

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
INFORMATION AND COMMUNICATIONS
TECHNOLOGY AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2014**



**INFORMATION AND COMMUNICATIONS
TECHNOLOGY AUTHORITY**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
30 JUNE, 2014**

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

Table of Content

Page

I.	KEY ICT AUTHORITY INFORMATION AND MANAGEMENT.....	ii
II.	THE BOARD OF DIRECTORS	v
III.	MANAGEMENT TEAM	viii
IV.	CHAIRMAN'S STATEMENT	x
V.	REPORT OF THE CHIEF EXECUTIVE OFFICER	xii
VI.	CORPORATE GOVERNANCE STATEMENT	xiv
VII.	CORPORATE SOCIAL RESPONSIBILTY STATEMENT	xvi
VIII.	STATEMENT OF DIRECTORS' RESPONSIBILITIES	xvii
IX.	REPORT OF THE INDEPENDENT AUDITORS	xviii
X.	STATEMENT OF FINANCIAL PERFORMANCE	1
XI.	STATEMENT OF FINANCIAL POSITION	2
XII.	STATEMENT OF CHANGES IN NET ASSETS	3
XIII.	STATEMENT OF CASH FLOWS	4
XIV.	STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS	5
XV.	NOTES TO THE FINANCIAL STATEMENTS	6
XVI.	PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	13

I. KEY ICT AUTHORITY INFORMATION AND MANAGEMENT

(a) Background information

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

(b) Principal Activities

The principal activity of the ICT Authority is to rationalise 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 2014 and who had direct fiduciary responsibility were:

Name	Designation
1. Victor Kyalo	Ag. Chief Executive Officer
2. Eunice Kariuki	Deputy CEO/Marketing Director (formerly KICTB)
3. Daniel Ouma	Accountant
4. Simon Korir	Procurement Manager

(e) Fiduciary Oversight Arrangements

(i) Finance Committee

The Finance Committee of the 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 Resources Committee

The objective of the Human Resources Committee is to assist the Board in discharging its duty to oversee the establishment of appropriate Human Resources 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, 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 ICT 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

(g) ICT Authority Contact

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

(h) Banker

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




(i) Independent Auditor

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

(j) Principal Legal Adviser

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

II. THE BOARD OF DIRECTORS

	<p>Chairman- Edwin Yinda</p> <p>DoB: 23-09-1952</p> <p>Edwin Yinda 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 Kenya Pipeline Company 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. Andrew's school, Turi and Trustee of Wema Centre</p> <p>He holds a diploma in Port and Shipping Administration from the University of Wales, United Kingdom.</p>
	<p>Prof. Timothy Mwololo Waema</p> <p>DoB: 10-02-1960</p> <p>Prof. Waema is Professor of Information Systems in the University of Nairobi. He holds a PhD in Strategic Management of Information Systems from University of Cambridge (UK) and an Honours Degree in Electrical and Electronics Engineering from University of Bath (UK). He has extensive ICT for development research experience, research and consultancy in ICT and development, information systems design and development, strategic planning, project management, change management, information systems management, and human resource management. He is a professional member of the Association for Computing Machinery.</p>
	<p>Mr. Ugas Mohammed</p> <p>DoB: 17-05-1972</p> <p>Mr. Ugas Mohammed is a director, Frontier optical networks Ltd and Executive Director at the Globetek systems Kenya Ltd. He has also served and held various management board positions and board of trustees, both in the private and not-for-profit sectors. He has a Bachelor of Science in Information Systems and an MBA in Project management.</p>



Ms Bertha Dena

DoB: 19-06-1956

Ms Bertha Dena is a Lecturer at the United States International University. She holds an MBA from Maastricht School of Management Netherlands and Eastern and Southern African Management Institute (ESAMI) and B.Com (Hons) Accounting from the University of Nairobi. She is also a certified Public Accountant and Public Secretary.



Prof. Elijah Omwenga

DoB: 23-03-1967

Prof. Omwenga is a Computer Science lecturer at the University of Nairobi. He has to his credit a portfolio of e-learning products and models that are being used within the region and beyond. He is actively engaged in e-learning research and is a seasoned software engineer with over 15 years' experience in software design and development; ICT for Science and Engineering education consultancy; and Curriculum design and implementation.



