

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
COMMUNICATIONS AUTHORITY OF
KENYA – UNIVERSAL SERVICES FUND

FOR THE YEAR
ENDED 30 JUNE 2018

THE NATIONAL ASSEMBLY
PAPERS LAID
DATE: 25 JUL 2018

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BY:

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THE TABLE:

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Lemure Moses

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UNIVERSAL SERVICE FUND

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)**

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

- 6 JUN 2019

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I. KEY FUND INFORMATION AND MANAGEMENT

(a) Background information

The Universal Service Fund (USF) was established through Section 84J of the Kenya Information and Communications Act of CAP 411A-Revised 2009 and the Kenya Information and Communications (Universal Access and Service) Regulations of 2010. The Universal Service Fund is domiciled in Kenya at CA Centre, Waiyaki Way; Westlands.

(b) Principal Activities

The principal activity of USF is to support widespread access to, support capacity building and promote innovation in information and communications technology services.

The core objectives of USF include:

- a) Encourage efficient access to and use of communications systems and services throughout the Republic of Kenya, focusing on rural, remote and under-served areas in order to promote social and economic development;
- b) Ensure reasonable availability and affordability of basic and advanced communications systems and services to persons with disabilities, at the household and individual levels, particularly where the market is unable to deliver such services in a financially viable manner;
- c) Support the development of information and communication technologies including related human capacity building and technological innovation;
- d) Provide support for the introduction and expansion of communication services to schools, health facilities and other organizations serving public needs; and
- e) Facilitate development of and access to, a wide range of local and relevant content.

The funds from USF are applied in activities that support national communications development programmes including; among others:

- a) Funding universal service programmes and projects;
- b) Identifying, approving, scheduling and financing private sector and local community investments in universal service provision projects; and
- c) The conduct of research and other relevant studies in information technologies that will enable access to communication services by all in Kenya.

KEY FUND INFORMATION AND MANAGEMENT (Continued)

(c) Key Management

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

- a) Board of Directors;
- b) Universal Advisory Council;
- c) Director General; and
- d) Heads of Departments.

(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 Ndaro
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

KEY FUND INFORMATION AND MANAGEMENT (Continued)

(e) Fiduciary Oversight Arrangements

The Board of Directors has the responsibility of acting in the best interest of the USF. 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 risk management strategies and objectives to foster growth and development of the USF.

Audit and Risk 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.

Staff and Administration Committee

The Staff and Administration Committee is established 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 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 FUND INFORMATION AND MANAGEMENT (Continued)

(e) Fiduciary Oversight Arrangements (Continued)

Universal Service Advisory Council (USAC)

Kenya Information and Communications Act of CAP 411A-Revised 2009 Section 102A under Fourth Schedule subsections (I) to (II) established a Council known as the Universal Service Advisory Council (USAC). The role of the Advisory Council is to advise the Authority, provide strategic policy guidance for the administration and implementation of the Universal Service Fund, and perform any other functions as the Board, may from time to time assign.

USAC is responsible for advising the CA Board on the implementation of USF projects. Its advisory role includes; providing strategic policy guidance for the administration and implementation of the USF including review of reports, programs/projects and budgets.

(f) Entity Headquarters

P. O Box 14448 - 00800

CA Centre

Waiyaki Way

Nairobi, KENYA

(g) Entity Contacts

Telephone: (254) 703 042 000

E-mail: info@ca.go.ke

Website: www.ca.go.ke

KEY FUND INFORMATION AND MANAGEMENT (Continued)

(h) Entity Bankers

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

2. Commercial Bank of Africa Ltd
Westlands Branch
P.O Box 30437
Nairobi 00100
Nairobi, Kenya

(i) Independent Auditors

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

(j) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
Nairobi 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, MB (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 Person 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, Barclay 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.



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 in charge with the responsibility of driving and implementing 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 communication 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.



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. UNIVERSAL ADVISORY COUNCIL



Dr Catherine Ngahu; (Born in 1961) is the Chairperson of Universal Service Advisory Council (USAC). She holds a PhD in Business Administration from University of Nairobi and

Professional certificate in Technology and Development from IPS, UK. She was a Business Research Fellow at Wharton Business School, University of Pennsylvania, USA. Dr Ngahu is a member of several Boards.

She is the former chairperson of the Kenya ICT Board and was awarded 'the Elder of the Order of the Burning Spear' (EBS) by the President of the Republic of Kenya in 2011 for devoted service.

She was appointed to USAC in May 2014 for a three-year term and re-appointed with effect from 8th May, 2017.



Mr. Michael M. Itote (Born in 1954) is a Fellow of the Institute of Certified Public Accountant (FCPA) of Kenya and a Certified Public Secretary (CPS) with over 30 years of experience. He has served as the Chairman of the Institute of Certified Public

Accountants of Kenya from 2009 to 2011. He is also a Member of the Institute of Internal Auditors (IIA), the Institute of Directors, Kenya, and an accredited Governance Auditor.

Mr. Itote is currently a Director / Principal Consultant of Management Audit Consulting Ltd, which provides consulting services in enterprise risk management, internal auditing and other governance support services. He holds a BSc. Accountancy, from the United States International University Africa.

He was appointed a member of USAC in May 2014 for a period of 3 years and reappointed with effect from 9th May 2017.



