES FROM EXCHANGE TRANSACTIONS

Description	2017-2018	2016-2017
	KShs	KShs
Current receivables		
Staff Advances	424,490	-
Deposits	1,463,000	1,463,000
Grants Receivable	874,263,477	50,000,000
Less: impairment allowance	-	-
Total current receivables	**876,150,967**	**51,463,000**

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

21. Pasha Fund

	2017/2018 KShs	2016/2017 KShs
Pasha Fund	**45,193,389**	**45,193,389**

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 were supposed to pay back the loan for future lending to other entrepreneurs.

The fund balance of KShs. 82,884,004 was refunded to the Authority on 19th May 2017 The amount is included in the Citi Bank GOK Account No. 300085016. The interest income of KShs. 19,581,603 was included in the interest income for 2016/2017 Financial Year. The arrears of KShs 45,193,389 (Appendix IV) has been included as a current asset in the financial statements.

22. Property, Plant and Equipment

Year ended 30 June 2016:	Motor Vehicle KShs	Computers KShs	Office furniture & Equipment KShs	Total KShs
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**
Cost				
As 1 July 2017	10,719,200	20,143,00	85,283,491	116,145,692
Acquisitions/ Addition	-		-	-
At 30 June 2018	10,719,200	20,143,00	85,283,491	116,145,692

Depreciation				
As 1 July 2017	7,645,500	16,672,919	53,109,025	77,427,444
Charge for the year	1,204,500	1,487,178	10,660,436	13,352,114
At 30 June 2018	8,850,000	18,160,097	63,769,461	90,779,558
Net Book Value				
At 30 June 2018	**1,869,200**	**1,982,904**	**21,514,030**	**25,366,134**

23.TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Description	2017-2018	2016-2017
	KShs	KShs
Trade payables	2,013,886,579	1,616,064,717
Audit Fees	1,392,000	696,000
Staff Gratuity	2,469,983	31,765,880
Total trade and other payables	**2,017,748,562**	**1,648,526,597**

24. NOFBI II EXPANSION ESCROW ACCOUNT

Description	2017-2018	2016-2017
	KShs	KShs
Kenya Commercial bank (USD) (A/C No.1219130680)	361,619,304	-
Total trade and other payables	**361,619,304**	-

25. Accumulated Surplus/ (Deficit)

	2017-2018	2016-2017
	KShs	KShs
Accumulated Surplus/ (Deficit) b/d	(1,178,510,633)	1,238,019,496
Adjustment for Payables		0
(Deficit)/Surplus for the year	584,770,086	(2,416,530,129)
Accumulated (Deficit)/Surplus c/d	**(593,740,547)**	**(1,178,510,633)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

26. 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.

27. 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.167 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.

28. FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

NOTES TO THE FINANCIAL STATEMENTS (Continued)...

The entity's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the Directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognized in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

NOTES TO THE FINANCIAL STATEMENTS (Continued)……………………………………………….

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	KShs	KShs	KShs	KShs
At 30 June 2018				
Trade payables	872,781,056	1,143,611,421	-	2,016,392,476
Provisions	-	-	-	-
Total	**872,781,056**	**1,143,611,421**	**-**	**2,016,392,476**
At 30 June 2017				
Trade payables	1,631,692,549	-	16,834,048	1,648,526,597
Provisions	-	-	-	-
Total	**1,631,692,549**	**-**	**6,834,048**	**1,648,526,597**

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)...

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk
The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	KShs	Other currencies	Total
	KShs	KShs	KShs
At 30 June 2018			
DLP USD Account	-	147,021,485	147,021,485
Liabilities			
Kenya Commercial bank (USD)	-	361,619,304	361,619,304
Borrowings	0	0	-
Net foreign currency asset/(liability)	-	**508,640,789**	508,640,789

The entity manages foreign exchange risk form future commercial transactions and recognized assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on Profit before tax	Effect on equity
	KShs	KShs	KShs
2018			
USD	10%	50,864,078	50,864,078
2017			
USD	10%	5,589,359	5,589,359

Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavored to bank with institutions that offer favorable interest rates.

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs 5,086,407 (2016: KShs 558,936). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 25,432,039 (2016 - KShs 2,794,680)

Capital Risk Management

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

29. RELATED PARTY BALANCES

Nature of related party relationships

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Government of Kenya

The Government of Kenya is the principal shareholder of the *entity*, holding 100% of the *entity's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external. Other related parties include:

i) The National Government;
ii) The Ministry of Information Communication and Technology
iii) Key management;
iv) Board of directors

NOTES TO THE FINANCIAL STATEMENTS (Continued)...

