

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

THE NATIONAL ASSEMBLY
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THE FINANCIAL STATEMENTS OF
COMMUNICATIONS AUTHORITY OF
KENYA

FOR THE YEAR ENDED
30 JUNE 2018





**COMMUNICATIONS
AUTHORITY OF KENYA**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2018**

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

**Communications Authority of Kenya
Annual Report and Financial Statements
For the year ended June 30, 2018**

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KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Director General	Mr. Francis Wangusi
2.	Director, Finance & Accounts	CPA Joseph Kimanga
3.	Ag. Assistant Director, Procurement	Mrs. Jane Rotich
4.	Director, Risk Management & Internal Audit	CPA Rosalind Murithi
5.	Director, Legal Services	Mr. John Omo
6.	Director, Human Capital & Administration	Mr. Juma Kandie
7.	Director, Frequency Spectrum Management	Mr. Tom Olwero
8.	Director, Licensing, Compliance & Standards	Mr. Christopher Kemei
9.	Director, Competition, Tariffs & Market Analysis	Mr. Matano Ndaró
10.	Ag. Director, Consumer and Public Affairs	Mr. Christopher Wambua
11.	Director, Multimedia Services	Eng. Leo K. Boruett
12.	Director, Information and Technology	Mr. Michael Katundu
13.	Assistant Director, Cyber Security and E-Commerce	Mr. Vincent Ngundi

I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The Communications Authority of Kenya was incorporated/ established in 1998 by an Act of parliament through *Kenya Information and Communications Act, 1998 (Cap 411A)*. The Authority is domiciled in Kenya and has branches in Mombasa; Eldoret; Kisumu; and Nyeri.

(b) Principal Activity

The principal activity of the Authority is the licensing and regulation of the communications sector on behalf of the Government of Kenya. The Vision of the Authority is; Access to and use of Information and Communication Services by all in Kenya by 2018. Its mission is “Facilitate the transformation of lives through progressive regulation of the Information and Communication Technology Sector.

(c) Key Management

The Authority’s day-to-day management is under the following key organs:

- a) Board of Directors;
- b) Director General; and
- c) Head of Departments.

KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(e) Fiduciary Oversight Arrangements

The Board of Directors have the responsibility of acting in the best interest of the Authority. They are expected to act with due professional care and make good decisions; ensuring there is no conflict of interest. To enhance efficiency and effectiveness, the Board constituted 5 standing committees with clearly defined terms of reference relating to key areas of the Authority. The committees operate on delegated authority without diluting the Board's accountability

Finance Committee

The Finance Committee is established to give recommendations and advise the Board on financial management strategies and objectives to foster growth and development of the Authority.

Audit and Risk Committee

The Audit and Risk 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.

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 to give recommendations and advise to the Board on all broadcasting matters.

KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(e) Authority's Headquarters

P. O Box 14448 - 00800

CA Centre

Waiyaki Way

Nairobi, KENYA

(f) Authority's Contacts

Telephone: (254) 703 042 000

E-mail: info@ca.go.ke

Website: www.ca.go.ke

(g) Authority's Bankers

1. Kenya Commercial Bank
Sarit Centre Branch
P O Box 30081
Nairobi, 00800
Nairobi, Kenya

2. Co-operative Bank of Kenya
Westlands Branch
P.O. Box 66589
Nairobi, 00800
Nairobi, Kenya

3. Citibank NA Kenya
Head Office, Upper Hill
P.O Box 30071
Nairobi, 00100
Nairobi, Kenya

KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(h) Independent Auditors

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

(i) Principal Legal Adviser

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

II. THE BOARD OF DIRECTORS



Mr Ngene B. Gituku; (Born in 1955) is the Chairman of the Communications Authority of Kenya (CA) Board of Directors. He served as CA chairman from 2014 to 2017, prior to which he was the Chairman of the defunct Communications Commission of Kenya (now CA) for a period of one and a half years.

He has served as Board member at Kenya Broadcasting Corporation (KBC) and Kenya Pipeline Company (KPC).

He holds a BSc. Degree in Mathematics and Meteorology from the University of Nairobi and Diploma in Marketing.

Mr. Gituku was re-appointed to the position on 18th April 2018 for a three-year term.



Dr. Karanja Kibicho (Born in 1967) is the Principal Secretary State Department of Interior.

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 taught in various institutions of higher learning, including 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.



Mr. Francis Wangusi, MBS; (Born in 1958) 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. He has previously served as Director in the departments of Broadcasting and Licensing Compliance & Standards respectively at CA. Mr. Wangusi is currently pursuing a PhD in Management. He 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).



Mr. Sammy Itemere (Born in 1960) is the Principal Secretary in the ICT Ministry in charge of Broadcasting and Telecommunications. 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.

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. 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

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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.

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.



Mr. David Kitur (Born in 1963) is businessman and an engineer with interests in the technology industry. He is the Executive Director of Microlan Africa.

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. 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.

Mr. Kitur 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.



Mr. Paul Kukubo, MBS (Born in 1967) is a consultant with vast experience in the local and regional ICT sector.

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.

He was appointed to the Communication Authority of Kenya (CA)'s board on 29th April 2016 for a period of three years.



Mr. Christopher Guyo (Born in 1967) is a seasoned Human Resource professional with over 22 years' experience. He has vast experience in Oil & Gas Industry (Caltex/Chevron Oil Kenya Ltd and Kenya Petroleum Refineries) and Banking sector (Barclays Bank, DIB Bank Kenya and Postbank) having served in various senior management capacities. He is currently the Senior Technical Advisor to the CS – Labour and Social Protection.

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.

He was appointed to the CA board on 29th April 2016 for a period of three years.

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Mr. Mugambi Nandi (Born in 1971) 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. He was cited as a Recognized Practitioner in Corporate and Commercial Law rankings for Kenya by Chambers Global in 2017 and 2018.

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 currently sits on a number of boards, including Mayfair Bank Limited. He has previously served on the Boards of the Privatization Commission, Seriani Asset Managers Limited and Council for Kenyatta University. He was appointed to the Board of Communications Authority of Kenya in April 2016 for a period of three years.



Prof. Levi Obonyo (Born in 1966) 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.

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.

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 joined the CA Board in May 2014 and reappointed in 29th April 2016 for a further term of three years.



Ms. Patricia Kimama (Born in 1973) has over 20 years' experience in career spanning the banking, telecommunication and water industries. She has held roles in business transformation, project, sales, service and operational management.

She is currently the Transformation Lead at the Commercial Bank of Africa where she is charged with the responsibility of driving and implementing a legacy-setting strategic transformation project for the CBA Group.

She holds' a Masters in Business Administration (Strategic Management) from Daystar University, 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.



Ms. Kentice Tikolo, OGW (Born in 1964) is a communications expert with over 15 years' experience in Strategic Corporate Communications and Public Relations.

She is the founder and Managing Director of Impact Africa Limited, a strategic Public Relations & Communications firm, based in Nairobi, Kenya. Prior to going to private business, Ms. Tikolo worked at the Kenya Wildlife Service as the Head of Corporate Communications.

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.

She was appointed to the Communications Authority of Kenya's Board on 29th April 2016 for a period of three years.

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ALTERNATE BOARD DIRECTORS



Mr. Mwenda Njoka (Born in 1963) 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 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.

He 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. He held this position up to February 2018.



Mr. Peter Wanjohi (Born in 1965) is the alternate Director to the Principal Secretary, Interior and Coordination of National Government. He is a holder of MBA in Ethno-Musicology from University of South Africa (UNISA) and a Bachelor Business

Administration degree from New Port University. He has extensive experience in planning and coordinating international, regional and local conferences as the current Director of State functions.

He has also been a member of several committees such as member of Kenya Vision 2030, National Communication Dissemination Strategy and also a member of the Task force on restructuring of Human Resource requirement of the permanent Presidential Music Commission, 2006.

Mr. Wanjohi was appointed on 7th February 2018.



Ms. Judy Munyinyi Mumo (Born in 1971) 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.

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.



Mr. Festus King'ori (Born in 1963) is the Alternate to the Principal Secretary/National Treasury. He holds a Bachelor of Commerce degree from the University of Nairobi and is finalizing an MBA from JKUAT.

He also holds a post graduate certificate in Investment Appraisal and Management from Harvard University, among others.

He has also undergone extensive training in general management, strategic leadership and financial management.

He has extensive experience in public policy, particularly with regard to public investments, gained from local and international institutions, having worked on secondment by the GoK to the World Bank.

Mr. Kingori was appointed on 10th May 2017.

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Ms. Beatrice Gathirwa (Born in 1956) 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 a member of the secretariat of the Public Accounting Standards Board.

She served on the CA Board as the Alternate Director to the Principal Secretary, National Treasury. She held this position up to 18th August 2017.

III. MANAGEMENT TEAM



Mr. Francis Wangusi, MBS is the Director General of the Communications Authority of Kenya.

Mr. Wangusi is currently pursuing a PhD in Management. He 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).



CPA Joseph Kimanga is the Director, Finance & Accounts, at the Communications Authority of Kenya.

He holds a Masters degree in Business Administration (Finance) and a Bachelor of Education (Arts) degree in Economics & Business Studies. He is a Certified Public Accountant of Kenya-CPA (K).