Ms. Rhoda Masaviru; (Born in 1956) has vast working experience spanning over 34 years, most of which was in the postal sector, both in Kenya and at the African continental level, where she held senior positions,

among them Secretary General and Assistant Secretary General of the Pan African Postal Union (PAPU). She also served as a Manager in the defunct Kenya Posts & Telecommunications Corporation and its Successor, Postal Corporation of Kenya.

Ms. Masaviru holds a Master of Arts degree in Population Studies, University of Nairobi, Kenya and a Bachelor of Education degree in Economics and Geography, University of Nairobi, Kenya.

She was appointed a member of USAC in May 2014 for a period of 3 years and reappointed with effect from 9th May 2017.



Ms. Josephine Towett (Born in 1967) is an ICT Business expert with experience spanning 20 years in various functional areas that include Sales and Marketing, Market research, Customer service and capacity building. She

holds a Master's degree in Business Administration and a Bachelor's degree in Political Science and Linguistics from the University of Nairobi.

Josephine is also well versed in ICT capacity building, Research and Consultancy having joined the African Advanced Level Telecommunication institute (AFRALTI) a regional capacity building intergovernmental organisation.

She was appointed a member of USAC in May 2014 for a period of 3 years and reappointed with effect from 9th May 2017.



Amb. Wellington Pakia Godo (Born in 1953) has served in the Kenya government for over three decades. He has risen through the ranks and served as a Permanent Secretary in various areas including the Office of the Vice President and the Ministry of regional Development.

He also served as the Permanent Representative in the Kenya Mission to the United Nations Environmental Programme (UNEP).

Amb. Godo holds a Master of Social Science Degree from the University of Birmingham, United Kingdom and a Bachelor of Arts Degree from the University of Nairobi where he majored in Government and Sociology.

He was appointed a member of USAC in May 2014 for a period of 3 years and reappointed with effect from 9th May 2017.



Mr. Nixon Mageka Gecheo (Born in 1976) is a Government and ICT for Development (ICT4D) expert with over 10 years ICT experience and 15 years experience consulting to large donor, private and public sector organisations. He is the immediate former ICT and Media Advisor to the Cabinet Secretary, Ministry of Agriculture. Nixon worked at the Office of the Ombudsman and East African Business Council in Arusha.

Mr. Gecheo holds a Masters in Communication Management from Kigali Institute of Science and Technology, Rwanda and BSc. in Information Technology from JKUAT.

He was appointed a member of USAC in May 2014 for a period of 3 years and reappointed with effect from 9th May 2017.



Dr. Kennedy J. Okong'o; (Born in 1982) is a certified Project Manager and a holder of PhD in Information Systems from the University of Cape Town, South Africa.

He has a practical policy and research experience in the ICT for Development (ICT4D) space. In both private and public sectors, he has consulted in Africa and beyond as a business analyst, policy researcher and a project manager. He has a broad corporate experience and is a Professional Member of Computer Society of Kenya (CSK).

He was appointed a member of USAC in May 2014 for a period of three years and reappointed with effect from 10th August 2017.



Mr. Longole Wangiros James (Born in 1975) is a participatory specialist with over 10 years' experience working with International NGOs, quasi Government and Government institutions.

His sectoral expertise includes rural development, conflict transformation and humanitarian assistance with a geographical focus on the Great Horn of Africa.

He also serves as the Chairman of the Board of Management for Loima Boys Secondary School in Loima Sub-County. James holds a Master's Degree in Sociology and, a Post Graduate Diploma in Conflict Management and Peace Studies from Makerere and Gulu Universities respectively.

He was appointed a member of USAC in May 2014 for a period of three years and reappointed with effect from 10th August 2017.

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Mr. Samuel Mutungi; (Born in 1955) has over 30 years' experience in ICT and corporate business leadership. He has served in various key executive management positions at Co-Operative Bank of Kenya including Director Operations, Director Retail Banking, Director Corporate Banking and Chief Manager ICT.

He holds a M.Sc. degree in Business Systems Analysis & Design from City University, London and a Bachelor of Education degree in Mathematics and Business Studies from the University of Nairobi. He also holds a Diploma in Electronic Data Processing from Dawson College, Montreal Canada.

He was appointed to the Universal Service Advisory Council in May 2014 for a three-year term and reappointed with effect from 10th August 2017.

IV. 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.

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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

V. CHAIRMAN'S STATEMENT

The Kenya Information and Communications Act created the Universal Service Fund (USF) to be managed and administered by the Communications Authority of Kenya. The fund's main objective is to support widespread access to ICT services, capacity building in ICTs and support technological innovations.

The USF is funded through contributions not exceeding one (1) percent of the gross annual turnover from licensees including telecommunications, postal and courier and broadcasting service providers; offering communication services and systems on a commercial basis.

Towards the operationalization of the Fund, the Authority in the year 2016 completed a study on the ICT Access Gaps that identified the unserved and underserved areas in the country. In addition the study identified the subsidy levels to leverage operations in the identified areas. In order to close the Access Gaps, the Authority commenced the implementation of the Voice Infrastructure and Services and the Education Broadband Connectivity projects.

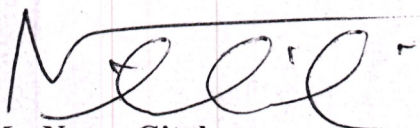
The aim of the Voice Infrastructure Project is to supply and install 2G voice telecommunications infrastructure and data services to underserved sub-locations in various counties in the country. In F/Y 2017/18 installations were completed in 32 sub-locations.

