REPUBLIC OF KENYA

Paper laid by Leader of Majority Party Tuesday 3/7/2018

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COMMUNICATION AUTHORITY OF KENYA-UNIVERSAL SERVICE FUND

FOR THE YEAR ENDED 30 JUNE 2017

COMMUNICATIONS
AUTHORITY OF KENYA

UNIVERSAL SERVICE FUND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
30 JUNE 2017

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

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Communications Authority of Kenya ca_kenya

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I. Key Fund Information

a) Universal Service Fund

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. 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 Advisory Council is to advise the Authority and 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. The Council (USAC) was appointed in May 2014 and the Universal Service Fund effectively started its operations with effect from July 2014.

b) Principal Activities

The object of the Fund shall be to support widespread access to, support capacity building and promote innovation in information and communications technology services and to:

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 the Fund may be 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.

c) Entity's Headquarters

CA Centre
Waiyaki Way
P. O Box 14448 - 00800
Nairobi, KENYA

d) Entity's Contact's

Telephone: (254)703042000
Email: info@ca.go.ke
Website: www.ca.go.ke
seal

e) Entity's Bankers

Co-operative Bank of Kenya
Westlands Branch
P O Box 66589 – 00800
Nairobi

Commercial Bank of Africa Ltd
Westlands Branch
P.O Box 30437-00100
Nairobi

f) Independent Auditors

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

g) Legal Advisor

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

II. The Board of Directors

Mr Ngene B. Gituku is the Chairman of the Board of Directors of Communications Authority of Kenya.
Prior to his appointment, he served as the immediate Chairman of the Board of Communications Commission of Kenya (CCK).

He has served as Board member at Kenya Broadcasting Corporation (KBC) and Kenya Pipeline Company (KPC). At KBC he was instrumental in introducing automated systems to increase the efficiency of the Corporation. He championed the restructuring of KBC to improve its financial position. At the Kenya Pipeline Company, as the Chairman of the Project Planning Committee of the Board, he initiated the construction of Jet A-1 tanks in Kisumu and Eldoret. Through his leadership, KPC was also able to construct additional tanks at the Kipevu Oil Terminal in Mombasa to enhance the importation of refined oil products.

Mr. Gituku earlier worked at a multinational computer company (NCR Kenya Ltd) and later joined the Nation Media Group as a Marketing Assistant where he rose to the position of Assistant Advertising Manager in 1985. In 1987, he joined the Standard Group of Newspapers as a Group Circulation Manager. He later left to establish his own business. He holds a BSc. Degree in Mathematics and Meteorology from the University of Nairobi and Diploma in Marketing.
Mr. Gituku was appointed to the position on 23rd May 2014 and his term expired in May 2017.

Mr. Francis Wangusi, MBS is the Director General of the Communications Authority of Kenya (CA).He has been in the position since 2012 and currently serving his second term. Mr. Wangusi has over 33 years' experience in the ICT sector. He has presided over landmark projects that have revolutionized the sector, the most recent being the successful transition to digital broadcasting in Kenya.

He has previously served as Director in the departments of Broadcasting and Licensing Compliance & Standards respectively in the organization. Prior to joining the Authority, he had served as a Senior Lecturer in the Department of Telecommunication Engineering at the Multimedia University College of Kenya. In 2013, Mr. Wangusi was honoured with a presidential award of the *Moran of the Order of the Burning Spear (MBS)* in recognition of his role in spearheading growth of the ICT sector.

Mr. Wangusi is currently pursuing a PhD in Management. He is holds a Masters Degree in Space Sciences (Satellite Communications); BSc degree (Telecommunications Engineering); Charted Engineer-UK Certificate and Global Executive Masters Degree in Business Administration (GEMBA).

Dr. Karanja Kibicho is the Principal Secretary State Department of Interior before current appointment on 24Th November 2015.

He holds a doctorate in Mechanical Engineering from the University of Cape Town, South Africa, a Masters of Science (MSc) degree in Mechanical Engineering and a Bachelor of Science (BSc) in Mechanical Engineering. Dr. Kibicho has attended various short courses in management, leadership and capacity development skills. He has also attended short courses in Public Procurement and Disposal Regulations, implementation of ISO 9001:2008, Budgeting and Procurement, and HIV/AIDS in workplaces among others.

Dr. Kibicho has taught in various institutions of higher learning in Kenya and outside the country. They include Jomo Kenyatta University of Agriculture and Technology (JKUAT) where he served as the chairman and senior lecturer in the department of Mechanical Engineering. He has served as an external examiner at the University of Dares Salaam, visiting lecturer at the Central University of Technology, Free State, South Africa and a part-time Lecturer at the University of Cape Town.

Mr. Sammy Itemere is the Principal Secretary in the ICT Ministry in charge of Broadcasting and Telecommunications with oversight role in the State Parastatals that include, Kenya Broadcasting Corporation (KBC), Postal Corporation of Kenya (PCK), Communications Authority of Kenya (CA) and Kenya Institute of Mass Communications (KIMC). Prior to the appointment in December 2015, Mr. Itemere was Senior Partner at Business Persons Mentor Limited, a Consultancy firm dealing with Business Development, Strategy formulation, Partnerships growth, Training and up-skilling.

A career banker, he has a wealth of experience spanning over 20 years in running Retail, Corporate, Enterprise Banking as well as Bank operations. He was Country Managing Director of KCB South Sudan limited a subsidiary of KCB Group which is the largest Regional Bank. He has also held senior positions in Imperial, ECK, Barclays and Credit banks. Mr. Itemere holds a BA Economics (Hons) and MBA (Marketing Option) from University of Poona, India

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. Christopher Guyo is a seasoned Human Resource professional with over 18 years experience. He is currently the HR and Administration Director at the DIB Bank Kenya Ltd (In-Formation), a Subsidiary of Dubai Islamic Bank - UAE.