Esther Njeri Kibere

DoB: 28-10-1959

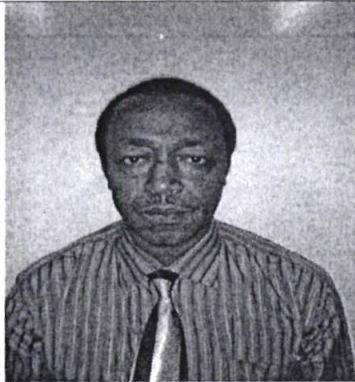
Esther Njeri Kibere is a registered teacher with the Teachers' Service Commission. She taught in various public and private schools. She took early retirement to engage in private business. Esther holds a B.Ed in English and Religious Studies and a MA in Gender and Development Studies both from Kenyatta University. She holds a certificate in Proposal Writing Skills for Donor Funded Research and other Projects.



Mr. David Mugo

DoB: 27-06-1968

David Mugo has fifteen years management experience, ten of them in the telecommunications industry. He has worked in the call Centre division of Qwest Communications, a major U.S telecommunications company. David is a director of several family businesses, particularly in Property Management and Agribusiness. He holds a Bachelor's degree in Business Administration and a master's degree in Telecommunications from US.



Mr. Charles Kairu - Alt to PS, National Treasury

DoB: 1959

Charles Kairu has worked in the National Treasury for 28 years specialising in Public Finance. He is currently the Acting Assistant Director, Debt Management Department. He was the Head of the Middle office in Debt Management and

Charles holds a MA in Development Economics, Williams College, Massachusetts USA and BA Economics from University of Nairobi.



Mr. Kirimi Guantai - Alt to PS, Ministry of Information, Communication and Technology

DoB: 1955

Mr. Guantai is the chief economist and head of planning in the Ministry of ICT. He has held various positions in the Government specialising in Public Planning. Other ministries worked for include Energy, Tourism, Health and Planning & National Development.

He holds a MA Economics from Vanderbilt University, USA and B.Ed (Maths & Economics) from UoN.



Eng. Eliud Waithaka - Alt to PS, Ministry of Land, Housing & Urban Development

DoB: 20-08-1957

Eng Waithaka has worked in the Ministries of Transport and Communication, Public Works and Lands, Housing and Urban Development for 32 years. Currently he is the Acting Chief Engineer (Electrical).

He holds Bsc in Electrical Engineering fro UON. He is also a registered Electrical Engineer and an associate member of the Instution of Engineers of Kenya (IEK)



Eng. Victor Kyalo - Ag. CEO & Secretary



DoB: 19-04-1964

Eng. Victor Kyalo has over 24 years' experience as a lecturer in electrical engineering at the University of Nairobi. He has participated in many engineering projects in different sectors. He has pioneered implementation of various Infrastructure Projects.

He has worked as the Project Coordinator/Manager for the TEAMS submarine cable, National Fiber backbone infrastructure, Government Core Communication Network and the Government Data Center. He is founding

	<p>member of Kenya Education Network and served as the Director/CEO from 2001 to July 2007.</p> <p>Victor holds an MSc Electronics (TUE, Holland), BSc (1st class) Electrical Engineering (UoN).</p>
--	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