The aim of the Education Broadband connectivity projects is to provide high speed Internet to all public secondary schools in Kenya. During the FY 2017-18, the Authority commenced the implementation of the first phase of the Education Broadband Connectivity project; which targets 896 public secondary schools. This project is being implemented in collaboration with the Ministry of Education, Science and Technology (MoEST), which is responsible for selecting and identification of schools to be supported and ensuring sustainability of the project.

The lessons derived from these projects shall be important in implementation of similar project in other sub-locations and public secondary schools. The Authority remains committed to enhancing access to ICT services in Kenya through the Universal Service Fund (USF).

CHAIRMAN'S STATEMENT (Continued)

I take this opportunity on behalf of the Board, to applaud operators who have made contribution to the Fund for their commitment, 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

VI. REPORT OF THE DIRECTOR GENERAL

The most important mandate of any Government is to protect the lives and property of its citizens in addition to ensuring universal access to basic services. Communications services have been defined by United Nations as a basic human right, which every citizen of the world has a right to access at affordable rates. These essential services have become a critical lifeline for our livelihoods with the power to transform societies and nations, into greater heights of development and prosperity. We cannot manage any aspect of our social, political and economic spheres without communication services.

It is with the above realization that the Government of Kenya, through the Kenya Communications Act of 1998, and as amended, in 2009 created the Communications Authority of Kenya, to license and regulate the communications sector in the country. The envisaged communications services are not limited to telecommunication, but encompass other sub-sectors including broadcasting, postal and courier, e-commerce, and cyber-security services. The law mandates the Authority to implement regulations and strategies that will ensure all Kenyans have access to fixed services, mobile services, and radio, television, postal, and courier services.

Kenya has experienced a steady and tremendous growth in the development of its information and communications sector. The country is currently ranked among the best in terms of service penetration and usage in Africa. Our current statistics indicate that Kenya has achieved 86.2% mobile and 89.4% Internet penetration respectively. Average access charges for services such as mobile voice, data and Internet, have continued to decrease, through the Authority's regulatory efforts as well as innovative marketing strategies adopted by our service providers. The digital terrestrial broadcasting infrastructure population coverage stands at 78%, while the digital broadcasting platform offers a diversity of channels with rich, entertaining, and educational content. On the Postal front, the Government recently commissioned a Task Force, which has proposed a series of recommendations meant to revitalise and re-position the sector to be more dynamic and deliver the benefits of new technologies and e-commerce to the citizens.

REPORT OF THE DIRECTOR GENERAL (Continued)

Despite the commendable growth recorded in the sector, there are still a number of sub-locations in this country, mainly in the Northern Region of the country, where access to basic communication services still remains a challenge, mainly due to geographic isolation, low population density, or perceived low disposable incomes, which render such parts of the country unattractive to commercial service providers.

It is against this background that, the Government created the Universal Service Fund to leverage operations and provision of services in high cost areas. All licensed operators providing communication services on commercial basis are required by law to contribute up to (1) per cent of their annual gross turn over to the Fund. Currently the operators are contributing zero point five (0.5) per cent to the Kitty.

In an effort to identify and determine the extent of communications infrastructure and services coverage in all parts of the country, the Authority undertook an ICT Access gaps study in 2016. Through this study, the Authority identified two priority projects that will be supported through the Universal Service Fund in order to address the gaps and communications challenges identified by the study. These projects are:

- i. The Voice Infrastructure Project where the Fund is supporting provision of telecommunication voice service in 78 sub-locations across the country.
- ii. The Education Broadband Project, where the Fund is supporting Internet connectivity in 896 Secondary Schools in all the 47 counties.

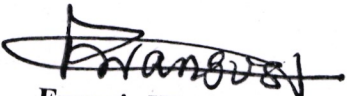
The Authority's intention in the implementation of the Voice Infrastructure Project was to ensure mobile coverage in 202 sub-locations identified during the study, but the tendering process for the project could only attract interest for 78 sub-locations, covering 48% of the targeted population. The Authority intends to re-tender for the remaining sub-locations in due course.

The Education Broadband Project, which targets public secondary schools, is being implemented through a partnership between the Communications Authority of Kenya and the Ministry of Education Science and Technology.

REPORT OF THE DIRECTOR GENERAL (Continued)

The Authority and the Ministry of Education are leveraging on their respective strengths and competencies, in order to realise their respective mandates, in line with the broader Government objectives of leveraging on ICTs to deliver better and efficient public services. Through this project, the Authority is able to provide access to communication service and build ICT capacity for our economy while on the other hand, the Ministry is able to modernise the education system for effective learning.

The main aim of this partnership is to ensure all post-primary learning institutions in the country have access to high-speed Internet. In the next five years, the Authority and the Ministry are committed to ensuring that all secondary schools in Kenya will be connected to high speed broadband. Through this partnership, the Authority has committed to meet the capital expenditure and operating expenditure through a five-year subsidy. The Ministry of Education, on the other hand, shall provide the requisite ICTs facilities and identify target institutions for subsequent phases of the project, in addition to ensuring the project's sustainability through budgetary allocation and human resource capacity building. In the first phase of implementation, the Authority and the Ministry of Education, Science and Technology have contracted Tier Operators to connect 896 schools within the financial year 2017/18. Subsequently, the Authority intends to connect all the 9,000 plus secondary schools to high-speed broadband connectivity.


