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**REPORT OF THE AUDITOR GENERAL (CORPORATIONS) ON THE ACCOUNTS
OF THE COMMUNICATIONS COMMISSION OF KENYA FOR THE SEVENTEEN
MONTHS PERIOD ENDED 30 JUNE 2000**

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COMMUNICATIONS COMMISSION OF KENYA

ACCOUNTS FOR THE 17 MONTHS 30 JUNE 2000

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KENYA NATIONAL ASSEMBLY
Accession: 10012773

Call No: 657.45 CCK



(i)

**REPORT OF THE AUDITOR GENERAL (CORPORATIONS) ON THE
ACCOUNTS OF THE COMMUNICATIONS COMMISSION OF KENYA
FOR THE SEVENTEEN MONTHS PERIOD ENDED 30 JUNE 2000**

I have examined the Accounts of the Communications Commission of Kenya for the seventeen months period ended 30 June 2000 in accordance with Section 29 (2) of the Exchequer and Audit Act, (Cap 412). I have obtained all the information and explanations considered necessary for the purpose of the audit. Proper books of account have been kept and the Accounts, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, are in agreement therewith and comply with the Kenya Communications Act, 1998.

In my opinion, and except for the matters set out herebelow, the Accounts, when read together with the Notes thereon, present fairly the Commission's financial state of affairs as at 30 June 2000 and of its surplus and cash-flow for the period then ended.

1. **KAREN PLOTS – LR 12445 AND 12550**

Under Legal Notice 155 of 1998 (Transfer and Vesting of Assets and Liabilities Order), the Commission inherited two parcels of land located at Karen, Nairobi against land reference Nos. LR 12445 and LR 12550 from the now defunct Kenya Posts and Telecommunications Corporation. The two (2) plots had previously been acquired in a very irregular manner by the former Kenya Posts and Telecommunications Corporation at a total cost of Kshs.62,764,141 which included penalties of Kshs.4,716,471 imposed by the vendor who also acted as advocate for the purchaser but without disclosing his interest in the ownership of the two properties. The defunct Corporation had also additionally incurred expenditure amounting to Kshs.196,761,385 in respect of professional fees in relation to a project which was intended to be undertaken on the plots. A review of the position during the year 1999/2000 showed that the title documents for the properties were still held by the Kenya Commercial Bank where the same are presently encumbered for close to Kshs.100 million. It would, therefore, appear that the transfer of ownership for these properties in favour of CCK cannot be effected unless the title deeds are redeemed from the KCB, an option which the Commission does not consider financially prudent, particularly in view of the expenditure involved as well as the amount already spent on the plots. Although it is now understood that the Commission is pursuing refund of the sums of money paid to the vendor for the plots through legal action taken under HCC No. 943 of 1999 the outcome of the subject suit, which is still being awaited, may quite likely not address the very substantial expenditure of Kshs.196,761,385 incurred as professional fees for a project intended on the plots and which evidently may never take off.

2. **FIXED ASSETS**

During the year 1999/2000, the Commission, through Vesting orders issued under Legal Notice No. 155 of 1998, again inherited land and properties from the former

Kenya Posts and Telecommunications Corporation which, according to records of the then KPTC, were valued at a total of Kshs.232,300,000 as at 30 June 1999. Records of the Commission, however, reflect a value of Kshs.621,733,000 against assets transferred and received by the Commission as of the same date. The resultant difference of Kshs.389,433,000 has not been analysed or reconciled and as a result the accuracy of the Balance Sheet fixed assets figure of Kshs.775,672,000 as at 30 June 2000 could not be confirmed.

3. **BAD AND DOUBTFUL DEBTS PROVISIONS**

As at 30 June 2000 the Commission made a provision of Kshs.25,844,275 for bad and doubtful debts against certain debtors' accounts, some of which were inherited from the defunct Kenya Posts and Telecommunications Corporation. The Corporation has not, however, fully justified the above quantum of the provision, particularly in view that the majority of the debtors involved are still in businesses regulated by the Commission.