Mr. Guyo has previously worked at Barclays Bank of Kenya Ltd as a Senior HR Business Partner- Retail and Business Banking. He had earlier worked in senior positions at Chevron Kenya Ltd, Shell-managed, Kenya Petroleum Refineries and Post Bank.

He holds MBA in Human Resource Management from the University of Nairobi and currently pursuing his Doctor in Business Administration at the Catholic University of Eastern Africa. He also holds a Bachelor of Education (Arts) degree from Moi University, Higher National Diploma in HRM, and Practitioners Diploma in Executive Coaching from Academy of Executive Coaching and an Advanced Certificate in Strategic HR Management from Cornell University, USA. Mr.Guyo is a member of the Institute of Human Resource Management (IHRM) - Kenya, and HR Council member for the Kenya Institute of Management. He was appointed to the CA board on 29th April 2016 for a period of three years.

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

He is a consultant on Technology Value Addition and Inclusion working across East Africa and South Africa. He helps organizations in efforts to deploy technology across value chains. He serves as Chairman of Rafica Company Ltd, a software technology solutions company and Collabmed Ltd a Healthcare Technology Company.

Mr. Kukubo holds Global MBA from United States International University (USIU-Africa) and a Bachelor of Arts in Economics and Sociology from the University of Nairobi. A former chairman of the Marketing Society of Kenya, Mr. Kukubo is also a member of the International Association of Business Analysis and has previously served a chairman of the National ICT Master Plan committee, the Task Force on Creative Industries and a board member of Multimedia University. During early 2016, he served as a member of the Kenya Presidential National Task force on Coffee Sub-sector reforms.

He was feted the Moran of the Order of the Burning Spear (MBS) for his contribution to ICT growth by President Mwai Kibaki in 2012. He also scooped the Thought Leadership award in 2012, in Cape town, South Africa. He was appointed to the Communication Authority of Kenya (CA)'s board on 29th April 2016 for a period of three years.

Mr. David Kitur 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. Mugambi Nandi is an advocate of the High Court of Kenya, with many years' experience in corporate and commercial law. He is the Senior Partner at KN Law LLP, Advocates & Notaries Public, where he specializes in mergers & acquisitions, private equity, capital market transactions and energy law.

He was named Company Secretary of the Year 2011 by the Institute of Certified Public Secretaries of Kenya. In 2017 he was cited by Chambers Global as a Recognised Practitioner in the Commercial & Corporate Lawyers ranking for Kenya.

He holds a Bachelor of Laws degree and a Master of Business Administration degree from the University of Nairobi, and a Diploma in Financial Management from the ACCA. He has previously served as a Board Member of the Privatization Commission of Kenya, and currently sits on a number of boards, including the Council for Kenyatta University, Mayfair Bank Limited and Seriani Asset Managers Limited.He was appointed to the Board of Communications Authority of Kenya in April 2016 for a period of three years.

Ms. Patricia Kimama has over 19 years' experience in career spanning the banking, telecommunication and water industries. She has held roles in business, project and operational management.

She is currently the Head of Cash Management and E-Channels at the Commercial Bank of Africa where she is charged with the responsibility of driving the Group's strategy for Non Funded Income streams from Cash management and E-Channels.

Prior to joining the Banking industry, she worked extensively in the telecommunications and water engineering industries in various capacities including retail Management, customer experience management, Contact Centre management, Dealer and MPesa business management, operations and sales management. She is a dedicated change leader with a passion for operational excellence and superior customer experiences.

She holds' a Masters in Business Administration (Strategic Management) from Daystar University. She also holds a Masters Certificate in Project Management from George Washington University as well as Senior Management Leadership training from Strathmore University. She was appointed to the CA Board on 29th April 2016 for a period of three years.

Prof. Levi Obonyo is an Associate Professor of Communication and Media Studies, and also the Dean of the School of Communication, Language and Performing Arts at Daystar University. He started his career as a news correspondent in various media houses and later worked as an editor for magazines before joining academia. For over 20 years, Prof. Obonyo has taught media studies at university level in several institutions. Prof. Obonyo holds a PhD in Mass media and Communications from Temple University Philadelphia, USA. He also holds a Postgraduate Diploma in Tertiary Education from Potchefstroom University for Christian Higher Education, South Africa.

He is a former Chairman of the Media Council of Kenya. He currently serves as a member of the Advisory Council to Kenya National Commission to UNESCO (KNATCOM) specializing on communications. He has, and continues to serve in several boards. He is a columnist, has published many articles in academic journalists, chapters in books, and co-authored *Journalists and the rule of law*. He joined the CA Board in May 2014 and reappointed in 29th April 2016 for a further term of three years.

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

She is the founder and Managing Director of Impact Africa Limited, a strategic Public Relations & Communications firm, based in Nairobi, Kenya.

Prior to going to private business, Ms. Tikolo worked at the Kenya Wildlife Service as the Head of Corporate Communications. She earlier worked as public relations officer for a number of parastatals and NGOs, where she rose through the ranks to the manager corporate communications at the Kenya Civil Aviation Authority.

She previously served in various roles, including scientific research, administrative and management positions in several multi-cultural settings.

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 is credited for conceptualizing and implementing the *Beyond Zero* initiative for the Office of the First Lady, which kicked off with the First Lady's Half-Marathon in 2014. Ms. Tikolo was feted the Order of the Grand Warrior of Kenya (OGW) by President Uhuru Kenyatta in 2017 for her contribution to the country in various capacities. She was appointed to the Communications Authority of Kenya's Board on 29th April 2016 for a period of three years.