Francis Wangusi, MBS

VII. CORPORATE GOVERNANCE STATEMENT

The Universal Service Advisory Council (USAC), the CA Board and Management of the Communications Authority of Kenya (CA) is committed to maintaining the highest standards of corporate governance. This statement highlights - how USAC 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. USAC is - responsible for advising the CA Board on the implementation of Universal Service Fund (USF) projects. Its advisory role includes – providing - strategic policy guidance for the administration and implementation of the USF including review of reports, programs/projects and budgets.

Responsibilities of USAC

The responsibilities of USAC members are as follows;

- Review and recommend to the board the USF procedures and Implementation Manual that will guide the effective working of the USF;
- Recommend to the Board USF strategic plan, annual performance Contract targets including budgetary requirements;
- Determine the criteria for selection and creation of USF project;
- Deliberate on project proposals upon determination of suitability
- Monitoring implementation of USF projects ;
- Review- the Annual USF Report and give recommendations to the Board.
- Review and give recommendations on monitoring and evaluation reports to the Board.
- Ensuring transparency and accountability in all USF processes;
- Review and recommend to the Board USF finance and accounting reports
- Recommend independent audits of the Fund and publish such audit reports;
- Commissioning projects monitoring and evaluation and share such reports with CA Board
- Preparing of Annual reports of its activities within three months after the end of every financial year;
- Preparing Quarterly reports on the performance of the Fund to the CA Board;

CORPORATE GOVERNANCE STATEMENT (Continued)

- Recommending to the Board the administrative structure of the USF;
- Address all matters related to the audit of the Fund ; and
- Perform such other function as the CA Board may, from time to time assign to it consistent with the provision of the Act and the Regulation

In line with 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. USAC Members shall at all times disclose in writing any potential conflict of interest, whether it be financial or otherwise, direct or indirect, which they may have in the implementation of USF projects. Provided such disclosure is full and made in writing and providing that the other Members approve of the same, a Member shall not necessarily be disqualified for possessions of such interest. However, a Member is not entitled to vote on any decision in a matter where he/she has a conflict of interest and the Member shall excuse himself/herself from that portion of the meeting concerning the matter in question. A USAC Member's position shall be vacated if the USAC Member's ownership or employment in the communications sector is so extensive and constitutes a conflict of interest to such an extent, that it renders his role as USAC member ineffectual.

Meetings, Quorum and Decisions of the USAC members

The USAC shall have regular meetings, at least once every quarter of the year. All USAC meetings require a quorum of at least six (6) members to be present. Decisions shall require a simple majority of voting by members present. In the event of a tie, the Chairperson has the deciding vote.

USAC Composition and Appointment

The size, composition and appointments of USAC Members is prescribed in the Kenya Information and Communications Act. The Act provides for 9 Universal Service Advisory Council (USAC) members appointed competitively by the Public Service Commission (PSC) and the Chairperson appointed by the Cabinet Secretary, Ministry of Information, Communications and Technology (MoICT). Each member serves for a maximum of two terms of (3) years each.

CORPORATE GOVERNANCE STATEMENT (Continued)

Remuneration of USAC

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

Ethical Leadership and Corporate Citizenship

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

Governance Audit

Audit of USAC members is facilitated by the State Corporations Advisory Committee on an annual basis. The purpose of the Audit is to ensure that USAC conforms to the highest standards of good governance.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance

During the period ended 30th June 2018, the Fund earned USF levy totaling to Kshs. 1.413 billion. In addition, Finance income earned was Kshs. 535 million. The expenditure incurred for the Fund include; Voice Infrastructure projects amounting to Kshs. 124.535 million, audit fees of Kshs. 406 thousand and bank charges of Kshs. 26 thousand and Bad & Doubtful Debts Expense of Kshs. 176.852 million..

The Authority conducted ICTs Access Gaps Study in 2016. The study identified the priority projects to be undertaken by Universal Service Fund. During the year, the Authority commenced the roll out these two priority USF projects under the guidance of the Universal Service Advisory Council (USAC) members. The two projects are: Voice Infrastructure and Services and Education Broadband Connectivity projects.

The objective of the Voice Infrastructure and Services Projects is to close coverage gaps in mobile network infrastructure and services identified in the ICTs Access Gap Study. The study prioritized closing of voice gaps in 202 sub-locations within the unserved areas of Kenya covering a population of approximately 700,000 persons residing mainly in 13 counties namely: Turkana, Samburu, Marsabit, Isiolo, Baringo, Elgeyo Marakwet, Mandera, Wajir, Garissa, Tana River, Kwale, Narok and Kajiado. The project targeted to reduce the coverage gap in basic voice services from 5.6% of the population to 2.8% by 2018.

The education broadband connectivity project is expected to deliver Internet connection to selected public secondary schools that met the e-readiness criterion of: Secure computer lab; Available computers; ICT teacher and KCSE computer studies curriculum.

