

REPUBLIC OF KENYA



*Paper laid
by leader of
Majority Party
Tuesday 31/7/2018
A/d*

OFFICE OF THE AUDITOR-GENERAL

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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
COMMUNICATIONS AUTHORITY OF KENYA**

**FOR THE YEAR
ENDED 30 JUNE 2017**



**COMMUNICATIONS
AUTHORITY OF KENYA**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
30 JUNE 2017**

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

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 Communications Authority of Kenya  ca_kenya



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I. KEY AUTHORITY INFORMATION

a) The Mandate and Activities

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

b) Registered Office

CA Centre
Waiyaki Way
PO Box 14448 - 00800
Nairobi

c) Parent Ministry

Ministry of Information Communications and Technology
P. O. Box 30025 – 00100
Nairobi

d) Principal Legal Advisor

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

e) Independent Auditors

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

f) Bankers

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

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

Citibank NA
P O Box 30071- 0010
Nairobi

**Communications Authority of Kenya
Financial Statements for the year ended 30 June 2017**

II. DIRECTORS

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| <p>Mr. Ngene B. Gituku is the Chairman of the Board of Directors of Communications Authority of Kenya. Prior to his appointment, he served as the immediate Chairman of the Board of Communications Commission of Kenya (CCK).</p> <p>He has served as Board member at Kenya Broadcasting Corporation (KBC) and Kenya Pipeline Company (KPC). At KBC he was instrumental in introducing automated systems to increase the efficiency of the Corporation. He championed the restructuring of KBC to improve its financial position. At the Kenya Pipeline Company, as the Chairman of the Project Planning Committee of the Board, he initiated the construction of Jet A-1 tanks in Kisumu and Eldoret. Through his leadership, KPC was also able to construct additional tanks at the Kipevu Oil Terminal in Mombasa to enhance the importation of refined oil products.</p> <p>Mr. Gituku earlier worked at a multinational computer company (NCR Kenya Ltd) and later joined the Nation Media Group as a Marketing Assistant where he rose to the position of Assistant Advertising Manager in 1985. In 1987, he joined the Standard Group of Newspapers as a Group Circulation Manager. He later left to establish his own business. He holds a BSc. Degree in Mathematics and Meteorology from the University of Nairobi and Diploma in Marketing.</p> <p>Mr. Gituku was appointed to the position on 23rd May 2014 for a three-year term.</p> |  <p>Mr. Francis Wangusi, MBS is the Director General of the Communications Authority of Kenya (CA). He has been in the position since 2012 and currently serving his second term. Mr. Wangusi has over 33 years' experience in the ICT sector. He has presided over landmark projects that have revolutionized the sector, the most recent being the successful transition to digital broadcasting in Kenya.</p> <p>He has previously served as Director in the departments of Broadcasting and Licensing Compliance & Standards respectively in the organization. Prior to joining the Authority, he had served as a Senior Lecturer in the Department of Telecommunication Engineering at the Multimedia University College of Kenya. In 2013, Mr. Wangusi was honoured with a presidential award of the <i>Moran of the Order of the Burning Spear (MBS)</i> in recognition of his role in spearheading growth of the ICT sector.</p> <p>Mr. Wangusi is currently pursuing a PhD in Management. He is holds a Masters Degree in Space Sciences (Satellite Communications); BSc degree (Telecommunications Engineering); Chartered Engineer-UK Certificate and Global Executive Masters Degree in Business Administration (GEMBA).</p> |  <p>Dr. Karanja Kibicho is the Principal Secretary State Department of Interior before current appointment on 24th November 2015.</p> <p>He holds a doctorate in Mechanical Engineering from the University of Cape Town, South Africa, a Masters of Science (MSc) degree in Mechanical Engineering and a Bachelor of Science (BSc) in Mechanical Engineering. Dr. Kibicho has attended various short courses in management, leadership and capacity development skills. He has also attended short courses in Public Procurement and Disposal Regulations, implementation of ISO 9001:2008, Budgeting and Procurement, and HIV/AIDS in workplaces among others.</p> <p>Dr. Kibicho has taught in various institutions of higher learning in Kenya and outside the country. They include Jomo Kenyatta University of Agriculture and Technology (JKUAT) where he served as the chairman and senior lecturer in the department of Mechanical Engineering. He has served as an external examiner at the University of Dares Salaam, visiting lecturer at the Central University of Technology, Free State, South Africa and a part-time Lecturer at the University of Cape Town.</p> |
|  <p>Mr. Sammy Itemere is the Principal Secretary in the ICT Ministry in charge of Broadcasting and Telecommunications with oversight role in the State Parastatals that include, Kenya Broadcasting Corporation (KBC), Postal Corporation of Kenya (PCK), Communications Authority of Kenya (CA) and Kenya Institute of Mass Communications (KIMC). Prior to the appointment in December 2015, Mr. Itemere was Senior Partner at Business Persons Mentor Limited, a Consultancy firm dealing with Business Development, Strategy formulation, Partnerships growth, Training and up-skilling.</p> <p>A career banker, he has a wealth of experience spanning over 20 years in running Retail, Corporate, Enterprise Banking as well as Bank operations. He was Country Managing Director of KCB South Sudan limited a subsidiary of KCB Group which is the largest Regional Bank. He has also held senior positions in Imperial, ECK, Barclays and Credit banks. Mr. Itemere holds a BA Economics (Hons) and MBA (Marketing Option) from University of Poona, India</p> |  <p>Dr. Kamau Thugge is the Principal Secretary at the National Treasury. He was appointed to this position on 7th June 2013. He serves in the Communications Authority of Kenya Board in his capacity as Principal Secretary at the National Treasury.</p> <p>Dr. Thugge holds a Doctorate of Philosophy (PhD) in Economics from Johns Hopkins University, Master in Economics from Johns Hopkins University, USA and Bachelors of Arts (Economics) from Colorado College, USA</p> |  <p>Mr. Christopher Guyo is a seasoned Human Resource professional with over 18 years experience. He is currently the HR and Administration Director at the DIB Bank Kenya Ltd (In-Formation), a Subsidiary of Dubai Islamic Bank - UAE.</p> <p>Mr. Guyo has previously worked at Barclays Bank of Kenya Ltd as a Senior HR Business Partner- Retail and Business Banking. He had earlier worked in senior positions at Chevron Kenya Ltd, Shell-managed, Kenya Petroleum Refineries and Post Bank.</p> <p>He holds MBA in Human Resource Management from the University of Nairobi and currently pursuing his Doctor in Business Administration at the Catholic University of Eastern Africa. He also holds a Bachelor of Education (Arts) degree from Moi University, Higher National Diploma in HRM, and Practitioners Diploma in Executive Coaching from Academy of Executive Coaching and an Advanced Certificate in Strategic HR Management from Cornell University, USA. Mr Guyo is a member of the Institute of Human Resource Management (IHRM) - Kenya, and HR Council member for the Kenya Institute of Management. He was appointed to the CA board on 29th April 2016 for a period of three years.</p> |

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| <p>Mr. Paul Kukubo, MBS is a consultant with vast experience in the local and regional ICT sector.</p> <p>He is a consultant on Technology Value Addition and Inclusion working across East Africa and South Africa. He helps organizations in efforts to deploy technology across value chains. He serves as Chairman of Rafica Company Ltd, a software technology solutions company and Collabmed Ltd a Healthcare Technology Company.</p> <p>Mr. Kukubo holds Global MBA from United States International University (USIU-Africa) and a Bachelor of Arts in Economics and Sociology from the University of Nairobi. A former chairman of the Marketing Society of Kenya, Mr. Kukubo is also a member of the International Association of Business Analysis and has previously served a chairman of the National ICT Master Plan committee, the Task Force on Creative Industries and a board member of Multimedia University. During early 2016, he served as a member of the Kenya Presidential National Task force on Coffee Sub-sector reforms.</p> <p>He was feted the Moran of the Order of the Burning Spear (MBS) for his contribution to ICT growth by President Mwai Kibaki in 2012. He also scooped the Thought Leadership award in 2012, in Cape town, South Africa. He was appointed to the Communication Authority of Kenya (CA)'s board on 29th April 2016 for a period of three years.</p> | <p>Mr. David Kifur is businessman and an engineer with interests in the technology industry. He is the Executive Director of Microplan Africa.</p> <p>He has vast experience in the ICT industry having worked as an engineer at the then Voice of Kenya (now KBC), Kenya Railways, Kenya Power, Amarco and Umeme Services.</p> <p>He holds a Master of Science (Msc.) degree in Software Systems Technology from Sheffield University, UK and a Bsc. in Electrical and Electronics Engineering from the University of Nairobi.</p> <p>Mr. Kifur has attended short courses in Public Procurement and Corporate Governance, among others. He was appointed to the CA Board on 29th April 2016 for a term of three years.</p> | <p>Mr. Mugambi Nandi is an advocate of the High Court of Kenya with many years' experience in corporate and commercial law. He is the Senior Partner at KN Law LLP, Advocates & Notaries Public, where he specializes in mergers & acquisitions, private equity, capital market transactions and energy law.</p> <p>He was named Company Secretary of the Year 2011 by the Institute of Certified Public Secretaries of Kenya. In 2017 he was cited by Chambers Global as a Recognised Practitioner in the Commercial & Corporate Lawyers ranking for Kenya.</p> <p>He holds a Bachelor of Laws degree and a Master of Business Administration degree from the University of Nairobi, and a Diploma in Financial Management from the ACCA. He has previously served as a Board Member of the Privatization Commission of Kenya, and currently sits on a number of boards, including the Council for Kenyatta University, Mayfair Bank Limited and Seriani Asset Managers Limited. He was appointed to the Board of Communications Authority of Kenya in April 2016 for a period of three years.</p> |
| <p>Ms. Patricia Kimama has over 19 years' experience in career spanning the banking, telecommunication and water industries. She has held roles in business, project and operational management.</p> <p>She is currently the Head of Cash Management and E-Channels at the Commercial Bank of Africa where she is charged with the responsibility of driving the Group's strategy for Non Funded Income streams from Cash management and E-Channels.</p> <p>Prior to joining the Banking industry, she worked extensively in the telecommunications and water engineering industries in various capacities including retail Management, customer experience management, Contact Centre management, Dealer and MPesa business management, operations and sales management. She is a dedicated change leader with a passion for operational excellence and superior customer experience.</p> <p>She holds a Masters in Business Administration (Strategic Management) from Daystar University. She also holds a Masters Certificate in Project Management from George Washington University as well as Senior Management Leadership training from Strathmore University. She was appointed to the CA Board on 29th April 2016 for a period of three years.</p> | <p>Prof. Levi Obonyo is an Associate Professor of Communication and Media Studies, and also the Dean of the School of Communication, Language and Performing Arts at Daystar University. He started his career as a news correspondent in various media houses and later worked as an editor for magazines before joining academia. For over 20 years, Prof. Obonyo has taught media studies at university level in several institutions. Prof. Obonyo holds a PhD in Mass media and Communications from Temple University Philadelphia, USA. He also holds a Postgraduate Diploma in Tertiary Education from Potchefstroom University for Christian Higher Education, South Africa.</p> <p>He is a former Chairman of the Media Council of Kenya. He currently serves as a member of the Advisory Council to Kenya National Commission to UNESCO (KNATCOM) specializing on communications. He has, and continues to serve in several boards. He is a columnist, has published many articles in academic journals, chapters in books, and co-authored <i>Journalists and the rule of law</i>. He joined the CA Board in May 2014 and reappointed in 29th April 2016 for a further term of three years.</p> | <p>Ms. Kenitice Tikolo, OGW Ms. Kenitice Tikolo is a communications expert with over 15 years' experience in Strategic Corporate Communications and Public Relations.</p> <p>She is the founder and Managing Director of Impact Africa Limited, a strategic Public Relations & Communications firm, based in Nairobi, Kenya.</p> <p>Prior to going to private business, Ms. Tikolo worked at the Kenya Wildlife Service as the Head of Corporate Communications. She earlier worked as public relations officer for a number of parastatals and NGOs, where she rose through the ranks to the manager corporate communications at the Kenya Civil Aviation Authority.</p> <p>She previously served in various roles, including scientific research, administrative and management positions in several multi-cultural settings.</p> <p>Ms. Tikolo holds a Master of Science degree in Public Relations from the University of Stirling in Scotland, and a first degree in Education from Kenyatta University.</p> <p>She is credited for conceptualizing and implementing the <i>Beyond Zero</i> initiative for the Office of the First Lady, which kicked off with the First Lady's Half-Marathon in 2014. Ms. Tikolo was feted the Order of the Grand Warrior of Kenya (OGW) by President Uhuru Kenyatta in 2017 for her contribution to the country in various capacities. She was appointed to the Communications Authority of Kenya's Board on 29th April 2016 for a period of three years.</p> |

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ALTERNATE BOARD DIRECTORS

Mr. Mwenda Njoka is the Communications Director and Advisor to the Cabinet Secretary in the Ministry of Interior and Co-ordination of National Government.

