

REPUBLIC OF KENYA



Enhancing Accountability



REPORT

THE NATIONAL ASSEMBLY	
DATE: 16 FEB 2022	DAY: Wed
TABLED BY: LDM	CLERK-AT-THE-TABLE: S. Kalawa

THE AUDITOR-GENERAL

ON

**COMMUNICATIONS AUTHORITY OF
KENYA – UNIVERSAL SERVICE FUND**

**FOR THE YEAR ENDED
30 JUNE, 2020**

2000





**COMMUNICATIONS
AUTHORITY OF KENYA**

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

25 FEB 2021

RECEIVED

UNIVERSAL SERVICE FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2020

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

Communications Authority of Kenya Universal Service Fund
Annual Report and Financial Statements
For the Year Ended 30 June 2020

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I. KEY FUND INFORMATION AND MANAGEMENT

(a) Background information

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

(b) Principal Activities

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

The core objectives of USF include:

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

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

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

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KEY FUND INFORMATION AND MANAGEMENT (Continued)

(c) Entity Headquarters

P. O Box 14448 - 00800

CA Centre

Waiyaki Way

Nairobi, KENYA

(d) Entity Contacts

Telephone: (254) 703 042 000

E-mail: info@ca.go.ke

Website: www.ca.go.ke

(e) Entity Bankers

i. Co-operative Bank of Kenya

Westlands Branch

P.O. Box 66589

Nairobi 00800

Nairobi, Kenya

ii. NCBA Bank Plc

Westlands Branch

P.O. Box 30437

Nairobi 00100

Nairobi, Kenya

(f) Independent Auditors

Auditor General

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084

Nairobi 00100

Nairobi, Kenya

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KEY FUND INFORMATION AND MANAGEMENT (Continued)

(g) Principal Legal Adviser

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

Nairobi 00200

Nairobi, Kenya

KEY FUND INFORMATION AND MANAGEMENT (Continued)

(h) The Board of Directors



Mr Ngene B. Gituku, EBS born in 1955, is the Chairman of the Communications Authority of Kenya (CA) Board of Directors. He served as CA Chairman from 2014 to 2017, prior to which he was the Chairman of the defunct

Communications Commission of Kenya (now CA) for a period of one and a half years.

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

He previously served as Board member at Kenya Broadcasting Corporation (KBC) and Kenya Pipeline Company (KPC). Mr. Gituku was re-appointed to his current position on 18th April 2018 for a three-year term



Mr. Francis Wangusi, MBS (born in 1958) was the Director General of the Communications Authority of Kenya (CA) until August 2019.

He 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 charge of Broadcasting and Licensing Compliance & Standards department.

Mr. Wangusi holds a Masters Degrees in Space Sciences (Satellite Communications) and Business



Ms. Mercy Wanjau born in 1972, is the Acting Director General of the Communications Authority of Kenya. Mrs. Wanjau served as the Director Legal Services from 1st

January 2019 till her appointment as the Acting Director-General. She holds a Masters degree in Law (LLM) from the University of Cape Town, Bachelors in Law (LLB) from the University of Nairobi. She also holds a Postgraduate Certificate in Regulation of Telecommunications in Developing and Transitional Economies.

She is a Certified Governance Auditor with ICPSK, an Associate of the Chartered Institute of Arbitrators, Council Member of the Institute of Certified Secretaries (Kenya), board member of the SOS Children's villages and an Advocate of the High Court of Kenya. She is also an Eisenhower Fellow. She was appointed to the position on 22nd August 2019.



Mrs. Esther Koimett, CBS born in 1957, is the Principal Secretary for the State Department of Broadcasting and Telecommunications, Ministry of Information, Communications and

Technology (ICT). She serves on the CA Board in her capacity as Principal Secretary. She holds a Masters Degree in Business Administration (MBA) from the University of Nairobi and a Bachelors of Commerce (BCom) Degree from the University of Nairobi.

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Administration. He retired on 22nd August 2019. A chartered Engineer (UK) Mr. Wangusi holds a first degree in Telecommunications Engineering.

She has over 25 years work experience in the public service, having previously served as Principal Secretary in the Ministries of Tourism & Wildlife and Transport, Infrastructure, Urban Development and Public Works. She has also served in numerous Boards including, Kenya Railways Corporation, Telkom Kenya Limited and Safaricom Limited. She was appointed on 14th Jan 2020 as replacement to Mr. Jerome Ochieng.



Mr. Jerome Ochieng (born in 1970) is the Principal Secretary State Department for ICT and Innovation in the Ministry of ICT. Until his appointment, Mr. Ochieng was the Director of the Integrated Financial Management Information

System (IFMIS) at the National Treasury and a member, Board of Directors of the Kenya ICT Authority.

Mr. Ochieng has 17 years' work experience in the field of Information and Communication Technology in the Public Service. Mr. Ochieng has also served as ICT Manager with the Public Procurement Oversight Authority for six years. He holds a Masters' degree in Information Engineering from the University of the Ryukyus, Okinawa, Japan. He is a registered fellow of the Computer Society of Kenya and a Licentiate Member of the Institute of Management Information Systems (IMIS), UK. Director replaced on 14th January 2020. Director Jerome was replaced by Ms. Esther Koimett, CBS on 14th January 2020.



