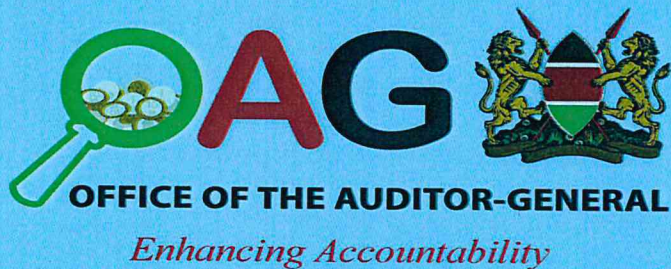


REPUBLIC OF KENYA



THE NATIONAL ASSEMBLY  
PAPER NO. 1470

**REPORT**

DATE: 16 FEB 2023 DAY: Thursday

TABLED BY: Lom

OF

COMMITTEE: Joyce Hemereue

THE TABLE:

**THE AUDITOR-GENERAL**

**ON**

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

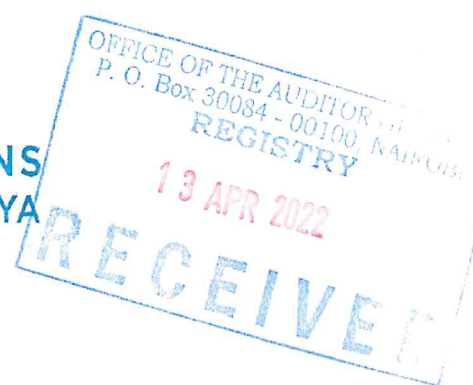
**FOR THE YEAR ENDED  
30 JUNE, 2021**







**COMMUNICATIONS  
AUTHORITY OF KENYA**



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**UNIVERSAL SERVICE FUND**  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2021**

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**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 Financial Statements**  
**For the Year Ended 30 June 2021**

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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) Key Management**

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

- Board of Directors
- Universal Service Advisory Council
- Director General
- Management

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2021 and who had direct fiduciary responsibility were:

| No. | Designation  | Name                   |
|-----|--|------------------------|
| 1.  | Ag. Director General                                 | Mrs. Mercy Wanjau, MBS |
| 2.  | Head of Corporate Services                           | Mr. Christopher Wambua |
| 3.  | Head of Finance & Accounts                           | CPA Joseph Kimanga     |
| 4.  | Ag. Head of Procurement                              | Mrs. Jane Rotich       |
| 5.  | Head of Risk Mgt & Internal Audit                    | CPA Rosalind Murithi   |
| 6.  | Head of Human Capital & Administration               | Mr. Juma Kandie        |
| 7.  | Head of USF  | Mr. Christopher Kemei  |
| 8.  | Head of Frequency Spectrum Management                | Mr. Tom Olwero         |
| 9.  | Head of Licencing Compliance and Standards           | Mr. Matano Ndaro       |
| 10. | Head of IT & ERM                                     | Mr. Michael Katundu    |
| 11. | Head of Multimedia Services                          | Eng. Leo K. Boruett    |
| 12. | Ag. Head of Competition, Tariffs and Market Analysis | CPA Mawell M. Mosoti   |
| 13. | Head of Cyber Security                               | Mr. Vincent Ngundi     |



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**KEY FUND INFORMATION AND MANAGEMENT (Continued)**

**(e) Fiduciary Oversight Arrangements**

The key fiduciary oversight arrangements include:

- Audit and Risk Committee
- Finance committee
- Parliamentary Oversight Committees

**(f) Universal Service Fund Headquarters**

Universal Service Fund

P. O Box 14448 - 00800

CA Centre, Waiyaki Way

Nairobi, KENYA

**(g) Universal Service Fund Contacts**

Telephone: (254) 703 042 000

E-mail: [info@ca.go.ke](mailto:info@ca.go.ke)

Website: [www.ca.go.ke](http://www.ca.go.ke)

**(h) Universal Service Fund 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 00100

Nairobi, Kenya

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**KEY FUND INFORMATION AND MANAGEMENT (Continued)**

**(i) Independent Auditors**

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

**(j) Principal Legal Adviser**

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



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**II. THE BOARD OF DIRECTORS**



**Sen. Kembi Gitura, MGH** born in 1954 was appointed Chairman of the Board of the Communication Authority of Kenya for a three-year term with effect from 18<sup>th</sup> April 2021.

He holds a Bachelor of Laws Degree from the University of Nairobi and is an Advocate of the High Court of Kenya. He is a member of the Law Society of Kenya, the East Africa Law Society, and is the Senior Partner in the law firm of Kembi-Gitura & Company, Advocates.

He has many years work experience in the Public Service having served as the Member of Parliament for Kiharu Constituency, Assistant Minister for Agriculture, Assistant Minister for Foreign Affairs, Kenya Ambassador to the Kingdom of Belgium, Duchy of Luxembourg and the European Union, Senator for Murang'a County and Deputy Speaker of the Senate. He is the immediate past Board Chairman of the Kenya Medical Supplies Authority (KEMSA).