ALTERNATE BOARD DIRECTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

III. Universal Service Advisory Council

Dr Catherine Ngahu 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.

She has published on technology policy and interactional justice strategy in mobile money transfer services. Dr Ngahu is a member of the Boards of AAR Insurance Kenya Limited, Moran Publishing and ETI.

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. Samuel Mutungi 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 also represented the bank at the Kenya Bankers Association, Kenya Institute of Bankers and Private / Public Initiative among other forums. Prior to working in the banking industry, he worked for Glaxo E.A. Ltd as Computer Services Manager. He has also served as a lecturer at Kenya Polytechnic.

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.

Mr. Mutungi has over the years been recognized for his exemplary service. Some of the professional awards he has received include; Fellow Member of the Computer Society of Kenya (FCSK); Fellow Member of the Kenya Institute of Bankers (FKIB) and the Who is Who Award (1999) after assisting manage the 1998 Nairobi Bomb Blast Disaster.
Samuel is a committed Christian, an ardent golfer and is involved in various community improvement initiatives via schools, churches and Meru Elders, Njuri Ncheke. He is currently the President of the Rotaract Club of Ngong Hills. He runs an ICT and Banking consultancy in Nairobi.

He was appointed to the Universal Service Advisory Council in May 2014 for a three-year term.

Ms. Rhoda Masaviru 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, heading key strategic areas that contributed 80% of the postal revenue.

Prior to this, she taught Economics and Geography at Kirangari and Upper Hill High Schools. She also served as a Cooperative officer with the then Ministry of Cooperatives, supervising cooperative societies. Ms. Masaviru holds a Master of Arts degree in Population Studies, University of Nairobi, Kenya and a Bachelor of Education degree (Upper Second Class Honours) in Economics and Geography, University of Nairobi, Kenya. She also holds a Certificate of Advanced Study (CAS) Degree Programme in Entrepreneurship Development, as part of a PhD programme, offered by the University of Illinois, Urbana-Champaign, USA, in collaboration with Kenyatta University.

In 2012, she was awarded Order of the Grand Warrior (OGW) by His Excellency the President of the Republic of Kenya, for exemplary service to the Nation. In recognition of her efforts to spearhead development of reform strategies and commercialization of postal enterprises in Africa, Rhoda was honoured with the prestigious ID World Award on 19th March 2012 during the ID World Conference. Ms. Masaviru is currently working with the County Government of Kakamega as the Chairperson of the County Public Service Board.

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 has served in the Kenya government for over three decades. He started off as a District Officer under the office of the President. 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; Ministry of Health; Ministry of Tourism and Wildlife; and the Ministry of Gender, Sports, Culture and Social Services.

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 also holds a Diploma in Development Finance from the University of Birmingham, United Kingdom.

He is a businessman with interests in the trims and hospitality industry.

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. Josephine Towett 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. She is also vastly trained locally and internationally in various areas in Telecommunications as well as ICT policy and regulation and is currently completing a research thesis for a Masters degree in Policy and Regulation at the University of Witwatersrand, South Africa.

Josephine started her career in the communications industry in the Postal department of the defunct Kenya Posts and Telecommunications where she trained and served as an Assistant Postal Controller and later moved to Telkom Kenya where she served in customer service unit at the then Safaricom Business Unit and at Telemart as an Assistant manager in charge of sales of customer premises equipment and Telecommunications wiring services.

She rose through the ranks to start and head the Market research unit at Telkom where she spearheaded various market research projects that informed Business planning. 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 where she managed and facilitated various capacity building and consultancy projects for ICT organisations in the region. While at AFRALTI she pioneered policy and regulation courses for the Postal and courier sector and was appointed to chair the International Telecommunication Union (ITU) centre of excellence project for a period of two years. Currently she is the principal consultant at Alvory consulting.

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

Kennedy J. Okong'o 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 a 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 Universal Service Advisory Council on 9th May 2014 for a period of three (3) years.

He has experience in both private and public sectors. He has consulted for Telephone Systems International, headquartered in New Jersey, USA; previously worked for Geomaps International, Celtel, Orange, Emirates Telecommunication Corporation in UAE, Tamin Telecom in Iran, Qtel Group in Asia and UN ICT Task Force in various capacities as Network roll-out Analyst, e-Government Project Manager, Geomarketing Manager, Rural Telecom Development Fund Manager and ICT Policy Expert.

His interest is in ICT4D and the integration of the next generation technologies for public sector transformation and economic renaissance in the developing countries.

He was appointed a member of USAC in May 2014 for a period of three years

Mr. Longole Wangiros James is a participation 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.

Mr. James has coordinated devolution, integrated development and regional peace building programmes with Transition Authority, World Vision Kenya, Oxfam GB and Northern Uganda Social Action Fund/WB. James has consulted for various Regional and International organizations notably IGAD, EC/AH Consulting, Fellowship for African Relief, Terre des Hommes and Diocese of Lodwar.

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.

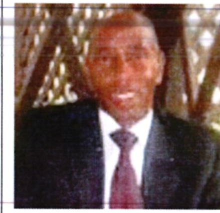
He was appointed a member of USAC in May 2014 for a period of three years.

Mr. Nixon Mageka Gecheo is a Governance and ICT for Development (ICT4D) expert with over 12 years ICT experience and 4 years experience consulting for 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 has also worked as an independent consultant in the area of development including GIZ, UNMG projects that mainly covered responsive and accountable government through ICTs and complaints handling and management systems.

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. Michael M. Itote is a Certified Public Accountant (CPA) and a Certified Public Secretary (CPS) with over 25 years of experience. Mr. Itote has served as the chairman of the Institute of Certified Public Accountants of Kenya (ICPAK) from 2009 to 2011. He has been a member of the Institute since 1987 where he has served in various committees and panels.