Dr. Karanja Kibicho (born in 1967) is the Principal Secretary State Department of Interior, office of the president. He holds a doctorate in Mechanical Engineering from the University of Cape Town, South

Africa, a Masters of Science (MSc) degree in Mechanical Engineering and a Bachelor of Science (BSc) in Mechanical Engineering.

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



Dr. Julius Muia is the Principal Secretary at The National Treasury. Prior to this, he was the Principal Secretary at the State Department for Planning - The National Treasury and Planning. An alumnus of the University of Nairobi's School of Business, Dr Julius Muia graduated with a First Class Honours Degree in Accounting; Master's Degree and PhD in Finance from the same university. His professional qualifications include Certified Public Accountant (CPA-K); Certified Public Secretary (CPS-K), Associate Kenya Institute of Bankers; Associate Chartered Institute of Arbitrators; and Certified Coach. Dr. Muia has over 25 years experience in leadership in Kenya and UK.

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Prof. Levi Obonyo born in 1966, is an Associate Professor of Communication and Media Studies, and also the Dean of the School of Communication, Language and Performing Arts at Daystar University.

Prof. Obonyo holds a PhD in Mass media and Communications from Temple University Philadelphia, USA. He also holds a Postgraduate Diploma in Tertiary Education from Potchefstroom University for Christian Higher Education, South Africa.

He is a former Chairman of the Media Council of Kenya. He currently serves as a member of the Advisory Council to Kenya National Commission to UNESCO (KNATCOM) specializing on communications.

He joined the CA Board on 20th May 2014 and reappointed in 29th April 2016 for a further term of three (3) years that lapsed on 28th April 2019.

He was reappointed for a further term of three (3) years effective 6th January 2020. He serves as the Chairperson of the Technical and Broadcasting Standards committee.



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

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

Ms. Tikolo holds a Master of Science degree in Public Relations from the University of Stirling in Scotland, and a first degree in Education from Kenyatta University.

She was appointed to the CA Board on 29th April 2016 for a period of three (3) years that lapsed on 28th April 2019. She was reappointed for a further term of three (3) years effective 6th January 2020. She serves as the Chairperson of the Audit & Risk committee.



Ms. Patricia Kimama born in 1973, has over 20 years' experience in career spanning the banking, telecommunication and water industries. She has

held roles in business transformation, project, sales, service and operational management. She is currently the Transformation Lead at the Commercial Bank of Africa where she is charged with the responsibility of driving and implementing a legacy-setting strategic transformation project for the CBA Group.

She holds' a Masters in Business Administration (Strategic Management) from Daystar University, a Masters Certificate in Project Management from George Washington University as well as Senior Management Leadership training from Strathmore University. She was appointed to the CA Board on 29th April 2016 for a period of three (3) years that lapsed on 28th April 2019.

She was reappointed for a further term of three (3) years effective 6th January 2020. She serves as the Chairperson of the Staff and Administration and Finance committees.

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ALTERNATE BOARD DIRECTORS



Mr. Festus King'ori (born in 1963) is the Alternate to the Principal Secretary National Treasury. He holds a Bachelor of Commerce degree from the University of Nairobi and is finalizing an MBA at Jomo Kenyatta University Agriculture Technology.

He also holds a post graduate certificate in Investment Appraisal and Management from Harvard University. He has also undergone extensive training in general management, strategic leadership and financial management. Mr. Kingori has extensive experience in public policy, particularly with regard to public investments, gained from local and international institutions, having worked at the World Bank secondment by the GoK. Mr. Kennedy Ondieki replaced him as Board Member on 30th September 2019.



Mr. Kennedy Ondieki (born in 1967) is an Alternate Director representing The National Treasury in the Board of Communications Authority of Kenya. He

holds Master of Business Administration, Strategic Management from Jomo Kenyatta University of Agriculture & Technology and Bachelor of Arts (Hons), Economics from the University of Nairobi. Mr. Ondieki is a qualified Certified Public Accountant and a member of ICPAK of good standing as well as a qualified Certified Public Secretary. Mr. Ondieki has over twenty five years of experience working in the public sector. Mr. Ondieki has served in a number of Boards as Alternate Director, representing The National Treasury like Kenya Maritime Authority; South Nyanza Sugar Company Limited; Kenya Reinsurance Corporation Limited; State Corporations Advisory Committee and National Government Constituency Development Fund; among others. His appointment was effective 30th September 2019.



Mr. Peter Wanjohi born in 1965, is the Alternate Director to the Principal Secretary, Interior and Coordination of National Government. He is a holder of a Bachelor Business Administration degree from New Port

University. He has extensive experience in planning and coordinating international, regional and local conferences as the current Director of



Yiapan Juliana Nashipae, MBS born in 1969, is the Alternate Director to the Principal Secretary, State Department of Broadcasting and Telecommunications, MoICT.

She has a Master of Business Administration (Public Service International) from The

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State functions.