**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 three-year term ended on 17<sup>th</sup> April 2021.



**Ms. Mercy Wanjau, MBS** born in 1972, is the Acting Director General of the Communications Authority of Kenya. Mrs. Wanjau served as the Director Legal Services from 1<sup>st</sup> 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 22<sup>nd</sup> August 2019.

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**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.

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 14<sup>th</sup> Jan 2020.



**Dr. (Eng.) Karanja Kibicho, CBS** 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** born in 1960 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.



**Ms. Patricia Kimama** Born in 1973, Ms. Patricia Kimama was first appointed to the CA Board of Directors on 29th April 2016 for a period of three years that lapsed on 28<sup>th</sup> April 2019. She was reappointed for a further three-year term effective 6<sup>th</sup> January 2020.

Ms. Kimama holds a Post Graduate Degree in Senior Management Leadership Program from the Strathmore University, a Master's Degree in Project Management from George Washington University, a Master's Degree in Business Administration (Strategic Management) from the Daystar University and an Undergraduate Degree in Bachelors of Science from Moi University.

She has 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.



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She has extensive experience in operation strategy and business transformation, and is currently the Chief Operations Officer at Britam Asset Managers. She serves as the Chairperson of the Staff & Administration committee and Finance committees.



**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 20<sup>th</sup> May 2014 and reappointed in 29<sup>th</sup> April 2016 for a further term of three (3) years that lapsed on 28<sup>th</sup> April 2019.

He was reappointed for a further term of three (3) years effective 6<sup>th</sup> January 2020. He serves as the Chairperson of the Technical and Broadcasting Stands 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 29<sup>th</sup> April 2016 for a period of three (3) years that lapsed on 28<sup>th</sup> April 2019. She was reappointed for a further term of three (3) years effective 6<sup>th</sup> January 2020. She serves as the Chairperson of the Audit & Risk committee.

#### **ALTERNATE BOARD DIRECTORS**



**Mr. Christopher Guyo** born in 1967, is the Alternate Director to the Cabinet Secretary, The National Treasury. He is a seasoned Human Resource professional with over 18 years experience.

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

He holds MBA in Human Resource Management from the University of Nairobi and currently

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pursuing his Doctor in Business Administration at the Catholic University of Eastern Africa. He also holds a Bachelor of Education (Arts) degree from Moi University, Higher National Diploma in HRM, and Practitioners Diploma in Executive Coaching from Academy of Executive Coaching and an Advanced Certificate in Strategic HR Management from Cornell University, USA. Mr. Guyo is a member of the Institute of Human Resource Management (IHRM) - Kenya, and HR Council member for the Kenya Institute of Management. He was appointed effective 17<sup>th</sup> July 2020.



**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 of Business Administration degree from New Port University. He has extensive experience in planning and coordinating international, regional and local conferences and is currently Director of State functions.

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

He was appointed effective 7<sup>th</sup> February 2018.



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

She holds a Master of Business Administration (Public Service International) from The University of Birmingham in UK; is a University of Nairobi Scholar with a Master of Arts in Political Science and Public Administration as well as a Bachelor of Arts Degree in Government.

She is an accomplished Administrative Officer and Policy Analyst with an illustrious service, through the ranks, spanning over 20 years in the Public Service, more specifically at the Ministry of ICT, Innovation and Youth Affairs, Executive Office of the President and Office of the Deputy President, Attorney General's Chambers and Public Service Commission.

In 2016 she was conferred a National Honour, 2nd Class in the Order of the Burning Spear, Moran of the Order of the Burning Spear (MBS) for her distinguished and dedicated service to the Nation.

She also earned the Government of Kenya Scholarship to the University of Birmingham, UK and University of Nairobi Postgraduate Scholarship.

She was appointed effective 3<sup>rd</sup> May 2019.



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**III. UNIVERSAL SERVICE ADVISORY COUNCIL**



**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). He was appointed for a period of three (3) years, with effect from the 10<sup>th</sup> August, 2017. The term of office expired on 9<sup>th</sup> August 2020.



**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. He was appointed for a period of three (3) years, with effect from the 10<sup>th</sup> August, 2017. The term of office expired on 9<sup>th</sup> August 2020.



**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. He was appointed for a period of three (3) years, with effect from the 10<sup>th</sup> August, 2017. The term of office expired on 9<sup>th</sup> August 2020.

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**IV. MANAGEMENT TEAM**



**Ms. Mercy Wanjau**, MBS born in 1972, is the Acting Director General of the Communications Authority of Kenya. Mrs. Wanjau served as the Director Legal Services from 1<sup>st</sup> 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 22<sup>nd</sup> August 2020.



Kenya - CPA (K).

**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



**Mr. Christopher Kemei** is the Director, Universal Service Fund. He holds Masters degree in Operational Telecommunications



**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. 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.



**Mr. Tom Olwero** is the Director, Frequency Spectrum Management. He holds a B.Sc. in Electrical Engineering and a Masters of Business Administration (Management).