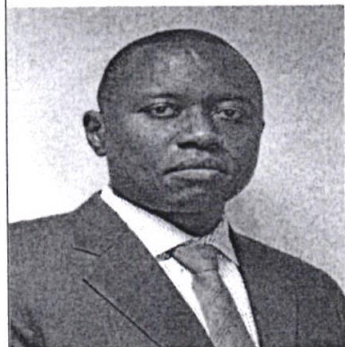
III. MANAGEMENT TEAM

	<p>Eng. Victor Kyalo - Ag. Chief Executive Officer</p> <p>Eng. Victor Kyalo has over 24 years' experience as a lecturer in electrical engineering at the University of Nairobi. He has participated in many engineering projects in different sectors. He has pioneered implementation of various Infrastructure Projects.</p> <p>He has worked as the Project Coordinator/Manager for the TEAMS submarine cable, National Fiber backbone infrastructure, Government Core Communication Network and the Government Data Center. He is founding member of Kenya Education Network and served as the Director/CEO from 2001 to July 2007.</p> <p>Victor holds an MSc Electronics (TUE, Holland), BSc (1st class) Electrical Engineering (UoN).</p>
	<p>Felix Ongaga-Director Corporate Services</p> <p>Felix has been appointed the Director Corporate Services at the ICT Authority.</p> <p>He has 16 years of experience, 4 years in the 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.</p> <p>He is a fellow of Association of Chartered Certified Accountants (ACCA).</p>
	<p>Kipronoh Ronoh Paul-Director Programmes and Standards</p> <p>Ronoh has held key senior positions as Head of ICT and Quality Management System at Kenya Urban Roads Authority and Head of ICT at Kenya Civil Aviation Authority.</p> <p>He also holds an MBA and a BSc in Computer Science from the University of Nairobi.</p> <p>Mr Ronoh also holds professional qualifications in Microsoft Certified Systems Engineer (MCSE) and Cisco Certified Network Associate (CCNA).</p>



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, BSc 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.



Robert Mugo- Director Shared Services

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 Africa 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.

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, a relatively new body, was established in August 2013, after the amalgamation of three former bodies- The Kenya ICT Board, Directorate of e-government and Government Information Technology Services (GITs). The Authority is tasked with rationalising and streamlining 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 which was launched this year, 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.

For the past one year, the authority has been on a transitional phase as we have strived to harmonise and institutionise the management of the various functions mandated to us. In January 2014 a board of directors was inaugurated consisting of a Chair and six members.

In June, the Authority Organizational structure was approved by the board and we are currently working on the structure implementation and staff harmonisation.

We have also been working on the ICT Authority Strategic plan which we hope to sign-off in a few months' time. This is not to mean that the Authority has been dormant in its operations. Project implementation has been ongoing with key deliverables and achievements being recorded during this financial year.

The projects include IFMIS re-engineering, capacity building projects, County Connectivity roll-out, implementation of IBM Research lab partnership and development of more e-government services and applications. Key among our achievements is in rendering expertise and technical support in major e-government projects in the national and county government.

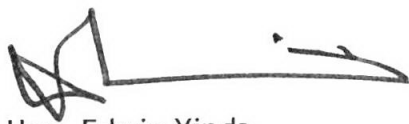
To achieve our goals we continue to work with our development partners like World Bank through the Transparency and Communications Infrastructure Project (KTCIP), Rockefeller Foundation, Bill and Melinda Gates Foundation and numerous others private sector stakeholders and the academia.

As we look to the next fiscal year, we are committed to continue delivering on our mandate and strategic plan. Some of the projects we plan to work on include County Connectivity and broadband roll-out, establish Network Operating Centre and Help desk, roll out the Government Unified Messaging Systems (GUMS), develop an information Security policy, develop County ICT roadmaps and Develop and upgrade of Government Websites.

Our support of the IBM research lab will continue as we look into facilitating five (5) IT systems innovations in Finance, Education, Health, Transport, Water and Sanitation sectors in collaboration with IBM research Lab. The Authority will also undertake quarterly monitoring and evaluation of these five (5) priority projects in order to ensure that the completion rate and cost efficiency of each project is 100%.

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.

A handwritten signature in black ink, consisting of a stylized, looped initial 'E' followed by a long horizontal line that ends in a small upward tick.

Hon. Edwin Yinda
CHAIRMAN

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

In August 2013, the ICT Authority was established through a Legal Notice, merging together three former bodies, The Kenya ICT Board, the Directorate of e-government and Government Information Technology Services (GITs). The new authority was given an expanded mandate of overseeing and managing all ICT projects across government with a view to bringing cohesion, expertise and harmony in their 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 will promote business value through ICT innovation and enterprise as well as deliver trusted electronic public services. These objectives are enshrined in the country laws and policies, key among them being, Vision 2013, Jubilee Manifesto, the National ICT Masterplan 2017, the Broadband and National Cyber Security Strategy 2014.

After the amalgamation, the authority underwent a transition phase which ended in June 2014 when the Board approved the organizational structure. In line with our mandate the positions cover Shared services which will have key departments on Infrastructure, applications and Information Security; Programmes and standards, Partnerships, Capacity, Innovation and ICT service Management which houses support services of finance, administration, procurement and human resource. The positions of management directors were advertised and the process handled through our change management consultant PWC. This exercise was directed by the Human Resources Committee of the Board and is expected to be completed in course of the coming financial year.