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

He was appointed effective 7th February 2018

University of Birmingham in UK; Master of Arts in Political Science and Public Administration as well as a Bachelor of Arts Degree in Government, both from the University of Nairobi.

She has over 20 years' experience in Public Service more specifically at the MoICT, Office of the President and Office of the Deputy President, in various positions. She was appointed effective 3rd May 2019.





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KEY FUND INFORMATION AND MANAGEMENT (Continued)

(i) Universal Service Advisory Council

 <p>Dr. Catherine Ngahu EBS (born in 1961) is the Chairperson of Universal Service Advisory Council (USAC). She holds a PhD in Business Administration from the University of Nairobi and professional certificate in Technology and Development from IPS, UK. She was a Business Research Fellow at the Wharton Business School, University of Pennsylvania, USA. Dr Ngahu is a member of several Boards.</p> <p>She is the former chairperson of the Kenya ICT Board and was awarded 'the Elder of the Order of the Burning Spear' (EBS) in 2011 for devoted service. Her term of office expired on 7th May 2020.</p>	 <p>Mr. Michael M. Itote (born in 1954) is a Fellow of the Institute of Certified Public Accountant (FCPA) of Kenya and a Certified Public Secretary (CPS) with over 30 years of experience. He served as the Chairman of the Institute of Certified Public Accountants of Kenya from 2009 to 2011.</p> <p>He is also a Member of the Institute of Internal Auditors (IIA), the Institute of Directors, Kenya, and an accredited Governance Auditor. Mr. Itote is a Director Principal Consultant of Management Audit Consulting Ltd, which provides consulting services in enterprise risk management, internal auditing and other governance support services. He holds a BSc. in Accountancy, from the United States International University Africa. His term of office expired on 8th May 2020.</p>
 <p>Ms. Rhoda Masaviru (born in 1956) has vast working experience spanning over 34 years, most of which was in the postal sector, both in Kenya and at the African continental level. She held senior positions, a th Pan African Postal Union (PAPU) among them Secretary General and Assistant Secretary General. She also served as a Manager in the defunct Kenya Posts & Telecommunications Corporation and its Successor, Postal Corporation of Kenya.</p> <p>Ms. Masaviru holds a Master of Arts degree in Population Studies, University of Nairobi, Kenya and a Bachelor of Education degree in Economics and Geography, University of Nairobi. Her term of office expired on 8th May 2020.</p>	 <p>Ms. Josephine Towett (Born in 1967) is an ICT Business expert with over 20 years experience spanning in various functional areas including 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.</p> <p>Josephine is also well versed in ICT capacity building, Research and Consultancy largely from the African Advanced Level Telecommunication institute (AFRALTI) a regional capacity building intergovernmental organisation. Her term of office expired on 8th May 2020.</p>

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 <p>Amb. Wellington Pakia Godo (born in 1953) has served in government for over three decades. He rose through the ranks to the position of Permanent Secretary in various Ministries including the Office of</p>	 <p>Mr. Nixon Mageka Gecheo (born in 1976) is a Governance and ICT for Development (ICT4D) expert with over 12 years' ICT experience and 4 years' experience consulting for</p>
<p>the Vice President and the Ministry of Regional Development. He also served as the Permanent Representative in the Kenya Mission to the United Nations Environmental Programme (UNEP). Amb. Godo holds a Master of Social Science degree from the University of Birmingham, United Kingdom and a Bachelor of Arts from the University of Nairobi where he majored in Government and Sociology. His term of office expired on 8th May 2020.</p>	<p>large donor, private and public sector organisations. He is the immediate former ICT and Media Advisor to the Cabinet Secretary Ministry of Agriculture. Mr. Mageka worked at the Office of the Ombudsman and the 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. His term of office expired on 8th May 2020.</p>
 <p>Dr. Kennedy J. Okong'o (born in 1982) is a certified Project Manager and a holder of PhD in Information Systems from the University of Cape Town, South Africa. He has a practical policy and 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).</p>	 <p>Mr. Longole Wangiros James (born in 1975) 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. 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.</p>

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

He holds a M.Sc. degree in Business Systems Analysis and Design from the 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.

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KEY FUND INFORMATION AND MANAGEMENT (Continued)

(j) Key Management



Ms. Mercy Wanjau born in 1972, is the Acting Director General of the Communications Authority of Kenya. Mrs. Wanjau served as the Director Legal Services from 1st January 2019 till her appointment as the Acting Director-General. She holds a Masters degree in Law (LLM) from the University of Cape Town, Bachelors in Law (LLB) from the University of Nairobi. She also holds a Postgraduate Certificate in Regulation of Telecommunications in Developing and Transitional Economies.

She is a Certified Governance Auditor with ICPSK, an Associate of the Chartered Institute of Arbitrators, Council Member of the Institute of Certified Secretaries (Kenya), board member of the SOS Children's villages and an Advocate of the High Court of Kenya. She is also an Eisenhower Fellow. She was appointed to the position on 22nd August 2020.



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




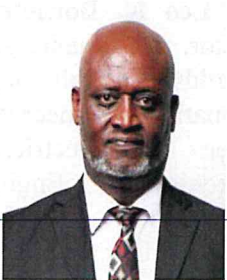






Mr. Francis Wangusi, MBS was the Director General of the Communications Authority of Kenya.