S. M. MALUKI

AUDITOR GENERAL (CORPORATIONS)

11 July 2001

COMMUNICATIONS COMMISSION OF KENYA

DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

K Kabage (Chairman)
S K Chepkong'a (Director-General)
K S Maluki (Mrs)
N K Ronoh
D Awori
C Amira
Eng. A W Ogwayo
T T Naikuni
M L O Otieno
Z Cheruyoit
D Kibera (Alternate to T Naikuni)
J Mani (Alternate to M L O Otieno)
S Mwaliko (Alternate to Z Cheruiyot)

SECRETARY

J Omo
Longonot Place
Kijabe Street
P.O Box 14448
Nairobi

AUDITORS

Auditor-General (Corporations)
P.O Box 49384
Nairobi

REGISTERED OFFICE

Longonot Place
5thFloor
Kijabe Street
PO Box 14448
Nairobi

BANKERS

Kenya Commercial Bank
Moi Avenue Branch
P O Box.30081
Nairobi

Citibank NA
P O Box 30071
Nairobi

COMMUNICATIONS COMMISSION OF KENYA

REPORT OF THE DIRECTORS FOR THE 17 MONTHS 30 JUNE 2000

The directors have pleasure in submitting their report together with the audited accounts for the period ended 30 June 2000, which disclose the state of affairs of the Commission.

1. Activities

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

2. Results

The results for the period are set out on page 4.

3. Dividend

The directors do not recommend the payment of a dividend.

4. Directors

The directors who served during the period are set out on page 2.

5. Auditors

The auditors, Messrs. Auditor General (Corporations) will continue in office in accordance with Section 20 of the Kenya Communications Act, 1988.

6. Approval of the Accounts

The accounts were approved at a meeting of the directors held on 8th June 2001

BY ORDER OF THE BOARD



J Omo
SECRETARY

Communications Commission of Kenya
Income and Expenditure Account
For the 17 Months Period Ended 30th June 2000

| | Notes | Kshs'000 |
|--------------------------------|----------|------------------------------|
| Income | 2 | 845,701 |
| Operating expenses | | 390,024 |
| Surplus from operations | 3 | <u>455,677</u> |
| Net finance income | 4 | 8,090 |
| Surplus for the period | | <u><u>463,767</u></u> |

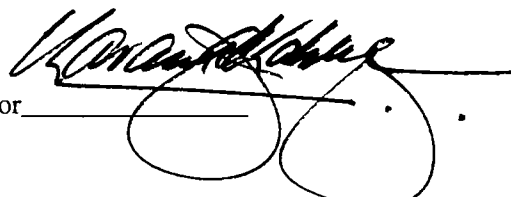
The income and expenditure account is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 15.

**Communications Commission of Kenya
Balance Sheet as at 30th June 2000**

| | Notes | Kshs'000 |
|-------------------------------------|-------|-------------------------|
| ASSETS | | |
| Non Current Assets | | |
| Property, plant and equipment | 7 | <u>775,672</u> |
| Current Assets | | |
| Debtors | 5 | 427,934 |
| Cash and cash equivalent | 9 | <u>153,991</u> |
| | | <u>581,925</u> |
| TOTAL ASSETS | | <u><u>1,357,597</u></u> |
| EQUITY AND LIABILITIES | | |
| Capital and Reserves | | |
| Owners Equity | 8 | 709,122 |
| Revaluation Reserve | | 161,138 |
| Retained Surplus | | <u>463,767</u> |
| | | <u>1,334,027</u> |
| Current Liabilities | | |
| Creditors | 6 | 23,570 |
| TOTAL EQUITY AND LIABILITIES | | <u><u>1,357,597</u></u> |

The accounts set out on pages 4 to 15 were approved by the Board of Directors on 8/6/01 and were signed on it's behalf by:

Director 

Director 

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 15.

Communications Commission of Kenya
Statement of Changes in Equity
For the 17 Months Period Ended 30th June 2000

| | Owners Equity Kshs'000 | Revaluation Reserve Kshs'000 | Retained Surplus Kshs'000 | Total Kshs'000 |
|------------------------|------------------------------|------------------------------------|---------------------------------|-------------------------|
| At 1 February 1999 | - | - | - | - |
| Net Assets Vested | 709,122 | | | 709,122 |
| Surplus for the year | | | 463,767 | 463,767 |
| Revaluation surplus | | 161,138 | | 161,138 |
| At 30 June 2000 | <u>709,122</u> | <u>161,138</u> | <u>463,767</u> | <u>1,334,027</u> |

Communications Commission of Kenya
Cash Flow Statement
For the 17 Months Period Ended 30th June 2000

| | Notes | Kshs'000 |
|--|-------------|------------------------------|
| Cash flows from operating activities | 9(a) | <u>129,468</u> |
| INVESTING ACTIVITIES | | |
| Purchase of plant and equipment | | <u>(684,599)</u> |
| Cash flows from investing activities | | <u>(684,599)</u> |
| FINANCING ACTIVITIES | | |
| Proceeds from Government grant | | 709,122 |
| Cash flows from financing activities | | <u>709,122</u> |
| Net increase in cash and cash equivalents | 9(b) | <u><u>153,991</u></u> |

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements as set out on pages 8 to 15.