Mr. Juma Kandie is the Director, Human Capital & Administration at the Communications Authority of Kenya.

He holds Msc. in Human Resource Management, a Bachelor of Commerce degree as well as a Post Graduate Certificate in Strategy.



Mr. John Omo is the Director, Legal Services at the Communications Authority of Kenya.

He holds a Masters of Laws degree, a Bachelors of Law degree as well as Diplomas in Law and Legal Practice Ethics.



Mr. Christopher Kemei is the Director, Licensing, Compliance and Standards at the Communications Authority of Kenya.

He holds an Msc.in Operational Telecommunications, and Bsc.in Physics.



Mr. Tom Olwero is the Director, Frequency Spectrum Management at the Communications Authority of Kenya.

He holds a B.Sc. in Electrical Engineering and a Masters of Business Administration (Management).



Mr. Matano Ndaro is the Director, Competition, Tariffs and Market Analysis at the Communications Authority of Kenya.

He is currently pursuing a Masters of Business Administration degree and holds a Bachelor of Arts degree in Economics and a Post Graduate Diploma in Regulation of Telecommunications.



Mr. Christopher Wambua is the Ag. Director, Consumer and Public Affairs at the Communications Authority of Kenya.

He holds a master's degree in International Studies, a postgraduate diploma in Mass Communications, a post-graduate diploma in Public Relations from the Chartered Institute of Public Relations and a degree in Education.



Mr. Michael Katundu is the Director, Information Technology and Enterprise Resource Management at the Communications Authority of Kenya.

He is a holder of a MSc. in Computer Science and a BSc. in Computer Science.



CPA. Rosalind Murithi is the Director, Risk Management and Internal Audit at the Communication Authority of Kenya.

She holds a Master of Business Administration, and Bachelor of Commerce Degree. She is a Certified Public Accountant of Kenya - CPA (K).



Mrs. Jane Rotich is the Ag. Assistant Director, Procurement at the Communications Authority of Kenya (CA).

She holds a Masters degree in Business Administration (Strategic Procurement), a Masters degree in Business Administration; Bachelor of Arts degree and a Postgraduate diploma in Purchasing and Supplies.



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

He holds a Bachelor of Science degree in Computer Science, and a Global Executive MBA.



Eng. Leo K. Boruett is the Director, Multimedia services. He holds a MPhil Degree in Information Engineering; BSc Degree in Electrical and Electronics Engineering; Registered Professional Engineer-EBK; and Executive Masters

Degree in Business Administration

IV. CHAIRMAN'S STATEMENT

It is with great pleasure that I reflect on the achievements of the Authority during the Financial Year 2017/18. As the regulator of the ICT sector, the Authority continued to create an enabling environment. Kenya's ICT sector has continued to demonstrate strong performance in what is now commonly understood to be a vibrant environment.

ICT remains a critical component of Kenya's economic growth and a key driver of the governments Big 4 Agenda, that is, universal health care, manufacturing, affordable housing and food security.

In pursuit of fulfilment of the Communications Authority's of Kenya (CA)'s mission to facilitate the transformation of lives through progress regulation of Information and Communication Technology sector, the Authority opened two new regional offices; Nyanza and Central Regional offices. These offices will ensure that CA's services are closer taken the existing and potential licensees. The opening up of the regional offices, is also in tandem with the 2010 Constitution dispensation that expanded CA's mandate to include setting and enforcing standards for broadcast media, and licensing and enforcing electronic transaction platforms.

The ICT sector defied a slump in the performance of the overall economy in 2017, contributing 8.6% to the overall GDP growth of the country compared to 6.1 % in 2016, buoyed by expansion in the digital economy through mobile telephony, e-commerce, online training, tax administration, among others, according to the Economic Survey 2018. Output from the sector increased by 10.9 per cent to Sh345.1 Billion in 2017 from Kshs. 311.1 billion in 2016.

This was despite the fact that the country's economy grew by 4.9 per cent in 2017, compared to the revised growth of 5.9 per cent in 2016 as prolonged electoral politics and drought took its toll on key segments of the economy. The exponential growth that we have witnessed in the ICT sector in Kenya can mainly be attributed to progressive regulatory measures, consultations and constant engagement with all players in the industry.

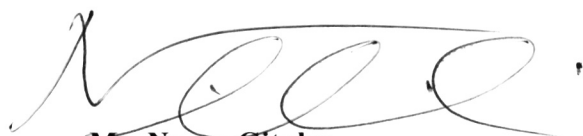
CHAIRMAN'S STATEMENT (Continued)

The sector equally witnessed increased access to services in various respects. The sector expanded by 11.0 per cent in 2017 compared to 9.7 per cent in 2016. Growth in the sector was principally driven by improved performance in the telecommunications sub-sector, which rose by 12.7 per cent in 2017. The enhanced performance in the telecommunications activity was mainly on account of a notable increase in the volume of call traffic from 42.2 billion minutes in 2016 to 44.1 billion minutes in 2017.

Similarly, the number of Short Message Service (SMS) rose significantly to stand at 65.7 billion during the review period. Mobile money transfers rose significantly to Kshs. 3.6 trillion in 2017 while the number of mobile commerce transactions increased almost two-fold. The sector's growth was also supported by increased use of the Internet as evidenced by a 6.5 per cent increase in utilization of available bandwidth. The number of mobile subscribers hit 42.8 million, translating to a mobile penetration level of 94.3 per cent.

The Authority is in the process of licensing new players for LTE/4G services through the assignment of 700MHz, 800 MHz and 450 MHz. These initiatives are expected to play a major role in boosting Internet broadband penetration levels in the country in the near future.

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 2018-19.



Mr. Ngene Gituku

Chairman of the Board

V. REPORT OF THE DIRECTOR GENERAL

The 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.

In the quest to improve the efficiency of operations at the Authority, the implementation of the Business Process Re-engineering and Automation (BPRA) programme started with the first project, Enterprise Resource Planning (ERP) system. The ERP will see automation in three Functions namely Human Capital & Administration, Procurement; and Finance and Accounts. In the year, the Authority undertook key user trainings, developed responsibility matrices, implemented the data migration plan, executed change management initiatives and undertook user acceptance testing.

A number of activities were also carried out in line with the Authority's Strategic Plan in the 2013-18 cycle. The activities in support of the regulatory interventions translated in to growth of the sector as reflected in the industry indicators. The number of mobile subscribers hit 44.1 million mark in March 2018, representing a penetration of 95.1 per cent.

The number of data internet subscribers was recorded at 36 million, improved telecommunication infrastructure. In broadcasting, the number of FM radio stations was 162 as at March 2018 and that of free-to-air broadcasters was 62. Postal outlets stood at 623 and 997 courier outlets. The value of mobile money commercial transactions between January and March 2018 was Sh1.26 trillion.

The ongoing National Address System (NAS) project is aimed at providing for naming and numbering of streets, properties, building, and parcels of land to facilitate delivery of good purchased online. It is envisaged that proper addressing will boost the uptake of e-commerce in the country, an area that has great promise for economic growth of Kenya.

REPORT OF THE DIRECTOR GENERAL (Continued)

The Authority has a mandate to promote the usage of dot KE country code top level domain names (ccTLD) towards enhancing security in the cyber space. As at 30th June 2018, the internet domain name registry in Kenya, Kenya Information Network (KENIC), had registered a total of 75,096 domain names.

2017/18 was an eventful year and especially as the Authority continues to align itself to the Government's Big Four Agenda and galvanize its efforts to contribute to the socio-economic growth of the country. The Authority prides itself in the significant achievements, which point towards a positive future for the ICT sector in Kenya. The Authority shall continue to work with all stakeholders to maintain the momentum for better results in the next financial year.



**Francis W. Wangusi, MBS
Director - General**

VI. CORPORATE GOVERNANCE STATEMENT

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 CA as a regulator of the ICT 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 are competitively recruited. The President appoints the Chairperson of the Board. The other three members are the Principal Secretaries from the Ministry of Information Communications & Technology, The National Treasury and Ministry of Interior and Coordination of National Government. The Current Board Chairperson Mr Ben Ngene Gituku was reappointed as the Board Chairperson on 18th April 2018. 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.

CORPORATE GOVERNANCE STATEMENT (Continued)

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 (8) male directors and three (3) female directors. 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 principal 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;
- 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;

CORPORATE GOVERNANCE STATEMENT (Continued)

BOARD RESPONSIBILITIES (Continued)

- 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;
- 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; and
- q) Review, evaluate and approve the overall organizational structure, the assignment of senior management responsibilities and plans for senior management development and succession.

CORPORATE GOVERNANCE STATEMENT (Continued)

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. This is also in line with 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 lists the attendance by the Board Members in Board meetings during the financial year ended 30th June 2018. During that financial year, a total of sixteen (16) Board meetings were held on the following dates: 28th August 2017, 20th September, 26th September, 28th September 2017, 3rd October 2017, 14th November 2017, 16th November 2017, 8th December 2018, 12th January 2018, 31st January 2018, 9th February 2018, 16th February 2018, 23rd February 2018, 26th April 2018, 6th June 2018, and 27th June 2018.