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Telecommunications.

**Mr. Matano Ndaró** 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



**Mr. Michael Katundu** is the Director, Information Technology and Enterprise Resource Management. He is a holder of a MSc. and BSc.in Computer Science.



in Business Administration

**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



Public Relations from the Chartered Institute of Public Relations and a degree in Education.

**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



Science in Finance degree from the University of Nairobi.

**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



degree and a Postgraduate diploma in Purchasing and Supplies.

**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



**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.



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**V. CHAIRMAN'S STATEMENT**

On behalf of the Board of Directors, Management and Staff of the Communications Authority of Kenya, it is my pleasure to present this report, on the activities undertaken during the Financial Year 2020/2021 ended 30<sup>th</sup> June 2021, towards of the Mandate of the Universal Service Fund. With the growth of Kenya's digital economy as envisioned under the Digital Economy Blueprint: Powering Kenya's Transformation (2019), the need for connectivity cannot be gainsaid.

During the reporting period, the Authority registered a number of notable achievements, and has continued to work harmoniously with stakeholders, with the aim of nurturing collaborative frameworks and strategic partnerships for the roll out of essential digital services in the public sector through deployment of broadband/ ICT infrastructure.

Key amongst these achievements are the accomplishments realised by the Universal Service Fund. During the reporting period, the Authority actively engaged with the National Government Administration Office (NGAO) both at the regional and county levels and other key stakeholders. I am delighted to note that this initiative significantly contributed to the resolution of reported challenges including insecurity and community resistance, that had hampered expeditious completion of the 1st Phase of the Cellular Mobile Network Infrastructure and Services Project.

Subsequently, the Authority completed the tendering of the 2nd Phase of the Cellular Mobile Network Infrastructure and Services Project and signed contracts with two (2) Tier 1 service providers for provision of active infrastructure Components and four (4) service providers for provision of passive infrastructure components.

In line with its objective to support expansion of communication services to schools, health facilities and other organizations serving public needs, the Authority partnered with the National Police Service and extended its support towards the implementation of the Automation of the Occurrence Book and the Crime Management System. During this reporting period, the Authority procured 681 desktop computers, an equal number of UPSs and 106 All-in-One printers for the pilot phase of this project.

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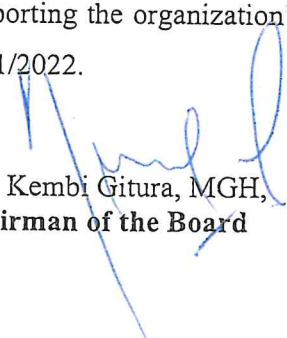
Additionally, the Authority obtained approval for the implementation of the Open Education Resource (OER) portal of the Kenya Education Cloud (KEC) Project in partnership with the Kenya Institute of Curriculum Development (KICD). In this regard, the two institutions entered into a collative agreement and finalized on the signing of the Memorandum of Understanding (MOU) and the Technical Cooperation Agreement (TCA).

Towards our initiation of universal access projects targeting the development of the Broadcasting and Postal sub-sectors, the Authority initiated baseline surveys to establish existing gaps in these two (2) sub-sector. It is worthwhile noting that considerable project milestones were covered during this period and the drafting of the survey recommendations to inform access project development for these two (2) sub-sectors are at an advanced stage.

In its spirit of upholding partnerships and collaboration, I am further pleased to report that the Authority in partnership with the Foreign Commonwealth and Development Office (FCDO) of the United Kingdom (UK) Government, under the Digital Access Program (DAP), accomplished the task of updating the national ICT Access Gap Study – 2021. This was a key achievement for the Universal Service Fund, as the study recommendations lay a firm foundation for the development of the Fund's next five (5) year Strategy that will guide the achievement of the established digital access and inclusivity objectives.

In conclusion, I would like to express my sincere gratitude to the Ministry of ICT, Innovation and Youth Affairs, ICT service providers, strategic partners, all other stakeholders and the general public for continued invaluable support to the Authority as it strives to ensure a digitally transformed society.

I further wish to acknowledge the dedicated service and commitment of the members of the Board, Management and the Staff of the Authority for their invaluable contribution and enthusiasm in supporting the organization's mandate. I look forward to more fruitful engagements in the new FY 2021/2022.

  
Sen. Kembi Gitura, MGH,  
Chairman of the Board

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**VI. REPORT OF THE DIRECTOR GENERAL**

The Kenyan ICT sector continues to record growth with significant increase in the number of Kenyans accessing various ICT services. As the ICT industry regulator, the Authority continues to discharge its' mandate in issuance of licenses, managing frequency spectrum, ensuring a level playing field, facilitating a safer cyber space and providing consumer education, among others.

During the Financial Year ended June 2021, the active Sim Card users stood at 62 million translating to a mobile telephone penetration rate of 130.2%, while the broadband subscriptions users hit 26 million, 54.1% increase compared to the previous year.