Prior to joining the Government, Mwenda worked at Royal Media Services as a Senior Editor and Political Analyst. He was the creator, researcher and producer of Citizen TV's popular investigative program that was known as "Who Owns Kenya".

He has also worked at the Standard Media Group (Standard on Sunday) as Managing Editor. Prior to that, he had worked as Associate Investigations Editor with the Nation Media Group. Mwenda has won local and international accolades including the CNN African Journalist of the Year Award in 2004, Kenya's Investigative Journalist of Year 2003, Kalasha Film & TV Award for his work on the documentary on the late JM Karuki, a populist Kenyan legislator assassinated under mysterious circumstances in 1975.

He got his education locally and abroad— at Kenya Institute of Mass Communications, Marquette University (Washington DC, USA) — and is currently pursuing an MA in Intelligence and Security Studies. He was appointed to the Communications Authority of Kenya (CA) on 19th August 2016 as Alternate Director to Principal Secretary, State Department for Interior.



Ms. Judy Munyinyi Mumo is the Acting Secretary for Information and the alternate to the Principal Secretary, State Department of Broadcasting and Telecommunications, Ministry of Information, Communications and Technology (ICT), at the CA Board.

She has over 15 years experience in communication, specifically in Government communication, print media, broadcast media, digital media and development communication.

Until her appointment to the current position, Ms. Munyinyi was Director of Research in the Presidential Strategic Communications Unit (PSCU), based at State House, Nairobi. Among her notable achievements in that role was serving as the media lead for the Global Entrepreneurship Summit and the visit of US President Barack Obama to Kenya in July 2015. She managed all aspects of media engagement, including hosting an energy panel discussion with key energy sector leaders, which was broadcast across Africa.

She has held senior editorial positions in media houses in Kenya, starting off in television as a Business News Anchor and diversifying into newspaper and magazine production, digital content management and corporate communications. Ms. Munyinyi holds a Bachelor's Degree from Daystar University and is currently pursuing her Masters in Diplomacy and International Studies at the University of Nairobi.

She is a member of the Association of Media Women in Kenya (AMWIK) and a Fellow of the International Volunteers Leadership Programme, USA.

Mr. John M. Njoroge is a Chief Economist at the Ministry of Interior and Correction services. He holds a Master's and Bachelor's Degrees in Economics from the University of Nairobi. He has attended various courses up to Diploma both locally and internationally.

He has over 26 years' experience in Security, Education, ICT, Economic Development, Gender Mainstreaming, Budget Formulation and Execution, Monitoring and Evaluation issues. He serves on the CA Board as an Alternate Director to the Principal Secretary, Ministry of Interior and Correctional Services.



Ms. Beatrice Gathirwa is the Senior Deputy Accountant General/ Director Investment in the Department of Government Investment and Public Enterprises at the National Treasury. She is a Certified Public Accountant and holds an MBA from Moi University.

She is a member of the Institute of the Certified Accountants of Kenya and is also a member of the secretariat of the Public Accounting Standards Board.





She serves on the CA Board as the Alternate Director to the Principal Secretary, National Treasury.







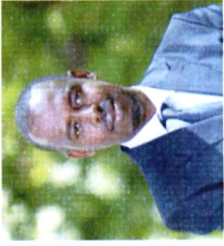

He ceased to hold this position upon transfer on 19th August 2016

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III. MANAGEMENT TEAM

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|  <p>Mr. Francis Wangusi, MBS is the Director General of the Communications Authority of Kenya (CA). He has been in the position since 2012 and currently serving his second term. Mr. Wangusi has over 33 years' experience in the ICT sector. He has presided over landmark projects that have revolutionized the sector, the most recent being the successful transition to digital broadcasting in Kenya.</p> | <p>He has previously served as Director in the departments of Broadcasting and Licensing Compliance & Standards respectively in the organization. Prior to joining the Authority, he had served as a Senior Lecturer in the Department of Telecommunication Engineering at the Multimedia University College of Kenya. In 2013, Mr. Wangusi was honoured with a presidential award of the <i>Moran of the Order of the Burning Spear (MBS)</i> in recognition of his role in spearheading growth of the ICT sector.</p> <p>Mr. Wangusi is currently pursuing a PhD in Management. He is holds a Masters Degree in Space Sciences (Satellite Communications), BSc degree (Telecommunications Engineering), Chartered Engineer-UK Certificate and Global Executive Masters Degree in Business Administration (GEMBA).</p> |
|  <p>CPA Maxwell Mogaka Mosoti is the Ag. Director, Finance and Accounts at the Communications Authority of Kenya (CA). He is Certified Public Accountant of Kenya and has been a registered member of the Institute of Certified Public Accountant (ICPAK) for over 18 years. He also holds a licence as a practicing accountant with ICPAK. He has over 29 years' experience in financial management, financial reporting and budgeting management.</p> <p>Mr. Mosoti holds a Master of Science in Finance degree from the University of Nairobi. He also holds a Bachelor of Business Administration degree and has also attended several courses in financial management, leadership and management of public finances and financial reporting.</p> | <p>He is currently the Chairman of the Business Process Reengineering and Automation Committee (BPRAC), A member of Communications Licensing Committee (CLC), A Member of the Finance and Administration Committee of Pan-African Postal Union (PAPU). He is also Chairman of the CCK Staff retirement pension benefits scheme. He was also nominated as an advisor to the Public Sector Accounting Standard Committee of ICPAK. He also holds other community leadership position.</p> <p>Mr. Christopher Kemei is the Director, Licensing, Compliance and Standards at the Communications Authority of Kenya (CA).</p> <p>He has over 23 year's experience in the telecommunications sector. He holds an Msc in Operational Telecommunications, and Bsc in Physics. He has also attended various courses in telecommunication regulation, procurement, and management of public enterprises, among others. He sits on the Communications Authority of Kenya Tender Committee as well as the Communications Licensing Committee (CLC)</p> |
|  <p>Mr. Juma Kandie is the Director, Human Capital & Administration at the Communications Authority of Kenya (CA). He has over 14 years' experience in human resource management and administration.</p> <p>He holds Msc in Human Resource Management, a Bachelor of Commerce degree as well as a Post Graduate Certificate in Strategy. Mr. Kandie has attended numerous courses in the areas of management of human capital, procurement as well as leadership.</p> <p>He has served in various capacities including as chairman of the Executive Council of the Commonwealth Telecommunications Organization (2012-2014), chairman of the Programme for Development & Training- Commonwealth Telecommunications Organization (CTO), (2008-2011), member of the African Advanced Level telecommunications Institute (AFRALTI) Governing Council, and Board Member – Institute of Human Resources Management (IHRM) (2010-2012), among others.</p> | <p>Mr. Tom Mbadzi Olwero is the Acting Director in charge of Frequency Spectrum Management Department at the Communications Authority of Kenya (CA). He holds a B.Sc. (Hons.) Electrical Engineering (Light Current option) and is currently finalising a Masters of Business Administration (Management).</p> <p>Mr. Olwero has over 31 years' experience in the ICT sector in ICT Regulation, Planning and Engineering, Licensing, Homologation. He has attended several specialized professional courses in ICT, Leadership, and Change Management among others, and has participated in several ITU Radio communication meetings and World conferences and ITU Development sector meetings both internationally and locally.</p> <p>Mr. Olwero previously worked for 14 years with the defunct Kenya Posts and Telecommunications Corporation where he was involved with planning, installation and commissioning of telecommunication systems. He has been Chairman of the Staff Matters Committee and the Procurement Committee. He is a member Engineers Board of Kenya (IEK), Institute of Engineers of Kenya (IEK), Institute of Electrical and Electronic Engineers US (IEEE), The Institution of Engineering and Technology.</p> |
|  <p>Mr. John Omo is the Director, Legal Services at the Communications Authority of Kenya. He has over 14 years' experience in legal practice.</p> <p>He holds a Masters of Laws degree, a Bachelors of Law degree as well as Diplomas in Law and Legal Practice Ethics</p> <p>He has attended a number of courses in legal practice, public procurement and telecommunications regulation.</p> <p>Mr. Omo has served as a committee member of the African Telecommunications Union (ATU) as well member of the Tender Committee at the CA.</p> | <p>He has over 23 year's experience in the telecommunications sector. He holds an Msc in Operational Telecommunications, and Bsc in Physics. He has also attended various courses in telecommunication regulation, procurement, and management of public enterprises, among others. He sits on the Communications Authority of Kenya Tender Committee as well as the Communications Licensing Committee (CLC)</p> |

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|  <p>Mr. Matiano Ndaró is the Director, Competition, Tariffs and Market Analysis at the Communications Authority of Kenya (CA). He has over 23 years experience in telecommunication market regulation.</p> <p>He is currently pursuing a Masters of Business Administration degree and holds a Bachelor of Arts degree in Economics as well as a Post Graduate Diploma in Regulation Telecommunications. Mr. Ndaró has attended a number of trainings ranging from competition regulation, procurement as well as leadership.</p> <p>He has served in various capacities within the region and globally, including: chairman of the International Telecommunication Union (ITU) Regional Tariff Group 4 Africa, 2000-2004), Vice Chairman – ITU-T Study Group 3 on Interconnection (2004 – 2012), Vice chairman, Telecommunications Standardization Advisory Group, ITU-T (2012-10 date), chairman, East African Communication Organization (EACO) Working Group 8 on Pricing and Industry Analysis (2013 to date), among others.</p> |  <p>Mr. Christopher Wambua is the Ag. Director in charge of Consumer and Public Affairs at the Communications Authority of Kenya. He has 20 years experience in communications and Public Relations.</p> <p>He holds a first degree in Education, a master's degree in International Studies and a postgraduate diploma in Mass Communications. He also holds a post-graduate diploma in Public Relations from the Chartered Institute of Public Relations.</p> <p>Mr. Wambua is a member of the Steering Committees of the Authority's Business Process Re-engineering and Automation (BPRA), and the National Addressing System.</p> <p>He is a member of the Public Relations Society of Kenya (PRSK) and the Chartered Institute of Public Relations (of the UK). Mr. Wambua represents the Authority in the Oversight Board of the Kenya Audience Research Foundation (KARF).</p> |  <p>Mr. Mutua Muthusi is the former Director, for Consumer and Public Affairs at the Communications Authority of Kenya (CA). He retired on 31st March 2017.</p> <p>He has over 23 years' experience in communication and public relations discipline. He holds a Masters of Business Administration degree, a Post Graduate diploma in Mass Communication as well as Bachelor of Arts degree</p> <p>He has attended diverse trainings in communications as well as leadership. Mr. Muthusi is a member of the Communications Authority of Kenya Tender Committee, as past chair of the Kenya Communications Sports Organization (KECOSO) Governing Council as well as a member of the Public Relations Society of Kenya (FRSK).</p> |
|  <p>Mr. Michael Katundu is the Director, Information and Technology at the Communications Authority of Kenya (CA) with over 14 years' experience in computing technology.</p> <p>He is a holder of a MSc. in Computer Science and a BSc. in Computer Science. He has attended several capacity building courses in Information and Communications Technology (ICT) and leadership. He has over 21 years in the ICT sector.</p> <p>He holds several leadership positions at the national, regional and global levels, including Chairperson of the East African Communications Organization (EACO) Cyber-security committee and Chairperson to the International Telecommunications Union (ITU) Cyber-security Regional Group for Africa.</p> |  <p>Mr. Joseph Kirui is the Acting Director, Risk Management and Internal Audit. He is a Certified Public Accountant and a member of the Institute of Certified public Accountants. He is also a member of the Institute of Internal Auditors. He has over 25 years' experience in Accounting, audit and Risk.</p> <p>Mr Kirui has completed a Master's in Business Administration. He holds a Bachelor of Arts degree in Economics and Philosophy. He has attended various courses in his areas of speciality and other relevant areas.</p> |  <p>Mrs. Jane Rotich is the Ag. Assistant Director, Procurement at the Communications Authority of Kenya (CA).</p> <p>Ms. Rotich is procurement professional with over 20 years' experience in public sector procurement. 13 years' of which have been gained at the Communications Authority of Kenya. Prior to her appointment as the Ag. Assistant Director, Procurement, she was the Manager, Procurement Planning and Contracts Management.</p> <p>She holds a Masters degree in Business Administration (Strategic Procurement) from Canberra University, Australia and a Masters degree in Business Administration (Strategic Management) from Moi University, Kenya. She also holds a Bachelor of Arts degree from Kenyatta University. Post graduate diploma in Purchasing and Supplies Management from Chartered Institute of Procurement and Supply, UK. She is a member of the Chartered Institute of Procurement and Supply, UK and Kenya Institute of Supplies Management.</p> |

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Mrs. Joyce Nyanamba is the former Assistant Director Procurement at the Communications Authority of Kenya (CA). She retired on 31st May 2017

She has over 8 years' experience in procurement. She holds a Master of Business Administration, a Bachelor of Education in Arts as well as a member of the Chartered Institute of Procurement and Supply

She has also attended various courses in procurement and leadership. She sits on the board of the Kenya Institute of Supplies Management (KISM), as well as the Secretary of the Tender Committee at the Communications Authority of Kenya.