Board Meetings attendance for the FY 2017/18

	Board Member	Alternate Director	Full Board	Board Committees					
				Finance and Risk Committee	Staff and Administration Committee	Technical Committee	Broadcasting standards Committee	Audit Committee	Ad-hoc Committee
1.	Ngene Gituku (Chairperson)		3/16	-	-	-	-	-	-
2.	Sammy Itemere	Judy Munyinyi Mumo	9/16	2/6	-	-	-	-	1/1
3.	Kamau Thugge	Festus Kingori	7/16	5/6	2/3	2/7	1/1	2/3	1/1
4.	Karanja Kibicho	Peter Wanjohi	3/16	1/6	-	2/7	-	-	-
5.	David Kitur		14/16	6/6	-	7/7	-	-	1/1
6.	Kentice Tikolo		12/16	-	1/3	6/7	1/1	1/3	1/1
7.	Levi Obonyo		11/16	-	1/3	-	1/1	-	1/1
8.	Patricia Kimama		15/16	4/6	-	-	-	3/3	1/1
9.	Paul Kukubo		9/16	-	-	7/7	-	-	-
10.	Mugambi Nandi		12/16	6/6	--	-	-	3/3	1/1
11.	Christopher Guyo Huka		13/16	-	2/3	-	1/1	-	1/1

CORPORATE GOVERNANCE STATEMENT (Continued)

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 Committee, Staff and Administration Committee, Technical Committee, Broadcasting Standards Committee and Board Audit & Risk Committee.

Finance Committee

The Finance 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. Prior to reconstitution of Board Committees on 26th April 2018, the Finance Committee was previously Finance & Risk Management Committee.

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.

CORPORATE GOVERNANCE STATEMENT (Continued)

Audit & Risk Management 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. Prior to reconstitution of Board Committees on 26th April 2018, the Audit & Risk Management Committee was previously the Audit Committee.

BOARD CHARTER AND WORK-PLAN

A Board charter is a policy document that clearly defines the respective roles, responsibilities and authorities of the Board of Directors, both individually and collectively and management in setting the direction, the management and the control of the Authority. The Authority has in place a Board charter. The Board Charter is closely aligned with the strategic objectives of the Authority and the same is constantly reviewed in order to raise the director's awareness of the Authority's overall policy framework.

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.

BOARD INDUCTION AND TRAINING

Board Induction

A Board induction is a structured way of providing new Board Members with all the information and support they need to be confident and productive in their new role. On appointment, 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 induction entails background materials, meeting with senior management and visits to the Authority's facilities.

CORPORATE GOVERNANCE STATEMENT (Continued)

For the financial year under review the Board was able to induct two new appointees to the Board; Mr Festus Kingori appointed as an alternate director to the Principal Secretary in the ministry for the time being responsible for finance and Mr Peter Wanjohi who was appointed as the alternate director to the Principal Secretary, Interior and Coordination of National Government.

Board Training

Management ensures that a competence needs assessment is carried out and an annual development programme is carried out for the Board members. 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. The Board members attended various training and development programs in risk management, telecommunications, corporate governance and participated in various policy meetings and conferences to ensure they update their skills, knowledge, build partnerships and keep abreast with the developments in industry from other jurisdictions.

CONFLICT OF INTEREST

Board members are required to inform the Board of conflicts or potential conflicts of interest they may have in relation to particular items of business. Board members are required to abstain from discussions or decisions on matters in which they have an interest, unless resolved otherwise by the remaining members of the Board. The Board Secretary maintains a register of the conflict of interests declared, for accountability purposes.

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.

CORPORATE GOVERNANCE STATEMENT (Continued)

BOARD REMUNERATION

Remuneration of members of the Board is guided by section 10 (1) 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. The Chairman is paid a monthly honorarium and each Director is paid directors' fees once the Authority's accounts for the year have been audited and with concurrence with the National Treasury. The allowances of the Board Members are paid out of the funds of the Authority.

ETHICS AND CONDUCT

The Board of Directors has a Code of Conduct that governs the activities, behaviour and conduct of directors. Members of the Board as well, owe the Authority 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 vitally important for ensuring the continued success of the Authority, in identifying and developing the talent which will fill critical roles in the future, or in times of crisis. Succession planning by definition, is critical to ensure that key positions, if suddenly vacant, can be filled by qualified candidates. This can be done by identifying talent internally, that can be coached, nurtured and trained to step into the said slots when the opportunity presents its self.

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. The Authority has engaged the appointing authority with a view of staggering the appointment for Board Members in future.

CORPORATE GOVERNANCE STATEMENT (Continued)

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. The Authority as well on its own initiative engages consultants to conduct a Legal and Governance Audit of the Authority to ensure its compliance with the law.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

Operational and financial performance

The Authority continued to discharge its mandate of regulating and facilitating the development of the Information and Communications sectors including; broadcasting, multimedia, telecommunications, electronic commerce, postal and courier services; through licensing and issuance of frequencies.

As at 30th June 2018, the total Revenue earned was Kshs. 8.926 billion against a revised budget of Kshs. 7.96 billion. This represents a positive variance of 12%. Income of the Authority is majorly earned from Frequency utilization fees and Annual operating license fees, which account for 69.8% and 15.6% respectively; of the amount earned as at the end of the year. These revenue streams are invoiced at the beginning of the financial year. Interest Income is the third revenue source contributing 15% of the total income earned as at end of the year.

The total Operating Expenditure for the period ended 30th June 2018 was Kshs. 4.406 billion compared to a budget of 4.336 billion. The resultant surplus was is Kshs.4.520 billion.

Compliance with statutory requirements

The Authority has complied with statutory requirements and there are no known non-compliance issues that may expose the Authority to potential 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; except for the following:

- i. High Court Civil Case No. 2071 of 2000: M-Link Communications Limited vs. CCK & Telkom Kenya Limited. The plaintiff is seeking damages based on a Trial Agreement with the defunct.

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Key projects

The Authority's projects for the F/Y 2017/18 are aimed at facilitating the Authority achieve its mandate. These projects were budgeted for and their budget allocations approved by the CA Board of Directors and subsequently by the National Treasury. Funding of these projects is from internally generated funds and are therefore sustainable. All the projects are aimed at meeting the strategic objective as stated in the 2nd Strategic Plan of the Authority covering the period 2013-2018.

For the purposes of this report, the Authority has provided projects that are worth over Kshs. 30 million. The following are the major projects initiated during the year 2017/18.

No.	Name of the Project	Link to Strategic Plan	Amount Kshs. (000)
1.	Design, Supply, Testing and Commissioning of a Quality Service Monitoring System (Euros 677,608.24)	Strategic Objective: Ensure Quality ICT Systems and Services	81,313.99
2.	Refurbishment of Kisumu Regional Offices,	Strategic Objective: Facilitate Widespread Infrastructure and Service Deployment	60,290.08
3.	Supply, Delivery, Installation And Maintenance of an AVR at CA Centre	Strategic Objective: Facilitate Widespread Infrastructure and Service Development.	30,708.49
4.	Supply Installation And Configuration Of A High Availability Enterprise Class Storage	Strategic Objective: Modernizing Internal Systems and Processes	42,768.27

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5.	Supply, Delivery of IT related hardware for Business Processes Re-engineering and Automation (USD 640,761.70)	Strategic Objectives: Modernizing Internal Systems and Processes	65,998.46
6	Supply of Digital Forensic Tools for The National Cyber Security Centre (USD 358,870.86)	Strategic Objectives: Modernizing Internal Systems and Processes	36,963.69
7	Provision of Internet Connectivity and Related Services at CA Centre and 4 Regional Offices	Strategic Objectives Modernizing Internal Systems and Processes	35,680.30
8	Design, Supply, Testing and Commissioning of Quality of Service Monitoring System (Euro's 725,180.61)	Strategic Objective; Ensure Quality ICT Systems and Services	88,595.31
9	Supply, Delivery, Installation, Configuration and Maintenance of IT Security Solution (USD 433,421.62)	Strategic Objective; Ensure Quality ICT Systems and Services	44,642.43

Major risks

The Authority developed and implemented the ERM framework as per guidelines based on ISO 31000 International Standard — Risk Management Principles and Treasury Circular No. 3.2009, Institutional Risk Management Framework. Further in FY 2017/18 the authority undertook a risk assessment review of the authority strategic/operational risks.

Arising from the Authority's risk management framework, the following are the major risks facing the Authority:

- i. External interference;
- ii. Poor project management and implementation;
- iii. Low uptake of technology;
- iv. Non-compliance by licensees;

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Major risks (Continued)

- v. Cyber & information security threats;
- vi. Inordinate delay in legislative issues /Legal Framework;
- vii. Inadequate public awareness on CA's Mandate;
- viii. Weak governance systems e.g. Automation and integration ;
- ix. Litigations;
- x. Reputation risk and Perception; and
- xi. Lack of Business continuity plan in case of business disruption.

Material arrears in statutory/financial obligations

The Authority has continued to honour its financial obligations as and when they fall due. Remittance of statutory deductions, payment for supplies, staff payments and payment of other dues was done promptly; consequently, the Authority does not have material arrears as at 30th June 2018.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

In executing its mandate, the Authority is committed to contributing to economic development while improving the quality of life of local communities and the society at large.