He is also a Member of the Institute of Certified Public Secretaries of Kenya (ICPSK), the Institute of Internal Auditors (IIA) and the Institute of Directors, Kenya. He served on the Board of Trustees of KCA University from November 2008 to June 2009 where he was also a member of the Governing Council.

Mr. Itote holds a BSc. Accountancy from the United States International University Africa. He is currently a Director / Principal Consultant of Management Audit Consulting Ltd, a specialist provider of consulting services in Enterprise Risk Management, Internal Control, Internal Auditing and other Corporate Governance Support Services. He is also an experienced Trainer in these fields.He is also a Partner with the Auditing and Assurance Services firm of Maina Itote and Kimathi, Certified Public Accountants, Kenya.

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

IV. Management Team

Mr. Francis Wangusi, MBS is the Director General of the Communications Authority of Kenya (CA).He has been in the position since 2012 and currently serving his second term. Mr. Wangusi has over 33 years' experience in the ICT sector. He has presided over landmark projects that have revolutionized the sector, the most recent being the successful transition to digital broadcasting in Kenya.

He has previously served as Director in the departments of Broadcasting and Licensing Compliance & Standards respectively in the organization. Prior to joining the Authority, he had served as a Senior Lecturer in the Department of Telecommunication Engineering at the Multimedia University College of Kenya. In 2013, Mr. Wangusi was honoured with a presidential award of the *Moran of the Order of the Burning Spear (MBS)* in recognition of his role in spearheading growth of the ICT sector.

Mr.Wangusi is currently pursuing a PhD in Management. He is holds a Masters Degree in Space Sciences (Satellite Communications); BSc degree (Telecommunications Engineering); Charted Engineer-UK Certificate and Global Executive Masters Degree in Business Administration (GEMBA).

CPA Maxwell Mogaka Mosoti is the Ag. Director, Finance and Accounts at the Communications Authority of Kenya (CA). He is Certified Public Accountant of Kenya and has been a registered member of the Institute of Certified Public Accountant (ICPAK) for over 18years. He also holds a licence as a practicing accountant with ICPAK. He has over 29 years' experience in financial management, financial reporting and budgeting management.

Mr. Mosoti holds a Master of Science in Finance degree from the University of Nairobi. He also holds a Bachelor of Business Administration degree and has also attended several courses in in financial management, leadership and management of public finances and financial reporting.

He is currently the Chairman of the Business Process Reengineering and Automation Committee (BPRAC), A member of Communications Licencing Committee (CLC). A Member of the Finance and Administration Committee of Pan-African Postal Union (PAPU); He is also Chairman of the CCK Staff retirement pension benefits scheme. He was also nominated as an advisor to the Public Sector Accounting Standard Committee of ICPAK. He also holds other community leadership position.

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

He has over 14 years' experience in human resource management and administration.

He holds Msc.in Human Resource Management, a Bachelor of Commerce degree as well as a Post Graduate Certificate in Strategy. Mr. Kandie has attended numerous courses in the areas of management of human capital, procurement as well as leadership.

He has served in various capacities including as chairman of the Executive Council of the Commonwealth Telecommunications Organization (2012-2014), chairman of the Programme for Development & Training- Commonwealth Telecommunications Organization (CTO), (2008-20110), member of the African Advanced Level telecommunications Institute (AFRALTI) Governing Council, and Board Member – Institute of Human Resources Management (IHRM) (2010-2012), among others.

Mr. John Omo is the Director, Legal Services at the Communications Authority of Kenya.
He has over 14 years' experience in legal practice.

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

He has attended a number of courses in legal practice, public procurement and telecommunications regulation.

Mr. Omo has served as a committee member of the African Telecommunications Union (ATU) as well member of the Tender Committee at the CA.

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

He has over 23 years' experience in the telecommunications sector. He holds an Msc.in Operational Telecommunications, and Bsc.in Physics. He has also attended various courses telecommunication regulation, procurement, and management of public enterprises, among others. He sits on the Communications Authority of Kenya Tender Committee as well as the Communications Licensing Committee (CLC)

Mr. Tom Mbadi Olwero is the Acting Director in charge of Frequency Spectrum Management Department at the Communications Authority of Kenya (CA). He holds a B.Sc. (Hons.) Electrical Engineering (Light Current option) and is currently finalising a Masters of Business Administration (Management).

Mr. Olwero has over 31 years' experience in the ICT sector in ICT Regulation, Planning and Engineering, Licensing, Homologation. He has attended several specialized professional courses in ICT, Leadership, and Change Management among others, and has participated in several ITU Radio communication meetings and World conferences and ITU Development sector meetings both internationally and locally.
Mr. Olwero previously worked for 14 years with the defunct Kenya Posts and Telecommunications Corporation where he was involved with planning, installation and commissioning of telecommunication systems. He has been Chairman of the Staff Matters Committee and the Procurement Committee. He is a member Engineers Board of Kenya (IEK), Institute of Engineers of Kenya (IEK), Institute of Electrical and Electronic Engineers US (IEEE), The Institution of Engineering and Technology.

Mr. Matano Ndaro is the Director, Competition, Tariffs and Market Analysis at the Communications Authority of Kenya (CA).
He has over 23 years' experience in telecommunication market regulation.

He is currently pursuing a Maters of Business Administration degree and holds a Bachelor of Arts degree in Economics as well as a Post Graduate Diploma in Regulation of Telecommunications. Mr. Ndaro has attended a number of trainings ranging from competition regulation, procurement as well as leadership.

He has served in various capacities within the region and globally, including: chairman of the International Telecommunication Union (ITU) Regional Tariff Group 4 Africa, 2000-2004), Vice Chairman – ITU-T Study Group 3 on Interconnection (2004 – 2012), Vice chairman, Telecommunications Standardization Advisory Group, ITU-T (2012-to date), chairman, East African Communication Organization (EACO) Working Group 8 on Pricing and Industry Analysis (2013 to date), among others.