Mr. Vincent Ngundi is the Assistant Director, Cyber Security and E-Commerce at the Communications Authority of Kenya (CA).

Mr. Ngundi has over 10 years' experience in the ICT industry, mainly in information security, ICT regulation and Internet governance and management.

Mr. Ngundi holds a Bachelor of Science degree in Computer Science and is currently finalizing a Masters degree in the same field, both from the University of Nairobi. He is a Certified Information Systems Security Professional (CISSP), a Certified Ethical Hacker (CEH), a Certified Security Analysts (ECSA) and a Project Management Professional (PMP). Mr. Ngundi is a Commonwealth Fellow.

He has served in various capacities including chair of the National KE-CIRT/CC Cybersecurity Committee (NKCC), chair of the AfriNIC Policy Development Process Moderator Group (PDP-MG), member of the ICANN Address Supporting Organization Address Council (ASO-AC), a member of Kenya's national IPv6 taskforce and member of the East Africa Internet Governance Forum (IGF) steering committee.

IV. CHAIRMAN'S STATEMENT

It is with great pleasure that I reflect on the achievements of the Authority during the Financial Year 2016/17. On behalf of the Board of Directors and in accordance with the Kenya Information and Communications Act, 1998, I hereby present this Annual Report.

As the regulator of the ICT sector, the Authority continued to create an enabling environment. In pursuit of this, the Authority committed to facilitate access to and use of ICT services by all in Kenya. In this regard, the Universal Service Fund was operationalized to bridge access gaps in unserved and underserved areas in the country.

The Authority launched the KUZA Awards in recognition of broadcasters that complied with the Programming Code. These Awards will be an annual event to recognize outstanding media houses in various parameters provided for in the Code.

It is our commitment to ensure that Kenya remains the leader in ICT development in the continent. To this end, Kenya successfully operationalized the automated mail quality measurement system that relies on Radio Frequency Identification (RFID), effectively becoming the first country in Africa to use the tool for regulatory purposes.

As the ICT regulator, we look at our mandate from a broad perspective incorporating the socio-economic development needs of the communities in which we operate. It is in this spirit that the Authority continued sponsorship of FC Talanta, a youth football team. These youth reflect the dreams, innovation and opportunities of our country's future which is in line with our goal of transforming lives.

I would like to assert that the targets attained in the year 2016/17 would not have been achieved without the support and engagement of our stakeholders. This reflects the Authority's determination towards transforming the lives of Kenyans through the facilitation of an enabling environment for provision of quality ICT services. This will positively impact the contribution of the sector towards the country's GDP.

The Authority continues to be a powerful agent for protection of interests of citizens and ICT consumers through education and public awareness. We will continue to work towards the reduction of anti-competitive behaviour in the ICT industry and to develop new models for promoting a sound, fair and competitive ICT sector in the country.

I take this opportunity on behalf of the Board, to applaud the members of Staff for their professionalism and dedication in the delivery of the aforementioned attainments. I also wish to extend our gratitude to the Ministry of Information, Communications and Technology for their support. I look forward to a more productive FY 2017-18.



Mr. Mugambi Nandi
For : Board of Directors

V. REPORT OF THE DIRECTOR GENERAL

The Kenyan ICT sector continues to record growth with significant increase in the number of Kenyans accessing various ICT services. The Authority through various initiatives, has spurred the uptake of ICTs with greater plans underway to

During the 2016/2017 financial year, the Authority began the operationalization of the Universal Service Fund (USF), established to enhance availability of ICT services in areas where there are little or none. The implementation is informed by an ICT Access Gaps Study carried out by the Authority in 2015.

The study provides for a gradual implementation of various projects, with two projects identified for the initial phase: Voice Infrastructure Project for 2G mobile services in selected sub-locations and the Education Broadband Connectivity Project geared towards providing high-speed Internet connectivity to learning institutions in the country.

In the period under review the Authority rolled out the Education Broadband Connectivity project targeting 896 beneficiary secondary schools across the country. The schools have been connected with 5Mbps Internet.

In terms of the sector performance, as at the end of the financial year, there were 39.1 million mobile subscribers in Kenya, compared to 39.7 million subscribers in the preceding year. The decline was occasioned by changes in the regulatory requirement on reporting by operators with respect to active subscribers as well as review of the country's population to 45.4 million up from 44.2 million as per the Economic Survey 2017. Subsequently, mobile penetration in the period under review stood at 86.2 per cent compared to 90 per cent in the previous financial year.

Data/Internet subscriptions stood 25.7 million subscriptions. The number of mobile money subscriptions stood at 27.5 million subscriptions whereas the number of active mobile money transfer agents was registered at 174,018.

The financial year also saw the number of broadband subscriptions reach 13.7 million subscriptions up from 10.8 million in the previous year. Subsequently, broadband penetration level increased to 30.3 per cent up from 24.5 per cent recorded at the end of the previous financial year.

With respect to the number of .KE domain names, the period under review ended with about 65,255 domains compared to 58,2016 in the preceding year.

The digital broadcasting signal covered 75 per cent of the Kenyan population, which was an increase when compared to last quarter's coverage of 66 per cent.

The number of free to-air TV channels on the digital terrestrial platform now stands at 60 while the number of FM stations was recorded at 178.

In order to create greater awareness on the Authority's mandate, a number of consumer awareness initiatives were carried out within the period. The Authority continued with the County ICT Consumer forums, Kikao Kikuu in three counties, namely, Bungoma, Busia and Makueni Kwale counties. So far the Authority has visited 14 counties, with the ultimate goal being to reach all the 47 counties. Within the period, the Authority also launched its service charter to the public, to enable our customers know our commitments to service delivery.

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The Programming Code for Free-to-Air radio and TV came into effect on 1st July 2016. Since then, the Authority has been monitoring compliance of media houses to the Code which prescribes standards and manner of broadcasting services. To incentivise media houses that are working hard to meet the provisions of the Code, the Authority launched KUZA Awards that will now be held annually to recognize outstanding media houses in various parameters provided for in the Code.

In the 2016/2017 financial year, Kenya successfully implemented and launched an automated mail quality measurement system, effectively becoming the first country in Africa to use the tool for regulatory purposes.

The Communications Authority of Kenya (CA) achieved the milestone that has now made it easier to track mail movement within the mail processing chain at the Postal Corporation of Kenya (PCK). The gadgets have been installed at 21 postal offices across the country. The implementation of the Global Monitoring Systems (GMS) that relies on Radio Frequency Identification (RFID) was realized through technical support from the Universal Postal Union (UPU).

It is also during this period that the Authority published the first ever report on extent of deployment and use of ICTs in public institutions and private enterprises. The report done in collaboration with the Kenyan National Bureau of Statistics (KNBS) indicates that a majority of public and private enterprises have embraced ICTs in offering services and in their operations.

These significant achievements point towards a positive future for the ICT sector in Kenya.



Francis W. Wangusi, MBS

VI. CORPORATE GOVERNANCE

The Board and management of the Communications Authority of Kenya (CA) is committed to maintaining the highest standards of corporate governance. This statement describes how CA's Board has applied the principles set out in The Code of Governance for State Corporations (Mwongozo), State Corporations Act, Cap.556 Laws of Kenya, the Kenya Information and Communications Act and other relevant laws. The Board is collectively responsible for the long term success of CA as a regulator. Its role is essentially threefold - to provide leadership, to oversee management and to ensure that the CA achieves its mandate.

Good corporate governance enables effective and efficient decision making and gives a structural aid for the Directors to discharge their duty to promote the success of the CA as a regulator of the telecommunications sector, taking into account the interest of all stakeholders.

Effective governance is achieved through a combination of strong policies, process and structures, underpinned by the right values and culture. The Board recognizes that for governance to be effective, it must be realized through leadership and collaboration, with the Board at the helm leading by example to compliment the senior management. The Board has complied with the provisions of the Mwongozo Code of Governance for public corporations as indicated below:-

THE BOARD

BOARD COMPOSITION, APPOINTMENT AND SIZE

The size, composition and appointments of the Members of the Board are prescribed in the Kenya Information and Communications Act. The Communications Authority Board comprises of eleven (11) members, seven of whom must be independent. The Chairperson of the Board is appointed by the President. The members are appointed by the Cabinet Secretary and the appointments are gazetted. Each member serves for a maximum of two terms of (3) years each. The Director-General of the CA also serves as an ex-officio member of the Board with no voting rights.

The Board is well composed in terms of range and diversity of skills, knowledge, age, competencies, gender and experience in various sectors which makes it effective and provides an appropriate balance for the oversight and achievement of the Board's mandate and long-term goals. The board is composed of eight (9) males directors and two (2) females directors as well as two (2) female alternate directors and one (1) male alternate director.

A member of the Board may resign or vacate office under the conditions stipulated in the Kenya Information and Communications Act and Mwongozo. The Board may recommend the removal of a member based on non-performance, gross misconduct, non-attendance of meetings, unethical conduct or as set out in any constitutive documents or applicable law.

INDEPENDENCE AND SEPARATION OF ROLES & RESPONSIBILITIES

The roles and responsibilities of the Chairperson of the Board and the Director-General remain distinct and separate which ensures a balance of power of authority and checks and balances. The Board sets out the strategic direction of the organization, oversees implementation of policies and evaluates the performance of CA.

The Chairperson provides overall leadership to the Board without limiting the principles of collective responsibility for Board's decisions. His roles are clearly set out in the Board charter.

BOARD RESPONSIBILITIES

The principle role and responsibility of the Board is that of establishing the long-term goals of the Authority and ensuring that effective plans are developed and implemented within a commonly agreed organizational structure. The Board is charged with the following responsibilities:-

- (a) Exercising leadership, enterprise, integrity and judgement in directing the Authority;
- (b) Determining the vision, purpose and values of the Authority;

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- (c) Developing a strategy to achieve the Authority’s purpose and to implement its values to ensure that it survives and thrives;
- (d) Putting in place policies and structures including organization systems, technology and staff to achieve the Authority’s purpose and objectives;
- (e) Identifying and managing of key risk areas by overseeing the implementation of adequate control systems and relevant compliance with the law, governance, accounting and auditing standards;
- (f) Setting targets, monitoring performance and determining the key performance indicators of the Authority;
- (g) Exercising objective judgment, independent from management but with sufficient management information;
- (h) Ensuring the preparation of annual financial statements and reports, communication, and disclosure of information to the stakeholders.
- (i) Guiding the implementation of strategic decisions and actions and advising management as appropriate;
- (j) Determining the broad policies of the Board including policies on the frequency, purpose, conduct and duration of its meetings and those of its Committees;
- (k) Assessing its performance and effectiveness as a whole, and that of individual directors, including the Director-General;
- (l) Ensuring that procedures and practices are in place to protect the Authority’s assets and reputation;
- (m) Ensuring that the Authority has developed succession and exit plans for its senior management;
- (n) Ensuring that the Authority has developed effective corporate social and environmental responsibility programmes;
- (o) Regularly reviewing processes and procedures to ensure the effectiveness of the Authority’s internal systems of control; and
- (p) Meeting at least once a quarter as circumstances may require and disclosing in the annual report the number of board and committee meetings held in the year and the details of attendance of each director;
- (q) Review, evaluate and approve the overall organizational structure, the assignment of senior management responsibilities and plans for senior management development and succession.