The Authority, through its Corporate Social Responsibility and Sponsorship programmes, invests in the community as a responsible corporate citizen. CA carries out CSR activities related to the ICT sector as well as other areas as guided by the CSR policy.

The Authority supported a number of industry events including the East Africa Digital Farmers Conference & Exhibition, Connected Kenya Summit, Media Council of Kenya's Annual Journalism Excellence Awards (AJEA), Kalasha International Awards and the Annual PR Summit and gala hosted by the Public Relations Society of Kenya (PRSK). The Authority also sponsored the Western Kenya Creative Camp, an authoritative and dynamic art platform, that brought together more than 50 Youth drawn from colleges and theatre groups within Western Kenya region.

The creative Camp provides an advertising avenue for products and services, and is being established as an authoritative industry platform with an eye for qualitative content, cultural promotion, skills imparting presented in a manner so as to attract viewership and sales. CA also supported Endarasha Secondary School through equipping their computer laboratory with computers, printers, and internet connectivity. The Authority also supported a rehabilitation initiative at Friends Boys High School, Namwela in Bungoma County and constructed two classrooms at Meguarra Primary School in Kajiado County.

The Authority continued with its sponsorship of Talanta Football Club which provides a team of 24 young men aged between 17 to 24 years with an opportunity to not only nurture their talents but also make a living off their skills.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT (Continued)

During the year, the Authority supported social causes through Mater Heart Run, an initiative meant to assist children with heart ailments. Further, in recognition of Kenyan sports men and women, the Authority supported the Sports Man of the Year Awards (SOYA). CA also supported and sponsored the Law Society annual conference 2017 with an aim to form building blocks for strategic partnership with the Society with a focus on key areas such as capacity building in the policy, legal and regulatory framework.

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

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018, which show the state of the Authority's affairs.

Principal activities

The principal activity of the Authority is the licensing and regulation of the communications sector on behalf of the Government of Kenya.

Results

The results of the entity for the year ended June 30, 2018 are set out on page 1 to 29....

Directors

The members of the Board of Directors who served during the year are shown under part II above. During the year the chairman of the board; Mr. Ngene Gituku was re-appointed on 18th April 2018. Mr. Festus King'ori; the Alternate Director to the Principal Secretary/National Treasury replaced M/s Beatrice Gathirwa who exited on 18th August 2017. Mr. Peter Wanjohi replaced Mr. Mwenda Njoka, on 7th February 2018; as the alternate Director to the Principal Secretary, Interior and Coordination of National Government.

Dividends/Surplus remission

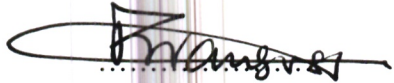
In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority remitted Kshs 4.188 billion to the National Treasury being surplus for the FY 2016/17.

Auditors

The Auditor General is responsible for the statutory audit of the Communications Authority of Kenya Universal Service Fund; in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

REPORT OF THE DIRECTORS (Continued)

By Order of the Board



Director General

Nairobi

Date: 28th September 2018

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 84(O) of the Kenya Information and Communications Act of 1998 (CAP 411A), Public Financial Management act of 2012 and the Public Audit Act, require the Directors to prepare financial statements in respect of the Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year/period. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the operations of the Authority. The Directors are also responsible for safeguarding the assets and funds 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 as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) 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, PFM act and the Public Audit Act. The Directors are of the opinion that the Authority financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2018, and of the Authority's financial position as at that date. The Directors further confirm 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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

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

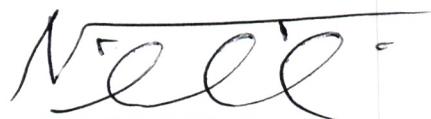
The Authority's financial statements were approved by the Board on 27th September 2018 and signed on its behalf by:



Director General



Director Finance & Accounts



Board Chairman

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COMMUNICATIONS AUTHORITY OF KENYA FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer Opinion

I have audited the accompanying financial statements of Communications Authority of Kenya set out on pages 1 to 34, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of cash flows and Statement of 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Cash and cash Equivalents

The Statement of Financial position as at 30 June 2018 shows a balance of Kshs.12,903,177,000 as Cash and Cash equivalents comprising Currents accounts of Kshs.148,135,000, Short term deposits of Kshs.12,055,042,000 and Treasury bills of Kshs.700,000,000. The current accounts balance of Kshs.148,135,000 as reflected on note 16 to the financial statements has been explained to include a letter of credit balance of Kshs.46,385,767 held at Kenya Commercial Bank. However, no documentation was provided for audit verification in support of the existence of this letter of credit as at 30 June 2018. Further, Bank reconciliations of currents account reveal the following:

1.1 Kenya Commercial Bank account

The initial bank reconciliation statement for the month of June 2018 reflects a figure of Kshs.122,747,815.97 as the balance per cash book while the amount in the amended bank reconciliation statement reflect the balance for cash book as Kshs.82,262,074 resulting in a movement of Kshs.40,485,742 arising from transactions purportedly effected in July 2018 but included in the accounting records of June 2018 which is an inappropriate treatment. Documents to support the Kshs.40,485,742 were not made available for audit verification.

Report of the Auditor-General on the Financial Statements of Communications Authority of Kenya for the year ended 30 June 2018

1.2 Citibank N.A Bank account

The Bank Reconciliation statement for the month of June 2018 reflects a figure of Kshs.41,825,299.96 as the balance per cash book while the amount in the Financial statement is Kshs.15,023,000 resulting in a difference of Kshs.26,802,299.96. Even though the management has explained the difference as unrepresented payment, no supporting documents were provided for audit verification to support the payment.

Under this circumstances, it has not been possible to confirm the accuracy, validity and existence of the Citibank account balance of Kshs.148,135,000 as at 30 June 2018.

2. Property, Plant and Equipment

The Statement of Financial position as at 30 June 2018 indicates a balance of Kshs.2,980,782,000 as Property, Plant and Equipment. Note 20 to the financial statements reflects an adjustment of Kshs.208,208,000. However, the movement of an adjustment of Kshs.202,091,804 under capital work in progress where only Kshs.45,973,342 was traceable to intangible assets while the balance of Kshs.156,118,462 could not be supported by actual asset transfers to the other asset categories on the assets movement schedule.

In addition, adjustments of Kshs.2,638,140 and Kshs.3,417,176 under freehold land and buildings and civil works respectively had no supporting documents produced for audit verification.

Further, freehold land includes additions totaling Kshs.41,788,000 for which procurement and ownership documents were not provided for audit review.

Consequently, the accuracy of the property, plant and equipment balance of Kshs.2,980,782,000 as at 30 June 2018 could not be ascertained.

3. Employee Costs–Salaries and Wages

The statement of financial performance and note 9 to the financial statements reflect an amount of Kshs.1,140,209,000 in respect of employee costs. However, monthly analysis of employee costs give a total sum of Kshs.1,142,962,219 resulting in an unexplained and unreconciled variance of Kshs.2,753,219.

In addition, bonus payments amounting to Kshs.9,589,055 made to staff for various reasons for which the basis of payments and the authority for payments listed below were not made available for audit review.

Name of Bonus	Month	Amount (Kshs.)
Lump Sum Payments	July 2017	6,274,140
Long Service Award	June 2018	1,040,375
Long Service Award	March 2018	2,274,540
Total		9,589,055

Consequently, the accuracy of employee costs of Kshs.1,140,209,000 for the year ended 30 June 2018 could not be confirmed.

4. Unsupported General Expenditure

The Statement of Financial performance as at 30 June 2018 shows a figure of

Kshs.2,631,195,000 as General expenses. Included in the general expenses are expenditures amounting to Kshs.157,164,356 which were not supported by any documentary evidence. The expenditure lines are as detailed below:

	Amount (Kshs.)
Training	23,744,235
Enforcement	615,960
Computer software maintenance	57,543,215
Corporate affairs	18,314,285
Consumer affairs	54,117,773
Medical	2,828,888
Total	157,164,356

Under the circumstances, the accuracy and propriety of the general expenses of Kshs.2,631,195,000 as at 30 June 2018 could not be ascertained.

5. Payment Received in Advance

The Statement of financial position as at 30 June 2018 reflects a figure of Kshs.26,479,000 as payments received in advance comprising Kshs.20,501,000 (annual frequency license fees) and Kshs.5,987,000 (annual operating fees). However, the following anomalies were noted under payments in advance:

- a) A sample of 17 payments received in advance totaling Kshs.12,347,261 were compared to invoices and total amount of invoices for the 17 users was found to be Kshs.26,743,677 resulting to an unexplained and unsupported variance of Kshs.14,396,415 which was not explained or supported. If the error level were to be extrapolated to the population of Kshs.26,479,000 then, the expected resultant variance would be Kshs.30,873,460. Consequently, it was not possible to conform the accuracy of the payments received in advance of Kshs.26,479,000.
- b) The breakdown of annual operating fee license amount of Kshs.5,978,000 contained negative entries totaling Kshs.802,975 for which no valid explanation or reconciliation was provided for audit scrutiny.
- c) The breakdown of Kshs.20,501,000 reflected as annual frequency license fees had an unexplained opening balance of Kshs.14,375,000. No breakdown was provided for this balance and hence could not match to the billing and utilization during the year.