The growth is attributed to the various regulatory initiatives undertaken by the Authority, that not only spurred the uptake of ICTs services by consumers but also provided a conducive investment environment.

In the financial year under review, the Authority processed 805 new licenses from a pool of 917 applications, 587 of these having being received within the financial year, while 330 were applications carried forward from FY 2019/20. The Authority also received and approved 6 interconnection applications.

To ensure license condition compliance, the Authority conducted 180 inspections and undertook enforcement action through issuance of license revocation notices to 21 Postal and Courier operators due to violation of license conditions. The overall level of compliance within the period was 61.7% against an annual target of 60%.

In the broadcasting sector, the proportion of the population under Digital Terrestrial Television (DTT) network coverage stood at 91.2% of the population. The number of commercial free-to-air (FTA) television stations on air stood at 130. The number of other television broadcasting categories remained at three (3) and two (2) for Public Free To Air TV and Community Free To Air TV respectively. The number of FM radio stations was 131 for Commercial FM radio, 13 for Public FM radio and 42 for Community FM radio stations.

The Authority, through the Universal Service Fund, (USF) finalized construction of voice infrastructure projects in Seven (7) (Badasa, Songa, Kituruni, Bonge, Gase, El-Rhamu and Kutaya)



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out of the eleven (11) pending sub-locations.

The Authority also carried out Quality of Service (QoS) measurement and enforcement across the country. The overall level of QoS stood at 85.61 per cent as at the end of the Financial Year.

The Authority through, the National KE-CIRT/CC continues to carry out cyber awareness in an effort to counter harmful online practices. During the year, KE-CIRT detected 158,406,733 cyber-threats and issued 95,283 cyber-threat advisories to various stakeholders. In line with the Government objective on reduction of the impact of the Covid- 19 pandemic, the Authority developed a mobile android and iOS based application platform to enable enquiries and reporting of cyber security incidents.

In order to create greater awareness on the Authority's mandate of consumer protection, a number of consumer awareness initiatives were carried out, including, development of Consumer Protection Guidelines and Industry customer care standards and the industry Guidelines on Child Online Protection. The Authority also implemented consumer education during the Safer Internet Day, International Day of the Girl, KARA Forum on Child Online Protection during the annual ICT week.

The financial position of the Fund as at June 2021 is as follows; As at 30<sup>th</sup> June 2021, the Universal Service Fund had accumulated fund value of Kshs. 12.85 billion compared to 10.73 billion the previous year. The Fund utilized a total of Kshs. 339.62 million compared to Kshs., 760.78 million the previous year. The fund had no pending bills as at the close of financial year 2020/2021.

The Telecommunications sector remains intrinsic to the country's economic growth, with data infrastructure becoming an essential enabler for other sectors. These significant achievements point towards a positive future for the ICT sector in Kenya.



Mrs. Mercy Wanjau, MBS  
**Ag. Director General**

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**VII. STATEMENT OF THE UNIVERSAL SERVICE FUND'S PERFORMANCE  
AGAINST PREDETERMINED OBJECTIVES FOR THE FY 2020/21**

CA has three (3) Key Result Areas (KRA) and eight (8) strategic objectives within its Strategic Plan for the FY 2018/2019- 2022/2023. These strategic pillars are as follows:

- ✓ KRA 1: Access and Market Development
- ✓ KRA 2: Enabling Environment
- ✓ KRA 3: Capacity Development

CA develops its annual work plans based on the above 3 key result areas. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Authority achieved its performance targets set for the FY 2020/2021 period for its 3 strategic pillars, as indicated in the table below:

| KRAs                           | Strategic Objectives                     | Key Performance Indicators  | Activities   | Achievements  |
|--------------------------------|--|---|--|---|
| Access and Market Development: | Achieve Universal Access to ICT Services | Roll out of ICT services in the underserved and un-served areas<br>Increased connectivity to ICT services | Support infrastructure development (mobile network connectivity)<br>Identify the   | Cumulatively Infrastructure rolled out in 75 out of 78 target sub-locations.  |
|                                |  |   | actual smart phone users and mobile telephony users (total population with a mobile telephony) as a percentage of total population | Signed contracts with 5 service providers for the roll out of phase II voice infrastructure project and approved initial project designs. |
|                                |  |   |  | Updated the Access gaps report in partnership with DFID.  |

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| KRAs | Strategic Objectives | Key Performance Indicators | Activities | Achievements  |
|------|----------------------|----------------------------|------------|---|
|      |                      |                            |            | Automation of the National Police Service Occurrence Books at 57 % level of implementation                        |
|      |                      |                            |            | The smart phone penetration and mobile ownership stands at 39.3 and 47.3 per cent of the population respectively. |



## **VIII. CORPORATE GOVERNANCE STATEMENT**

### **a) Fiduciary Oversight Arrangements**

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

#### **i. Finance Committee**

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

#### **ii. Audit and Risk Committee**

The Audit and Risk Committee is created to provide oversight by offering objective advice and recommendations to the Board on whether the Authority's governance, risk management, and internal control processes are suitably designed and working as intended to achieve objectives. The membership is non-executive/independent board members.