Key projects

The projects planned to be undertaken during the F/Y 2017/18, were aimed at facilitating universal access. These projects were provided for in the budget and are fully funded from monies internally generated for the Fund.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Key projects (Continued)

The Fund's Management is committed to progress these projects as planned despite obstacles, which emerge due to the processes followed in their accomplishment. The following projects were initiated during the year:

No.	Name of the Project	Vendor	Cost of the project (Kshs.)
1	Voice Infrastructure and Services	Safaricom Limited	888,808,727.00
		Telkom Kenya	356,546,000.00
2	Education Broadband Connectivity	Comm-Carrier Limited	299,183,280.00
		Xtranet Communications Limited	311,158,352.00
		Liquid Telecom Limited	218,028,744.00

Compliance with statutory requirements

The Fund has complied with statutory requirements and there are no known non-compliance issues that may expose the Fund. In addition, there are no ongoing litigations and no contingent liabilities are anticipated therefore none has been provided for.

Major risks facing the Fund

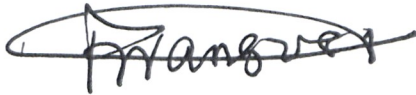
Some of the risks faced while implementing the USF projects are:

- i. Reliance on a few operator who contributes over 70% Universal Service Fund Levy to the Fund.
- ii. Insecurity: there has been heightened insecurity in the North Eastern, North Rift regions and Lamu areas due to terrorist activities, inter-clan wars and banditry attacks. This has resulted delays in carrying out site surveys and inability to access some sites.
- iii. Accessibility: The target areas for this project are remote areas which are inaccessible due to poor road network.
- iv. Delay or failure to obtain necessary approvals from NEMA and KCAA and other statutory bodies before commencement of works.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Material arrears in statutory and other financial obligations

The Fund has continued to honor its financial obligations as and when they fall due. Payment for the vendors was done promptly; consequently the Fund does not have material arrears as at 30th June 2018.

A handwritten signature in black ink, appearing to read 'Mangere', is written over a horizontal line.

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30 June 2018, which show the state of the Communications Authority of Kenya Universal Service Fund affairs.

Principal activities

The principal activity of the entity is to support widespread access to, support capacity building and promote innovation in information and communications technology services.

Results

The results of the entity for the year ended June 30, 2018 are set out on page 1 to 22.

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

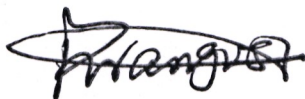
The purpose for which the entity was established is to support widespread access to, support capacity building and promote innovation in information and communications technology services; particularly to underserved areas. To this effect; all monies collected is used towards Universal Access; therefore no remission is made to the National Treasury.

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 Fund, which give a true and fair view of the state of affairs of the Fund at the end of the financial year/period. The Directors are also required to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy the operations of the Fund. The Directors are also responsible for safeguarding the assets funds of the Fund.

The Directors are responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund 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 Fund; (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 Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Fund'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 Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2018, and of the Fund's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

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

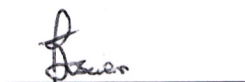
STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

Approval of the financial statements

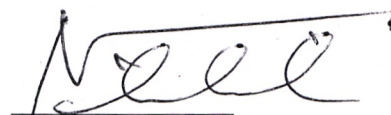
The Fund's financial statements were approved by the Board on 27th September 2018 and signed on its behalf by:



Director General



Director Finance & Accounts



Board Chairman

REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Communications Authority of Kenya-Universal Services Fund set out on pages 1 to 24, 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 have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Communications Authority of Kenya-Universal Service Fund as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Education Broadband Connectivity Project

Information available for audit and as indicated in the Chairman's Statement on the Financial Statements the Fund was implementing the above project in conjunction with the Ministry of Education, Science and Technology at a total cost of Kshs.828,370,376. However the following anomalies were noted in the implementation of the project;

- i) There was no signed agreement between the Fund and the Ministry that was provided for audit examination and therefore the implementation framework was not clear. The document submitted and alleged to support the cooperation was neither signed nor dated by any of the parties.
- ii) The Fund entered into three contracts with suppliers to support the implementation of the Education Broadband Connectivity project on 21 April 2017. The contracts had an implementation timeline of nine months and subsequent support period of four years after the implementation but the implementation had not been completed as at the time of audit in May 2019 which is in excess of two years. No evidence of contract extension was provided to

Report of the Auditor-General on Communications Authority of Kenya-Universal Services Fund for the year ended 30 June 2018

validate the continued implementation of the project for over one year outside the contracted implementation timelines.

iii) Although the contract had a specific payment schedule with 50% (Kshs.196,617,702) of implementation fee being payable after six months after the signing of the contract and the other 50% (Kshs.196,217,702) being payable after nine months after the signing of the contract. No expenditure has been accrued and reflected in the financial statements.