- d) Invoices raised in the month of June 2018 amounting to Kshs.1,286,373 in respect of annual frequency license and Kshs.3,009,976 in respect of annual operating license included in the payments in advance were not provided for audit verification.

Consequently, the accuracy and completeness of the payments received in advance figure of Kshs.26,479,000 could not be ascertained as at 30 June 2018.

6. Revenue from Non-Exchange Transactions

The Statement of Financial performance as at 30 June 2018 reflects a figure of Kshs.7,620,184,000 as revenue from non-exchange transactions. Examination of schedules provided reveal the following:

6.1 Annual frequency license Fees-Advance income year 2016/2017

Included in the annual frequency license fees of Kshs.6,223,152,000 is an amount of Kshs.7,220,500 described as advance income -2016/2017 (Ref ADVNC 16/17 Kshs.5,776,047 and Kshs.1,444,593 dated 1st July 2017). However, no documentation was provided to show that the amount of Kshs.7,220,500 was included under liabilities as payment in advance in the financial year 2016/2017. Without the confirmation, it is not possible to confirm the accuracy of Annual frequency income of Kshs.6,223,152,000.

6.2 Annual operating license Fees-Invoices to Kenya Towers

Included in the annual operating license fees of Kshs.1,392,103,000 is an amount of Kshs.17,156,188 (Ref N171706 dated 3.7.2017) being a duplicate of Invoice Ref N171706 dated 1.7.2017. No credit note issued to reverse one of the invoices to Kenya Towers.

Consequently, the annual operating license fees of Kshs.1,392,103,000 is overstated and therefore the accuracy and completeness could not be ascertained.

7. Receivables from Exchange Transactions

The Statement of Financial position as at 30 June 2018 reflects a figure of Kshs.561,321,000 as Receivables from exchange transactions. Although the breakdown of the balance as at year end was provided, the comparative figure as at the end of the previous year or the opening balances were not provided and hence it was not possible to work out the repayments and new issues during the year as well as identification of the non performing advance which Includes an amount of Kshs.421,008,580 referred as CCK property loan. In addition, the balance of other receivables as disclosed on note 18 to the financial statements of Kshs.543,834,000 include car insurance of Kshs.339,744 medical recoveries of Kshs.877,760 salary advances of Kshs.361,793, fire and mortgage of Kshs.6,355 AA subscriptions of Kshs.102,079 and other debtors of Kshs.92,402 all of which had no supporting breakdown provided for audit verification.

Further, other receivables amount of Kshs.543,833,807 includes an amount of out of which Kshs.4,194,364 in respect of imprest issued to officers who hold more than one imprest.

Under the circumstances, the accuracy and validity of receivables from exchange transactions balance of Kshs.561,321,000 as at 30 June 2018 could not be confirmed.

8. Trade and Other Payables

The Statement of Financial position as at 30 June 2018 reflects a figure of Kshs.897,145,000 as Trade and other payables from exchange transactions in respect of which the following issues were noted:

- a) Included in this amount is trade payables figure of Kshs.691,358,000 of which an amount of Kshs.19,229,547 as reflected as Asset Deposit Compensation for which the supporting documents were provided for audit review does not demonstrate how the amounts is payable yet it is an insurance claim and the corresponding asset that was being cleared has not been eliminated/disposed on the assets movement schedule of the financial statements.
- b) Included in the trade payable amount of Kshs.691,358,000 is an amount of Kshs.14,830,327 payable to Commissioner of Income Tax and an amount of Kshs.17,426,704 payable to Commissioner of VAT which were not supported with relevant documents in form of returns or assessment to or from Kenya Revenue Authority.
- c) Suppliers' statement duly reconciled to the creditor balance as per accounting records were not provided for audit verification especially for suppliers with balances above Kshs.10,000,000 which totaled to Kshs.482,761,016.
- d) The trade and other payables balance of Kshs.897,145,000 includes unpaid employee remittances of Kshs.43,938,594 for which detailed breakdown had unexplained debit balances totaling Kshs.12,960,750 as shown below:

Name	Amount (Kshs.)
KCB Pension-Seconded Staff	11,304
HELB	537
COTU College	20,850
SACCO Shares	6,383,480
NSSF	2,620,500
Communication Workers Union	72,612
CCK Pension Scheme	3,711,805
Old Mutual	42,860
ICEA	9,055
SACCO Instant Loan	82,634
Communication Special Savings	5,113
TOTAL	12,960,750

Consequently, the accuracy and validity of the trade and other payables balance of Kshs.691,358,000 as at 30 June 2018 could not be ascertained.

9. Remuneration of Directors

The Statement of Financial performance as at 30 June 2018 reflects a figure of Kshs.53,995,000 in respect of remuneration to directors. The amount includes broadband allowance totaling Kshs.3,362,333 paid to Directors on a monthly basis whose basis was not provided for audit verifications and in addition the payment was not in line with State Corporations Act and Mwongozo guidelines.

In consequence, the accountability and propriety of the expenditure of Kshs.3,362,333 could not be confirmed.

10. Unauthorized Employee Costs

- (i) The Statement of Financial performance as at 30 June 2018 reflects a figure of Kshs.1,140,209,000 as employee costs. Included in this amount is a figure of travel and other allowances of Kshs.117,310,000 and Housing benefits & other allowances of Kshs..123,979,000 which was spent and there was no budgetary allocation as no budget approvals by the full Board meeting were produced for audit verification.
- (ii) The statements of financial performance and note 9 of the financial statements reflects contribution to pensions and medical actual expenditure of Kshs.89,807,000 although the budgetary allocation was of Kshs.64,100,000 resulting in over expenditure of Kshs.25,707,000 for which no budgetary re-allocation and approvals by the full Board were made available for audit review.

In view of the foregoing, the accuracy, legality and propriety of the expenditure could not be confirmed.

11. Other Income

The Statement of Financial performance as at 30 June 2018 reflects a figure of Kshs.4,163,000 in respect of other income out of which Kshs.4,093,000 relate to staff rent. However, no documentation was provided to support the rentals income from the staff such as the rental agreements and even the detailed breakdown of who paid what amounts.

Under the circumstances, it was not possible to confirm the accuracy and propriety of other incomes of Kshs.4,163,000 as at 30 June 2018.

12. Budget

The figures of approved budget presented for audit compared to the amounts reflected in the Statement of Comparison of budget and actual amounts had variances in some account balances as highlighted below:

Account Balance	Amount of Budget as Reflected in the Statement of Comparison of Budget and Actual (Kshs)	Amount Reflected in the Approved Budget (Kshs)	Variance (Kshs)
Employee costs/personnel emoluments	1,155,238,000	1,140,338,000	14,900,000
General expenses/operating and administrative expenses	2,463,449,000	2,471,849,000	(8,400,000)
	Overall difference		6,500,000

No explanation was provided for the variances.

13. Prior Year Issues

The following prior year issues were yet to be addressed as at the time of the audit:

13.1 Irregular Procurement Methods

13.1.1 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 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.

13.1.2 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.

13.1.3 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.

13.1.4 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.

13.2 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.

13.3 Directors Expenses

13.3.1 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 totalling Kshs.2,100,000 for the year ended 30 June 2017 could not be confirmed and was not a proper charge to public resources.

13.3.2 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.

13.4 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards Accrual Basis and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement,

whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

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

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

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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

I am independent of Information and Communications Technology Authority in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.



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

Nairobi

15 August 2019

**Communications Authority of Kenya
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**XI. STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2018**

		2018	2017
	Note	Kshs'000	Kshs'000
Revenue from non-exchange transactions			
License Fees	6	<u>7,620,184</u>	<u>7,361,159</u>
Revenue from exchange transactions			
Finance income	7	1,298,357	1,110,283
Other Income	8	<u>4,163</u>	<u>315,271</u>
		1,302,519	1,425,554
Total revenue		<u>8,922,703</u>	<u>8,786,713</u>
Expenses			
Employee costs	9	1,140,209	1,193,354
Directors Expenses	10	53,995	47,211
Depreciation and Amortization Expense	11	376,498	352,609
Repairs and maintenance	12	204,835	105,422
General expenses	13	<u>2,631,195</u>	<u>1,969,111</u>
Total Expenses		4,406,732	3,667,707
Other gains/(losses)			
Gain on sale of assets	14	783	1,164
Gain on foreign exchange transactions	15	3,413	35,608
Surplus		4,520,167	5,155,778
Dividend/Remittance Surplus	30	4,068,151	4,188,975
Surplus for the period		<u>452,017</u>	<u>966,803</u>

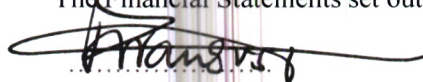
The notes set out on pages 6 to 28 form an integral part of these Financial Statements

**Communications Authority of Kenya
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**XII. STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