BOARD AND BOARD COMMITTEE MEETINGS

The Kenya Information and Communication Act empowers the Board to create standing as well as ad hoc committees depending on the need and the prevailing circumstances as well as due to statutory and corporate governance best practice requirements. The quorum for Board meetings is seven members excluding the Director-General. In case of non-attendance of a member due to other commitments, such information is communicated to the chairperson and the secretary prior to the date of the scheduled meeting. If the chairperson is absent, the members present shall appoint one of their members to preside over the meetings.

Board papers are availed to the members at least seven days before the date of the meeting. The table below analyses the attendance of board meetings during the financial year ended 30th June 2017. During that financial, a total of ten full board meetings were held on the following dates: 8th July 2016, 26th July 2016, 29th September 2016, 26th October 2016, 8th December 2016, 13th December 2016, 2nd February 2017, 14th March 2017, 23th March 2017, 27th April 2017.

| | CA Board | Alternate Members | Attended Meetings | % Attendance |
|----|-----------------|----------------------------|--------------------------|---------------------|
| 1. | Sammy Itemere | Judy Munyinyi Mumo | 8 | 80% |
| 2. | Kamau Thugge | Beatrice Gathirwa | 7 | 70% |
| 3. | Karanja Kibicho | Mwenda Njoka/ John Njoroge | 7 | 80% |

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| | | | | |
|-----|-----------------------|--|----|------|
| 4. | David Kitur | | 10 | 100% |
| 5. | Kentice Tikolo | | 6 | 60% |
| 6. | Levi Obonyo | | 8 | 80% |
| 7. | Patricia Kimama | | 9 | 90% |
| 8. | Paul Kukubo | | 7 | 70% |
| 9. | Mugambi Nandi | | 10 | 100% |
| 10. | Christopher Guyo Huka | | 9 | 90% |
| 11. | Ben N. Gutuku | | 10 | 100% |

BOARD COMMITTEES AND RESPONSIBILITIES

The Board has delegated certain functions to well-structured committees but without abdicating its own responsibilities. The Board has developed a committee structure that assists in the execution of its duties, powers and authorities. Each committee is guided by prescribed Terms of Reference contained within the Board Charter. The Committees are appropriately constituted drawing membership from amongst Board members with appropriate skills and experience.

The committees operate transparently and also conduct themselves within the rules and procedures set out by the Board. Reports of matters deliberated by the Committees are presented to the Board by the respective chairpersons at the preceding board meeting. The Board Committees are Finance and Risk Management, Staff and Administration, Technical Committee, Broadcasting Standards Committee and Board Audit Committee.

Finance and Risk Committee

The Finance and Risk Management Committee is established mainly to give recommendations and advise the Board on financial risk management strategies and objectives to foster growth and development in the Authority.

Staff and Administration Committee

The Staff and Administration Committee is established mainly to give recommendations and advise to the Board on personnel matters, policies and procedures and on issues of administration of the assets of the Authority.

Technical Committee

The Technical Committee is established mainly to give recommendations and advise to the Board on Technical and Regulatory matters in the ICT sector.

Broadcasting Standards Committee

The Broadcasting Standards Committee is established mainly to give recommendations and advise to the Board on all broadcasting matters.

Audit Committee

The Audit Committee is created to provide oversight by offering objective advice and recommendations to the Board on whether the Authority's governance, risk management, and internal control processes are suitably designed and working as intended to achieve objectives.

BOARD CHARTER AND WORK-PLAN

The Board has developed a board charter which defines the role and responsibilities and functions of the board in line with the governance of the Communications Authority. The Board Charter is reviewed periodically.

Board members prepare an annual work plan. The work plan focuses at a minimum on a review of the management's implementation of strategies, policies and plans; risk assessment and

management, budgeting and financial management, quality assurance processes, Board evaluation, governance and compliance, competence development for its members; strategic planning, amongst others.

DIRECTORS INDUCTION AND CONTINUOUS SKILLS DEVELOPMENT

On appointment to the Board, directors have the benefit of an induction programme aimed at deepening their understanding of the Authority and the business environment and markets in which the Authority operates. The Board also carries out a needs assessment and develops an annual development programme for its members.

Additionally, the Board receives briefing/training on programs aimed at enhancing their understanding of the Enterprise Risk Management, law/regulations, business and political environment in which the Authority operates.

BOARD EFFECTIVENESS AND EVALUATION

In order to assess and improve the capacity, functionality and effectiveness of the Board and its committees, an annual evaluation is undertaken within the widely accepted principles of corporate governance. Each Board member monitors and assesses the collective performance of the Board as well as the performance of individual directors and the Director-General. The evaluation reviews the General orientation of the Board, Board structure/composition, Selection, appointment, induction, development, rotation and succession of directors, Board effectiveness, Strategic direction, Stewardship of resources, Assessing performance, Risk management, Legal compliance and Accountability.

REMUNERATION OF THE BOARD

Remuneration of members of the Board is guided by the State Corporations Act, Cap 446 and the Kenya Information and Communications Act, 1998. Remuneration includes sitting allowances or other remuneration as the Board may, within the scales of remuneration specified from time to time by the State Corporations Advisory Committee and the Salaries and Remuneration Commission, approve.

ETHICAL LEADERSHIP AND CORPORATE CITIZENSHIP

Members of the Board have a fiduciary duty to act honestly and in the best interest of the Board. The Board provides effective leadership based on ethical foundation and ensures all deliberations, decisions and actions are based on the Board's core values underpinning good governance.

SUCCESSION PLANNING

Succession planning is an ongoing process of systematically identifying, assessing and developing talent and capacity to ensure continuity in specific positions within the organization. A succession plan is designed to identify and prepare candidates for positions that become vacant due to retirement, resignation or death.

The Board has put in place a succession plan to ensure smooth transition with the least likelihood of disruption in case a position becomes vacant. There is a succession plan in place for the Director-General and other senior management staff.

GOVERNANCE AUDIT

A governance audit of state corporations is facilitated by the State Corporations Advisory Committee on an annual basis. The purpose of the Audit is to ensure that the Authority conforms to the highest standards of good governance.

VII. CORPORATE SOCIAL RESPONSIBILITY

In executing its mandate, the Communications Authority of Kenya is committed to behaving ethically and responsibly, to contribute to economic development while improving the quality of life of its employees and their families as well as the local community and the society at large.

At the moment, the main focus of our Corporate Social Responsibility (CSR) activities and projects is in the area of promoting the uptake of ICT. Our CSR policy also covers community relations, national events, education, support to national disaster mitigation efforts and sports.

Some of the Authority's most notable CSR activities include, facilitating access to ICT services by Persons with Disabilities (PWDs). The Authority has rolled out a Kshs.32 million project to connect training institutions for PWDs with assistive ICT equipment with a view to ensuring digital inclusion for persons with special needs. The project covers eight institutions spread across the country.

The Authority is also nurturing sporting talent among the youth through its sponsorship of Talanta Football Club. The Authority in partnership with the United Nation's Children Fund (UNICEF) is supporting graduates from the National Youth Talent Academy since July 2012. The Authority focused on sports and especially football for its universality and ability to bring people from all walks of life together.

The Authority shall continue to forge public private sector partnerships to ensure that it uplifts the society.

VIII. REPORT OF THE DIRECTORS

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

Principal activities

The principal activities of the Authority are and continue to be licensing and regulation of the communications sector on behalf of the Government of Kenya.

Results

The results of the entity for the year ended 30 June 2017 are set out on page 1 to 25

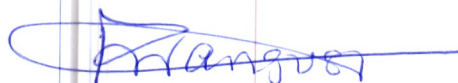
Directors

The members of the Board of Directors who served during the year are shown above. During the year Alternate director Mr. John Njoroge ceased to be alternate for the PS Ministry of Interior and Co-ordination of National Government and replaced with Mr. Mwenda Njoka with effect from 19th August 2016.

Auditor

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

By Order of the Board



Francis Wangusi, MBS
Director General
COMMUNICATIONS AUTHORITY OF KENYA

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 20(2) of the Kenya Information and Communications Act of 1998 (CAP 411A), Public Financial Management Act of 2012 and the State Corporations Act (CAP 446), require the Directors to prepare financial statements in respect of that Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year/period and the operating results of the Authority for that year/period. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year (period) ended on 30 June 2017. This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the Authority;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the KICA Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended 30 June 2017, 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 28th September 2017 and signed on its behalf by:



Director General



Ag. Director Finance & Accounts
ICPAK Member No: 2519



For: Board of Directors

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COMMUNICATIONS AUTHORITY OF KENYA FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Communications Authority of Kenya set out on pages 1 to 28, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Communications Authority of Kenya as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Information and Communication Act., Cap 411A Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Irregular Procurement Methods

1.1 Event Management Services

As disclosed in Note 12 to the financial statements the general expenses figure of Kshs.1,969,111,000 includes an amount of Kshs.95,408,000 in respect of consumer affairs. The figure of Kshs.95,408,000 also includes Kshs.13,302,560 being cost of event management services during the Authority's ICT forum held on 11 November 2016 whose service provider was identified through request for quotations method of procurement yet the tender amount exceeded the allowable threshold of Kshs.2 million. This is contrary to Public Procurement and Asset Disposal Act, 2015. In

Report of the Auditor-General on the Financial Statements of Communications Authority of Kenya for the year ended 30 June 2017

addition, no signed formal contract between the Authority and the service provider was availed for audit review. Further, the figure of Kshs.95,408,000 includes an amount of Kshs.20,130,998 paid to another firm in respect of event management services for Kikao Kikuu in Busia without a signed contract agreement contrary to section 44(1)(f) of the public procurement and asset disposal Act, 2015 which requires an accounting officer to approve and sign all contracts of the procuring entity.

In the circumstances, it has not been possible to confirm the propriety of expenditure totalling Kshs.33,433,557 for the year ended 30 June 2017.

1.2 Design, Printing, Supply and Delivery of Branded Items

Further, the general expenses figure of Kshs.1,969,111,000 includes an amount of Kshs.95,408,000 in respect of consumer affairs under note 12 to the financial statements. The amount of Kshs.95,408,000 also includes Kshs.11,977,070 for the design, printing, supply and delivery of branded give away including umbrellas and spiral notebooks by three firms identified through request for quotations instead of open tendering method for a contract of such magnitude.

However, available information revealed that on 21 June 2017 all the three firms which were awarded the tender were notified further changes affecting their contracts from one off supply to a framework contract/agreement. The change to framework contract was done contrary to section 114(1) of the Public Procurement and Asset Disposal Act 2015, which provides that a framework contract can only be entered into through open tender and when the required quantity of goods, works or non-consultancy services cannot be determined at the time of entering into the agreement.

Consequently, the Authority is in breach of the law and the propriety of expenditure totaling Kshs.11,977,070 for the year ended 30 June 2017 could not be confirmed.

1.3 Unclear Excessive Procurement of Brochures

As disclosed in note 12 to the statements financial statements the general expenses figure of Kshs.1,969,111,000 includes an amount of Kshs.95,408,000. The amount of Kshs.95,408,000 also includes Kshs.13,862,670 in respect of a contract for supply of various brochures awarded to a firm on 4 November 2015 at a contract sum of Kshs.7,675,538 for a period of one year, with a performance bond of 5% equivalent to Kshs.383,776.88. However, available information indicate that on 5 April 2016 and 13 October, 2016 the Authority wrote to the above supplier to quote and supply additional brochures worth Kshs.9,292,500 and Kshs.5,683,485 through direct payment. The supplier was subsequently paid for the additional brochures vide Payment Voucher. No.s VB/C/2006/12/14958 dated 18 August 2016 and VB/C/2006/12/13271 dated 23 December 2016 respectively. This was contrary to section 106(2)(b) of Public Procurement and Asset Disposal Act 2015 which requires that the request shall be given to as many persons as necessary to ensure effective competition and shall be given to at least three persons, unless that is not possible.

A physical visit to the store one year later in December 2017, revealed that a total of 139,250 child online brochures worth Kshs.12,323,625 were still lying in store unutilized. In the circumstances, it has not been possible to confirm the propriety of expenditure totalling Kshs.13,862,670 for the year ended 30 June 2017 and that the Authority was in breach of the Law.

1.4 Supply of Computers to Schools and E Resource Centers

In addition included in the general expenses figure of Kshs.1,969,111,000 under note 12 is an amount of Kshs.95,886,000 in respect of universal service obligation. The amount of Kshs.95,886,000 also includes Kshs.58,577,271 paid to a firm for supply of computers to schools and E-resources centres out of which Kshs.55,035,471 was for supply and installation of computers, Kshs.2,934,800 for annual computer hardware maintenance and Kshs.607,000 for annual renewal fees for anti-virus for a period of two (2) years and three (3) months.