Currently, we are implementing the remaining phases of the roadmap that will include the sign-off of the strategic plan, staff harmonization and deployment, change management and the communication of the new changes to all stakeholders. During this time we plan to embark on staff training and development; reward and performance management and employee engagement aimed at creating a robust and receptive body. We plan to complete this process in December 2014.

We still continue to further the work carried out by the three former bodies. Our source of income remain largely Government of Kenya and World Bank through the Kenya Transparency Infrastructure Project (KTCIP). Other development partners are the Belgium government who support 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 country's development. This include projects on innovation like IBM research labs, capacity building initiatives and initiatives that will improve efficiency, accountability and transparency in government like IFMIS re-engineering and digitization.

Going forward we plan to concentrate on projects that further our interests in offering expertise advise to the industry and making Kenya a top ICT hub. These are County ICT transformation project which is supported by the KTCIP under additional financing II of US\$30 million. The project that runs through to 2016, will be used to deepen service delivery in the all 47 counties. We will

also dedicate resource in building capacity, growing local ICT business and promoting a culture of innovation. Cultivating partnerships will be critical in realizing all our goals.

Information security is also another major area that we want to focus on. Already work is ongoing on the Public Key Infrastructure project, and we will soon get a license to be a certifying authority from the Communication Authority of Kenya (CAK). When we receive the license the Authority will be able to issue digital certificates to end users thus securing online transactions. Other projects we are committed to implementing are the broadband roll-out, offer e-government services, set-up of a Network Operating Centre and Help desk, Government Unified Messaging Systems (GUMS) roll-out, and upgrade of Government Websites.

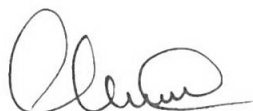
During the year under review, the Authority mobilized funds from sources other than the Exchequer amounting to Ksh.2,605,447,912. In the 2014/2015, the authority will ensure that both Ksh.299,053,044 recurrent and Ksh.3,816,625,460 development funds are applied 100 % to the programs, projects and activities for which they were appropriated and planned for. Towards this end the authority will:

- (i) Implement and comply 100% with the authority Annual Work plan and Procurement Plan.
- (ii) Carry out quarterly variance analysis on all budget items/ lines to establish conformity and absorption capacity.
- (iii) Submit quarterly budget implementation reports to control of budgets.

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 skills 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 ICT growth in the country, our development and strategic partners as well as public and private organisations 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.



Victor Kyalo
AG. CHIEF EXECUTIVE OFFICER

VI. CORPORATE GOVERNANCE STATEMENT

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

The Board

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

- (a) Non-executive chairman
- (b) Principal Secretary, Ministry of Information, Communications 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, e-Commerce, law, finance or human resources.

Committees of the Board

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

- (i) Human Resources Committee
- (ii) Finance Committee
- (iii) e-Gov ITES Committee
- (iv) Audit Committee

The mandate of each committee is explained above.

Internal Control System

The ICT Authority has put into place policies, procedures, regulations and financial controls to ensure that the financial reporting is reliable, operations are effective and efficient, and there is accuracy in accounting information. These cover procedures for obtaining authority for transactions and for ensuring compliance with laws and regulations that have significant implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the organization remains structured to ensure appropriate segregation of duties. In reviewing the effectiveness of the systems of internal control, the Authority takes into account the results of all the work carried out to audit and review the activities of the institution. Monthly meetings for management and quarterly meetings by Authority to review financial status of the

institution are held by senior management to monitor performance and to agree on measures for improvement.

Risk Management Policy

The ICT Authority is in process of preparing a Risk Management Policy. The aim of implementing this policy is to ensure that incidents that may threaten the ability of the organization to achieve its objectives are recognized early enough for suitable measures to be taken. This will guard against unethical practices that may threaten the value of the organization by promoting accountability and transparency.

VII. 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 organisation. 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 endeavour 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 endeavour to reduce the environmental impact by reducing all our transportation requirements wherever possible and use such facilities as web-ex and conference call facilities. We use vehicles that are regularly serviced 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 sensitised staff to ensure that all lights and equipment is switching 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 endeavour to pay them on time.