RELATED PARTY BALANCE

	2017-2018	2016-2017
	KShs	KShs
Transactions with related parties		
a) Sales to related parties		
Sales of goods to National Government	-	-
Total	-	-
b) Grants from the Government		
Grants from National Government	6,846,818,478	21,955,964,489
Grants from County Government	-	-
Donations in kind	-	-
Total	**6,846,818,478**	**21,955,964,489**
c) Expenses incurred on behalf of related party		
Payments of salaries and wages for employees	-	-
Payments for goods and services for employees	-	-
Total	-	-
d) Key management compensation		
Directors' emoluments	2,798,112	5,601,989
Compensation to the CEO	4,316,914	4,301,744
Compensation to key management staff	15,394,092	15,394,092
Total	**22,509,118**	**25,297,825**

30. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities	2017-2018	2016-2017
	KShs	KShs
Court case Osano against the company	64,000,000	64,000,000
Bank guarantees in favor of subsidiary	0	0
Total	**64,000,000**	**64,000,000**

This is a case between ICT Authority and Osano & Associates where if the court rules against ICT Authority, there will be a negative exposure to the Authority's current and future operations of KShs 64 million.

NOTES TO THE FINANCIAL STATEMENTS (Continued)..

31. DIVIDENDS/SURPLUS REMISSION

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The entity did not make any surplus during the year as the surplus of FY 2017/2018 will be used to pay the pending bills and hence no remittance to the Consolidated Fund.

32. EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

33. ULTIMATE AND HOLDING ENTITY

The entity is a State Corporation under the Ministry of Information Communication and Technology. Its ultimate parent is the Government of Kenya.

34. Currency

The financial statements are presented in Kenya Shillings (KShs).

APPENDICES:

APPENDIX I.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

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)*
1	Going Concern	The Authority does not trade for profit and entirely rely on the Treasury for its operations.	Management	Resolved	
2	Reconciliation of reported income with the income reported at the Ministry of ICT	The ICT Authority recognizes income as received in its bank accounts.	CFO & MFA ICTA	Resolved	
3	Other Incomes- whose source, nature and supporting analysis was not provided for audit review.	Relates to interest income from Revolving fund	MFA	Resolved	
4	Directors Costs- analysis indicating the payees and purpose of payment was not availed for audit review.	Analysis has been availed. The register of attendance, Board minutes and the payment vouchers have been availed for audit review	MFA	Resolved	
5	Unsupported Payment of Legal Fees- whose nature and analysis was not availed for audit review	The analysis and payment vouchers for the legal services have been availed for Audit. However, the Authority had not gotten permission from the Attorney	MFA	Resolved	

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)*
		General to engage the legal firm.			
6	Unsupported Travel Expenditure- whose analysis and supporting documents were not availed for audit review	The surrender forms were not available at the time of the audit.	MFA	ongoing	
7	Suspected loss of funds (KShs 167 Million)	Under Investigation	Ag. CEO & DCI	Ongoing	
8	Digital Literacy Programme - Devices- payment vouchers were not availed for audit review	The Letters of payments totaling to KShs. 16Billion have been availed.	MFA	Resolved	
9	Digital Literacy Program Proof of Concept- was no evidence to show that the laptops were replaced.	To be replaced in 2018/19 FY	Director Programs & Standards	Resolved	
10	Presidential digital talent programme- an amount of KShs. 1,585,583 whose supporting analysis was not availed for audit review.	Analysis has been availed	MFA	Resolved	
11	Shared services figure of KShs. an amount of KShs. 237,861,639 whose supporting documents/analysis were not availed for audit review.	Documents have been availed	MFA	Resolved	
12	County connectivity project expenses whose supporting	Documents have been availed	MFA	Resolved	