However, examination of available records revealed that the supplier attached a manufacturer authorization letter which had a disclaimer on warranty of the products in place of the Standard Manufacturer's Authorization form/letter specified in the tender documents where Quality of the Product is guaranteed by the manufacturer.

Although the management explained that they intended to award the tender to more than one bidder as a way of extending the opportunities to the women, youth and persons with disabilities in order to minimize the risk of any possible setback to the entire project in the event that a single bidder experienced challenges that may affect the delivery of goods and services, the maximum number of lots that were to be awarded to any one bidder were three (3) out of the total five (5) lots. However, this was not the case as the above supplier was awarded all the five (5) lots. Consequently, the Authority is in breach of the law and the propriety of expenditure of Kshs.58,577,271 for the year ended 30 June 2017 could not be confirmed.

2. Unaccounted for Expenditure

Included in the general expenses figure of Kshs.1,969,111,000 under note 12 is an amount of Kshs.54,786,000 in respect of corporate social responsibility. The amount of Kshs.54,786,000 also includes Kshs.23,000,000 being sponsorship of the National Youth Talent Academy. The sponsorship was on furtherance of 28 June 2012 agreement between the Authority and UNICEF Kenya to sponsor the National Youth Talent Academy boys football team established by the government through the Ministry of Sports, Culture and Arts at a cost of Kshs.17,763,250 per year for three years, with a commencement date of 28 June 2012. The agreement was later renewed on 9 May 2016 for a total sum of Kshs.69,000,000 for period of three financial years with effect from June 2016 to 2019 at Kshs.23,000,000 per annum. However, the Kenya Academy of sports has not submitted any returns and financial reports of the football club (Talanta) or accounted for the grants or the donations as per agreement between the two parties.

Further, according to the agreement, the utilization of the funding was to be subjected to an annual external audit by the Auditor General. The Authority was also mandated

to call at any time for any of the financial accounting and other project records maintained by Kenya Academy of Sports in pursuant to the agreement and subject the records to an audit process of its choice. However, no evidence to show that the financial records of Kenya Academy of Sports were subjected to any audit was availed for audit review.

In addition, it was noted on 13 December, 2016 the acting Director Corporate Services for Kenya Academy of Sports wrote to Director General Communication Authority of Kenya through letter Ref. No: KAS/A/13(21) requesting for a change in remittance of the second instalment of Kshs.23,000,000 for the football club (Talanta), from the old account No. 0260500659 at Equity Bank as per the agreement to a new account at Jamii Bora Bank account No.1001823633002. The request was honored on 20 January, 2017 without authority from the parent Ministry and the National Treasury.

Further, Communications Authority of Kenya did not notify Kenya Academy of Sports and the Ministry of Sports, Culture and Arts of the transfer of the funds.

Consequently, it has not been possible to confirm the propriety of expenditure totalling Kshs.23,000,000 transferred to Jamii Bora bank account for the year ended 30 June 2017.

3. Directors Expenses

3.1 Irregular Payments to Directors

Included in the directors expenses figure of Kshs.47,211,000 under note 10 is an amount of Kshs.1,656,000 in respect of board welfare. The amount of Kshs.1,656,000 also included Kshs.1,200,000 being Christmas Shopping vouchers worth Kshs.100,000 to each Board director. The Universal Service Advisory Council members were also given Christmas shopping vouchers worth Kshs.900,000 which is included in note 12 under universal advisory council of Kshs.47,261,000. The payment of christmas shopping totalling Kshs.2,100,000 was made without parent Ministry and National Treasury approval. This was done contrary to provisions of circular ref OP/CAB9/21/2A/LII/43 dated 24 November 2004: Guidelines on terms and conditions of service annex IV paragraph (i) at page 42 that provides that any other benefits that are not provided in annex iv do not apply. Consequently, the management was in breach of the Law and the propriety of expenditure totaling Kshs.2,100,000 for the year ended 30 June 2017 could not be confirmed and was not a proper charge to public resources.

3.2 Irregular Disposal of MacBook laptops and IPADS to Directors

Examination of available record revealed that Authority assets including macbook laptops and IPADS held by the former directors were un-procedurally disposed off to the individual directors. The nine (9) MacBook laptops with net book value of Kshs.466,551, nine (9) iPads with net book value of Kshs.160,515, ten (10) iPads with net book value of Kshs.200 and fourteen (14) laptops with net book value of Kshs.280 all totalling to Kshs.627,553 were offset with the directors' fees due to the

former directors. Offsetting of said assets was done contrary to Section 164(3) of the Public Procurement and Asset Disposal Act 2015 which states that there shall be a technical report where appropriate by a relevant expert of the subject items for disposal that takes into account the real market price and in so doing the technical expert shall set up a reserve price which shall be the minimum acceptable price below real market value of the boarded items.

Consequently, the Authority was in breach of the law and the propriety of Kshs.627,546 for the year ended 30 June 2017 could not be confirmed.

4. Disputed Contract Payments

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

Further, on 5 December 2006 the contractor wrote to the Authority(Commission) claiming Kshs.51,378,300.40 in respect of purported losses and expenses incurred on the project due to delay of 45 days. The Authority disputed the claim and the contractor subsequently lodged an arbitration claim before an arbitrator.

Consequently the Arbitrator ruled that the Authority was to pay Kshs.47,284,879.45 for the claims and costs of arbitration of Kshs.2,783,370 all totalling Kshs.50,068,249.45, failure to which the amount shall attract simple interest at a rate of 18% per annum until payment is made in full. On 5 March 2015 the Board approved release of Kshs.51,860,882.75 held in the Escrow account and undertook to pay other outstanding sums of money amounting to Kshs.18,103,040 all totalling Kshs.69,963,922.75. A review of the matter in February 2018 revealed unchanged position.

In the circumstances, it has not been possible to confirm that Kshs.69,963,922.75 is a proper charge to public resources.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Communications Authority of Kenya 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I determine that there were no Key Audit Matters to communicate in my report.

Other Matter

Budgetary Control and Performance

The Authority had a total expenditure budget of 3,581,946,000 approved for the financial year 2016/2017. The budget absorption was as follows:

| Item | Budget 2016-2017 | Actuals 2016-2017 | Under Expenditure | Absorption |
|--------------------------------------|-------------------------|-------------------------|-----------------------|------------|
| | (Kshs.) | (Kshs.) | (Kshs.) | % |
| Personnel Emolument | 1,193,382,000.00 | 1,193,354,000.00 | 28,000.00 | 100% |
| Board Expenses | 55,000,000.00 | 47,211,000.00 | 7,789,000.00 | 86% |
| Operating/Administration Expenses | 2,207,750,000.00 | 1,969,111,000.00 | 238,639,000.00 | 89% |
| Repairs and Maintenance | 3,623,963,000.00 | 3,315,098,000.00 | 308,865,000.00 | 63% |
| | | 105,422,000.00 | 62,409,000.00 | |
| Grand Total | 3,623,963,000.00 | 3,315,098,000.00 | 308,865,000.00 | 91% |

From the above analysis, the Authority underutilized the budget under repairs and maintenance by 37%. The under absorption of the approved budget is an indication of activities not implemented by the authority which implies non delivery of goods and services to the Kenyan Citizens for the year ended 30 June 2017.

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

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

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Authority or 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.

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, 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 of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

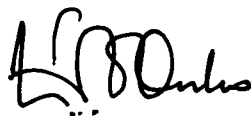
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt

on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue as a going concern or continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

10 May 2018

Statement of Financial Performance
For the Year Ended 30 June 2017

| | | 2017 | 2016 |
|---|------|-------------------------|-------------------------|
| | Note | K shs'000 | K shs'000 |
| Revenue from non-exchange transactions | | | |
| License Fees | 6 | <u>7,361,159</u> | <u>6,613,933</u> |
| Revenue from exchange transactions | | | |
| Finance income | 7 | 1,110,283 | 1,010,964 |
| Other Income | 8 | <u>315,271</u> | <u>198,319</u> |
| | | 1,425,554 | 1,209,283 |
| Total revenue | | <u>8,786,713</u> | <u>7,823,216</u> |
| Expenses | | | |
| Employee costs | 9 | 1,193,354 | 1,173,479 |
| Directors Expenses | 10 | 47,211 | 52,213 |
| Depreciation and Amortization Expense | 26 | 352,609 | 305,956 |
| Repairs and maintenance | 11 | 105,422 | 99,838 |
| General expenses | 12 | <u>1,969,111</u> | <u>1,912,904</u> |
| Total Expenses | | 3,667,707 | 3,544,390 |
| Other gains/(losses) | | | |
| Gain on sale of assets | 13 | 1,164 | 774 |
| Gain on foreign exchange transactions | 27 | 35,608 | (46) |
| Impairment loss | 29 | <u>-</u> | <u>(36,227)</u> |
| Surplus | | 5,155,778 | 4,243,328 |
| Dividend/Remittance Surplus | 23 | 4,188,975 | 2,828,586 |
| Surplus for the period | | <u>966,803</u> | <u>1,414,742</u> |

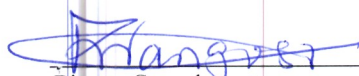
The statement of financial performance it to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 25.

Communications Authority of Kenya
Financial Statements for the year ended June 30, 2017

Statement of Financial Position
As at 30 June 2017

| | | 2017 | 2016 |
|---|-------|-------------------|-------------------|
| | Note | K shs'000 | K shs'000 |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 14 | 12,394,988 | 10,278,052 |
| Receivables from non-exchange transactions | 15 | 1,145,722 | 1,764,813 |
| Receivables from exchange transactions | 16 | 531,305 | 477,425 |
| Total Current Assets | | 14,072,015 | 12,520,290 |
| Non Current Assets | | | |
| Property, plant and equipment | 19(a) | 2,594,525 | 2,471,647 |
| Intangible Assets | 19(b) | 730,570 | 281,994 |
| Total Non-Current Assets | | 3,325,096 | 2,753,641 |
| TOTAL ASSETS | | 17,397,110 | 15,273,931 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Provisional Dividend/Remittance Surplus | 23 | 4,188,975 | 2,828,586 |
| Trade and other Payables from exchange transactions | 17 | 456,306 | 588,367 |
| Payments received in advance | 18 | 19,425 | 82,952 |
| Total Current Liabilities | | 4,664,706 | 3,499,905 |
| TOTAL LIABILITIES | | 4,664,706 | 3,499,905 |
| Net Assets | | 12,732,404 | 11,774,026 |
| Owners Equity | 20 | 741,965 | 741,965 |
| Accumulated Surplus | 25 | 11,990,439 | 11,032,061 |
| Total Net assets and Liabilities | | 12,732,404 | 11,774,026 |


The Financial Statements set out on pages 1 to 25 were signed on behalf of the Board of Directors by:



Director General
Francis W. Wangusi, MBS



Ag. Director Finance and Accounts
CPA. Maxwell M. Mogaka
ICPAK Membership No:2519



For: Board of Directors
Mr. Mugambi Nandi

Date

Date

Date

**Statement of Changes in Net Assets
 For the Year Ended 30 June 2017**

| | Note | Owners Equity Kshs'000 | Revaluation Reserve Kshs'000 | Accumulated Surplus Kshs'000 | Total Reserves Kshs'000 |
|-------------------------|------|------------------------------|------------------------------------|------------------------------------|-------------------------------|
| At July 1, 2015 | | 741,965 | - | 9,617,320 | 10,359,284 |
| Surplus | | | - | 4,243,328 | 4,243,328 |
| Remittance Surplus | 23 | | | (2,828,586) | (2,828,586) |
| At 30 June 2016 | | 741,965 | - | 11,032,061 | 11,774,026 |
| Director Fees | 30 | | | (9,780) | (9,780) |
| Post period Adjustments | | | | 1,355 | 1,355 |
| At July 1, 2016 | | 741,965 | - | 11,023,636 | 11,765,601 |
| Surplus | | | - | 5,155,778 | 5,155,778 |
| Remittance Surplus | 23 | | | (4,188,975) | (4,188,975) |
| At 30 June 2017 | | 741,965 | - | 11,990,439 | 12,732,404 |