#### **iii. Staff and Administration Committee**

The Staff and Administration Committee is established mainly to give recommendations and advise to the Board on personnel matters, policies and procedures and on issues of administration of the assets of the Authority.

#### **iv. Technical Committee**

The Technical Committee is established mainly to give recommendations and advise to the Board on Technical and Regulatory matters in the ICT sector.

#### **v. Broadcasting Standards Committee**

The Broadcasting Standards Committee is established to give recommendations and advise to the Board on all broadcasting matters. This committee is established vide KICA (Amendment) Act, 2013, section 7 (f) establish a broadcasting standards committee and such other committees as may be necessary to carry out its functions;

#### **vi. Universal Service Advisory Council**

The term of office of the Members of the Council expired on 9<sup>th</sup> August 2020, hence could not form a quorum for meeting during the financial year 2020/2021.

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**b) During the Financial Year, the Board of Directors held Meetings as follows:**

|                 | Name of Board Member  | Full Board | Finance Committee | Technical Committee | Broad casting | Staff and Administrative Matters Committee | Board Audit and Risk Committee | Total | %    |
|-----------------|-----------------------|------------|-------------------|---------------------|---------------|--|--------------------------------|-------|------|
| No. of Meetings |                       | 14         | 6                 | 12                  | 5             | 6  | 4                              | 47    |      |
| 1               | Ben Gituku            | 10         | -                 | -                   | -             | -  | -                              | 10    | 100% |
| 2               | Sen. Kembi-Gitura     | 4          | -                 | -                   | -             | -  | -                              | 4     |      |
| 3               | Levi Obonyo           | 14         | 5                 | 12                  | 5             | 6  | -                              | 42    | 98%  |
| 4               | Patricia Kimama       | 14         | 6                 | -                   | -             | 6  | -                              | 26    | 100% |
| 5               | Kentice Tikolo        | 14         | -                 | 12                  | 5             | -  | 4                              | 35    | 100% |
| 6               | Christopher Huka Guyo | 14         | 6                 | 9                   | 5             | 4  | 3                              | 41    | 87%  |
| 7               | Peter Wanjohi         | 14         | 6                 | 12                  | 5             | 6  | 4                              | 47    | 100% |
| 8               | Juliana Yiapan        | 14         | 6                 | 12                  | 5             | 6  | 4                              | 47    | 100% |
| 9               | Kennedy Ondieki       | -          | -                 | 2                   | -             | 1  | -                              | 3     | 100% |

**(c) Board and Members' Performance**

The Board of Directors carries out an annual Board Evaluation exercise facilitated by the State Corporations Advisory Committee. The Board Evaluation session for the current Financial Year was carried out on 22nd July, 2021. The results of the exercise are awaited. The result of the evaluation is deliberated by Members of the Board, and action plan for areas of low performance is also agreed upon.

The operations of the Board are guided by a Board Charter, which outlines and elaborates on the various Committees of the Board and their Terms of Reference. The Board Charter also outlines the modalities of execution of Board business.

**(d) Members Trainings and Induction**

During the Financial Year under review, Members of the Board attended the following trainings as part of continuous capacity building for members:

1. Workshop for Board Audit and Finance Committees by Institute of Internal Auditors – 18th – 20th November, 2020
2. Training on 5G by Huawei – 2nd December, 2021
3. Governance and Leadership in Disruptive Environment Workshop – 24th to 26th March 2021

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Management arranges for induction sessions/retreats for newly appointed members. During the Financial Year, Management arranged for a one-week induction for the newly appointed Chairman, Sen. Kembi Gitura. The induction retreat was held between 2nd and 5th June 2021.

***(e) Board Succession Plan***

Succession planning for the Board is managed by ensuring that there is a staggered recruitment and appointment of Board Members by the appointing authority. The First batch of the Board members was appointed on 6<sup>th</sup> January 2020 anticipating the other batch of four (4) Board members will be done later to ensure continuity and succession planning at the Board Level.

***(f) Process of Appointment and Removal of Directors***

Following the enactment of the Miscellaneous Amendment Act, 2018, the Appointment of the Chairman of the Board rests with the President, while the Members of the Board are appointed by the Cabinet Secretary. The Act was challenged in court and declared unconstitutional for want of concurrence by the Senate before enactment, amongst other grounds (*Petition No. 284 of 2019 and 383 of 2019 (Consolidated), Senate and 4 others Vs. Speaker of the National Assembly and Others*).

The position however still obtains as at the date of reporting, as the court contemporaneously suspended the decision for nine (9) months with effect from 30<sup>th</sup> October, 2020. Previously, both the Chairman and the Board Members were competitively recruited.