Consequently, the accuracy of the project costs of Kshs.124,535,000 as reflected on the statement of financial performance for the year ended 30 June 2018 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVE IN USE OF PUBLIC RESOURCES

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Qualified Opinion section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

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 (Cash 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 continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable 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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems 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. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

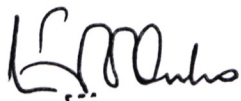
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for

one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

22 May 2019

XI. STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2018

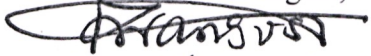
		2018	2017
	Note	Kshs'000	Kshs'000
Revenue from non-exchange transactions			
USF Levy	6	1,413,958	1,278,200
Other Income		-	<u>1,250</u>
		1,413,958	1,279,450
Revenue from exchange transactions			
Finance income	7	<u>535,128</u>	<u>401,156</u>
Total revenue		1,949,086	1,680,606
Expenses			
Project Costs	8	124,535	-
Bank Charges	9	26	17
Audit Fees	10	406	406
Bad & Doubtful Debts	11	<u>176,852</u>	-
Total Expenses		301,819	423
Surplus before tax		1,647,267	1,680,183
Surplus for the period		<u>1,647,267</u>	<u>1,680,183</u>

The notes set out on pages 6 to 22 form an integral part of these Financial Statements

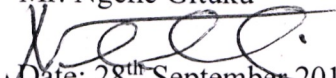
**XII. STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

	Note	2018 Kshs'000	2017 Kshs'000
ASSETS			
Current Assets			
Cash and cash equivalents	12	7,501,000	5,710,714
Receivables from non-exchange transactions	13	210,091	347,129
Total Current Assets		7,711,091	6,057,843
TOTAL ASSETS		7,711,091	6,057,843
LIABILITIES			
Current Liabilities			
Trade and other payables	15	20,296	14,314
Total Current Liabilities		20,296	14,314
TOTAL LIABILITIES		20,296	14,314
NET ASSETS		7,690,795	6,043,529
Accumulated Surplus		7,690,795	6,043,529
TOTAL NET ASSETS/LIABILITIES		7,690,795	6,043,529

The Financial Statements set out on pages 1 to 22 were signed on behalf of the Board of Directors by:

Director General
Francis W. Wangusi, MBS

Date: 28th September 2018

Director Finance & Accounts
CPA. Joseph M. Kimanga
ICPAK Membership No:4341
Date: 28th September 2018


Chairman of the Board
Mr. Ngene Gituku

Date: 28th September 2018

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

	Accumulated Surplus Kshs'000	Total Reserves Kshs'000
At July 1, 2016	4,363,345	4,363,345
Surplus for the year	1,680,183	1,680,183
At 30 June 2017	6,043,528	6,043,528
Surplus for the year	1,647,267	1,647,267
At 30 June 2018	7,690,795	7,690,795

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

		<u>2018</u>	<u>2017</u>
		Kshs'000	Kshs'000
OPERATING ACTIVITIES			
Cash generated from/(used in) Operations	16	<u>1,790,287</u>	<u>1,602,745</u>
Taxation Paid	7	-	70,792
Net Cash generated from/(used in) Operations		<u>1,790,287</u>	<u>1,531,953</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		<u>1,790,287</u>	<u>1,531,953</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
		5,710,714	4,178,760
CASH AND CASH EQUIVALENTS AT END OF YEAR			
	12	<u><u>7,501,000</u></u>	<u><u>5,710,714</u></u>

The Cash flow statement is to be read in conjunction with notes to and forming part of the Financial Statements as set out on pages 7 to 22.

Communications Authority of Kenya Universal Service Fund
Annual Report and Financial Statements

For the year ended 30 June 2018

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

	Note	Original Budget	2017/18 Kshs'000	Adjustments 2017/18 Kshs'000	Final Budget 2017/18 Kshs'000	Actual on Comparable Basis 2017/18 Kshs'000	Performance Difference 2017/18 Kshs'000	Variance 2017/18 %	Note
Revenue									
USF Levy Operators	6	1,350,000	-	-	1,350,000	1,413,958	63,958	5%	
Other Income		-	-	-	-	-	-		
Interest income	7	200,000	-	-	200,000	535,128	335,128	168%	a
Total Income		1,550,000	-	-	1,550,000	1,949,086	399,086	20%	
Expenses									
Bank Charges	9	20	-	-	20	26	(6)	-31%	b
Audit fees	10	406	-	-	406	406	-	0%	
Bad & Doubtful Debts	11	-	-	-	-	176,852	(176,852)	-	c
Projects	8								
1. Voice Infrastructure Projects		1,100,000	-	-	1,100,000	124,535	975,465	89%	d
2. Schools Connectivity Projects		535,650	-	-	535,650	-	535,650	100%	e
Total Expenditure		1,636,076	-	-	1,636,076	301,819	1,334,257	82%	
Surplus for the Period		(86,076)	-	-	(86,076)	1,647,267	935,171		
Budget notes									

- a) Interest income exceeded the budget because of favourable interest rates offered by banks.
b) Bank charges exceeded budget amount due to increased banking activity arising from an increase in the Fund's transactions.
c) Bad & Doubtful debts of Kshs. 176.852 million was provided during the year.
d) Voice infrastructure was not fully absorbed due to challenges experienced by the vendors in rolling out this project.
e) Funds allocated to schools connectivity projects was not utilised as at end of the year due to the delay in their completion.

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Universal Service Fund is established by the Kenya Communications (Amendment) Act, 2009, and derives its authority and accountability from *Kenya Information and Communications Act, 1998 (Cap 411A)*. The Fund is wholly owned by the Government of Kenya and is domiciled in Kenya. The Fund's principal activity is to support widespread access to ICT services, promote capacity building and innovation in ICT services in the country. The Fund is administered and managed by the Communications Authority of Kenya.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Communications Authority of Kenya Universal Service Fund's financial statements have been prepared on the basis of historical cost, unless stated otherwise. The financial statements are prepared on accrual basis. 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 Communications Authority of Kenya Universal Service Fund's accounting policies. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Communications Authority of Kenya Universal Service Fund. All values are rounded to the nearest thousand (Kshs.000).