Mr. Christopher Wambua is the Ag. Director in charge of Consumer and Public Affairs at the Communications Authority of Kenya. He has 20 years' experience in communications and Public Relations.

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

Mr. Wambua is a member of the Steering Committees of the Authority's Business Process Re-engineering and Automation (BPRA), and the National Addressing System.

He is a member of the Public Relations Society of Kenya (PRSK) and the Chartered Institute of Public Relations (of the UK). Mr. Wambua represents the Authority in the Oversight Board of the Kenya Audience Research Foundation (KARF).

Mr. Mutua Muthusi is the former Director, for Consumer and Public Affairs at the Communications Authority of Kenya (CA). He retired on 31st March 2017.

He has over 23 years' experience in communication and public relations discipline. He holds a Masters of Business Administration degree, a Post Graduate diploma in Mass Communication as well as Bachelor of Arts degree

He has attended diverse trainings in communications as well as leadership. Mr. Muthusi is a member of the Communications Authority of Kenya Tender Committee, as past chair of the Kenya Communications Sports Organization (KECOSO) Governing Council as well as a member of the Public Relations Society of Kenya (PRSK).

Mr. Michael Katundu is the Director, Information and Technology at the Communications Authority of Kenya (CA) with over 14 years' experience in computing technology.

He is a holder of a MSc. in Computer Science and a BSc.in Computer Science. He has attended several capacity building courses in Information and Communications Technology (ICT) and leadership. He has over 21 years in the ICT sector.

He holds several leadership positions at the national, regional and global levels, including Chairperson of the East African Communications Organization (EACO) Cyber-security committee and Chairperson to the International Telecommunications Union (ITU) Cyber-security Regional Group for Africa.

Mr. Joseph Kirui is the Acting Director, Risk Management and Internal Audit. He is a Certified Public Accountant and a member of the Institute of Certified public Accountants. He is also a member of the Institute of Internal Auditors. He has over 25 years' experience in Accounting, audit and Risk.

Mr Kirui has completed a Master's in Business Administration. He holds a Bachelor of Arts degree in Economics and Philosophy. He has attended various courses in his areas of specialty and other relevant areas.

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

Ms. Rotich is procurement professional with over 20 years' experience in public sector procurement, 13 years' of which have been gained at the Communications Authority of Kenya. Prior to her appointment as the Ag. Assistant Director, Procurement, she was the Manager, Procurement Planning and Contracts Management.

She holds a Masters degree in Business Administration (Strategic Procurement) from Canberra University, Australia and a Masters degree in Business Administration (Strategic Management) from Moi University, Kenya. She also holds a Bachelor of Arts degree from Kenyatta University, Post graduate diploma in Purchasing and Supplies Management from Chartered Institute of Procurement and Supply, UK. She is a member of the Chartered Institute of Procurement and Supply, UK and Kenya Institute of Supplies Management.

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

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

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

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

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

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

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

V. Chairman's Statement

The Authority in the year 2016 concluded a study on ICT Access Gaps to determine the levels of access to Information and Communications services in the country. The Study was primarily meant to objectively identify priority areas in the implementation of the Universal Service Fund (USF). The Fund is established by law to finance regulatory interventions towards ensuring universal access to ICT services across the country.

The study revealed that 5.6% of the population or about 2.66 million people have no access to telecommunication services. About 418 sub-locations have less than half of their population covered by communications services while another 164 sub-locations have no access to 2G mobile services at all.

In addition, the study established that 3G and broadband services are limited to urban areas. Only 2,454 sub-locations have 100% population coverage of 3G and broadband while 1,244 sub-locations have no access to this service at all.

The Access Gaps Study recommended that in order to address the prevailing disparities in access to ICT services, the Authority needed to immediately focus its attention on two priority areas. The two projects identified for the initial phase were the 'Voice Infrastructure Project for 2G mobile services in selected sub-locations' and the 'Education Broadband Connectivity Projects' geared towards providing high-speed Internet connectivity to learning institutions in the country.

In line with the above-cited recommendations, the Authority has commenced the implementation of the Education Broadband Connectivity Project, which targets 896 secondary schools across the 47 counties in Kenya. The public secondary schools were objectively selected in collaboration with the Ministry of Education, Science and Technology (MoEST) and will benefit from provision of 5 Mbps Internet connectivity in the initial phase of the project.

The first phase of the Education Broadband Connectivity project targets- e-ready schools based on criteria developed -by the Ministry of Education, Science and Technology. The e-Readiness criteria included;

1. KPLC connection or secure electricity supply from a constant local diesel or solar powered generator station.
2. Secure computer lab with UPS and at least 10 computers in good working order, printer and projector
3. At least one full-time, Government salaried TSC teacher of computer studies
4. Pursuing the KCSE Computer Studies Program from Form 1 to 4.
5. Enrolment of - candidates to the KCSE Form 4 Examination in 2015 and/or 2016.

The Authority in the FY 2016/17 successfully tendered for the closing of voice infrastructure gaps in 78 sub-locations and broadband connectivity to the selected 896 secondary schools spread across 47 counties. The Authority remains committed to enhancing access to ICT services in Kenya through the Universal Service Fund (USF).

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 2017-18.

Mr. Mugambi Nandi
For : Board of Directors

VI. USAC Chair's Statement

The Kenya Information and Communications Act of 1998 and as Amended in 2009 created the Universal Service Fund (USF) that is managed and administered by the Communications Authority of Kenya. The Kitty is funded through contributions not exceeding 1 (one) present of the gross annual turnover from all licensees – including telecommunications, postal and courier and broadcasting service providers - offering communication services and systems on a commercial basis. The Act also created the Universal Service Advisory Council (USAC), which provides advisory guidance to the CA Board in the administration and implementation of the Universal Service Fund (USF) projects.