Statement of Cash Flow
For the Year Ended 30 June 2017

| | Note | <u>2017</u> Kshs'000 | <u>2016</u> Kshs'000 |
|---|-------|---------------------------|---------------------------|
| OPERATING ACTIVITIES | | | |
| Cash generated from/(used in) Operations | 21(a) | <u>4,758,231</u> | <u>3,811,571</u> |
| Surplus Remittance to Treasury Paid | | (2,828,586) | (3,147,721) |
| Directors fees | 30 | (9,780) | - |
| | | <u>(2,838,366)</u> | <u>(3,147,721)</u> |
| Net Cash generated from/(used in) Operations | | <u>1,919,866</u> | <u>663,850</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 19 | (914,377) | (574,200) |
| Proceeds from disposal of assets | 13 | 1,164 | 774 |
| Interest received | 7 | 1,110,283 | 1,010,964 |
| Net cash generated from/(used in) Investing activities | | <u>197,070</u> | <u>437,538</u> |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | <u>2,116,935</u> | <u>1,101,388</u> |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 14 | 10,278,052 | 9,176,664 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 14 | <u>12,394,988</u> | <u>10,278,052</u> |

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements as set out on pages 6 to 25

Statement of Comparison of Budget and Actual Amounts
For the Year Ended 30 June 2017

| | Original Budget | Re-Allocations | Final Budget | Actual on Comparable Basis | Performance Difference | Note |
|---|------------------|----------------|------------------|----------------------------------|---------------------------|------|
| | 2016-2017 | 2016-2017 | 2016-2017 | 2016-2017 | 2016-2017 | |
| Revenue | Kshs'000 | Kshs'000 | Kshs'000 | Kshs'000 | Kshs'000 | |
| Internally Generated Revenue | 6,698,815 | - | 6,698,815 | 7,361,159 | (662,344) | 1 |
| Recurrent | 804,302 | - | 804,302 | 1,462,326 | (658,024) | 2 |
| Total Revenue | 7,503,117 | - | 7,503,117 | 8,823,485 | (1,320,368) | |
| Operating Expenses | | | | | | |
| Personnel Emolument | 1,193,382 | - | 1,193,382 | 1,193,354 | 28 | 3 |
| Board Expenses | 55,000 | - | 55,000 | 47,211 | 7,789 | 4 |
| Operating/Administration Expenses | 2,207,750 | - | 2,207,750 | 1,969,111 | 238,639 | 5 |
| Repairs and Maintenance | 167,831 | - | 167,831 | 105,422 | 62,409 | 6 |
| Depreciation and Amortization | 297,207 | - | 297,207 | 352,609 | (55,402) | 7 |
| Total Operating Expenses | 3,921,171 | - | 3,921,171 | 3,667,707 | 253,464 | |
| Operating Profit (Loss) | 3,581,946 | - | 3,581,946 | 5,155,778 | (1,573,831) | |
| Finance Charges | - | - | - | - | - | |
| Corporation Tax | - | - | - | - | - | |
| Net Earnings | 3,581,946 | - | 3,581,946 | 5,155,778 | (1,573,831) | |
| Distribution to National Exchequer | 3,261,553 | - | 3,261,553 | 4,188,975 | (927,422) | |
| Retained Earnings | 320,393 | - | 320,393 | 966,803 | (2,501,253) | |

Notes to the Budget:

1. The favourable variance is due to increased collections of revenue as a result of enhanced management of the billing system and new networks applications
2. The targeted performance was surpassed due to favourable prevailing interest rates and the cash balances that were available.
3. The budget was duly achieved as per the estimates and strict adherence to the existing policy
4. A major workshop which had been anticipated towards the end of the financial year was postponed to the following financial year
5. The budget was not fully utilized due to mitigating factors such as the elections that disrupted activities such as consumer education programs that were to take place in various counties.
6. A major refurbishment and repair of the National Communications Secretariat was not finalized as at end of the year hence the low expenditure.
7. In the previous year all assets were brought of use and hence an enhanced depreciation in the current year as opposed to the previous year.

Notes to the Financial Statements For the Year Ended 30 June 2017

1. GENERAL INFORMATION

Communications Authority of Kenya is established by and derives its authority and accountability from *Kenya Information and Communications Act, 1998 (Cap 411A)*. The Authority is wholly owned by the Government of Kenya and is domiciled in Kenya. The Authority's principal activity is licensing and regulation of the communications sector on behalf of the Government of Kenya.

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 Authority and all values are rounded to the nearest thousand (Kshs.000). 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 NEW AND REVISED STANDARDS

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

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

Notes to the Financial Statements (Continued...) For the Year Ended 30 June 2017

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

| Standard | Effective date and impact: |
|--|--|
| IPSAS 39: Employee Benefits | Applicable: 1st 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. |
| IPSAS 40: Public Sector Combinations | Applicable: 1st 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. |
| Revised Standards | |
| IPSAS 21: Impairment of Non-Cash-Generating Assets | Applicable: 1st January 2018: The amendment which was contained in Exposure draft 57 that amended the standard so that assets measured at revalued amounts under the revaluation model in IPSAS 17, Property, Plant and Equipment, and IPSAS 31, Intangible Assets, are within the scope of IPSAS 21. |
| IPSAS 26: Impairment of Cash-Generating Assets | Applicable: 1st January 2018: The amendment which was contained in Exposure draft 57 that amended the standard so that assets measured at revalued amounts under the revaluation model in IPSAS 17, Property, Plant and Equipment, and IPSAS 31, Intangible Assets, are within the scope of IPSAS 26. |
| IPSAS 25: Employee Benefits | The amendments are contained in Exposure Draft 59 which proposes to align IPSAS 25, Employee Benefits with IFRS i.e. to be converged with the underlying IAS 19 on Employee Benefits. |

iii. Early adoption of standards

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

Notes to the Financial Statements (Continued...) For the Year Ended 30 June 2017

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

License Fees

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

ii) Revenue from exchange transactions

Interest income

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

Other Income

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

b) Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Authority as well as the revenue to be generated. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Taxes

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Authority operates and generates taxable income. The Authority is tax exempt as per the Public financial Management act of 2012. Management periodically evaluates positions taken in the tax legislations with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Notes to the Financial Statements (Continued...) For the Year Ended 30 June 2017

d) Property, plant and equipment

All property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in statement of financial performance as incurred. Depreciation is charged on a straight line basis over the estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives:

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

e) Financial instruments

Financial assets

Initial recognition and measurement

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

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are stated at original invoiced amounts, less an estimate made of Losses arising from impairment and recognized in the statement of financial performance.

Impairment of financial assets

The Authority 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:

Notes to the Financial Statements (Continued...) For the Year Ended 30 June 2017

- The debtors or an entity of debtors are experiencing significant financial difficulty
- 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)

i) Financial liabilities

Initial recognition and measurement

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

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

f) Provisions

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

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

Contingent assets

The Authority 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 Authority 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.

Notes to the Financial Statements (Continued...) For the Year Ended 30 June 2017

g) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements. All reserves are stated and outlined as per IPSAS 17 and IPSAS 1.

h) Changes in accounting policies and estimates

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

i) Employee benefits

Post-employment benefits

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

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

j) Foreign currency transactions

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

k) Intangible assets

Intangible assets acquired are initially recognized at cost. The cost of intangible assets acquired 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. The useful life of the intangible assets is assessed as either finite or indefinite. The rates of amortization used are based on the following estimated useful lives:

- Software 3 years

l) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Authority. 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.

Notes to the Financial Statements (Continued...) For the Year Ended 30 June 2017

The Authority 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 Authority will obtain ownership 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 Authority. Operating lease payments are recognized as an operating expense in statement of financial performance on a straight-line basis over the lease term.

m) Related parties

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

n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits and highly liquid investments with an original maturity of twelve months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

o) Comparative figures

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

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

Notes to the Financial Statements (Continued...) For the Year Ended 30 June 2017

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the consolidated financial statements were prepared.

However, existing circumstances and assumptions about future developments may change due to legislations, market or circumstances arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

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

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 30 June 2016.

**Notes to the Financial Statements (Continued...)
For the Year Ended 30 June 2017**

| | 2017 | 2016 |
|--|------------------|------------------|
| | Kshs'000 | Kshs'000 |
| 6. Revenue from non-exchange transactions | | |
| Annual frequency license fees | 6,213,714 | 5,569,607 |
| Annual operating license fees | 1,142,890 | 1,040,420 |
| Application Fees | 2,420 | 1,739 |
| Type approval fees | 2,136 | 2,167 |
| | <u>7,361,159</u> | <u>6,613,933</u> |
| 7. Revenue from exchange transactions | | |
| Cash Investments and fixed deposits | 1,299,594 | 1,238,819 |
| Taxes | (189,311) | (227,855) |
| | <u>1,110,283</u> | <u>1,010,964</u> |
| 8. Other income | | |
| Sale of tender documents | 39 | 74 |
| Staff Rent | 4,005 | 4,178 |
| Penalties | 311,227 | 194,068 |
| | <u>315,271</u> | <u>198,319</u> |
| 9. Employee costs | | |
| Employee related costs - salaries and wages | 881,835 | 805,396 |
| Contribution to pensions and medical | 88,240 | 172,269 |
| Travel and other allowances | 108,079 | 94,528 |
| Housing benefits and allowances | 115,200 | 101,286 |
| Total Employee Costs | <u>1,193,354</u> | <u>1,173,479</u> |
| 10. Directors Expenses | | |
| Sitting allowance | 14,356 | 16,763 |
| Monthly fees | 880 | 960 |
| Telephone allowance | 4,297 | 3,114 |
| Traveling Expenses | 21,545 | 19,091 |
| Board Welfare | 1,656 | 2,352 |
| Training-Directors | 4,477 | 9,933 |
| Total | <u>47,211</u> | <u>52,213</u> |

Notes to the Financial Statements (Continued...)
For the Year Ended 30 June 2017

| | 2017 | 2016 |
|--------------------------------------|------------------|------------------|
| | K.shs'000' | K.shs'000' |
| 11. Repairs and Maintenance | | |
| Property | 43,517 | 33,998 |
| Equipment | 53,863 | 58,119 |
| Motor Vehicles | 8,043 | 7,721 |
| Total Repairs and Maintenance | 105,422 | 99,838 |
| 12. General expenses | | |
| Training | 169,791 | 143,122 |
| Enforcement & Compliance | 64,606 | 75,735 |
| Computer software | 77,951 | 46,064 |
| Corporate affairs | 50,839 | 48,800 |
| Consumer Affairs | 95,408 | 202,450 |
| Medical Expenses | 55,508 | 55,681 |
| Advertising | 50,269 | 76,420 |
| Meetings and conferences | 330,574 | 247,670 |
| Exhibitions | 54,975 | 68,143 |
| Utilities | 31,182 | 35,653 |
| Postage and telephone | 25,790 | 13,187 |
| Rent and Rate | 19,138 | 13,350 |
| Consultancy fees | 256,867 | 207,657 |
| Accrued-Audit fees | 1,491 | 1,491 |
| Legal fees | 38,470 | 59,603 |
| Bank charges | 1,202 | 2,516 |
| Security | 61,566 | 64,087 |
| Insurance | 25,618 | 20,653 |
| Printing and stationery | 40,311 | 16,877 |
| House keeping | 7,760 | 9,962 |
| Periodicals and publications | 6,651 | 6,354 |
| Staff welfare | 62,018 | 90,638 |
| Transport Expense | 21,073 | 19,953 |
| Subscriptions | 109,614 | 105,661 |
| Sporting Activites | 29,529 | 26,165 |
| Corporate Social responsibility | 54,786 | 39,016 |
| Universal Service Obligation | 95,886 | 97,195 |
| National Communications Secretariat | 80,000 | 120,000 |
| Communications Appeals Tribunal | 2,236 | - |
| Digital Migration Expenses | 742 | 16,657 |
| Universal Advisory Council | 47,261 | 37,825 |
| Total general expenses | 1,969,111 | 1,968,585 |
| 13. Gain on sale of assets | | |
| Property Plant and Equipment | 1,164 | 774 |