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)*
	documents were not availed for audit review				
13	Cash and Cash Equivalents- the respective cash books and bank reconciliation statements were not availed for audit review	cash books and bank reconciliations have been vailed for audit review	MFA	Resolved	
14	Unclear TCIP Expenditure Paid at the National Treasury- not possible to confirm the validity and completeness of TCIP Projects expenses.	Payment Vouchers have been availed	Project Manager & MFA	Resolved	
15	Payables from Exchange Transactions	supplier accounts supporting documents/analysis have been availed for audit review	MFA	Resolved	
16	Statement of Cash Flows- was not possible to confirm the accuracy of the statement of cash flows.	The cash flow statement has been availed for audit review	MFA	Resolved	
17	Transparency Communication and Infrastructure Project (TCIP) Expenses	Documents and analysis have been availed		Resolved	
18	Failure to Withhold or Remit VAT- no documentary evidence in form of withholding tax certificates from	Documents have been availed for audit review	MFA	Resolved	

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)*
	Kenya Revenue Authority (KRA) were availed for audit review				
19	Unclear Refund of PAYE- No satisfactory explanation was provided as to why the consultant was refunded the amount and the source of funding	The consultant had been erroneously deducted PAYE on top of VAT and WHT.	MFA	Resolved	
20	Unsupported IFMIS Training Expenditure	Certificates for the training have been availed for audit review	MFA/HR	Resolved	
21	Unclear Cash Transactions	The first amount of KShs.1,778,875,000 on 18/07/2016 was not a withdrawal but a purchase of US Dollars for the purpose of paying for the devices. The transaction can easily be traced to the dollar account whose bank statement was provided for audit. The second amount of KShs. 1,540,500,000 on 22/01/2016 was not a deposit but an in and out. The amount was withdrawn and deposited back on the same day. The Authority followed	MFA	Resolved	

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)*
		up with the bank and the bank explained that it was a mistake and the email was provided for audit. Transfer of Ksh.85,904,541 from project account to ICT Authority account was for the payment of withheld VAT of 6% on payments that were paid directly from the Treasury. The analysis and details were availed for audit. The Ksh.6,892,088 was part of the Ksh.15M that the authority was granted by the Bank to use on the consultancy fees for the project team that remained behind to close the project.			
22	Digital Village Fund Surrender Value and Accrued Interest	The fund was closed. Management in consultation on how to recover the arrears	Management	ongoing	
23	Failure to fully implement the ERP	The system is being rolled out	Project Manager	ongoing	

John Sergon, EBS
Ag. Chief Executive Officer ....Date....22/1/2019....................

Chairman, Board of Directors ....Date....22/1/2019....................

APPENDIX II: 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. East Africa Regional Transport, Trade and Development Facilitation Project (EARTTDF)		World Bank			Yes

Status of Projects completion

	Project	Total project Cost (KShs)	Total expended to date	Completion % to date	Budget	Actual per quarter	Sources
1	East Africa Regional Transport, Trade and Development Facilitation Project (EARTTDF	2,950 Million	62 million	31st December 2021	200 Million	50 million	World Bank

APPENDIX III: INTER ENTITY TRANSFERS

	ENTITY NAME: ICT AUTHORITY			
	Break down of Transfers from the State Department ICT of Innovation			
	FY 17/18			
a.	Recurrent Grants			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
	Recurrent Grants	27/10/2017	85,265,000.00	2017/2018
	Recurrent Grants	12/4/2018	85,265,000.00	2017/2018
	Recurrent Grants	19/04/2018	85,265,000.00	2017/2018
	PDTP	2/11/2017	34,170,000.00	2017/2018
	PDTP	12/4/2018	34,170,000.00	2017/2018
	PDTP	19/04/2018	34,170,000.00	2017/2018
		Total	**358,305,000.00**	
b.	Development Grants			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
	DLP	4/8/2017	3,076,925,727.50	2017/2018
	DLP	17/01/2018	1,000,000,000.00	2017/2018
	DLP	10/5/2018	951,074,272.00	2017/2018
	DLP	9/7/2018	755,413,478.00	2017/2018
	NOFBI	10/5/2018	6,250,000.00	2017/2018
	NOFBI	10/5/2018	12,500,000.00	2017/2018
	NOFBI	10/5/2018	50,000,000.00	2017/2018
	NOFBI	9/7/2018	51,850,000.00	2017/2018
	SHARED SERVICES	8/11/2017	137,500,000.00	2017/2018
	SHARED SERVICES	10/5/2018	137,500,000.00	2017/2018
	SHARED SERVICES	10/5/2018	137,500,000.00	2017/2018
	SHARED SERVICES	9/7/2018	63,250,000.00	2017/2018
	TCIP	10/5/2018	3,750,000.00	2017/2018
	TCIP	10/5/2018	7,500,000.00	2017/2018