Mr. holds a Masters Degree in Space Sciences (Satellite Communications) and BSc in degree Telecommunications Engineering. He has a Chartered Engineer-UK Certificate and Global Executive Masters Degree in Business Administration (GEMBA). Hi term of office ended on 22nd August 2019.



Mr. Juma Kandie is the Director, Human Capital & Administration. He holds Msc. in Human Resource Management, a Bachelor of Commerce degree as well as a Post Graduate Certificate in Strategy.

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	<p>Mr. Christopher Kemei is the Director, Universal Service Fund. He holds Masters degree in Operational Telecommunications</p>		<p>Mr. Tom Olwero is the Director, Frequency Spectrum Management. He holds a B.Sc. in Electrical Engineering and a Masters of Business Administration (Management).</p>
	<p>Mr. Matano Ndaro is the Director, Licensing Compliance and Standards. He is currently pursuing a Masters degree of Business Administration degree and holds a Bachelor of Arts degree in Economics and a Post graduate Diploma in Regulation of Telecommunications.</p>		<p>Mr. Christopher Wambua is the Director, Consumer and Public Affairs. He holds a master's degree in International Studies, a postgraduate diploma in Mass Communications, a post-graduate diploma in Public Relations from the Chartered Institute of Public Relations and a degree in Education.</p>
	<p>Mr. Michael Katundu is the Director, Information Technology and Enterprise Resource Management He is a holder of a MSc. and BSc.in Computer Science.</p>		<p>CPA. Rosalind Murithi is the Director, Risk Management and Internal Audit. She holds a Master of Business Administration, and Bachelor of Commerce Degree. She is a Certified Public Accountant of Kenya - CPA (K).</p>
	<p>Mrs. Jane Rotich is the Ag. Assistant Director, Procurement. She holds two Masters degree in Business Administration (Strategic Procurement) and, a Masters degree in Business Administration. She also holds a Bachelor of Arts degree and a Postgraduate diploma in Purchasing and Supplies.</p>		<p>Mr. Vincent Ngundi is the Assistant Director, Cyber Security and E-Commerce. He holds a Bachelor of Science degree in Computer Science, and a Global Executive MBA.</p>

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



CPA Maxwell Mogaka Mosoti is the Ag. Director, Competition, Tariffs and Market Analysis. He is a Certified Public Accountant of Kenya. He holds a Bachelor of Business Administration degree and Master of Science in Finance degree from the University of Nairobi.

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II. STATEMENT OF RESPONSIBILITIES

Section 83 of the Public Finance Management Act, 2012 requires an Accounting Officer for a National Government owned Entity to prepare a report for each quarter of the financial year in respect of the entity. This annual report contains information on the financial and non-financial performance of the Communications Authority of Kenya Universal Service Fund and is in a form that complies with the standards prescribed and published by the Public Sector Accounting Standards Board of Kenya from time to time. In addition, not later than fifteen days after the end of each quarter, the Accounting Officer shall submit the annual report to the Cabinet Secretary responsible for the entity and the National Treasury.

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 and the State Corporations 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 quarter ended 30th June 2020 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.

Approval of the annual financial statements

The Communications Authority of Kenya draft Universal Service Fund's annual financial statements have been prepared in accordance with Section 83 of the PFM Act and approved on 30th September 2020 and signed on behalf of the Board of Directors by:



Ag. Director General



Director Finance & Accounts

III. MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance

The revenue earned during the year ended 30th June 2020 was Kshs. 2.37 billion. This comprised of Universal Service Fund Levy of Kshs. 1.61 billion and Finance income of Kshs. 762.9 million. The expenditure incurred for the same period was Kshs. 760.7 million.

Key projects

The Authority conducted ICTs Access Gaps Study in 2016. The study identified two priority projects to be undertaken by Universal Service Fund. The two projects are: Voice Infrastructure and Services and Education Broadband Connectivity projects. The objective of the Voice Infrastructure and Services Projects is to close coverage gaps in mobile network infrastructure and services identified. The study prioritized closing of voice gaps in 202 sub-locations within the unserved areas of Kenya. The objective of the education broadband connectivity project is to deliver Internet connection to selected public secondary schools.

During the year, the Fund continued the roll out of these two priority USE projects completing (881) Education Broadband project and (55) Voice Infrastructure projects completion rate of 98% and 71% respectively. The overall completion rate of the projects is tabulated below:

Project	Total Projects	Total completion to date	Overall Completion rate (%)
Voice Infrastructure Project (Sub locations)	78	55	71%
Education Broadband Project	896	881	98%

Compliance with statutory requirements

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

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MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Major risks facing the Fund

The risks faced while implementing the USF projects are those associated with project implementation:

No.	Risk	Mitigation Measures
1.	Project Implementation inherent risks	Project planning and implementation of universal access projects, and stakeholder mapping.
2	The target areas for this project are remote areas, which are inaccessible due to poor road network.	Project planning and monitoring.
3	Reliance on a few operators who contributes over 70% Universal Service Fund Levy to the Fund.	Explore other sources of Funding for USF projects.
4	Increase in doubtful debts due to economic challenges resulting from COVID-19	Grant payment holidays and negotiate on payment plans

Material arrears in statutory and other financial obligations

The Fund has continued to honor its financial obligations as and when they fall due. Payment for the vendors was done promptly; consequently, the Fund does not have material arrears as at 30th June 2020.