Communications Authority of Kenya
Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements (Continued...)
For the Year Ended 30 June 2017

| | 2017 K shs'000 | 2016 K shs'000 |
|---|-------------------|-------------------|
| 14. Cash and Cash Equivalents | | |
| Current Account | 82,107 | 223,894 |
| Short term deposits | 11,012,881 | 8,614,158 |
| Treasury Bills | 1,300,000 | 1,440,000 |
| | <u>12,394,988</u> | <u>10,278,052</u> |
| b) Detailed Analysis | | |
| Kenya Commercial Bank (A/c Number 1106738608) | | |
| Current Account | 4,444 | 216,020 |
| Fixed deposits | 6,360,789 | 4,151,577 |
| Sub-Total | <u>6,365,233</u> | <u>4,367,597</u> |
| Citibank N.A. (A/c Number 300042015) | | |
| Current Account | 69,325 | 120,837 |
| Fixed deposits - T-bills | 1,300,000 | 1,440,000 |
| Sub-Total | <u>1,369,325</u> | <u>1,560,837</u> |
| Citibank N.A. (A/c Number 300042007) USD | | |
| Current Account | 4,532 | 12,333 |
| Sub-Total | <u>4,532</u> | <u>12,333</u> |
| Co-operative Bank of Kenya (A/c Number 1106738608) | | |
| Current Account | 3,807 | 28,215 |
| Fixed deposits | 4,652,092 | 4,309,070 |
| Sub-Total | <u>4,655,898</u> | <u>4,337,285</u> |
| 15. Receivables from non-exchange transactions | | |
| Treasury receivables | 0 | 436,626 |
| Licensee fee receivables | 1,339,800 | 1,522,266 |
| Accumulated Provision for bad and doubtful debts | (194,079) | (194,079) |
| Total non-current receivables | <u>1,145,722</u> | <u>1,764,813</u> |
| 16. Receivables from exchange transactions | | |
| Deposits | 7,563 | 7,563 |
| Pension Prepaid | 9,823 | 19,647 |
| Amount due from USF | - | 452 |
| Other Receivables | 513,918 | 449,762 |
| Total receivables | <u>531,305</u> | <u>477,425</u> |
| 17. Trade and Other Payables | | |
| Trade payables | 278,372 | 514,968 |
| Universal Service Fund Levy | 104,992 | - |
| Accrued Expenses | 1,491 | 4,898 |
| Employee Remittances | 71,451 | 68,501 |
| | <u>456,306</u> | <u>588,367</u> |
| 18. Payments received in advance | | |
| Annual frequency license fees | 14,374 | 61,384 |
| Annual operating license fees | 5,050 | 21,567 |
| | <u>19,425</u> | <u>82,952</u> |

Communications Authority of Kenya
Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements (Continued...)
For the Year Ended 30 June 2017

19. Property, Plant and Equipment and Intangible Assets

a) Property Plant and equipment

| | Freehold Land Kshs'000 | Buildings and Civil Works Kshs'000 | Plant and Machinery Kshs'000 | Motor Vehicles Kshs'000 | Computers & Related Equipment Kshs'000 | Office Equipment, Furniture and Fittings Kshs'000 | Capital Work In Progress Kshs'000 | Total Kshs'000 |
|------------------------------------|------------------------------|---|---------------------------------------|-------------------------------|---|---|--|-------------------|
| At 1 July 2015 | 698,723 | 594,531 | 21,168 | 135,725 | 212,515 | 714,590 | 438,409 | 2,815,662 |
| Additions | 171,174 | 19,491 | - | - | 12,596 | 809,348 | (438,409) | 574,200 |
| Transfers/Adjustments | - | - | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - | - | - |
| At 1 July 2016 | 869,897 | 614,022 | 21,168 | 135,725 | 225,111 | 1,523,938 | 0 | 3,389,861 |
| Additions | - | 182 | - | 80,483 | 24,350 | 17,654 | 223,805 | 346,475 |
| Revaluations | - | - | - | - | - | - | - | - |
| Disposals | - | - | - | (3,322) | (2,095) | - | - | (5,417) |
| At 30 June 2017 | 869,897 | 614,205 | 21,168 | 212,886 | 247,366 | 1,541,593 | 223,805 | 3,730,920 |
| Depreciation and Impairment | | | | | | | | |
| At 1 July 2015 | - | 90,160 | 10,531 | 80,744 | 106,251 | 407,895 | - | 695,582 |
| Depreciation | - | 17,244 | 2,519 | 18,550 | 51,330 | 132,989 | - | 222,633 |
| Impairment | - | - | - | - | - | - | - | - |
| Disposals | - | - | - | - | - | - | - | - |
| At 30 June 2016 | - | 107,404 | 13,050 | 99,294 | 157,582 | 540,885 | - | 918,214 |
| Depreciation | - | 15,964 | 1,525 | 16,378 | 49,831 | 139,762 | - | 223,459 |
| Impairment | - | - | - | - | - | - | - | - |
| Disposals | - | - | - | (3,322) | (1,957) | - | - | (5,279) |
| At 30 June 2017 | - | 123,368 | 14,574 | 112,350 | 205,456 | 680,646 | - | 1,136,394 |
| Net Book Values | | | | | | | | |
| At 30 June 2017 | 869,897 | 490,837 | 6,594 | 100,535 | 41,911 | 860,946 | 223,805 | 2,594,525 |
| At 30 June 2016 | 869,897 | 506,619 | 8,119 | 36,430 | 67,529 | 983,054 | 0 | 2,471,647 |

b) Intangible Assets

| | 2017 Kshs'000 | 2016 Kshs'000 |
|------------------------------------|------------------|------------------|
| At 1 July 2016 | 355,494 | 355,494 |
| Additions | 5,962 | - |
| W.I.P | 561,940 | - |
| Revaluations | - | - |
| Disposals | - | - |
| At 30 June 2017 | 923,396 | 355,494 |
| Depreciation and Impairment | | |
| At 1 July 2016 | 73,500 | - |
| Depreciation | 119,326 | 73,500 |
| Impairment | - | - |
| Disposals | - | - |
| At 30 June 2017 | 192,826 | 73,500 |
| Net Book Values | 730,570 | 281,994 |

Notes to the Financial Statements (Continued...)
For the Year Ended 30 June 2017

20. Owners Equity

Owners equity of Kshs 741,965,632 is comprised of the net of assets and liabilities vested to Communications Authority of Kenya by the Government of Kenya following the split of the defunct Kenya Posts and Telecommunications Corporation through Legal Notice Number 155 of 5 November 1999.

21. Notes to the Statement of Cash Flow

a) Cash generated from/(used in) operations

| | 2017 Kshs'000 | 2016 Kshs'000 |
|--|------------------|------------------|
| Surplus before remittances | 5,155,778 | 4,243,328 |
| Adjustments for: | | |
| Depreciation of property, plant & equipment | 342,785 | 296,132 |
| Loss/Gain on sale of assets | (1,164) | (774) |
| Foreign Exchange Gain or Loss | (35,608) | 46 |
| Amortisation of Pension | 9,824 | 9,824 |
| Impairment Loss | - | 36,227 |
| Interest Received | (1,110,283) | (1,010,964) |
| | (794,446) | (669,509) |
| Working capital adjustments | 4,361,332 | 3,573,818 |
| | | |
| Increase in receivables from exchange transactions | (53,880) | (23,878) |
| Decrease in receivables from non-exchange transactions | 646,367 | 29,927 |
| Decrease/Increase in payments received in advance | (63,527) | 69,120 |
| Decrease/Increase in trade and other payables | (132,061) | 162,584 |
| Net Working Capital Changes | 396,900 | 237,752 |
| | | |
| Net cash flows from operating activities | 4,758,231 | 3,811,571 |

**Notes to the Financial Statements (Continued...)
For the Year Ended June 30 2017**

22. Investments

The Authority has investments in cash deposits and in T-bills all of whom are short term in nature with a maturity period of less than 12 (twelve) months.

Short Term Deposits

| | 2017 Kshs.'000' | 2016 Kshs.'000' |
|-----------------------|--------------------|--------------------|
| Kenya Commercial Bank | 6,360,789 | 4,151,577 |
| Cooperative Bank | 4,652,092 | 4,309,070 |
| Treasury Bills | 1,300,000 | 1,440,000 |
| Total | 12,312,881 | 9,900,647 |

23. Taxation and Remittance of certified Audited net surplus to Treasury

The Authority remits 90% of the surplus of the Audited financial statements to The National Treasury as per the guidelines provided by the Public Financial Management Act

| | 2017 Kshs.'000' | 2016 Kshs.'000' |
|------------------------------------|--------------------|--------------------|
| Accrued - Surplus | 5,155,778 | 4,243,328 |
| Licensee fee receivables | (1,145,722) | (1,328,187) |
| Treasury receivables | (0) | (436,626) |
| Recovered-Licensee fee receivables | 644,361 | 664,359 |
| Surplus | 4,654,416 | 3,142,873 |
| Remittance surplus (90%) | 4,188,975 | 2,828,586 |
| Dividend/Remittance Surplus | 4,188,975 | 2,828,586 |

24. Contingent Liabilities

There are ongoing litigations out of the ordinary course of the business of the Authority. The litigations are part heard and, accordingly no contingent liabilities are anticipated in respect of the same that may be quantified. The cases below may incur some costs in the litigation processes.

- High Court Civil Case No. 2071 of 2000; M-Link Communications Ltd vs. CCK & Telkom Kenya Ltd. The plaintiff is seeking damages based on a Trial Agreement with the defunct
- Miscellaneous Civil Application No.494/2017; Airtel Networks Kenya Ltd vs. Communications Authority of Kenya. The plaintiff disputes the payment of Frequency Fees of USD 20,025,000 for license renewal.

The directors believe, based on the information currently available, that the legal matters above are not likely to have a material effect on the results of the Authority's operations, financial position or liquidity. Therefore no provision has been made in the financial statements.

**Notes to the Financial Statements (Continued...)
For the Year Ended 30 June 2017**

25. Accumulated Surplus

| | 2017 Kshs.'000' | 2016 Kshs.'000' |
|---|--------------------|--------------------|
| At June 30, 2016 (As per note 24 below) | 11,023,636 | 9,617,320 |
| Surplus | 5,155,778 | 4,243,328 |
| Remittance Surplus | (4,188,975) | (2,828,586) |
| Net Surplus as at June 30 2017 | 11,990,439 | 11,032,061 |

| | 2017 Kshs.'000' | 2016 Kshs.'000' |
|--|--------------------|--------------------|
| 26. Depreciation and Amortization Expense | | |
| Depreciation for the year | 342,785 | 296,132 |
| Pension Amortization | 9,824 | 9,824 |
| | 352,609 | 133,252 |

27. Financial risk Management Objectives And Policies

The Board have a responsibility for overseeing risk management within the Authority by determining that appropriate risk management strategies and policies are in place, and that processes established are adequate and effective. The Authority has implemented a risk management framework. The framework is largely adopted from ISO 31000 Risk Management standard. The key approach to risk management is to provide reasonable assurance to stakeholders that the organization's business is adequately controlled is the development of a comprehensive system of management controls, accounting and internal controls, security and safety procedures and other sound policies and procedures that clearly instruct employees how to conduct transactions and incorporate effective internal control measures.

The Authority's risk management framework has categorised the various risks in five broad categories as below

Strategic Risk

The risk of:

- a. Choosing and continuing to follow sub optimal strategies to meet objectives,
- b. Not executing the strategies successfully, and
- c. Changing the business as usual risks differently from expected.

Operational Risk

The risk of loss from inadequate failed processes, people, systems or external events.

Notes to the Financial Statements (Continued...) For the Year Ended 30 June 2017

Financial Risk:

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

i) Credit Risk

The Authority 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.

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

| | Total amount Kshs | Fully performing Kshs | Past due Kshs | Impaired Kshs |
|--|----------------------|-----------------------------|------------------|------------------|
| At 30 June 2017 | | | | |
| Receivables from non-exchange transactions | 1,339,800 | 1,145,722 | 194,078 | - |
| Receivables from exchange transactions | 531,305 | 531,305 | - | - |
| Total | 1,871,105 | 1,677,027 | 194,078 | - |
| At 30 June 2016 | | | | |
| Receivables from non-exchange tra | 1,958,892 | 1,764,813 | 230,305 | 36,227 |
| Receivables from exchange transactions | 477,425 | 477,425 | - | - |
| Total | 477,425 | 477,425 | - | - |

The board of directors sets the company's debtor management policies and objectives in line with The National Treasury Guidelines as per the PFM act 2012.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Authority's directors, who have built an appropriate liquidity risk management framework for the management of the Authority's short, medium and long-term funding and liquidity management requirements. The Authority 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.