Section 6(2) of the Kenya Information and Communications Act (KICA) provide that in appointing the members of the Board under subsection (1)(e), the Cabinet Secretary shall ensure-

- (a) that the appointees to the Board reflect the interests of all sections of society;
- (b) equal opportunities for persons with disabilities and other marginalised groups; and
- (c) that not more than two-thirds of the members are of the same gender. Section 6D of the Act also provides on how members may vacate office.



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***(g) Roles and functions of the Board***

The Board of Directors has the oversight role on the governance of the Authority in the discharge of its roles. It provides strategic direction and guidance for the Authority. The specific powers of the Board are provided for under section 7 of KICA as follows:

***(h) Conflict of Interest***

The Authority has a Conflict-of-Interest Policy. The Board of Directors and Management are acutely aware of the need for disclosure of Conflict of interest in all matters in which members deliberate upon. A conflict-of-interest Register is maintained in respect of all meetings, and Board Members are required to acknowledge absence of conflict of interest in all matters on Agenda. This applies to all Management Meeting.

***(i) Board remuneration***

Board Members of the Authority are remunerated strictly on the basis of applicable Circulars on remuneration of Board Members. The remuneration of Board Members is also guided by KICA, which provides at section 10 that the Board, in consultation with the Minister, shall pay to members of the Board such remuneration, fees or allowances for expenses as it may determine.

***(j) Governance audit***

During the financial year, the Authority procured an external consultant to conduct a Governance Audit. The Audit will be for up to the Financial Year ended 2020/2021. The Audit is expected to provide an opportunity to enhance the governance systems of the Authority.

***(k) Ethics and conduct***

The Authority has a Code of Ethics, applicable to both members of staff and Board Members.

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**IX. MANAGEMENT DISCUSSION AND ANALYSIS**

**Operational and Financial Performance**

The revenue earned during the financial year FY2020/21 was Kshs. 2.45 billion compared to Kshs. 2.37 billion in FY 2019/20. This comprised of Universal Service Fund Levy of Kshs. 1.62 billion and Finance income of Kshs. 822.01 million. The expenditure incurred for the same period was Kshs. 339.62 million compared to Kshs. 760.78 million in FY 2019/20.

**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 USF projects completing (881) Education Broadband project and (76) Voice Infrastructure projects completion rate of 97% and 71% respectively. The overall completion rate of the projects is tabulated below:

| <b>Project</b>                               | <b>Total Projects</b> | <b>Total completion to date</b> | <b>Overall Completion rate (%)</b> |
|--|-----------------------|---------------------------------|------------------------------------|
| Voice Infrastructure Project (Sub locations) | No. 78                | 76                              | 97%                                |
| Education Broadband Project                  | No. 881               | 881                             | 100%                               |
| Government Services Automation (Phase I)     | Kshs. 212m            | Kshs. 72m                       | 34%                                |

Due to security operations during the year, there were two incomplete Voice Infrastructure Project sub locations are outlined as follows:

1. Lopet in West Pokot, the project is 20% complete
2. Elkayo in Turkana the project was recently completed and awaiting inspection and acceptance.

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**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

**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.

**Major risks facing the Fund**

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

| No. | Risk   | Mitigation Measures   |
|-----|--|---|
| 1   | Possible duplication of efforts in the implementation of government digitization projects in public institutions | Enhance project pre-feasibility and feasibility and feasibility to include stakeholder consultations targeting relevant government agencies     |
| 2   | Inadequate projects sustainability models  | Enforcing project governance encompassing inclusion of project sustainability mechanisms and prior signing of Memorandum of Understanding (MoU) |
| 3   | Low funds absorption for USF   | Consider expansion of the Fund's project procurement methods to facilitate expedited awards and pace of project implementation.                 |
| 4   | Reliance on a few operators whose contribution is over 70% of the total Fund                                     | Explore other sources of Funding for USF projects.  |
| 5   | Non-compliant industry players/operators in contribution to the growth of Universal Service Fund (USF).          | Consider negotiation of payment plans with non-compliant licensees and enforce  |

**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 30<sup>th</sup> June 2021.



## **X. ENVIRONMENTAL AND SUSTAINABILITY REPORTING**

Communications Authority of Kenya (CA) seeks to mainstream its environmental sustainability goals by aligning them to our strategy of putting the customer/Citizen first, delivering relevant goods and services, and improving operational excellence. The Authority therefore continues to comply with applicable environmental laws and regulations.

CA's Environmental sustainability( ES) involves making decisions and taking actions that are in the interest of protecting the natural world, with emphasis on preserving the capability of the environment to support human life. The Authority recognizes that some of its operations and those of its licensees such as the telecommunication companies have impacts on the environmental, social and economic aspects at the national and regional level and hence the need to mainstream environmental sustainability objectives in all its operations and activities.

Below is an outline of the organization's policies and activities that promote sustainability:

### **(i) Sustainability strategy and profile**

The Authority's Board and Management is committed to the 2030 Sustainable Development Goals (SDGs) including the following goals that relate to environmental sustainability:

- Goal 6: Ensure availability and sustainable management of water and sanitation for all
- Goal 13: Take urgent action to control climate change and its impact
- Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat diversification and halt and reserve land degradation and halt biodiversity loss.
- Goal 17: Strengthen the means of implementation and revitalize the global partnerships for sustainable development

The Authority engages in development practices that are sustainable, and prudently utilises resources to ensure waste and cost reduction, while ensuring quality and value for money.