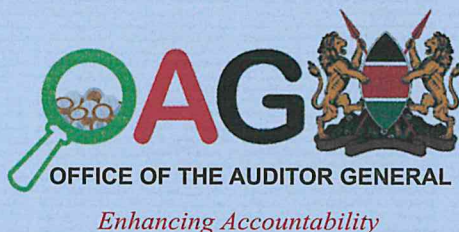
The Fund's financial probity and serious governance issues

During the financial year, there was no financial improbity and governance issues noted among the members of the Board and top management.



REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON COMMUNICATIONS AUTHORITY OF KENYA – UNIVERSAL SERVICE FUND FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Communications Authority of Kenya – Universal Service Fund set out on pages 1 to 21, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, the statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Communications Authority of Kenya – Universal Service Fund as at 30 June, 2020, 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 Kenya Information and Communications Act, Cap 411A (Revised in 2009) of Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Provision for Bad and Doubtful Debts

As disclosed in Note 11 to the financial statements, the statement of financial performance reflects an amount of Kshs.83,473,000 as provision for bad and doubtful debts. Included in the provision is an amount of Kshs.48,070,000 owed by Telkom Kenya Limited comprising of general and specific provisions of Kshs.12,017,500 and Kshs.36,052,500 respectively. However, Telkom Kenya Limited vide letter Ref. TKL/RA/CA/(LIC), dated 21 December, 2020, confirmed nil amount being owed to the Authority. However, no reconciliation was provided for audit review explaining the discrepancy of Kshs.48,070,000 between the two sets of records. Further, The National Treasury vide letter Ref.NT/ZZ/331/02 dated 29 June, 2020 committed to

provide to Telkom Kenya Limited the amount of money required to cover frequency spectrum fees for the financial years 2020 and 2021.

Under the circumstances, the accuracy and fair statement of the reported provision for bad and doubtful debts balance of Kshs.83,473,000 as at 30 June, 2020 could not be confirmed.

2. Unsupported Project Costs

The statement of financial performance reflects an expenditure of Kshs.676,789,000 under project costs which, as disclosed in Note 8 to the financial statements, includes an amount of Kshs.279,717,000 relating to Education Broadband Connectivity Program. Records indicate that the first Phase of the project which was designed to provide internet connectivity to 896 secondary schools identified by the Ministry of Education Science and Technology spread across all 47 counties in Kenya had been implemented. However, the Memorandum of Understanding between the Ministry of Education, Science and Technology and the Fund detailing the responsibility of each party during the implementation and after the conclusion of the Project for the purpose of determining the sustainability of the Project was not signed by any of the parties.

Under the circumstances, the accuracy and propriety of the expenditure of Kshs.279,717,000 in respect of the Education Broadband Connectivity Program could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Communication Authority of Kenya – Universal Service Fund Management in accordance with ISSAI 130 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 audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that,

nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Cash and Cash Equivalents

The statement of financial position reflects an amount of Kshs.10,813,431,000 under cash and cash equivalents which, as disclosed in Note 12 to the financial statements, includes an amount of Kshs.10,118,922,000 held in fixed deposits accounts in two (2) local commercial banks. However, the deposits were made without approval of the Board contrary to Section 21(1) of the Kenya Information and Communication Act, Chapter 411A that requires all deposits placement to be sanctioned by the Board. Further, approval from The National Treasury was not provided for audit review.

The Fund was in breach of the law, to this extent.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards

(Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of intention to terminate the Fund or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the

Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

As part of an audit conducted in accordance with ISSAIs, I exercise professional 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.
- 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 applicable 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 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 its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

30 November, 2021

Communications Authority of Kenya Universal Service Fund
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IV. STATEMENT OF FINANCIAL PERFORMANCE

	NOTE	Financial Year Ended Jun-19-20 Kshs ('000)	Audited Year Ended Jun-18-19 Kshs ('000)
Revenue from Non-exchange transactions			
USF Levy	6	1,615,089	1,504,224
Revenue from Exchange transactions			
Interest Income	7	762,902	697,653
Total Revenue		2,377,990	2,201,877
Operating Expenses			
Project Costs	8	676,789	769,436
Bank Charges	9	57	32
Audit Fees	10	464	464
Provision for Bad & Doubtful Debts - General	11(a)	47,420	24,358
Provision for Bad & Doubtful Debts - Specific	11(b)	36,053	0
Total Expenses		760,783	794,290
Surplus for the Period		1,617,208	1,407,587

The notes set out on pages 5 to 9 form an integral part of these Financial Statements.