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

The cash flow statement is prepared using the indirect method.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

- ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

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 Communications Authority of Kenya Universal Service Fund's did not early – adopt any new or amended standards in year 2018.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

USF Levy and Contributions

The Communications Authority of Kenya Universal Service Fund recognizes revenues from USF levy upon issuance of licence for annual operating license and payment of contributions. 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 Fund and the fair value of the asset can be measured reliably.

Other Income

Other income comprises of monies contributed to the Fund; and they 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.

ii) Revenue from exchange transactions

Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Fund and the amount can be measured reliably. It is based on a time proportion basis that takes into account the effective yield on the asset. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period. The Interest income includes interest realised on government securities, placements, and bank balances.

b) Budget information

The original budget for FY 2017/18 was approved by the Communications Authority of Kenya Board of Directors on 28th January 2016. The Communications Authority of Kenya Universal Service Fund's 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 Fund as well as the revenue to be generated.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budget information (Continued)

As a result of the adoption of the accrual basis for budgeting purposes, there is 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

Current income tax

Income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Fund operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

d) Financial instruments

Financial assets

Initial recognition and measurement

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Receivables

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

Impairment of financial assets

The Fund 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:

- i. The debtors or an entity of debtors are experiencing significant financial difficulty
- ii. The probability that debtors will enter bankruptcy or other financial reorganization
- iii. Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Provisions

Provisions are recognized when the Communications Authority of Kenya Universal Service Fund 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.

Contingent liabilities

The Communications Authority of Kenya Universal Service Fund 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 Communications Authority of Kenya Universal Service Fund does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

f) Nature and purpose of reserves

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Changes in accounting policies and estimates

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

h) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction.

i) Related parties

The Communications Authority of Kenya Universal Service Fund regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Fund, or vice versa. The Communications Authority of Kenya, Members of key management are regarded as related parties and comprise the directors, the CEO and the members of Universal Advisory Council.

j) Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Budget information

The Communications Authority of Kenya Board of Directors approved the original budget for FY 2017-2018 on 23rd January 2018. The Communications Authority of Kenya Universal Service Fund's 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 Fund as well as the revenue to be generated. As a result of the adoption of the accrual basis for budgeting purposes, there is 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.

l) Comparative figures

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

m) 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.

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. REVENUE FROM NON- EXCHANGE TRANSACTIONS

USF levy is earned by charging a levy of 0.5% on the licensees of Communications Authority of Kenya.

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
USF Levy	1,413,958	1,278,200
Other Income	-	1,250
Total revenue from the Non-Exchange Transactions	1,413,958	1,279,450

7. REVENUE FROM EXCHANGE TRANSACTIONS

This is income earned from Investment of USF Cash not required for immediate use.

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Gross Interest income from fixed deposits	629,562	471,948
Withholding Tax 15% deducted at source	(94,434)	(70,792)
Total revenue from exchange Transactions	535,128	401,156

8. PROJECT COSTS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Voice Infrastructure	124,535	-
Total Project Costs	124,535	-

9. BANK CHARGES

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Bank Charges	26	17
Total Bank Charges	26	17

10. AUDIT FEES

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Audit Fees	406	406
Total Audit Fees	406	406

11 BAD & DOUBTFUL DEBTS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Bad & Doubtful Debts	176,852	-
Total Audit Fees	176,852	-

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 CASH AND CASH EQUIVALENTS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Current account	1,191	12,037
On - call deposits	109,388	-
Fixed deposits account	7,390,420	5,698,677
Total cash and cash equivalents	7,501,000	5,710,714

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

Financial institution	Account number	2017-2018	2016-2017
		Kshs (000)	Kshs (000)
a) Current account			
Co-operative Bank of Kenya	01136154597800	203	11,041
Commercial Bank of Africa	7910850017	988	996
Sub- total		1,191	12,037
b) On - call deposits			
Co-operative Bank of Kenya	01136154597800	109,388	216,000
Commercial Bank of Africa	7910850017	-	-
Sub- total		109,388	216,000
c) Fixed deposits account			
Co-operative Bank of Kenya	01136154597800	4,835,354	3,115,898
Commercial Bank of Africa	7910850017	2,555,067	2,366,778
Sub- total		7,390,420	5,482,677
Grand total		7,501,000	5,710,714

13 RECEIVABLES FROM NON-EXCHANGE CONTRACTS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Current receivables		
USF Levy Receivables	198,375	212,911
Accumulated Provision for Bad & Doubtful debts	(176,85	-
Total USF Levy Receivables	21,523	212,911
Communications Authority of Kenya	158,743	106,645
Accrued Interest	29,825	27,572
Total current receivables	210,091	347,129

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 INVESTMENTS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Investment with Financial Institutions/ Banks		
Co-operative Bank of Kenya	4,944,742	3,331,898
Commercial Bank of Africa	2,555,067	2,366,778
Total Investments	7,499,809	5,698,676

15 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Withheld Tax	39	39
Communications Authority	9,923	1,873
Advance Income	4,642	7,455
Accrued Expenses	1,218	812
Accrued taxes	4,474	4,136
Total trade and other payables	20,296	14,314

16 CASH GENERATED FROM OPERATIONS

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Surplus for the year before tax	1,647,267	1,680,183
Adjusted for:		
Finance cost	-	70,792
Working Capital adjustments		
Decrease/ Increase in receivables	137,038	-151,946
Decrease/ Increase in Trade and Other payables	5,982	3,716
Net cash flow from operating activities	1,790,287	1,602,745

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 FINANCIAL RISK MANAGEMENT

The Communications Authority of Kenya Universal Service Fund's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Fund'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 key approach to risk management is to provide reasonable assurance to stakeholders that the organization's business is adequately controlled. The Fund does not hedge any risks.