**(ii) Environmental performance**

The Authority is committed to supporting the principles of environmental sustainability through the Environmental Policy as follows:

- **Environmental Sustainability Planning:** The Authority's Environmental Sustainability Committee holds quarterly meetings every financial year and submit quarterly reports to National Environmental Management Authority (NEMA) updating status progress of Environmental Sustainability activities.
- **Environmental Planning:** The Authority Conducts Environmental audits to inform the appropriate measures to put in place in Environmental Sustainability, assess the understanding of the staff in mainstreaming ES at the workplace and to implement the recommendation from the audit.
- **Pollution Control:** The Authority is committed to practising responsible waste management through adoption of appropriate mechanism for collection and disposal of organic, plastic, paper waste and e- waste by designating segregation bins for each variety of waste for proper disposal. The Authority has employed interventions for recycling, reusing and reducing waste at its premises e.g. use of reusable drinking water bottles instead of the plastic tumbler cups, harvesting rain water to be used in the fish pond, reuse envelopes for internal dispatches.
- **Ecological Enhancement:** The authority continues to participate through-
  - a) implementation of environmental CSR activities such as tree planting campaign in areas such as Merguerra Primary School in Kajiado and Maji Motto secondary school in Narok
  - b) Planting trees in CA's remote stations and staff residential houses
  - c) support Government initiative in enhancement of national forest cover through joint tree growing programme at the Konza Technologies
- **Partnerships:** Authority is committed in enhancing participation in National, Regional and International Environment and Green ICT Initiatives through partnership with East African Communications Organisation (EACO), International Telecommunication Union (ITU), NEMA among other relevant bodies.
- **Environmental Awareness:** The authority has created sensitization programs such as capacity development training for committee members, sensitization of all staff on

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Environmental mainstreaming, raise comprehensive awareness on ecological growth, climate mitigation and pollution control in the corporate sector

**(iii) Employee welfare**

The Authority is an equal opportunity employer with a gender ratio of 46:54 female to male ratio. As part of its affirmative action, the Authority has prioritized disability mainstreaming by making its work place accessible to persons with disabilities. As a regulator in ICT, the Authority has incorporated a participatory approach in making regulations where industry and public stakeholders are widely consulted. In the Authority's current strategic plan (2018-2022), the 3<sup>rd</sup> Key Result Area (KRA) is anchored on Developing Capacity in order to ensure that the Authority's employees are well skilled and motivated to deliver on the Mandate.

In compliance with Occupational Safety and Health Act (OHSA), the Authority has in place a Health & Safety Policy that prioritizes safety and well being of staff. It includes Business continuity, fire prevention strategies, emergency response and first aid.

**(iv) Industry practises**

**a. Responsible competition practise**

In tandem with the Constitution of Kenya (2010) the Authority is the ICT regulator that is independent of control by government, political interest or commercial interests. The mandate of the Authority is to ensure fair competition in telecommunications, broadcasting, Postal & Courier sectors. It involves managing well the frequency spectrum and numbering resources and ensuring that Consumers are protected including child-on-line protection. The Authority is also actively involved in cyber-security being the focal point for the Kenya Computer Incident Response Team (Ke-CIRT).

As part of corporate governance, the Authority's board is guided by the Mwongozo Code and the employees ensure compliance to the Authority's Code of Conduct. Staff are also required to sign an integrity oath as part of their commitment to abide by ethical and professional standards of work.



**b. Responsible supply chain and supplier relations**

Excellent service delivery to our customers and stakeholders is paramount. The Authority therefore has a Service Charter that stipulates expected quality service levels when dealing with its stakeholders. The Authority maintains good business practices, treats its own suppliers well by honouring contracts and respects payment practices as guided by the Service Charter.

**c. Responsible marketing and advertisement**

The Authority consider sound corporate governance, ethical conduct, robust risk management and regulatory compliance to be fundamental to our commercial sustainability. In this regard, the Authority usually adheres to that to all advertising and marketing standards, code of ethics and rules government pertaining to placements of advertisements.

**d. Product stewardship**

The consumer protection mandate of the Authority is spelt out in the Kenya Information and Communications Act, 1998 and associated regulations. The Authority heavily relies on this legal anchor to empower, protect and create a confident ICT consumer.

The Authority undertook various initiatives to ensure that all licensed ICT service providers: establish appropriate customer care and complaints handling mechanisms; provide safe and secure communication services encompassing child online protection; provide information on their products and services, charges, terms and conditions; safeguard of all consumer information and confidentiality; enabled consumers to have access to emergency services.

During the year, various regulatory interventions were undertaken with a view to empower and protect consumers as well as create an enabling environment.