Communications Authority of Kenya Universal Service Fund
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V. STATEMENT OF FINANCIAL POSITION

		Financial Year Ended Jun-19-20 Kshs ('000)	Audited Year Ended Jun-18-19 Kshs ('000)
	NOTE		
Assets			
Current Assets			
Cash & Cash Equivalents	12	10,813,431	9,452,931
Receivables from Non-Exchange transactions	13	97,205	173,440
Receivables from Exchange transactions	14	331,276	17,474
Total Assets		11,241,912	9,643,844
Liabilities			
Current Liabilities			
Trade & Other Payables	15	495,397	514,194
Advance Income	16	7,490	7,492
Total Liabilities		502,887	521,686
Net Assets		10,739,025	9,122,158
Accumulated Fund	17	10,739,025	9,122,158

The annual financial Statements set out on pages 1 to 9 were signed on behalf of the Board of Directors by:



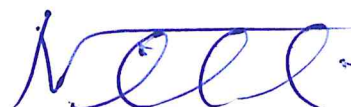
Ag. Director General
Mrs. Mercy Wanjau

Date: 30th September 2020



Director Finance & Accounts
CPA. Joseph M. Kimanga
ICPAK Membership No:4341

Date: 30th September 2020



Chairman of the Board
Mr. Ngene Gituku

Date: 30th September 2020

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VI. STATEMENT OF CASH FLOWS

		Financial Year Ended Jun-19-20 Kshs ('000)	Audited Year Ended Jun-18-19 Kshs ('000)
	NOTE		
Operating Activities			
Cash generated from/(used in) Operations	18	1,360,488	1,951,927
Net Cash generated from/(used in) Operations		1,360,488	1,951,927
CASH AND CASH EQUIVALENTS AT BEGINNING		9,452,942	7,501,000
CASH AND CASH EQUIVALENTS AT END		10,813,431	9,452,927

The Cash flow statement is to be read in conjunction with notes to and forming part of the Financial Statements as set out on pages 5 to 9.

Communications Authority of Kenya Universal Service Fund
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VII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Annual	Financial Year	Budget Balance	Year-to-Date
	Budget FY 2019/2020 Kshs ('000)	Ended Jun-19-20 Kshs ('000)	Year Ended Jun-19-20 Kshs ('000)	Realization/ Absorption (%)
Revenue from non-exchange transactions				
USF Levy	1,488,375	1,615,089	(126,714)	108.5%
Interest Income	<u>734,401</u>	<u>762,902</u>	<u>(28,501)</u>	<u>103.9%</u>
Total Revenue	2,222,776	2,377,990	(155,214)	107.0%
Expenses				
Project Costs	2,012,864	676,789	1,336,075	33.6%
Other Expenses	<u>54,256</u>	<u>83,994</u>	<u>(29,738)</u>	<u>154.8%</u>
Total Expenses	<u>2,067,120</u>	<u>760,783</u>	<u>1,306,337</u>	<u>36.8%</u>

Budget note

1. The planned projects are in various stages of completion and payment are expected to be made in the subsequent financial year 2020/2021.
2. The low absorption of project funds was due to COVID-19 and insecurity hindering installations in the remote locations.
3. Included in the approved budget of Kshs. 2.01 billion were Government Services Automation projects amounting to Kshs. 1.06 billion that was deferred to financial year 2020/2021 due to late budget approvals.

VIII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

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

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

Standard	Impact
IPSAS 40:	Applicable: 1st January 2019
Public Sector Combinations	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 are covered purely under Public Sector combinations as amalgamations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

ADOPTION OF NEW AND REVISED STANDARDS (Continued)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

Standard	Effective date and impact:
IPSAS 41:	Applicable: 1st January 2022:
Financial Instruments	<p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
IPSAS 42:	Applicable: 1st January 2022
Social Benefits	<p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the entity;</p> <p>(b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</p>

iii. Early adoption of standards

The Authority did not have early adoption of any new or amended standards in year 2020.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

Levy

The Fund recognizes revenues at the rate of 0.5% of licensable revenue. The income is recognised upon issuance of an annual operating license and frequency licence fees.

ii) Revenue from exchange transactions

Interest income

The net 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 are no basis, timing or differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Taxes

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Authority operates and generates taxable income. The Fund is tax-exempt as per the Public Financial Management Act 2012 Regulations 2015 (219) (3). Management periodically evaluates positions taken in the tax legislations with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

d) Property, plant and equipment

The Fund does not own any property plant and equipment.

e) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through statement of

Communications Authority of Kenya Universal Service Fund
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

financial performance, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

Receivables

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

Impairment of financial assets

The 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

Financial liabilities

Initial recognition and measurement

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

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

f) Provisions

Provisions are recognized when the 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.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Contingent liabilities

The Fund did 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 did not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

g) Nature and purpose of reserves

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

h) Changes in accounting policies and estimates

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

i) Foreign currency transactions

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

j) Related parties

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

k) Cash and cash equivalents

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

l) Budget information

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

m) Comparative figures

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

n) 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, 2020.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**4 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION
UNCERTAINTY**

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

Estimates and assumptions

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. Assumptions were used in determining the provision for bad debtors based on long outstanding non-payment and various cancellations and revocation.

5 REVALUATION OF ASSETS

The Fund does not own any physical assets hence no revaluation has been undertaken.