	Note	2018 Kshs'000	2017 Kshs'000
ASSETS			
Current Assets			
Cash and cash equivalents	16	12,903,177	12,394,988
Receivables from non-exchange transactions	17	877,014	1,145,722
Receivables from exchange transactions	18	561,321	531,305
Total Current Assets		14,341,512	14,072,015
Non- Current Assets			
Property, plant and equipment	20	2,980,782	2,594,525
Intangible Assets	21	834,408	730,570
Total Non-Current Assets		3,815,190	3,325,096
TOTAL ASSETS		18,156,702	17,397,110
LIABILITIES			
Current Liabilities			
Provisional Dividend/Remittance Surplus	30	4,068,151	4,188,975
Trade and other Payables from exchange transactions	22	897,145	456,306
Payments received in advance	23	26,479	19,425
Total Current Liabilities		4,991,774	4,664,706
TOTAL LIABILITIES		4,991,774	4,664,706
NET ASSETS		13,164,927	12,732,404
Owners' Equity	30	741,965	741,965
Accumulated Surplus		12,422,963	11,990,439
Total Net assets and Liabilities		13,164,927	12,732,404

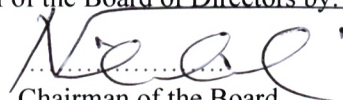
The Financial Statements set out on pages 1 to 28 were signed on behalf of the Board of Directors by:



Director General
Name: Francis Wangusi

Date: 28th September 2018

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Head of Finance
Name: Joseph M Kimanga
ICPAK Member No. 4341
Date: 28th September 2018

Chairman of the Board
Name: Ngene Gituku

Date: 28th September 2018

**Communications Authority of Kenya
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**XIII. STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2018**

	Owners Equity	Revaluation Reserve	Accumulated Surplus	Total Reserves
Note	Kshs'000	Kshs'000	Kshs'000	Kshs'000
At July 1, 2016	741,965	-	11,023,636	11,765,601
Surplus			5,155,778	5,155,778
Remittance Surplus	30		(4,188,975)	(4,188,975)
At 30 June 2017	741,965	-	11,990,439	12,732,404
Directors Fees			(7,500)	(7,500)
Post period Adjustments			(11,993)	(11,993)
At July 1, 2017	741,965	-	11,970,946	12,712,911
Surplus			4,520,167	4,520,167
Remittance Surplus	30		(4,068,151)	(4,068,151)
At 30 June 2018	741,965	-	12,422,963	13,164,927

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**XIV. STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018**

		<u>2018</u>	<u>2017</u>
	Note	Kshs'000	Kshs'000
OPERATING ACTIVITIES			
Cash generated from/(used in) Operations	25	<u>4,280,696</u>	<u>4,758,231</u>
Surplus Remittance to Treasury Paid	30	(4,188,975)	(2,828,586)
Directors fees		(7,500)	(9,780)
		(4,196,475)	(2,838,366)
Net Cash generated from/(used in) Operations		84,221.26	1,919,866
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	20	(875,172)	(914,377)
Proceeds from disposal of assets	14	783	1,164
Interest received	7	1,298,357	1,110,283
Net cash generated from/(used in) Investing activities		423,967	197,070
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		508,188	2,116,935
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		12,394,988	10,278,052
CASH AND CASH EQUIVALENTS AT END OF YEAR	14	<u><u>12,903,177</u></u>	<u><u>12,394,988</u></u>

The cash flow statement is to be read in conjunction with the notes to the financial statements as set out on pages 6 to 28.

Communications Authority of Kenya
Annual Report and Financial Statements
For the year ended June 30, 2018

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2018

Description	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	Percentage Variance	Note
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018	2017-18	
	Kshs (000)	Kshs (000)	Kshs (000)	Kshs (000)	Kshs (000)	%	
Revenue							
Internally Generated Revenue	6,902,022	-	6,902,022	7,620,184	718,162	10%	
Recurrent	1,064,302	-	1,064,302	1,306,715	242,413	23%	1
Total Revenue	7,966,324	-	7,966,324	8,926,899	960,575		
Operating Expenses							
Personnel Emolument	1,155,238	-	1,155,238	1,140,209	15,030	1.3%	
Board Expenses	60,500	-	60,500	53,995	6,505	11%	2
Operating/Administration Expenses	2,463,449	-	2,463,449	2,631,195	(167,747)	-7%	3
Repairs and Maintenance	262,083	-	262,083	204,835	57,248	22%	4
Depreciation and Amortization	395,123	-	395,123	376,498	18,625	5%	5
Total Operating Expenses	4,336,393	-	4,336,393	4,406,732	(70,339)	-2%	
Operating Profit (Loss)	3,629,931	-	3,629,931	4,520,167	1,030,914		
Finance Charges	-	-	-	-	-		
Corporation Tax	-	-	-	-	-		
Net Earnings	3,629,931	-	3,629,931	4,520,167	1,030,914		
Distribution to National Exchequer	3,261,553	-	3,261,553	4,068,151	806,598		
Retained Earnings	368,378	-	368,378	452,017	1,837,511		

Notes to the Budget:

- 1 The targeted performance was surpassed due to favorable prevailing interest rates and the cash balances that were available during the year.
- 2 The budget was not fully utilized due to appointment of board chair at the end of the 3rd quarter.
- 3 A provision expense of Kshs. 698.119 million has been provided for Bad and Doubtful debts during the year.
This has been included and reported under general expenses.
- 4 The budget was not fully utilized due delay in procuring items reserved for the privileged groups.
- 5 The depreciation and amortization expenses are lower than anticipated due to the delay in acquisition of planned assets and software.

XVI. NOTES TO THE FINANCIAL STATEMENTS

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 on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, and financial instruments at fair value, impaired assets at their estimated recoverable amounts and liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Authority's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Authority.

The financial statements have been prepared in accordance with the PFM Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard	Impact
IPSAS 39: Employee Benefits	Applicable: 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

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

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	Applicable: 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.

iii. Early adoption of standards

The Authority did not early – adopt any new or amended standards in year 2018.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2012 Regulations 2015 (219) (3). 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.

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
▪ Telecommunications equipment	10 years
▪ Computers	3 years
▪ ICT Regulatory systems	5 years
▪ Motor vehicles	5 years
▪ Office furniture and fittings	8 years
▪ Office equipment	5 years

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

- 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)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

i) 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.

j) 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
- ICT regulatory systems 5 Years

k) Related parties

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits and 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.

m) 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.

n) Comparative figures

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

o) Subsequent events

There have been no events subsequent to the financial year-end with a significant impact on the financial statements for the year ended June 30, 2018.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Annual frequency license fees	6,223,152	6,213,714
Annual operating license fees	1,392,103	1,142,890
Application Fees	2,359	2,420
Type approval fees	2,569	<u>2,136</u>
Total Revenue from Non-exchange Transactions	<u>7,620,184</u>	<u>7,361,159</u>

7 REVENUE FROM EXCHANGE TRANSACTIONS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Cash Investments and fixed deposits	1,524,017	1,299,594
Taxes	<u>(225,660)</u>	<u>(189,311)</u>
Total Revenue from exchange Transactions	<u>1,298,357</u>	<u>1,110,283</u>

8 OTHER INCOME

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Sale of tender documents	13	39
Staff Rent	4,093	4,005
Penalties	<u>57</u>	<u>311,227</u>
Total Other Income	<u>4,163</u>	<u>315,271</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 EMPLOYEE COSTS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Employee related costs - salaries and wages	809,113	881,835
Contribution to pensions and medical	89,807	88,240
Travel and other allowances	117,310	108,079
Housing benefits and allowances	<u>123,979</u>	<u>115,200</u>
Total Employee Costs	<u>1,140,209</u>	<u>1,193,354</u>

10 REMUNERATION OF DIRECTORS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Sitting allowance	13,164	14,356
Monthly fees	195	880
Telephone allowance	3,351	4,297
Traveling Expenses	19,599	21,545
Board Welfare	994	1,656
Training-Directors	<u>16,692</u>	<u>4,477</u>
Total director emoluments	<u>53,995</u>	<u>47,211</u>

11 DEPRECIATION AND AMORTIZATION EXPENSE

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Depreciation for the year	366,674	342,785
Pension Amortization	<u>9,823</u>	<u>9,824</u>
Total Depreciation and amortization	<u>376,498</u>	<u>352,609</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 REPAIRS AND MAINTENANCE

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Property	67,960	43,517
Equipment	131,137	53,863
Motor Vehicles	5,739	8,043
Total Repairs and Maintenance	<u>204,835</u>	<u>105,422</u>

13 GENERAL EXPENSES

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Training	139,766	169,791
Enforcement & Compliance	100,607	64,606
Computer software	119,774	77,951
Corporate affairs	36,221	50,839
Consumer Affairs	97,570	95,408
Medical Expenses	70,903	55,508
Advertising	74,820	50,269
Meetings and conferences	281,202	330,574
Exhibitions	54,970	54,975
Utilities	39,632	31,182
Postage and telephone	22,753	25,790
Rent and Rate	28,387	19,138
Consultancy fees	175,355	256,867
Accrued-Audit fees	1,491	1,491

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Legal fees	63,613	38,470
Bank charges	1,946	1,202
Security	65,948	61,566
Insurance	26,591	25,618
Printing and stationery	25,977	40,311
House keeping	9,277	7,760
Periodicals and publications	9,923	6,651
Staff welfare	77,515	62,018
Transport Expense	23,552	21,073
Subscriptions	106,055	109,614
Sporting Activities	19,444	29,529
Corporate Social responsibility	51,033	54,786
Universal Service Obligation	41,843	95,886
Provision for Bad & Doubtful Debts	702,837	-
National Communications Secretariat	120,000	80,000
Communications Appeals Tribunal	-	2,236
Digital Migration Expenses	-	742
Universal Advisory Council	<u>42,190</u>	<u>47,261</u>
Total general expenses	<u>2,631,195</u>	<u>1,969,111</u>

14 GAIN ON SALE OF ASSETS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Property Plant and Equipment	<u>783</u>	<u>1,164</u>
Total Gain on sale of assets	<u>783</u>	<u>1,164</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 GAIN ON FOREIGN EXCHANGE TRANSACTIONS

The Authority is exposed to foreign exchange risk arising from currency exposures, primarily with respect to US dollar. Such transactions lead either a gain or loss.