Towards the operationalization of the Fund, the Authority in the year 2016 completed a study on the ICT Access Gaps to determine unserved and underserved areas in the country and subsidy levels to leverage operations in these areas. The study established that 5.6% of Kenyan population spread across 164 sub-locations have no access to basic voice (2G) communications services and only about 17% of the geographical land area in Kenya has 3G coverage.

The study prioritized two projects to be implemented in the FY 2016/17.
The proposed projects included;

a. Voice Infrastructure Project in 202 sub-locations

b. Schools Broadband Internet connectivity in 896 secondary schools

The USF voice projects in 202 sub-locations were competitively tendered among the Network Facility Providers (NFP) Tier 1 operators licensed to provide GSM mobile services in Kenya. Out of the 202 sub-locations tendered, 78 sub-locations were successfully awarded at a total subsidy of Kenya shillings One Billion, Two Hundred and Forty Five million, Three hundred and fifty four thousand, seven hundred and twenty seven (Kshs.1,245,354,727)

The ICT Access Gaps also study identified a national gap in access to broadband connectivity for the education sector. In implementing the schools connectivity project, the Authority has partnered with the Ministry of Education, Science and Technology (MoEST) through a Cooperate Agreement to provide broadband connectivity to all secondary schools in Kenya.

The first phase of the Education Broadband Connectivity project is designed to provide 5 Mbps dedicated Internet connectivity to 896 secondary schools identified by the Ministry of Education Science and Technology spread across all the 47 counties. The education broadband connectivity tender has been awarded to three Tier 2 operators at the tender sum of Kenya shillings eight hundred and thirty seven million one hundred and thirty five thousand four hundred (Kshs 837,135, 400).

Dr. Catherine Ngahu

VII. 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.

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 at least one (1) per cent of their annual gross turn over to the Fund. Currently the operators are only 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 the fiscal year 2016/2017. Through this study, the Authority has 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. 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 2016/17. Subsequently, the Authority intends to connect all the 9,000 plus secondary schools to high-speed broadband connectivity.

Francis Wangusi, MBS

VIII. 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;
- 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 which 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.

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.

IX. Report of the Directors

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

Principal activities

The principal activities of the entity are captured under part (I) above.

Results

The results of the Authority for the year ended June 30, 2017 are set out on page 1 to 10

Directors

The members of the Board of Directors who served during the year are shown under part II above.

Auditors

The Auditor General is responsible for the statutory audit of the Fund.

By Order of the Board

Director General
Nairobi

Date: 28th September 2017

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 Authority 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, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the 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, 2017, 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.

Approval of the financial statements

The Fund's financial statements were approved by the Board on 28th September 2017 and signed on its behalf by:

Director General	Ag. Director Finance & Accounts ICPAK Member No: 2519	For: Board of Directors

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COMMUNICATION AUTHORITY OF KENYA-UNIVERSAL SERVICE FUND FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Communication Authority of Kenya-Universal Service Fund set out on pages 1 to 17, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the 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 Communication Authority of Kenya-Universal Service Fund as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Information and Communication Act of 1998, Cap 411A Laws of Kenya.

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

Basis for Qualified Opinion

Cash and Cash Equivalents

The statement of financial position as at 30 June 2017 reflects cash and cash equivalents balance of Kshs.5,710,714,000 which as disclosed in Note 8 to the financial statements includes fixed deposits amounting to Kshs.2,367,774,000 in a private commercial institution contrary to Treasury Circular No.10 of July 1992 and No. 2 of February1998 which requires that such funds be invested in Treasury bills and Bonds. Consequently, the management is in breach of the law.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Communication Authority of Kenya-Universal Service Fund in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

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

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's 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 Fund to cease to continue to sustain 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 Fund 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

08 May 2018

XI. Statement of Financial Performance

For the Year Ended 30 June 2017

	Note	2017	2016
		Kshs'000	Kshs'000
Revenue from non-exchange transactions			
USF Levy		1,278,200	982,372
Other Income		1,250	-
	3	**1,279,450**	**982,372**
Revenue from exchange transactions			
Finance income	4	401,156	329,811
Total revenue		**1,680,606**	**1,312,183**
Expenses			
Bank Charges	5	17	11
Audit Fees	6	406	406
Total Expenses		**423**	**417**
			-
Surplus for the period		**1,680,183**	**1,311,766**

The Statement of Financial Performance is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 6 to 17

XII. Statement of Financial Position

As at 30 June 2017

	Note	2017 Kshs'000	2016 Kshs'000
ASSETS			
Current Assets			
Cash and cash equivalents	8	5,710,714	4,178,760
Receivables from non-exchange transactions	7	347,129	195,183
Total Current Assets		**6,057,843**	**4,373,944**
TOTAL ASSETS		**6,057,843**	**4,373,944**
LIABILITIES			
Current Liabilities			
Trade and other payables	9	14,314	10,598
Total Current Liabilities		**14,314**	**10,598**
TOTAL LIABILITIES		**14,314**	**10,598**
NET ASSETS		**6,043,529**	**4,363,345**
Accumulated Surplus	17	6,043,529	4,363,345
TOTAL NET ASSETS/LIABILITIES		**6,043,529**	**4,363,345**

The Financial Statements set out on pages 1 to 17 were signed on behalf of the Board
of Directors by:

Director General Francis W. Wangusi, MBS Date 28th September 2017	Ag. Director Finance and Accounts CPA. Maxwell M. Mogaka ICPAK Membership No:2519 Date 28th September 2017	For: Board of Directors Mr. Mugambi Nandi Date 28th September 2017