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

VIII. 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 at the end of the financial year/period and the operating results of the Authority for that year/period. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS) and in 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, 2014, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Authority's financial statements were approved by the Board on 29/9/ 2014 and signed on its behalf by:

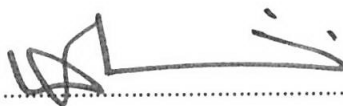
Victor Kyalo

Ag. CHIEF EXECUTIVE OFFICER



Edwin Yinda

CHAIRMAN, BOARD OF DIRECTORS



REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Information and Communications Technology Authority as set out on pages 1 to 12, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor-General's Responsibility

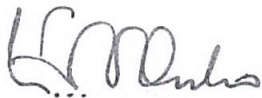
My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2014, its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Information and Communications Technology Authority Order, 2013.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

3 March 2015

INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE, 2014

	<u>Note</u>	<u>2013/2014</u> <u>Ksh</u>	<u>2012/2013</u> <u>Ksh</u>
Revenue from non-exchange transactions			
Grants Income	2	2,935,159,213	2,380,676,927
Revenue from exchange transactions			
Other Income	3	667,274	13,026,394
Total		2,935,826,487	2,393,703,321
Expenses			
Employee Costs	4	56,245,396	64,009,951
Directors Costs	5	7,296,384	20,097,845
Depreciation Expense	15	5,353,203	5,524,476
Repairs and Maintenance	7	570,265	427,610
General Expenses	8	67,095,115	8,687,587
Finance Costs	9	546,672	589,170
Other Expenses:			
Special Grant Expenses	10	222,837,799	203,199,949
TCIP Project Expenses	11	2,273,406,185	2,308,308,858
Total		2,633,351,019	2,610,845,446
Surplus/(Deficit) for the period		<u>302,475,469</u>	<u>(217,142,125)</u>

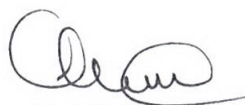
INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE, 2014

<u>ASSETS</u>	<u>Notes</u>	<u>2013/2014</u>	<u>2012/2013</u>
		<u>Ksh</u>	<u>Ksh</u>
Current Assets			
Cash and Cash Equivalents	12	760,117,890	429,400,578
Receivables from Exchange Transactions	13	26,532,474	1,975,775
		786,650,364	431,376,353
Revolving Fund			
Digital Village Fund	14	108,495,790	108,495,790
Non-Current Assets			
Property Plant and Equipment	15	16,475,262	21,391,377
TOTAL ASSETS		<u>911,621,416</u>	<u>561,263,520</u>
 <u>LIABILITIES</u>			
Current Liabilities			
Payables from Exchange Transactions	16	233,263,386	185,380,959
TOTAL LIABILITIES		233,263,386	185,380,959
Net Assets			
Reserves	17	593,024,686	593,024,686
Accumulated Surplus/(Deficit)	17(b)	85,333,344	(217,142,125)
		678,358,030	375,882,561
Total Net Assets		<u>911,621,416</u>	<u>561,263,520</u>

The financial statements were signed on behalf of the Board of Directors by:

Victor Kyalo
AG.CHIEF EXECUTIVE OFFICER

 Date 23/2/2015

Edwin Yinda
CHAIRMAN, BOARD OF DIRECTORS

 Date 23/2/2015

INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE, 2014

	RESERVES <u>Ksh</u>	ACCUMULATED SURPLUS <u>Ksh</u>	TOTAL <u>Ksh</u>
Opening Balance as at 1 st July, 2012	593,024,686	-	593,024,686
Surplus/(Deficit) for the year 2013	-	(217,142,125)	(217,142,125)
Closing Balance as at 30.06.2013	<u>593,024,686</u>	<u>(217,142,125)</u>	<u>375,882,561</u>
Opening Balance as at 1 st July, 2013	593,024,686	-	593,024,686
Surplus/(Deficit) for the year 2014	-	302,475,469	302,475,469
Closing Balance as at 30.06.2014	<u>593,024,686</u>	<u>85,333,344</u>	<u>678,358,030</u>

INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE, 2014

	<u>Note</u>	<u>2013/2014</u> <u>Ksh</u>	<u>2012/2013</u> <u>Ksh</u>
<u>Cash Flows from Operating Activities</u>			
Surplus for the Year		302,475,469	(217,142,125)
<u>Adjustments for:</u>			
Depreciation		5,353,203	5,524,476
Surplus/(Deficit) before Working Capital Changes		307,828,672	(211,617,649)
WORKING CAPITAL CHANGES			
Decrease/(Increase) in Receivables		(24,556,699)	16,081,911
Increase/(Decrease) in Payables		47,882,427	88,117,493
<i>Net cash flow from operating activities</i>		331,154,400	(107,418,245)
<u>Cash Flows from Investing Activities</u>			
Purchase of property, plant and equipment		(437,088)	(1,062,460)
<i>Net Cash used in Investing Activities</i>		(437,088)	(1,062,460)
Net increase in cash and cash equivalents		330,717,312	(108,480,705)
Cash and cash equivalents at the beginning of period		429,400,578	537,881,283
<i>Cash and Cash equivalents at the end of period</i>	12	<u>760,117,890</u>	<u>429,400,578</u>

INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE FINANCIAL YEAR 2013-2014

	Note	Original Budget Ksh	Adjustments Ksh	Final Budget Ksh	Actual Ksh	Difference Ksh
Revenue from non-exchange transactions						
Grants Income						
GOK Recurrent		77,456,000	-	77,456,000	77,456,000	-
GOK IBM		153,000,000	-	153,000,000	153,000,000	-
GOK Counterpart Funds	18	-	-	-	33,922,575	33,922,575
GOK Development IRU		-	66,000,000	66,000,000	66,000,000	-
IDA Funds		3,066,678,868	(461,898,230)	2,604,780,638	2,604,780,638	-
Revenue from exchange transactions						
Other Income		-	-	-	667,274	667,274
Total		3,297,134,868	(395,898,230)	2,901,236,638	2,935,826,487	
Expenses						
Employee Costs	18	34,583,261	-	34,583,261	56,245,396	21,662,135
Directors Costs		7,614,524	-	7,614,524	7,296,384	(318,140)
Depreciation Expense		6,500,000	-	6,500,000	5,353,203	(1,146,797)
Repairs and Maintenance		633,214	-	633,214	570,265	(62,949)
General Expenses	18	27,512,478	-	27,512,478	67,095,115	39,582,637
Finance Costs		612,523	-	612,523	546,672	(65,851)
Other Expenses:						
IBM Research Lab		153,000,000	-	153,000,000	153,000,001	1
IFMIS Re-engineering		-	-	-	3,017,778	3,017,778
IRU Telcom Services		-	66,000,000	66,000,000	66,820,020	820,020
TCIP Project Expenses	18	3,066,678,868	(461,898,230)	2,604,780,638	2,273,406,185	(331,374,453)
Total		3,297,134,868	(395,898,230)	2,901,236,638	2,633,351,019	
Surplus/(Deficit)		-	-	-	302,475,469	

INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

1(i) Statement of compliance and basis of preparation - IPSAS 1

The entity'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 basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

(ii) Summary of Significant Accounting Policies

a) Revenue Recognition

Revenue from non-exchange transactions - IPSAS 23

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

b) Property and Equipment

Property and Equipment are stated at Cost less accumulated depreciation.

c) Depreciation

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

Office Furniture/Equipment	12.5%
Motor Vehicles	25%
Computers and related equipment	30%

d) Cash and Cash Equivalentents

For the purpose of the cash flow statement, Cash and Cash Equivalentents comprise cash in hand and bank deposits. Cash equivalentents are recognized to comprise short term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE, 2014 (CONT'D)

e) Translation of Foreign Currencies

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

f) Retirement Benefits

The Board contributes to a statutory defined contribution scheme, the National Social Security Fund. Contributions to NSSF are determined by the National Social Security Fund Act (Cap 258). The number of staff employed by the Authority as at 30th June, 2014 was 29. The rate for computation of gratuity is 31% of the basic pay accrued on monthly basis.

2 Income

	2013/2014	2012/2013
	Ksh	Ksh
IDA Grants	2,604,780,638	2,097,761,927
GOK Recurrent Funds	57,456,000	60,480,000
GOK Gratuity Funds	20,000,000	20,000,000
GOK Counterpart Funds	33,922,575	14,000,000
IBM Research Lab	153,000,000	170,000,000
Rockefeller Grant	-	8,435,000
Freedom Online Grant	-	10,000,000
GOK Development IRU	66,000,000	-
Total	<u>2,935,159,213</u>	<u>2,380,676,927</u>

3 Other Income

AIA	667,274	2,207,284
Other Incomes	-	10,819,110
Total	<u>667,274</u>	<u>13,026,394</u>