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Gain/Loss on foreign Exchange	<u>3,413</u>	<u>35,608</u>
Total gain on foreign exchange transactions	<u>3,413</u>	<u>35,608</u>

16 CASH AND CASH EQUIVALENTS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Current Account	148,135	82,107
Short term deposits	12,055,042	11,012,881
Treasury Bills	<u>700,000</u>	<u>1,300,000</u>
Total Cash and Cash Equivalent	<u>12,903,177</u>	<u>12,394,988</u>

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

Financial Institution and Account Number	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Kenya Commercial Bank (A/c Number 1106738608)		
Current Account	128,648	4,444
Fixed deposits	7,200,000	6,360,789
Sub-Total	7,328,648	6,365,233
Citibank N.A. (A/c Number 300042015)		
Current Account	15,023	69,325
Fixed deposits - T-bills	700,000	1,300,000
Sub-Total	715,023	1,369,325
Citibank N.A. (A/c Number 300042007) USD		
Current Account	3,953	4,532
Sub-Total	3,953	4,532
Co-operative Bank of Kenya (A/c Number 1106738608)		
Current Account	510	3,807
Fixed deposits	4,855,042	4,652,092
Sub-Total	4,855,553	4,655,898

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Licensee fee receivables	1,760,453	1,339,800
Accumulated Provision for bad and doubtful debts	(896,916)	(194,079)
Accrued Interest	13,477	-
Total Receivables from Non-Exchange Transactions	<u>877,014</u>	<u>1,145,722</u>

18 RECEIVABLES FROM EXCHANGE TRANSACTIONS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Deposits	7,563	7,563
Pension Prepaid	-	9,823
Amount due from USF	9,923	-
Other Receivables	<u>543,834</u>	<u>513,918</u>
Total receivables from exchange transactions	<u>561,321</u>	<u>531,305</u>

19 INVESTMENTS

The Authority has investment in cash deposits and in T-Bills all of whom are short term in nature with a maturity period of less than 12 months.

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Kenya Commercial Bank	7,200,000	6,360,789
Cooperative Bank	4,855,042	4,652,092
Treasury Bills	<u>700,000</u>	<u>1,300,000</u>
Total investments	<u>12,755,042</u>	<u>12,312,881</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 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	Equipment, Furniture and Fittings Kshs'000	Capital Work In Progress Kshs'000	Total Kshs'000
Cost								
At 1 July 2016	869,897	614,022	21,168	135,725	225,111	1,523,938	0.00	3,389,861
Additions	-	182	-	80,483	24,350	17,654	223,805	346,475
Revaluations	-	-	-	-	-	-	-	-
Disposals	-	-	-	(3,322)	(2,095)	-	-	(5,417)
At 1 July 2017	869,897	614,205	21,168	212,886	247,366	1,541,593	223,805	3,730,920
Additions	41,788	112,027	10,478	24,700	193,603	270,872	155,403	808,871
Revaluations	-	-	-	-	-	-	-	-
Disposals/Adjustments/Transfers	(2,639)	(3,477)	-	-	-	-	(202,092)	(208,208)
At 30 June 2018	909,046	722,539	31,646	237,586	440,969	1,812,465	177,116	4,331,367
Depreciation and Impairment								
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
Depreciation	-	17,567	1,020	28,304	40,942	126,359	-	214,191
Impairment	-	-	-	-	-	-	-	-
Disposals/Adjustments/Transfers	-	-	-	-	-	-	-	-
At 30 June 2018	-	140,934	15,594	140,654	246,397	807,005	-	1,350,586
Net Book Values								
At 30 June 2018	909,046	581,605	16,052	96,931	194,572	1,005,460	177,116	2,980,781
At 30 June 2017	869,897	490,837	6,594	100,535	41,911	860,946	223,805	2,594,525

Work In Progress

Included in the work in progress is an amount relating to partitioning of offices at CA centre.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 INTANGIBLE ASSETS-SOFTWARE

	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Cost		
At the beginning of the year	923,396	355,494
Additions	821,933	5,962
At the end of the year	1,745,329	361,456
Additions - Internal Development	(565,612)	561,940
At the end of the year	1,179,717	923,396
Amortization and Impairment		
At the beginning of the year	192,826	73,500
Amortization	152,483	119,326
At the end of the year	345,309	192,826
Impairment Loss	-	-
At end of the Year	<u>834,408</u>	<u>730,570</u>
NBV	<u>834,408</u>	<u>730,570</u>

22 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Trade payables	691,358	278,372
Universal Service Fund Levy	158,743	104,992
Accrued Expenses	1,085	1,491
Employee Remittances	43,938	<u>71,451</u>
Accrued Taxes	<u>2,022</u>	
Total trade and other payables	<u>897,145</u>	<u>456,306</u>

23 PAYMENTS RECEIVED IN ADVANCE

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Annual frequency license fees	20,501	14,374
Annual operating license fees	<u>5,978</u>	<u>5,050</u>
Total Payments received in advance	<u>26,479</u>	<u>19,425</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 CURRENT PROVISIONS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Balance at the beginning of the year	194,079	194,079
Additional Provisions	<u>702,837</u>	-
Total Provisions	<u>896,916</u>	<u>194,079</u>

25 CASH GENERATED FROM OPERATIONS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Surplus before remittances	4,520,167	5,155,778
Adjustments for:		
Depreciation of property, plant & equipment	366,674	342,785
Loss/Gain on sale of assets	(783)	(1,164)
Foreign Exchange Gain or Loss	(3,413)	(35,608)
Amortization of Pension	9,824	9,824
Interest Received	(1,298,357)	(1,110,283)
Contribution to Provisions	702,837	-
	(223,218)	(794,446)
	4,296,950	4,361,332
Working capital adjustments		
Increase in receivables from exchange transactions	(30,016)	(53,880)
Decrease in receivables from non-exchange transactions	(434,130)	646,367
Decrease/Increase in payments received in advance	7,054	(63,527)
Decrease/Increase in trade and other payables	440,838	(132,061)
Net Working Capital Changes	(16,254)	396,900
Net cash flows from operating activities	4,280,696	4,758,231

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 FINANCIAL RISK MANAGEMENT

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of 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:

Description	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2018				
Receivables from non-exchange transactions	1,760,453	863,537	896,916	-
Receivables from exchange transactions	561,321	561,321	-	-
Total	2,321,774	1,424,858	896,916	-
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	-

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

(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.

Description	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs (000)	Kshs (000)	Kshs (000)	Kshs (000)
At 30 June 2018				
Trade payables	299,048.21	299,048	299,048	897,145
Surplus Remittance	-	-	4,068,151	4,068,151
Total	299,048	299,048	4,367,199	4,965,295
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

(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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

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 is as follows:

Description	2017-2018 USD (000)	2017-2018 Kshs (000)
At 30 June 2018		
Current Account Balance - Citibank	39	3,953

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

iv) Capital Risk Management

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

Description	2017-2018 Kshs (000)	2016-2017 Kshs (000)
Retained earnings	12,422,963	11,990,439
Capital reserve	741,965	741,965
Total funds	13,164,927	12,732,404
Total borrowings	-	-
Less: cash and bank balances	12,903,177	12,394,988
Net debt/(excess cash and cash equivalents)	261,750	337,416
Gearing	2%	3%

27 RELATED PARTY BALANCES

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

Government of Kenya

The Government of Kenya is the principal shareholder of the Authority, holding 100% of the Authority's equity interest.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

RELATED PARTY BALANCES (Continued)

Description	2017-2018	2017-2018
	Kshs (000)	Kshs (000)
Transactions with related parties		
a) Key management compensation		
Directors' emoluments	53,995	47,211
Compensation to the CEO	23,191	23,191
Compensation to key management	87,204	94,750
Loans to CEO and key Management	67,918	78,985
Sub-Total	232,308	244,137
b) Communications Authority		
Amount Receivable from CA	158,743	106,645
Sub-Total	158,743	106,645
Amount Payable to CA	9,923	1,873
Sub-Total	9,923	1,873
Total	400,974	352,655

28 CAPITAL COMMITMENTS

Description	2017-2018
	Kshs (000)
Authorized for	599,959.53
Authorized and contracted for	-
Total	599,959.53

29 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There are on-going 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.

- a) 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.
- b) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

CONTINGENT ASSETS AND CONTIGENT LIABILITIES (Continued)

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.