COMMUNICATIONS COMMISSION OF KENYA

NOTES TO THE FINANCIAL STATEMENTS FOR THE 17 MONTHS 30 JUNE 2000

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements are prepared in accordance with and comply with International Accounting Standards. The financial statements are prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment.

(b) Income recognition

Income is recognised upon issuance of operating licence and/or allocation of frequencies.

(c) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the balance sheet date. Resulting exchange differences are recognised in the income and expenditure statement for the year. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the date of transaction.

(d) Property, plant and equipment

Items of property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses.

Depreciation is charged on a straight line basis over the estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives:

COMMUNICATIONS COMMISSION OF KENYA

NOTES TO THE FINANCIAL STATEMENTS FOR THE 17 MONTHS 30 JUNE 2000

(d) Property, plant and equipment

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

(e) Trade debtors

Trade receivables are stated at original invoiced amounts, less an estimate made for doubtful receivables. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off in the year in which they are identified.

(f) Employee benefits

Post-employment benefits

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

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

(g) Taxation

Tax is not provided for on the surplus as the Commission is a non-profit making organization.

(h) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held with the banks and investment in Government Securities.

(i) Comparatives

There are no comparatives since this is the Commission's first period of operation.

Communications Commission of Kenya
Notes to the Financial Statements
For the 17 Months Period Ended 30th June 2000

2. Income

| | Kshs'000 |
|--------------------------|----------------|
| Annual operating license | 139,508 |
| Annual frequency license | 682,082 |
| Type approval fees | 5,101 |
| Other income | 19,010 |
| | 845,701 |

3. Surplus From Operations

Operating surplus is arrived at after charging:

| | |
|-----------------------|---------|
| Total staff costs | 106,046 |
| Depreciation | 19,724 |
| Directors' emoluments | 11,212 |
| Fees | 8,403 |
| Other | 500 |

The average number of people engaged during the year were:

| | |
|---|------------|
| Management staff | 8 |
| Frequency Spectrum Management Division | 34 |
| Telecommunications Development Division | 13 |
| Postal Development Division | 6 |
| Other | 50 |
| Total | 111 |

Communications Commission of Kenya
Notes to the Financial Statements
For the 17 Months Period Ended 30th June 2000

4. Net Finance Income

| | Kshs'000 |
|---------------------------|----------------------------|
| Interest income | 9,823 |
| Withholding tax recovered | (1,359) |
| Interest received | <u>8,464</u> |
| Bank charges | (374) |
| Net finance income | <u><u>8,090</u></u> |

5. Debtors

| | |
|--------------------------------------|------------------------------|
| Trade debtors | 411,308 |
| Provision for bad and doubtful debts | <u>(25,844)</u> |
| | 385,464 |
| Service deposits | 1,045 |
| Prepaid expenses | 1,150 |
| Other debtors | <u>40,275</u> |
| | <u><u>427,934</u></u> |

6. Creditors

| | Kshs'000 |
|-----------------|-----------------------------|
| Other creditors | 6,807 |
| Accruals | <u>16,763</u> |
| | <u><u>23,570</u></u> |

Communications Commission of Kenya
Notes to the Financial Statements
For the 17 Months Period Ended 30th June 2000

7. Property, Plant and Equipment

| | Land Buildings and Improvements Kshs'000 | Plant and Machinery Kshs'000 | Motor Vehicles Kshs'000 | Equipment, Furniture and Fittings Kshs'000 | Total Kshs'000 |
|--------------------------|---|------------------------------------|-------------------------------|---|-------------------|
| Cost or Valuation | | | | | |
| At 1 February 1999 | - | - | - | - | - |
| Additions - Vestment | 565,080 | - | 18,773 | 37,880 | 621,733 |
| Additions - Other | 16,655 | 1,078 | 16,663 | 28,470 | 62,866 |
| Revaluation surplus | (6,685) | 462 | (8,886) | 106,182 | 91,073 |
| At 30.06.2000 | 575,050 | 1,540 | 26,550 | 172,532 | 775,672 |
| At cost | - | - | - | - | - |
| At valuation | 575,050 | 1,540 | 26,550 | 172,532 | 775,672 |
| | 575,050 | 1,540 | 26,550 | 172,532 | 775,672 |
| Depreciation | | | | | |
| At 1 February 1999 | - | - | - | - | - |
| Charge for the period | 6,275 | 18 | 6,549 | 6,882 | 19,724 |
| Reversed on revaluation | (6,275) | (18) | (6,549) | (6,882) | (19,724) |
| At 30.06.2000 | - | - | - | - | - |
| Net Book Value | | | | | |
| At 30 June 2000 | 575,050 | 1,540 | 26,550 | 172,532 | 775,672 |
| At 30 June 1999 | 565,080 | - | 18,773 | 37,880 | 621,733 |