**Notes to the Financial Statements (Continued...)
For the Year Ended June 30 2017**

| | 1 month | 1-3 months | Over 5 months | Total |
|------------------------|----------------|----------------|------------------|------------------|
| | Kshs | Kshs | Kshs | Kshs |
| At 30 June 2017 | | | | |
| Trade payables | 176,443 | 278,372 | 1,491 | 456,306 |
| Surplus Remittance | - | - | 4,188,975 | 4,188,975 |
| Total | 176,443 | 278,372 | 4,190,466 | 4,645,281 |
| At 30 June 2016 | | | | |
| Trade payables | 68,501 | 514,968 | 4,898 | 588,367 |
| Surplus Remittance | - | - | 2,828,586 | 2,828,586 |
| Total | 68,501 | 514,968 | 2,833,484 | 3,416,953 |

(iii) Market risk

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 Authority's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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

a) Foreign currency risk

The Authority 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 Authority's foreign currency denominated monetary assets

| | USD | Total in Kshs |
|---|---------------------|---------------------|
| At 30 June 2017 | | |
| Current Account Balance - Citibank | \$ 43,697.82 | 4,531,975.20 |

The Authority manages foreign exchange risk from future commercial transactions by projecting for expected revenues and matching the same with expected payments and maintaining a minimal balance in the foreign currency.

Notes to the Financial Statements (Continued...) For the Year Ended June 30 2017

b) Interest rate risk

Interest rate risk is the risk that the Authority'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. To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates and are regulated by the Central Bank of Kenya and offer favourable interest rates.

Supervisory Risk (Business Risk)

The risk of non-compliance with ICT industry laws and regulations by the ICT industry players. The Authority has ensured that it has continually complied with all industry legislations and regulations.

Compliance/Regulatory/Legal Risk

The risk of non-compliance with laws and regulations by the Authority. It also includes Environmental Risk and Political Risk. The Board manages legal risk through the Board Audit Committee', legal function, legal risk policies and procedures and the effective use of internal controls and external lawyers.

| 28. Gain on foreign exchange transactions | 2017 | 2016 |
|---|---------------|-------------|
| | Kshs.'000' | Kshs.'000' |
| Gain/Loss on Foreign Exchange | 35,608 | (46) |
| | <u>35,608</u> | <u>(46)</u> |

The Authority is exposed to foreign exchange risk arising from currency exposures, primarily, with respect to the US dollar. During the year the Authority received a large amount of USD primarily from the payment of 4G license fees which resulted in a gain.

| 29. Impairment loss | 2017 | 2016 |
|---------------------|------------|-----------------|
| | Kshs.'000' | Kshs.'000' |
| Impairment loss | - | (36,227) |
| | <u>-</u> | <u>(36,227)</u> |

In the current year no impairment has been ascertained hence none has been accounted for. However in the previous FY The impairment loss relates to Local Loop Operators (LLO) and satellite tracking. The LLO services never picked up in as envisaged. The affected firms thus terminated their intentions to roll out services under LLO.

**Notes to the Financial Statements (Continued...)
For the Year Ended June 30 2017**

30. Related Party Balances

a) Nature of related party relationships

In the course of the Authority's operations the Authority enters into transactions with related parties. These entities have ability to exercise significant influence over its operating and financial decisions. These include

- i) The National Government;
- ii) The Ministry of Information Communications and Technology;
- iii) The National Treasury
- iv) Board of directors;
- v) Management

b) Directors Emoluments

| | 2017 | 2016 |
|-------------------|---------------|---------------|
| | Kshs.'000' | Kshs.'000' |
| Sitting Allowance | 14,356 | 16,763 |
| Monthly Honoraria | 880 | 960 |
| Directors Fees | - | 9,780 |
| | <u>14,356</u> | <u>27,503</u> |

c) Key management remuneration

| | | |
|-------------------------|----------------|----------------|
| Management Remuneration | <u>117,941</u> | <u>122,310</u> |
| | 117,941 | 122,310 |

d) Loans to Management

| | | |
|---------------------|---------------|---------------|
| Loans to Management | <u>78,985</u> | <u>85,460</u> |
| | 78,985 | 85,460 |

31. Work in Progress

| | 2017 | 2016 |
|--|-----------------------|-----------------|
| | Kshs '000' | Kshs '000' |
| 1. National Intrusion, Prevention and Detection System | 490,045 | - |
| 2. Commercial Premises Improvements | 146,517 | - |
| 3. Enterprise Resource Planning Software | 71,895 | - |
| 4. Telecommunications Equipment | 26,192 | - |
| Total | <u>769,177</u> | <u>-</u> |

1. The Authority, in line with its legal and regulatory mandate and strategic plan, is deploying a National Intrusion Prevention and Detection System (NIPDS) to enhance the operations of the Authority's National Kenya Computer Incident Response Team – Coordination Centre

Notes to the Financial Statements (Continued...) For the Year Ended 30 June 2017

(National KE-CIRT/CC). The NIPDS will enhance the country's ability to monitor cyber threats and response to incidences while at the same time promoting confidence in the use of e-transactions and cyberspace in general. The NIPDS will detect cyber-attacks targeted at critical national infrastructure before they occur; analyze cyber-attacks and generate reports for remedial measures.

2. The Authority launched its 3rd strategic plan during the year and one of strategic goals is opening up of the regional offices and securing the assets of the Authority is currently refurbishing two offices (Nyeri and Kisumu), installation of CCTV cameras and fencing of Kahawa radio monitoring station.
3. The Authority through its strategic plan pillar on institutional capacity embarked on modernization of its internal process. The Authority has Legacy systems some of which are out of date and are faced with periodic failures. The implementation of the Enterprise Resource Planning tool will speed up service delivery.
4. The Authority is in the process of implementing centralized device registry for counterfeit and sub-standard device. This is meant to curb use of counterfeit product in the telecommunication industry.

33. Events after the reporting period

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

34. Ultimate and Holding Entity

The Authority is an Independent Government Agency under the Ministry of Information Communications and Technology. Its ultimate parent is the Government of Kenya.

35. Currency

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

Communications Authority of Kenya
Financial Statements for the year ended 30 June 2017

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue | Status | Time frame |
|--|--|--|---|----------|------------|
| 1 | <p>The Authority awarded the tender for supply and installation of carpets and vertical window blinds on a sub-contract agreement with the first firm at a tender sum of Kshs.12,619,846,resulting to a total contract sum of Kshs.57,865,046.Although the project was supposed to be completed in 14 July 2003,it was completed one year later on23 June 2004.The payments to the contractor were based on work done as per the project quantity surveyor's, the Architect's valuations and the Architect's certificates. After the final payment of Kshs.1, 286,319,45 in September 2005,the contractor raised a dispute claiming Kshs.1,277,961,90 being interest on delayed settlement of interim certificate No.6.The management has explained that the delay had been occasioned by a dispute over the material used by the contractor, which the project manager noted differed from those specified in the Bills of Quantities.</p> <p>Further, on 5 December 2006 the contractor wrote to the Authority (Commission)claiming Kshs.51,378,300.40 in respect of purported losses and expenses incurred on the project due to delay of 45 days.</p> <p>The Authority disputed the claim and the contractor subsequently lodged an arbitration claim before an arbitrator. Consequently the Arbitrator ruled that the Authority was to pay Kshs.47,284,879.45 for the claims and costs of arbitration of Kshs.2,783,370 all totalling Kshs.50,068,249.45, failure to which the amount shall attract simple interest at a rate of 18% per annum until Payment is made full. On 5 March 2015 the board approved release of Kshs.51, 860,882.75 held in Escrow account and undertook to pay other outstanding sums of money amounting to Kshs.18,103,040 all totalling Kshs.69,963,922.75.</p> | <p>The payment was done pursuant to an arbitration award dated 31st January 2014 in In the Matter of the Arbitration Act, 1995 and In the Matter of an Arbitration between M/s Swarn Singh (Kenya) Limited and M/s Communications Commission of Kenya pursuant to the Agreement and Conditions of Contract for Building Works between the CCK and the Claimant dated 13th March 2003. The Communications Authority of Kenya as the successor of the Communications Commission of Kenya sought to set aside the Arbitral Award through High Court in Miscellaneous Civil Cause No. 73 of 2014 which application was dismissed on 4th December 2014. This meant that the Arbitral Award had a force in law just as a court judgment would. The Communications Authority of Kenya was therefore obliged to comply with and settle the Arbitral Award. As such, the Kshs. 69,963,922.75 paid to settle duly issued arbitral award was therefore a proper charge to public funds.</p> <p>In 2015 the Authority requested the Ethics and Anti-Corruption Commission to investigate the entire contract in issue to establish if there was any impropriety. The Ethics and Anti-Corruption Commission (EACC) has commenced the investigations into the matter.</p> | Director/Legal Services | Ongoing | 2017/2018 |
| 2 | <p>2.1 As disclosed in note 13 to the financial statement the receivables from non-exchange transactions balance of Kshs.1.764billion was arrived at after provision for bad and doubtful debts of Kshs.194 million. The provision of Kshs.194million was also arrived at after unexplained reduction of</p> | <p>IPSAS 3(7) defines provisions as a change in accounting estimates since it results in the adjustment of the carrying amount of an asset or liability due to an assessment of the</p> | Director/Finance and Accounts | Resolved | Sep 2017 |

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| | <p>Kshs.50.412million from the previous years' figure of Kshs.244.49million.</p> <p>2.2 The provision of Kshs.194million was arrived at after netting off debit balances totalling Kshs.400.98million contrary to IPSAS 1.48.</p> <p>2.3. The provision for bad and doubtful debts was arrived at after writing off debts totalling Kshs.127.55million without National Treasury approval in line with section 69(2) of the PFM act 2015.</p> <p>2.4 Further the Receivables from non-exchange transaction balance of Kshs.1.764billion includes debts totalling Kshs.1.522million which has remained unpaid since the year 2000 and whose supporting schedule was not availed</p> <p>In the circumstance it has not been possible to confirm that the provision for bad and doubtful debts figure of Kshs.194million is adequate and that the receivables from non-exchange transaction is fairly stated</p> | <p>present status of expected future benefits. In prior years, the Authority had created a provision for bad and doubtful debts amounting to Ksh 244,491,000</p> <p>During the year 2016, the Board approved the write off of debts relating to Flashcom Ksh 108,954,545 of this amount Ksh 40,611,972 had already been posted to the provisions, hence the balance Ksh 68,342,573.70 was written off directly & EM-Communications Ksh 21,530,000 of this amount Ksh 9,800,000 that was initially part of the provisions, hence the balance of Ksh 11,730,000 was written off directly. The reason was that the Local Loop Operating License was superseded by technology with respect to the specific licenses for the 2 companies.</p> <p>IPSAS (3) (43) states that a change in an accounting estimate may affect only the current period's surplus or deficit. Hence the provision reduced by Ksh 50,412,000 (40,611,972 & 9,800,000) to Ksh 194,079,000 in year 2016 from Ksh 244,491,000 in year 2015. A further Ksh 80,072,573 was written off directly. These have been long outstanding debts, where the change in technology and licensing framework by the Authority rendered the businesses untenable.</p> <p>The National Treasury concurrence shall be sought.</p> | | | |
| 3 | <p>As disclosed in the note 4 to the financial statements the revenue from exchange transactions figure of Kshs.1.010billion was arrived at after netting off withholding tax totalling Kshs.227million at source by three (3) commercial banks; out of which only Kshs.17.21million was supported by tax certificate from Kenya Revenue Authority. The balance of</p> | <p>The Authority provided the withholding tax letters & bank statement debits from the respective banks confirming the withheld taxes; the Auditors rejected the bank confirmations insisting that they only recognized I-Tax generated tax</p> | Director/Finance and Accounts | Resolved | |

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| | <p>Kshs.210.63million has not been supported by tax certificates from Kenya Revenue Authority contrary to the income tax act which clearly states that the payee must be furnished with withholding tax certificate for any tax withheld and paid on their behalf. In the absence of the tax certificate, it has not been possible to confirm that withholding totalling Kshs.210.63 was remitted to Kenya Revenue Authority.</p> | <p>certificates and only I-Tax certificates Ksh 17,216,509 were posted in I-Tax since the system was not fully operational until later in the year 2016.</p> <p>The Income Tax (withholding Tax) rules 2001 stipulates that the person making the payment (in this case the banks) are liable to deduct tax and maintain records. The tax was deducted and the records were provided. Kenya Revenue Authority has in the past audited the Authority and has never surcharged on the account of non-payment of withholding income tax.</p> <p>The banks have since aligned their operations with KRA and they issue withholding tax certificates from ITAX.</p> | | | |



Director General



Ag. Director Finance and Accounts
ICPAK Membership No. 2519



For: Board of Directors

Date.....

Date.....

Date.....