	TCIP	10/5/2018	55,000,000.00	2017/2018
	TCIP	9/7/2018	3,750,000.00	2017/2018
	CCP	10/5/2018	38,750,000.00	2017/2018
		Total	**6,529,128,531.75**	
c.	Direct Payments			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
			0	
		Total	**0**	
d.	Donor Receipts			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
	EARTTDF IDA Grants	9/7/2018	40,615,054.25	2018/2019
		Total	**40,615,054.25**	
e.	Escrow Account			
		Bank Statement Date	Amount (KShs)	
	NOFBI II Expansion	21/3/2018	350,000,000.00	20/3/2020
	NOFBI II Expansion	25/6/2018	20,000,000.00	20/3/2020
		Total	**370,000,000.00**	

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

Manager Finance and Accounting Unit
ICT Authority

Sign --------------

Head of Accounting

Ministry of ICT

Sign --------------

APPENDIX 1V: REVOLVING FUND ARREARS AS AT 31/01/2017

BRN_CODE	LIAB_NO	ACCOUNT_NUMBER	AMOUNT_DISBURSED	OUT_BAL	DISBURSAL_DATE	FREQUENCY	PRODUCT_DES	PRODUCT	STATUS	MATURITY_DATE	CURRENCY
005	000232300	005PARL111610001	825,000.00	698,551.27	6/10/2011	MONTHLY	PASHA REDUCI	PARL	LOSS	8/10/2014	KES
006	000794108	006PARL112870001	1,574,086.30	2,314,605.64	10/14/2011	MONTHLY	PASHA REDUCI	PARL	LOSS	10/10/2014	KES
007	000263942	007PARL113630002	1,000,000.00	1,205,384.15	12/29/2011	MONTHLY	PASHA REDUCI	PARL	LOSS	2/28/2015	KES
021	001062268	021PARL122620002	600,000.00	556,810.20	9/18/2012	MONTHLY	PASHA REDUCI	PARL	LOSS	11/20/2015	KES
023	000456778	023PARL112700001	500,000.00	149,844.67	9/27/2011	MONTHLY	PASHA REDUCI	PARL	LOSS	11/27/2014	KES
023	000982372	023PARL122300001	1,000,000.00	772,853.44	8/17/2012	MONTHLY	PASHA REDUCI	PARL	LOSS	10/17/2015	KES
027	000858087	027PARL122860001	825,950.00	1,167,814.00	10/12/2012	MONTHLY	PASHA REDUCI	PARL	LOSS	12/12/2015	KES
027	001052834	027PARL122380001	1,000,000.00	919,109.75	8/25/2012	MONTHLY	PASHA REDUCI	PARL	LOSS	10/25/2015	KES
038	000991760	038PARL122800003	2,500,000.00	2,411,918.34	10/6/2012	MONTHLY	PASHA REDUCI	PARL	LOSS	11/22/2015	KES
043	001053091	043PARL122130004	1,500,000.00	706,531.47	7/31/2012	MONTHLY	PASHA REDUCI	PARL	LOSS	7/31/2015	KES
061	000834544	061PARL112450001	2,404,300.00	2,377,620.06	9/2/2011	MONTHLY	PASHA REDUCI	PARL	LOSS	12/2/2014	KES
063	000846542	063PARL111960001	1,000,000.00	1,476,328.29	7/15/2011	MONTHLY	PASHA REDUCI	PARL	LOSS	9/15/2014	KES
063	000666441	063PARL113280002	999,939.00	1,478,170.95	11/24/2011	MONTHLY	PASHA REDUCI	PARL	LOSS	1/24/2015	KES
063	000790389	063PARL111730002	1,000,000.00	117,714.38	6/22/2011	MONTHLY	PASHA REDUCI	PARL	LOSS	8/22/2014	KES
063	000790389	063PARL132550001	1,103,117.00	1,473,442.27	9/12/2013	MONTHLY	PASHA REDUCI	PARL	LOSS	9/12/2016	KES
065	000833520	065PARL111960001	656,750.00	265,925.55	7/15/2011	MONTHLY	PASHA REDUCI	PARL	LOSS	10/15/2014	KES
075	000567685	075PARL112090001	720,517.83	458,733.81	7/28/2011	MONTHLY	PASHA REDUCI	PARL	LOSS	9/20/2014	KES