The fixed assets were revalued at 30 June 2000 by Ngotho Wathome Co. Ltd, a firm of professional valuers. Land and buildings were revalued at open market values and other assets at depreciated replacement cost.

Communications Commission of Kenya
Notes to the Financial Statements
For the 17 Months Period Ended 30th June 2000

8. Owners Equity

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

9. Notes to the Cash Flow Statement

a) Reconciliation of net surplus before tax to cash flow from operating activities

| | Kshs'000 |
|---|------------------------------|
| Net surplus before tax | 463,767 |
| Adjustments for: | |
| Depreciation | 19,724 |
| Revaluation deficit | 50,341 |
| Interest received | <u>(8,464)</u> |
| Operating surplus before working capital changes | <u>525,368</u> |
| Increase in debtors | (427,934) |
| Increase in creditors | <u>23,570</u> |
| | <u>(404,364)</u> |
| Cash flow generated from operations | 121,004 |
| Interest received | 8,464 |
| Net cash flow from operating activities | <u><u>129,468</u></u> |
| b) Movement in cash and cash equivalents | |
| Cash in hand | 327 |
| Cash at bank | 133,252 |
| Treasury Bills | <u>20,412</u> |
| | <u><u>153,991</u></u> |

Communications Commission of Kenya
Notes to the Financial Statements
For the 17 Months Period Ended 30th June 2000

10. Contingent Liabilities

There are ongoing litigations arising out of the ordinary course of business from which it is anticipated that no material liabilities will arise.

11. Incorporation

The Commission is incorporated in Kenya under the Communications Act, 1998

12. Currency

The accounts are presented in Kenya Shillings (Kshs.)

13. Financial Period

The Commission came into being in February 1999. However, operations did not commence until May 1999.

Communications Commission of Kenya
Detailed Income and Expenditure Account
For the 17 Months Period Ended 30th June 2000

INCOME

| | |
|--------------------------|---------------------------|
| Annual operating license | 139,508,335 |
| Annual frequency license | 682,081,617 |
| Type approval | 5,100,910 |
| Other income | 19,009,516 |
| | <u>845,700,378</u> |

EXPENDITURE

| | |
|--|----------------------------------|
| Salaries and allowances | 95,574,617 |
| Training expenses | 3,428,111 |
| Medical expenses | 6,830,590 |
| Uniforms | 212,950 |
| Directors emoluments - fees | 11,212,047 |
| Directors emoluments - other | 8,403,104 |
| Traveling expenses | 44,409,818 |
| Repairs and maintenance - furniture & fittings | 103,420 |
| Repairs and maintenance - office equipment | 575,490 |
| Repairs and maintenance - motor vehicles | 3,742,927 |
| Repairs and maintenance - buildings & improvements | 15,882,688 |
| Repairs and maintenance - radio equipment | 544,415 |
| Motor vehicle running expense | 2,959,731 |
| Computer software | 58,186 |
| Rent and rates | 7,975,449 |
| Postage and telephone | 3,354,327 |
| Water and electricity | 307,517 |
| Audit fees | 500,000 |
| Professional fees | 3,420,218 |
| Legal fees | 8,285,750 |
| Public relations | 27,799,815 |
| Insurance | 3,651,693 |
| Security | 2,233,933 |
| Subscriptions | 17,429,221 |
| National Communications Secretariat | 10,587,854 |
| Communications Appeals Tribunal | 1,091,020 |
| General stores | 7,124,950 |
| Sundry expenses | 6,415,405 |
| Bad and doubtful debts | 25,844,275 |
| Depreciation | 19,723,507 |
| Revaluation deficit | 50,340,892 |
| | <u>390,023,920</u> |
| Surplus from operations | 455,676,458 |
| Net finance income | <u>8,090,158</u> |
| Surplus for the period | <u><u>463,766,616</u></u> |