XIII. Statement of Changes in Net Assets

For the Year Ended June 30, 2017

	Note	Accumulated Surplus Kshs'000	Total Reserves Kshs'000
At July 1, 2015		**3,051,579**	**3,051,579**
Surplus for the year		1,311,766	1,311,766
At 30 June 2016		**4,363,345**	**4,363,345**
Surplus for the year	17	1,680,183	1,680,183
At 30 June 2017		**6,043,529**	**6,043,529**

XIV. Statement of Cash Flow

For the Year Ended June 30 2017

	Note	2017	2016
		Kshs'000	**Kshs'000**
OPERATING ACTIVITIES			
Cash generated from/(used in) Operations	10	**1,602,745**	**1,145,994**
Taxation Paid	4	(70,792)	(58,202)
Net Cash generated from/(used in) Operations		**1,531,953**	**1,475,804**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,531,953**	**1,475,804**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		4,178,760	2,702,956
CASH AND CASH EQUIVALENTS AT END OF YEAR	8	**5,710,714**	**4,178,760**

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements as set out on pages 6 to 17

XV. Statement of Comparison of Budget and Actual Amounts

For the Year Ended 30 June 2017

	Note	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference
		2016/17	**2016/17**	**2016/17**	**2016/17**	**2016/17**
		Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
USF Levy Operators		1,160,000	-	1,160,000	1,278,200	118,200
Other Income		-	-	-	1,250	1,250
Interest income	11(a)	260,000	-	260,000	401,156	141,156
Total Income		**1,420,000**	-	**1,420,000**	**1,680,606**	**260,606**
Bank Charges		100	-	100	17	(83)
Audit fees		406	-	406	406	-
Projects						
1. Server for the Interactive GIS Web portal		450	-	450	-	(450)
2. USF Infrastructure Projects		1,000,000	-	1,000,000	-	(1,000,000)
3. Schools Connectivitity Projects		500,000	-	500,000	-	(500,000)
Total Expenditure	11(b)	**1,500,956**	-	**1,500,956**	423	**(1,500,533)**

XVI. Notes to the Financial Statements

For the Year Ended June 30 2017

1. General Information

The Kenya Communications (Amendment) Act, 2009, provides for the established the Universal Service Fund (USF), to be administered and managed by the Communications Authority of Kenya. The purpose of the Fund is to support widespread access to ICT services, promote capacity building and innovation in ICT services in the country.

2.0 Statement of Compliance and Basis of Preparation

The Fund financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Authority and all values are rounded to the nearest thousand (Ksh 000). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

2.1 Adoption of New and Revised Standards

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

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

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

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

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	**Applicable: 1st January 2018** The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.
IPSAS 40: Public Sector Combinations	**Applicable: 1st January 2019:** The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.
Revised Standards	
IPSAS 21: Impairment of Non-Cash-Generating Assets	**Applicable: 1st January 2018:** The amendment which was contained in Exposure draft 57 that amended the standard so that assets measured at revalued amounts under the revaluation model in IPSAS 17, Property, Plant and Equipment, and IPSAS 31, Intangible Assets, are within the scope of IPSAS 21.
IPSAS 26: Impairment of Cash-Generating Assets	**Applicable: 1st January 2018:** The amendment which was contained in Exposure draft 57 that amended the standard so that assets measured at revalued amounts under the revaluation model in IPSAS 17, Property, Plant and Equipment, and IPSAS 31, Intangible Assets, are within the scope of IPSAS 26.
IPSAS 25: Employee Benefits	The amendments are contained in Exposure Draft 59 which proposes to align IPSAS 25, Employee Benefits with IFRS i.e. to be converged with the underlying IAS 19 on Employee Benefits.

iii. Early adoption of standards

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

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

2.2 Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

USF Levy and Contributions

The Fund recognizes revenues from USF levy upon issuance of licence for annual operating 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

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

b) Budget information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the 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.

c) Taxes

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.

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

d) Financial instruments

i. 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 Authority determines the classification of its financial assets at initial recognition.

Receivables

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

ii. Financial liabilities

Initial recognition and measurement

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

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

e) Provisions

Provisions are recognized when the 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 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 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 Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

f) Nature and purpose of reserves

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

g) Changes in accounting policies and estimates

The 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.

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

h) Related parties

The Authority 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 Authority is the principal administrator of the Fund and guided by the USF Advisory council.

i) 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 bank account at the end of the financial year.

j) Comparative figures

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

k) 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, 2017.

2.3 Significant judgments and sources of estimation uncertainty

The preparation of the 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...)
For the Year Ended June 30 2017

	2017	2016
	Kshs'000	Kshs'000
3. Revenue from non-exchange transactions		
USF Levy	1,278,200	982,372
Other income	1,250	-
	1,279,450	**982,372**
4. Revenue from exchange transactions		
Gross Interest income from fixed deposits	471,948	388,013
Withholding Tax 15% deducted at source	(70,792)	(58,202)
	401,156	**329,811**
5. Expenses		
Bank Charges	17	11
	17	**11**
6. Audit Fees		
Audit Fees	406	406
	406	**406**
7. Receivables from non-exchange transactions		
USF Levy Receivables	212,911	195,183
Communications Authority	106,645	-
Accrued interest	27,572	-
Total non-current receivables	**347,129**	**195,183**
8. Cash and Cash Equivalents		
Fixed Deposits	5,698,677	4,125,211
Current A/C	12,037	53,550
Total	**5,710,714**	**4,178,760**

The Cash and Cash Equivalent are held in the following banks:

Bank		
Co-operative Bank of Kenya-Westlands Branch	3,342,939	4,178,760
CBA Bank-Westlands Branch	2,367,774	-
Total	**5,710,714**	**4,178,760**
9. Trade and Other Payables		
Withheld Tax	39	39
Communications Authority & Other Creditor	1,873	1,843
Advance Income	7,455	8,311
Accrued	812	406
Accrued taxes	4,136	-
Total	**14,314**	**10,598**

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

10. Notes to the Statement of Cash Flow

Cash generated from/(used in) operations

	2017	2016
	Kshs'000	Kshs'000
Surplus for the year before tax	**1,680,183**	**1,311,766**
Adjustments for:		
Taxes	70,792	58,202
	70,792	**(329,811)**
Working capital adjustments	**1,750,975**	**981,955**
Decrease/Increase in receivables from non-exchange transactions	(151,946)	153,846
Decrease/Increase in trade and other payables	3,716	10,192
Net Working Capital Changes	**(148,230)**	**164,038**
Net cash flows from operating activities	**1,602,745**	**1,145,994**

11. Investments

As at 30th June 2017, the Fund had investments in short term deposits with a maturity period of less than 12 months in the following banks:

Short Term Deposits

	2017	2016
	Kshs'000	Kshs'000
Cooperative Bank of Kenya	3,331,898	4,125,211
Commercial Bank of Africa	2,366,778	-
Total	**5,698,677**	**4,125,211**

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

12. Budget Performance

a) Interest Income

Interest income performance target was surpassed due to favourable prevailing interest rates. In addition, the anticipated projects of Kshs. 1.5 billion were not undertaken therefore increasing the cash balances that were available for investments.

b) Project Costs

The Universal Service Fund had planned to carry out projects targeting the improvement of the voice infrastructure and facilitating Education broadband projects of Internet connectivity to schools. The implementation of these planned projects was to be informed by input from the pilot projects earlier implemented. There was a delay in completion of the pilot projects, consequently delaying the absorption of the project costs.

13. Financial Risk Management Objectives and Policies

The Board has established a risk management framework through a comprehensive review of the CA's enterprise risks. This approach involves the development of a comprehensive system of management controls, accounting and internal controls, security and safety procedures and other sound policies and procedures that clearly instruct employees how to conduct transactions and incorporate effective internal control measures. The key approach to risk management is to provide reasonable assurance to stakeholders that the organization's business is adequately controlled.

a) Credit Risk

The Universal Service Fund has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Board has set out Policies and Objectives relating to credit risk. 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 Fund's maximum exposure to credit risk as follows:

	2017 **Kshs'000**	2016 **Kshs'000**
Receivables from non-exchange transactions		
a.) USF Levy Receivables	212,911	195,183
b.) Communications Authority	106,645	-
c.) Accrued Interest	27,572	-
Total	**347,129**	**195,183**

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

b) Liquidity risk management

The Fund has exposure to liquidity risk arising from the inability to meet our debt obligations. The Board has put in place an appropriate liquidity risk management framework for the management of the Fund's short, medium and long-term funding and liquidity management requirements. Management of liquidity risk is through continuous monitoring of forecasts and actual cash flows.

The expected cash payable over the next reporting period; which is equal to its carrying balance is indicated below:

	1-6 Months Kshs'000	6-12 Months Kshs'000	Total Kshs'000
At 30 June 2017			
Trade Payables	9,772	406	10,178
Total	**9,772**	**406**	**10,178**
At 30 June 2016			
Trade Payables	8,311	2,287	10,598
Total	**8,311**	**2,287**	**10,598**

c) Market risk

Market risk management aims is to manage the Fund's market risk exposures. Market risk is the risk arising from changes in Authority's market structure, volatility in in interest rates, equity prices and foreign exchange rates; which will affect the Authority's income or the value of its holding of financial instruments.

The board has set out policies and objectives relating to managing the Fund's exposure to the market risks within acceptable parameters, while optimising the return. Market. There has been no change to the Fund's exposure to market risks or the manner in which it manages and measures the risk.

d) Compliance/Regulatory/Legal Risk

The objective of Compliance risk management is to minimize the risk exposure to the Fund by failure to meet its legal and statutory obligations. It also includes Environmental Risk and Political Risk. The Board has put in place policies, instituted internal control and governance structures e.g. Board Audit Committee, Universal Advisory council and Authority's legal function.

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

14. Related Parties Transactions

Nature of related party relationships
The Universal Service Fund transactions involve an interaction with the related parties below:
a) Top Management
b) The National Government;
c) The Ministry of Information Communications and Technology;
d) Communications Authority of Kenya

a) Top Management Remuneration and Advances
During the reporting period, the Authority administered the Fund, consequently there was no remuneration nor loans issued from the Fund to the management

b) Communications Authority of Kenya
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.

	2017	2016
	Kshs'000	**Kshs'000**
Communications Authority	106,645	-
Total	**106,645**	-

In addition, included in the creditor's amount is an amount paid to the USF bank accounts for services offered by the Authority as indicated below:

	2017	2016
	Kshs'000	**Kshs'000**
Communications Authority	1,873	1,843

15. Taxation

The purpose of the fund is to facilitate access of ICT services to areas considered as underserved and therefore the need for the fund to apply for tax exemption to the Minister in order avoid tax payments that may accrue since its inception.

16. Contingent Liabilities

There are no activities that are contingent liabilities expected hence none has been provided for.

17. Accumulated surplus

	2017	**2016**
	Kshs.'000'	**Kshs.'000'**
Surplus B/Fwd	**4,363,346**	**3,051,579**
Surplus for the Year	1,680,183	1,311,766
	6,043,529	**4,363,345**

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

18. Follow Up Of Auditor Recommendations

The Fund received an unqualified audit report in the previous periods; therefore no progress report on the Auditor recommendations is provided.

19. Events after the reporting period

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