4 Employee Costs

	2013/2014	2012/2013
	Ksh	Ksh
Personal Emoluments	21,833,761	26,706,613
Provision for gratuity	20,000,000	16,390,729
Staff House and other Allowances	11,968,272	15,129,079
Medical Costs	2,382,563	5,713,930
Other staff Costs	60,800	69,600
Total	<u>56,245,396</u>	<u>64,009,951</u>

INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE, 2014 (CONT'D)

5 Directors Expenses

	<u>2013/2014</u>	<u>2012/2013</u>
	<u>Ksh</u>	<u>Ksh</u>
Sitting Allowances	4,782,000	2,804,000
CEO's salary	890,000	10,680,000
Honoraria	80,000	960,000
Telephone allowance	37,000	444,000
Travelling and Accommodation	637,384	2,722,481
Other Board Expenses	870,000	2,487,364
Total	<u>7,296,384</u>	<u>20,097,845</u>

6 Depreciation Expense

Furniture & Equipment	4,876,326	4,876,326
Computers	476,877	648,150
Total	<u>5,353,203</u>	<u>5,524,476</u>

7 Repairs and Maintenance

Repair & Maintenance - Furniture & Equipmen	267,205	11,050
Repair & Maintenance - Motor Vehicles	303,060	416,560
Total	<u>570,265</u>	<u>427,610</u>

8 General Expenses

	<u>2013/2014</u>	<u>2012/2013</u>
	<u>Ksh</u>	<u>Ksh</u>
Travel Costs	6,373,417	3,030,324
Printing, Advertisement and Info Supplies	6,073,182	1,391,385
Membership fees/Dues and Subs	573,261	878,686
Office and General Supplies	3,156,898	1,302,552
Hospitality Supplies and Services	1,247,082	638,841
Training Expenses	1,062,560	151,960
Utilities Supplies and Services	592,669	597,839
Tax Assessment Expenses	47,320,046	-
Audit fees	696,000	696,000
Total	<u>67,095,115</u>	<u>8,687,587</u>

INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE, 2014 (CONT'D)

9 <u>Finance Costs</u>	<u>2013/2014</u>	<u>2012/2013</u>
	<u>Ksh</u>	<u>Ksh</u>
Bank Charges	546,672	589,170
10 <u>Special Grants Expenses</u>	<u>2013/2014</u>	<u>2012/2013</u>
	<u>Ksh</u>	<u>Ksh</u>
KNH Digitization	-	33,199,949
IBM Research Lab	153,000,001	170,000,000
IFMIS Re-engineering	3,017,778	-
IRU Telecom Services	66,820,020	-
	<u>222,837,799</u>	<u>203,199,949</u>
11 <u>TCIP Project Expenses</u>	<u>2013/2014</u>	<u>2012/2013</u>
	<u>Ksh</u>	<u>Ksh</u>
Category 1 (Telecom Services)	2,834,198	88,393,306
Category 2 (Goods)	992,350,626	1,086,914,477
Category 3 (Consultants)	1,160,301,513	962,895,717
Category 5 (Grants)	39,433,332	63,329,102
Category 6 (Capacity Building)	62,671,904	65,789,605
Category 7 (Operating)	15,814,612	40,986,651
Total	<u>2,273,406,185</u>	<u>2,308,308,858</u>

INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE, 2014 (CONT'D)

12 Cash and Cash Equivalents

	<u>2013/2014</u>	<u>2012/2013</u>
	<u>Ksh</u>	<u>Ksh</u>
Cash in Hand	10,540	2,266
Cash at Bank (Main Account)	688,250,773	376,830,143
Cash at Bank (GoK Account)	55,290,947	34,174,292
Cash at Bank (Project Account)	6,787,344	6,759,112
Call Account	9,778,285	11,634,765
Total	<u>760,117,890</u>	<u>429,400,578</u>

The cash and cash equivalents comprise of cash in hand and cash in bank held in the Main, GoK and Project Bank Accounts.