Communications Authority of Kenya Universal Service Fund
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NOTES TO THE FINANCIAL STATEMENTS

6. REVENUE FROM NON-EXCHANGE TRANSACTIONS

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
USF Levy - Broadcasting Sector	72,015	0
USF Levy - Telecommunications Sector	1,513,839	1,480,444
USF Levy - Postal & Courier Sector	29,235	23,781
	<u>1,615,089</u>	<u>1,504,224</u>

The Levy is derived from Licensable services at the rate of 0.5% in the broadcasting, multimedia, telecommunications, electronic commerce, postal and courier services

7. REVENUE FROM EXCHANGE TRANSACTIONS

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Cash Investments and fixed deposits	897,531	820,768
Withholding Tax 15% Deducted at Source	(134,630)	(123,115)
	<u>762,902</u>	<u>697,653</u>

The Fund earned interest income is derived from investments in term and call deposits and withholding income Tax deducted at source

8. PROJECT COSTS

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Education Broadband Connectivity Program	297,717	413,913
Voice Infrastructure Projects	379,072	355,523
	<u>676,789</u>	<u>769,436</u>

Included in the Projects costs are Works In Progress totalling Kshs. 344,784,682 for the supply of (1) Voice Infrastructure Projects Kshs. 236,453,842 comprising (Safaricom Plc Kshs. 106,657,047; Telkom (K) Ltd Kshs. 129,796,795) Education Broadband Projects Kshs. 108,330,840 comprising (Xtranet Limited Kshs. 46,702,147; Liquid Telecom Kshs. 51,628,692)

9. BANK CHARGES

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Bank Charges	57	32

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. AUDIT FEES

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Audit Fees	464	464
	<u>464</u>	<u>464</u>

11. BAD & DOUBTFUL DEBTS

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Bad & Doubtful debts Provision - General	47,420	24,358
Bad & Doubtful debts Provision - Specific	36,053	0
	<u>83,473</u>	<u>24,358</u>

The Bad Debts Provision is as per the Policy (1Year - 25%, 1-2 Years - 50% & 2-3 Year - 100%).
The specific provision relates to a Licensee's outstanding fees that Management is pursuing.

12(a). CASH & CASH EQUIVALENTS

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Current Accounts	475,121	6,479,083
Call Deposits	219,388	219,388
Fixed Deposits	<u>10,118,922</u>	<u>2,754,459</u>
	<u>10,813,431</u>	<u>9,452,931</u>

12(b). CURRENT ACCOUNTS

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Cooperative Bank of Kenya A/c No. 01136154597800	473,605	6,477,556
NCBA Bank PLC A/c No. 7910850017	<u>1,516</u>	<u>1,527</u>
	<u>475,121</u>	<u>6,479,083</u>

12(c). ON CALL DEPOSITS

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Cooperative Bank-CALL	<u>219,388</u>	<u>219,388</u>

Communications Authority of Kenya Universal Service Fund
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12(d). FIXED DEPOSITS

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Cooperative Bank-FIXED	7,140,794	(0)
NCBA Bank PLC-FIXED	2,978,127	2,754,459
	<u>10,118,922</u>	<u>2,754,459</u>
GRAND TOTAL	<u>10,813,431</u>	<u>9,452,931</u>

13. RECEIVABLES FROM NON EXCHANGE TRANSACTIONS

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
USF Levy Receivables	389,881	287,125
Accum. Provisions for Bad & Doubtful Debts	(293,405)	(209,932)
Related Party - Assets	729	96,247
	<u>97,205</u>	<u>173,440</u>

Related Party - Assets are refer to Licensee's inadvertently depositing Levy in the Authority's bank accounts instead of the Fund's bank accounts; this position is regulaely reconciled and settled.

14. RECEIVABLES FROM EXCHANGE TRANSACTIONS

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Accrued Interest	331,276	17,474
	<u>331,276</u>	<u>17,474</u>

15. TRADE AND OTHER PAYABLES

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Accounts Payables	493,489	506,842
Accruals	1,798	928
Related Party - Liability	110	6,424
	<u>495,397</u>	<u>514,194</u>

Related Party - Liability refer to Licensee's inadvertently depositing License Fees in the Fund's bank accounts instead of the Authority's bank accounts; this position is regulaely reconciled and settled.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. ADVANCE INCOME

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Payments Received in Advance	7,490	7,492
	<u>7,490</u>	<u>7,492</u>

Payments received in advance refer to License fees paid in advance and are retained in the Licensee account until utilized in subsequent period billing.