30 SURPLUS REMISSION

In accordance with the Public Financial Management Act 2012 Regulations 2015 (219) (3), regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year.

Description	2017-2018	2017-2018
	Kshs.'000'	Kshs.'000'
Accrued - Surplus	4,520,167	5,155,778
Licensee fee receivables	-	(1,145,722)
Recovered-Licensee fee receivables	-	644,361
Surplus	4,520,167	4,654,416
Remittance surplus (90%)	<u>4,068,151</u>	<u>4,188,975</u>
Dividend/Remittance Surplus	<u>4,068,151</u>	<u>4,188,975</u>

31 EVENTS AFTER THE REPORTING PERIOD

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

32 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. Owners' equity of Kshs. 741.935 million 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 5th November 1999.

33 Currency

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

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APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe:
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 services 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 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.23,130,998 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.	The method of tendering used was restricted tender; to registered firms under the Access to government opportunities by Public Procurement Regulatory Authority. The method was erroneously classified as Request for Quotation; yet the right method was used as prescribed by the public procurement and Asset Disposal Act, 2015. The Authority issued a purchase orders which had terms and conditions of the Contract binding on both parties. The services were later paid for based on the inspection and acceptance report. The purchase order in this case therefore is considered a form of contract.	Ag. AD/Procurement	Resolved	30 th June 2018

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<p>1.2 Design, Printing, Supply and Delivery of Branded Items</p>	<p>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.</p> <p>However, available information revealed that 21 June 2017 all the three firms which were awarded the tender were notified further changes affecting their contract from one off supply to a framework contract/agreement. The change to framework contract was done contrary to section 114(1) of 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 totalling Kshs.11,977,070 for the year ended 30th June 2017 could not be confirmed.</p>	<p>The method of tendering used was restricted to the list of the Authority's registered suppliers. However it was erroneously indicated as request for quotations. The quantity was changed because there was an error in the quantities requested. This was in compliance with 162 Section 3 of the PPDA 2015, which discourages overstocking of store items. The change in framework contract did not contravene the Act.</p>	<p>Ag. AD/Procurement</p>	<p>Resolved</p>	<p>30th June 2018</p>
<p>1.3 Unclear Excessive Procurement of Brochures.</p>	<p>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. 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. Nos. VB/C/2006/12/14958 dated 18 August 2016</p>	<p>The invitation to tender for printing and packaging of corporate and consumer education publications, brochures, fliers and posters (CA/PROC/OT/16/2016-2017- reserved for Youth, Women and Persons with Disabilities) sought to secure the services of a firm that would not only print and deliver the publications listed, but also sought to secure the rates associated with the printing, packaging and delivery of similar publications. At the time, bidders were aware of this requirement and it was noted that the quantities listed were annual estimates and not actual</p>	<p>Ag. AD/Procurement</p>	<p>Resolved</p>	<p>30th June 2018</p>

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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 the 30 June 2017 and that the Authority was in breach of the Law.

quantities. The contract between the Authority and the firm awarded gave the details of the services that the firm was required to provide [Clause 1(b) Services], the firm was required to print and package any other corporate and consumer education brochures, fliers, posters of similar specifications. The request for additional supplies was within the contract, therefore no breach of law. The child on line brochures were destined to be used for the child on-line campaign that had been scheduled and hence the requisition. However, the event was postponed due to the impending general elections and the Authority could not have realised value for money hence the unutilised brochures in the store.

1.4 Supply of Computers to Schools and E-Resource Centres

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 period of two(2) years 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 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 a women, youth and persons

It was mandatory for the bidders to provide a Manufacturers Authorization Letter and any bidder that did not provide the letter was disqualified. Further, the tender document gave a sample format of the Manufacturer's Authorization letter but it was not mandatory that it had to match the sample word by word since manufacturers might have different formats of their Authorization letter. The purpose of the sample was to highlight on the basic requirements that were to be contained in the letter. Hence the Authority accepted the Manufacturer's Authorization letter. Whereas Manufactures give manufacturers authorization letters for their products, it is also noted that some also give disclaimers to protect them against liabilities that

Ag. AD/Procurement	Resol ved	30 th June 2018
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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.

may arise but not because of the fault of manufacturing. Whereas, the intention of the Authority was considered; after evaluation; if the tender was awarded to one firm the Authority was to save Kshs. 2.1million. Notification letters to ALL participants was done. The notification letters to the unsuccessful participants also detailed reasons for non-responsiveness of the bids. The Authority received a complaint from one of the participants through PPRA (formerly PPOA). PPRA requested the Authority for information; clarification and documentation regarding the said award. After their review, the PPRA did not find it necessary to stop tender implementation process.

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 included Kshs.23,000,000 being sponsorship of the National Youth Talent Academy. The sponsorship was on furtherance of 28 June 2012 agreement between 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

The Board of Management for FC Talanta that works under the Kenya Academy of Sports has been submitting activity and financial reports as required. FC Talanta Board of Management appointed an External Auditor Mwencha and Associates, who are Certified Public Accountants. The Auditor's report was availed to the Authority. The Office of the Auditor General also audits also The Kenya Academy of Sports together with Ministry of Sports Culture and CA received Unqualified Audit report. Additionally the Authority sought change of the Sponsorship Agreement between KAS and CA, as per the legal requirement. An official letter was prepared and sent to the Ministry of Sports, Culture and the Arts informing the Cabinet Secretary of the renewal amounts of Kshs 69,000,000. The transfer was not

Director	Resolved	30 th
Consumer & Public Affairs		June 2018

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Authority was also mandated to call at any time for any of the financial accounting and project records maintained by the Kenya Academy of Sports 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 the Kenya Academy of Sports wrote to the Director General Communications 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. 026500659 at Equity bank as per agreement honoured 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 funds. Consequently, it has not been possible to confirm the propriety of expenditure totalling Kshs. 23,000,000 transferred to Jamii Bora account for the year ended 30 June 2017.

made at once. In accordance with the agreement, the transfers were to be made in three instalments spread across the sponsorship period. Based on the reports from FC Talanta, representation of the Authority on its Board of Management and continuous contact with the club, the Authority is satisfied that the expenditure of the sponsorship is in line with the objectives of the Club and as per the agreement signed with the Authority.

**3.1
Irregular
payments
to Board
Members**

Included in the Directors expenses figure of Kshs.47,211,000 is an of Kshs. 1,656,000 in respect of board welfare. The amount of Kshs. 1,656,000 also included Kshs.2,100,000 approved being Christmas shopping vouchers worth Kshs. 100,000 to each Board Director. The USAC 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 Treasury approval. This is 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

KICA Act 2012, section 19 (I) (b) of the Board has a mandate to provide for the payment of the salaries, allowances and other charges in respect of the staff of the Authority and the members of the Board. In recognition of the performance of the Authority during the year, the Board approved an end of year appreciation to the staff and Christmas shopping vouchers was a giveaway to the Board and USAC members in appreciation of the same.

Director,
Legal
Services

Unres
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30th
June
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apply. Consequently, the management is in violation of the Law and the propriety of expenditure totalling 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 information revealed that Authority assets including MacBook laptops and IPADS held by the former Board Directors were un-procedurally disposed off to the individual directors. The nine (9) MacBook Laptops with net book value of Kshs. 466,551.00 nine IPADS with net book value of Kshs. 160,515, ten 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 is in breach of the law and the propriety of Kshs.627,546 for the year ended 30 June 2017 could not be confirmed.

The laptops and IPADS mentioned above were not at the Authority and attempts to obtain them were unsuccessful. Therefore the Authority decided to make recovery for the said items based on the fact that most were substantially obsolete and depreciated. The items could only be valued if they were physically in possession of the Authority. We are however developing a policy to guide on the amount of recovery in situations of this nature.

Director,
Finance &
Accounts

Resol
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30th
June
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**4.
Disputed
Contract
payments**

As previously reported, on 29 November 2002, the Authority awarded tender for supply and installation of demountable office partitions to affirm 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 attender sum of Ksh. 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

The payment was done pursuant to an arbitration award dated 31st January 2014; 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 Authority requested the Ethics and Anti-Corruption Commission to investigate the entire

Director
Legal
Services


Unres
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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 apply 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 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.

contract in issue to establish if there was any impropriety. The Ethics and Anti-Corruption Commission (EACC) commenced the investigations into the matter on 16th September 2015.

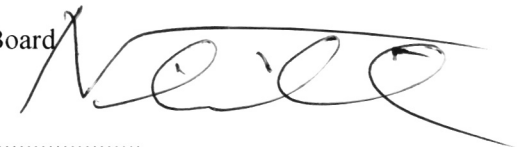
Director General



Date

28/09/2018

Chairman of the Board



Date.....

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

During the year under review, the projects implemented by the Communications Authority of Kenya were fully funded through internally generated revenue. There were no projects funded by neither state corporations nor development partners.

APPENDIX III: INTER-ENTITY TRANSFERS

During the Financial year 2017/18, the Communications Authority of Kenya did not receive recurrent nor development grants, direct receipts nor direct payments form other entities.

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

During the year under review, the Communications Authority of Kenya did not receive any transfers from other government entities, therefore records of the same are not provided.