13 Receivables from Exchange Transactions

	<u>2013/2014</u>	<u>2012/2013</u>
	<u>Ksh</u>	<u>Ksh</u>
Car Loan Balances	-	100,000
Staff Advances	31,500	341,535
Deposits	363,000	183,000
Accenture	109,796	109,796
Ministry of ICT	26,028,177	1,241,445
Total	<u>26,532,474</u>	<u>1,975,776</u>

14 Revolving Fund

	<u>2013/2014</u>	<u>2012/2013</u>
	<u>Ksh</u>	<u>Ksh</u>
Digital Villages Revolving Fund	108,495,790	108,495,790

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

INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE, 2014 (CONT'D)

15 Property, Plant & Equipment

Depreciation Rate	25%	12.5%	30%	
ITEM	MOTOR VEHICLES	FURNITURE & EQUIPMENTS	COMPUTERS	TOTAL
COST/REVALUATION				
As at 1 July, 2012	6,441,000	37,993,650	6,867,810	51,302,460
Additions		1,016,960	45,500	1,062,460
As at 30 June, 2013	6,441,000	39,010,610	6,913,310	52,364,920
DEPRECIATION				
As at 1 July, 2012	6,441,000	13,793,638	5,214,429	25,449,067
Charge for the year	-	4,876,326	648,150	5,524,476
As at 30 June, 2013	6,441,000	18,669,964	5,862,579	30,973,543
NBV as at 30 June, 2013	-	20,340,646	1,050,731	21,391,377
COST/REVALUATION				
As at 1 July, 2013	6,441,000	39,010,610	6,913,310	52,364,920
Additions	-	-	437,088	437,088
As at 30 June, 2014	6,441,000	39,010,610	7,350,398	52,802,008
DEPRECIATION				
As at 1 July, 2013	6,441,000	18,669,964	5,862,579	30,973,543
Charge for the year	-	4,876,326	476,877	5,353,203
As at 30 June, 2014	6,441,000	23,546,290	6,339,456	36,326,746
NBV as at 30 June, 2014	-	15,464,320	1,010,942	16,475,262
NBV as at 30 June, 2013	-	20,340,646	1,050,731	21,391,377

INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE, 2014 (CONT'D)

16 Payables from Exchange Transactions

	<u>2013/2014</u>	<u>2012/2013</u>
	<u>Ksh</u>	<u>Ksh</u>
Staff Gratuity Costs	20,000,000	24,374,591
Audit fees	600,000	600,000
Taxes Payable	165,050	5,785,472
Supplier Accounts	208,453,336	150,575,896
Accrued Consultancy Fees	4,045,000	4,045,000
Total	<u>233,263,386</u>	<u>185,380,959</u>

17 Reserves and Accumulated Surplus

	<u>2013/2014</u>	<u>2012/2013</u>
	<u>Ksh</u>	<u>Ksh</u>
Reserves	593,024,686	593,024,686
17(b) Accumulated Surplus/(Deficit) b/d	(217,142,125)	-
Surplus for the year	302,475,469	(217,142,125)
Accumulated Reserves b/d	<u>85,333,344</u>	<u>(217,142,125)</u>

18 VARIANCE BETWEEN BUDGET AND ACTUAL AMOUNTS

The variance between the budgeted and actual income received was as a result of incomes received which were budgeted under the Directorate of E-government and Government Information Technology Services voteheads.

The variance in employees cost was due to provision made for staff gratuity whereas the general expenses was due to settlement of taxes due to KRA. The TCIP expenses reduced due to lengthy procurement processes and delayed approvals by the World Bank.

INFORMATION AND COMMUNICATIONS TECHNOLOGY AUTHORITY

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.

Ref No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Time frame
1	Income Adjustment - An amount of Ksh.5M had not been included in the Income Account.	The financial statements to be revised to reflect the receipt of Ksh.20M meant for staff gratuity.	Accountant	Resolved	Done
2	Board of Directors - The board expenses not tallying with the total figure in the schedule	The notes on board of directors expenses have been corrected and reflected in revised financial statements. Supporting schedules also provided that properly analyses the board expenses which tally with figures in financial statements.	Accountant	Resolved	Done
3	Depreciation - Depreciation charge for the Property, Plant and Equipment was overstated with Ksh.94,295	Depreciation has been properly computed and variance correctly adjusted in the financial statements.	Accountant	Resolved	Done
4	Revaluation of Motor Vehicles - The two motor vehicles are fully depreciated yet are still in use	The management will revalue the motor vehicles to reflect the economic use and benefit derived since they are still in use.	Director, Corporate Services	Not Resolved	30th June 2015