078	000971472	078PARL122290001	2,000,000.00	2,971,282.55	8/16/2012	MONTHLY	PASHA REDUCI	PARL	LOSS	1/16/2016	KES
078	000841588	078PARL113010001	722,700.00	627,804.66	10/28/2011	MONTHLY	PASHA REDUCI	PARL	LOSS	2/28/2015	KES
078	000789844	078PARL112580002	1,893,724.00	2,831,134.92	9/15/2011	MONTHLY	PASHA REDUCI	PARL	LOSS	9/13/2014	KES
079	000473270	079PARL131160002	1,875,349.47	2,132,307.47	4/26/2013	MONTHLY	PASHA REDUCI	PARL	LOSS	4/30/2017	KES
079	000482917	079PARL131160001	1,761,692.36	1,260,863.29	4/26/2013	MONTHLY	PASHA REDUCI	PARL	LOSS	6/30/2017	KES
083	000787867	083PARL122310001	720,000.00	744,876.07	8/18/2012	MONTHLY	PASHA REDUCI	PARL	LOSS	10/18/2015	KES
095	000827677	095PARL131510001	843,950.00	867,368.58	5/31/2013	MONTHLY	PASHA REDUCI	PARL	LOSS	5/30/2016	KES
095	000888105	095PARL113390001	846,040.00	1,248,301.31	12/5/2011	MONTHLY	PASHA REDUCI	PARL	LOSS	2/5/2015	KES
069	000842632	069PARL112040001	2,250,000.00	2,713,282.54	7/23/2011	Monthly	PASHA REDUCI	PARL	LOSS	9/15/2014	KES
077	000979718	077PARL130650001	1,536,349.00	1,804,535.13	3/6/2013	Monthly	PASHA REDUCI	PARL	LOSS	3/6/2016	KES
018	000837084	018PARL111960001	1,000,000.00	1,115,498.44	7/15/2011	Monthly	PASHA REDUCI	PARL	LOSS	9/15/2014	KES
012	000846695	012PARL112220002	600,800.00	908,323.68	8/10/2011	Monthly	PASHA REDUCI	PARL	LOSS	10/10/2014	KES
053	001063732	053PARL122280001	900,000.00	884,756.15	8/15/2012	Monthly	PASHA REDUCI	PARL	LOSS	10/15/2015	KES
018	000731683	018PARL122870006	568,500.00	778,067.59	10/13/2012	Monthly	PASHA REDUCI	PARL	LOSS	12/13/2015	KES
053	001060284	053PARL122750001	800,000.00	675,570.00	10/1/2012	Monthly	PASHA REDUCI	PARL	LOSS	12/5/2015	KES
053	000789115	053PARL122280002	406,000.00	591,149.57	8/15/2012	Monthly	PASHA REDUCI	PARL	LOSS	10/15/2015	KES
025	000965466	025PARL122440001	500,000.00	583,715.64	8/31/2012	Monthly	PASHA REDUCI	PARL	LOSS	10/30/2015	KES
018	000788046	018PARL122350001	1,500,000.00	486,812.35	8/22/2012	Monthly	PASHA REDUCI	PARL	LOSS	10/22/2015	KES
012	000842797	012PARL111850001	600,000.00	470,309.21	7/4/2011	Monthly	PASHA REDUCI	PARL	LOSS	7/4/2014	KES
025	000849034	025PARL113510001	469,193.00	370,233.12	12/17/2011	Monthly	PASHA REDUCI	PARL	LOSS	3/17/2015	KES
018	000840254	018PARL112040006	502,261.04	175,034.43	7/23/2011	Monthly	PASHA REDUCI	PARL	LOSS	9/25/2014	KES
025	000830902	025PARL112300001	461,588.00	174,501.59	8/18/2011	Monthly	PASHA REDUCI	PARL	LOSS	10/18/2014	KES
047	000801001	047PARL122500001	810,000.00	410,345.07	9/6/2012	Monthly	PASHA REDUCI	PARL	LOSS	11/15/2015	KES
012	000389318	012PARL111510002	1,000,000.00	1,711,336.47	5/31/2011	Monthly	PASHA REDUCI	PARL	LOSS	5/31/2014	KES
035	000839238	035PARL113420001	2,100,000.00	104,620.89	12/8/2011	Monthly	PASHA REDUCI	PARL	LOSS	10/10/2016	KES
		TOTALS		45,193,388.96							