17. RETAINED EARNINGS

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Retained Earnings B/fwd	9,121,818	7,714,571
Surplus for the Period	1,617,208	1,407,587
	<u>10,739,025</u>	<u>9,122,158</u>

18. CASH GENERATED FROM OPERATIONS

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
a) Cash generated from/(used in) operations		
Surplus before remittances	1,617,208	1,407,587
Non Cash adjustments on Retained Earnings	58	0
	<u>1,617,266</u>	<u>1,407,587</u>
b) Changes in Working Capital adjustments		
Increase/Decrease in Receivables from Non Exchange Transactions	69,340	33,469
Increase/Decrease in Receivables from Exchange Transactions	(313,802)	12,351
Increase/Decrease in Receivables Trade & Other Payables	(12,315)	498,483
Increase/Decrease in Receivables Advance Income	0	37
	<u>(256,777)</u>	<u>544,340</u>
Net Working Capital Changes		
	<u>(256,777)</u>	<u>544,340</u>
Net cash flows from operating activities	<u>1,360,488</u>	<u>1,951,927</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 FINANCIAL RISK MANAGEMENT

The Communications Authority of Kenya Universal Service Fund's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The key approach to risk management is to provide reasonable assurance to stakeholders that the organization's business is adequately controlled. The Fund does not hedge any risks.

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

(i) Credit risk

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

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

19. FINANCIAL RISK MANAGEMENT

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Receivables from non-exchange transactions	97,205	173,440
Bank balances	<u>10,813,431</u>	<u>9,452,931</u>
	<u>10,910,636</u>	<u>9,626,370</u>

The credit risk associated with these receivables is minimal. The Board of Directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

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

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

Description	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2020				
Trade payables	-	493,599	1,798	495,397
At 30 June 2019				
Trade payables	-	513,266	928	514,194

(iii) Market risk

The Board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an on-going basis, evaluate and test the design and effectiveness of its internal accounting and operational controls. Market risk is the risk arising from changes in market prices, such as interest rate and foreign exchange rates which will affect the Fund's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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

(iv) Interest rate risk

Interest rate risk is the risk that the Fund's financial condition may be adversely affected as a result of changes in interest rate levels. The Fund's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

b) Management of interest rate risk

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

c) Capital Risk Management

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

	FY 2019-2020	FY 2018-2019	FY 2017-2018
	Kshs ('000)	Kshs ('000)	Kshs ('000)
Retained earnings	<u>10,739,025</u>	<u>9,122,158</u>	<u>7,714,568</u>
Total funds	10,739,025	9,121,158	7,714,568
	=====	=====	=====
Less: cash and bank balances	10,813,431	9,452,931	7,501,000
Net debt/(excess cash and cash equivalents)	(74,405)	(330,773)	213,567
Gearing	-0.69%	-3.63%	2.77%

20 RELATED PARTY BALANCES

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

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

Top Management Remuneration and Advances

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

Communications Authority of Kenya

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Amount Receivable from CA	729	96,247
	=====	=====
Amount Payable to CA	110	6,424
	=====	=====

21 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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

22 CAPITAL COMMITMENTS

	FY 2019-2020	FY 2018-2019
	Kshs ('000)	Kshs ('000)
Authorised and contracted for	10,739,025	9,122,158
	=====	=====

23 DIVIDENDS/SURPLUS REMISSION

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

24 EVENTS AFTER THE REPORTING PERIOD

The Fund is monitoring the effects of COVID-19 on its operations. However, there were no material adjusting and non- adjusting events after the reporting period.

25 ULTIMATE AND HOLDING ENTITY

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

26 CURRENCY

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

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IX. APPENDIX IX: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS


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

Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Time frame:
01/USF	<p>Information available for audit and as indicated in the chairman's statement on the financial statements; the Fund was implementing the Education Broadband Connectivity Project in conjunction with the ministry of Education, Science and Technology at a total cost of Kshs. 828, 370376. However, the following anomalies were noted in the implementation of the project:</p> <p>i. There was no signed agreement between the Fund and the Ministry that was provided for audit examination and therefore the implementation framework was not clear. The document submitted an alleged to support the cooperation was neither signed nor dated by any of the parties.</p> <p>ii. The Fund entered into three contracts with suppliers to support the implementation of the Education Broadband Connectivity project on 21st April 2017. The contracts had an implementation timeline of nine months and subsequent support period of four years after the implementation but the implementation had not been completed as at the time of audit in May 2019 which was in excess of two years. No evidence of contract extension was provided to validate the continued implementation of the project for over one year outside the contracted implementation timelines.</p> <p>iii. Although the contract had specific payment schedule with 50% (Kshs. 196,617,702) of implementation fee being payable after six months after signing of the contract and the other 50% (Kshs. 196,617,702) being</p>	<p>The Authority has engaged with Ministry of Education, Science and Technology to conclude signing of the agreement. Additionally, we are in the process of extending the contracts.</p>	Director USF	Pending	30 th June 2021

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Reference No.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Time frame:
	<p>payable after nine months after the signing of the contract. No expenditure has been accrued and reflected in the financial statements</p> <p>Consequently, the accuracy of the project costs of Kshs. 124,535,000 as reflected in the statement of financial performance for the year ended 30 June 2018 could not be confirmed.</p>				


Ag. Director General
 Date: 30th September 2020


Chairman of the Board
 Date: 30th September 2020

X. APPENDIX X: PROJECTS IMPLEMENTED BY THE ENTITY

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

XI. APPENDIX XI: INTER-ENTITY TRANSFERS

During the Financial year 2019/2020, the Communications Authority of Kenya Universal Fund did not receive recurrent nor development grants, direct receipts nor direct payments from other entities.

XII. APPENDIX XII: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

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