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

(i) Credit risk

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

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

Description	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Receivables from non-exchange transactions	210,091	347,129
Bank balances	7,501,000	5,710,714
Total	7,711,091	6,057,843

The credit risk associated with these receivables is minimal. 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 Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Fund's short, medium and long-term funding and liquidity management requirements. The Fund manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Fund. Balances due within 12 months equal their carrying balances.

Description	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2018				
Trade payables	-	19,890	406	20,296
Total	-	19,890	406	20,296
At 30 June 2017				
Trade payables	-	9,772	406	10,178
Total	-	9,772	406	10,178

(iii) Market risk

The Board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an on-going basis, evaluate and test the design and effectiveness of its internal accounting and operational controls. Market risk is the risk arising from changes in market prices, such as interest rate and foreign exchange rates which will affect the Fund'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. Overall responsibility for managing market risk rests with the Audit and Risk Committee of the Board.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

Market Risk (Continued)

The Communications Authority of Kenya's Risk Management and Internal Audit Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Committee) and for the day-to-day implementation of those policies. There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

a) Interest rate risk

Interest rate risk is the risk that the Fund's financial condition may be adversely affected as a result of changes in interest rate levels. The Fund'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.

b) Management of interest rate risk

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

c) Sensitivity analysis

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 Fund's structure comprises of the following funds:

	2017-2018	2016-2017
	Kshs (000)	Kshs (000)
Retained earnings	7,690,795	6,043,528
Total funds	7,690,795	6,043,528
Less: cash and bank balances	7,501,000	5,710,713
Net debt/(excess cash and cash equivalents)	189,795	332,814
Gearing	2%	6%

18 RELATED PARTY BALANCES

The Universal Service Fund transactions involve an interaction with the related parties below:

- a) Top Management; and
- b) Communications Authority of Kenya.

a) Top Management Remuneration and Advances

During the reporting period, the Authority administered the Fund; consequently, there was neither remuneration nor loans issued from the Fund to the top management.

b) Communications Authority of Kenya

During the year, some contributors to the Fund made payment of the USF levy to Communications Authority of Kenya's (CA) bank account. This money is transferred to the Fund periodically. As at the end of the year, there were USF Levy amounts paid to CA bank account that had not been transferred to the USF levy.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

RELATED PARTY BALANCES (Continued)

On the other hand, some CA licensees make payment of the license fees to the Fund. The same is transferred to the Authority periodically. As at the end of the year, there were license Fees amounts paid to the Fund bank account that had not been transferred to the Authority as indicated below:

Description	2018	2017
	Kshs	Kshs
Amount Receivable from CA	158,743	106,645
Amount Payable to CA	9,923	1,873

19 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

During the year under review, there were no activities that gave rise to contingent liabilities expected hence none has been provided for.

20 CAPITAL COMMITMENTS

Capital commitments	2017-2018	2016-2017
	Kshs	Kshs
Authorised for	-	-
Authorised and contracted for	1,957,955	2,082,490
Total	1,957,955	2,082,490

21 DIVIDENDS/SURPLUS REMISSION

The purpose of the Fund is to facilitate access of ICT services to areas considered as Underserved. The Fund has applied for exemption from surplus / Tax remittance to the Minister to allow the Fund's Resources to be utilized to provide ICT universal access to Kenyans.

22 EVENTS AFTER THE REPORTING PERIOD

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 ULTIMATE AND HOLDING ENTITY

The Universal Service Fund is established by the Kenya Communications (Amendment) Act, 2009, and derives its authority and accountability from *Kenya Information and Communications Act, 1998 (Cap 411A)*. Its ultimate parent is the Government of Kenya.

24 Currency

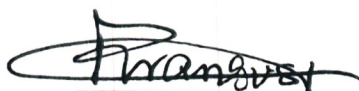
The financial statements are presented in Kenya Shillings (Kshs).

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APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of the issue 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.

Refer ence No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Stat us:	Timef rame:
01/U SF	Cash and cash equivalents balances included a Fixed deposit amount of Ksh 2,367,774,000 in a private bank contrary to Treasury Circular No. 10 of July 1992 and No. 2 of February 1998 which recommended investment in Treasury Bills and Bonds.	The National Treasury approved the opening of the Bank Account where the Fixed Deposit is held; as stipulated under the PFM Act 2012, Sec 28 (1)	Director Finance and Accounts	Reso lved	30 th Septe mber 2018



Director General

Date: 28th September 2018



Chairman of the Board

Date: 28th September 201

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

During the year under review, the projects implemented by the Communications Authority of Kenya Universal Fund 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 Universal Fund did not receive recurrent nor development grants, direct receipts nor direct payments from other entities.

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

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