**(v) Consumer Research, Education and Empowerment**

The Authority continued to implement consumer education programmes which empowered consumers with information, knowledge and skills to enable them make informed decisions on use of ICTs. These programmes were executed under the following thematic areas:

**(vi) The Authority's re-designed consumer education and empowerment programme**

Authority re-designed its consumer education and empowerment programme so as to enrich ICT consumer digital experiences in Kenya. This was aimed at having a confident and empowered consumer who actively participates and exercises their rights and freedoms in the digital economy. The re-designed Consumer Education and empowerment programme shall enable the Authority understand and establish ICT consumers' lived experiences, increase collaborations with organizations in consumer empowerment activities and empower consumers with information and tools.

**(vii) The Authority's Child Online Protection Programme**

The Authority has in place a Child Online Protection Programme dubbed "Be The COP" that was launched in 2015. The first phase of the programme saw the Authority launch a campaign that targeted parents, guardians and teachers with a view to increase their level of awareness of the dangers that exist online and to provide them with information on how they can encourage responsible internet usage. The campaign also sought to trigger the development of initiatives in Child Online Protection in Kenya.

**(viii) Corporate Social Responsibility/Community engagements**

The Authority carried out a number of Corporate Social Responsibility (CSR) activities aimed at giving back to the society. These included; sponsorship of the Talanta Football Club, a flagship project aims at nurturing talent of young underprivileged boys, while also enabling them to earn a living through football. The Authority also sponsored golf events in five clubs, sponsorship for the Kenya Editor's Guild Annual Convention 2020, Media Council of Kenya (MCK) Annual Journalism Excellence Award, the First Mathare Film, Cultural and Youth Talent Festival, Sports Personality of the Year Awards (SOYA), The Kenya Internet Governance Forum and participation in the Kalasha awards among others.

During the financial year the Authority equipped schools with ICT Services, including provision of Computers & Printers to schools in the following constituencies: Belgut, Kabarnet, Gem, Gatundu North, Lari, Kuria East, Kuria West, Ndia, Mbooni Marakwet West, Ainamoi, Eldama Ravine, Meru, Nakuru, Dagoretti South, Kilifi, Bumula Constituency, Kieni, West Pokot, South Imenti, Embu, Ainabkoi, Chaka, Ol'kalau,

It further provided internet connectivity to schools in the following Constituencies: Mbooni West, Ndia, Belgut, Eldama Ravine, Gatundu North, Lari, Marakwet West and Kuria West.

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The Authority further supported Schools in Baringo & Isiolo County with Water Tanks to assist schools in both county's access clean water and keep the children in school.

In complementing the government's efforts in fighting the Covid-19 Pandemic, the Authority offered diverse support to Mathew-Twenty Five a Community Based Organization.



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**XI. REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021, which show the state of the *Fund's* affairs.

**(i) Principal activities**

The principal activities of the Fund are Universal Access to ICT services

**(ii) Results**

The results of the Fund for the year ended June 30, 2021, are set out on page 35 to page 59.

**(iii) Directors**

The members of the Board of Directors who served during the year are shown on page (vi) to page (ix). During the year 2021, Mr Ngene B. Gituku, EBS retired on 17<sup>th</sup> April 2021 and Sen. Kembi Gitura, MGH was appointed with effect from 18<sup>th</sup> April 2021.

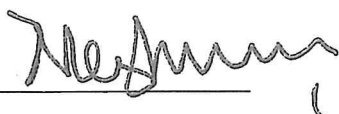
**(iv) Surplus remission**

In accordance with Regulation 219 (2) of the Public Financial Management (National Government) Regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the draft financial statements after the end of each financial year. The Fund is not required to make any remittance to the Consolidated Fund.

**(v) Auditors**

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 to carry out the audit of the Fund for the year/period ended June 30, 2021.

By Order of the Board



Mrs. Mercy Wanjau, MBS

**Ag. Director General**

Sep 29, 2021  
Date

## XII. STATEMENT OF DIRECTORS RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and *Section 19 KICA* require the Directors to prepare financial statements in respect of that *Communications Authority of Kenya-Universal Service Fund*, which give a true and fair view of the state of affairs of the *Fund* at the end of the financial year/period and the operating results of the *Fund* for that year/period. The Directors are also required to ensure that the *Fund* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *Fund*. The Directors are also responsible for safeguarding the assets of the *Fund*.

The Directors are responsible for the preparation and presentation of the *Fund's* financial statements, which give a true and fair view of the state of affairs of the *Fund* for and as at the end of the financial year (period) ended on June 30, 2021. This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the *Fund*;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the *Fund*;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *Fund's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Directors are of the opinion that the *Fund's* financial statements give a true and fair view of the state of *Fund's* transactions during the financial year ended June 30, 2021, and of the *Fund's* financial position as at that date.

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The Directors further confirms the completeness of the accounting records maintained for the *Fund*, which have been relied upon in the preparation of the *Fund's* financial statements as well as the adequacy of the systems of internal financial control.

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

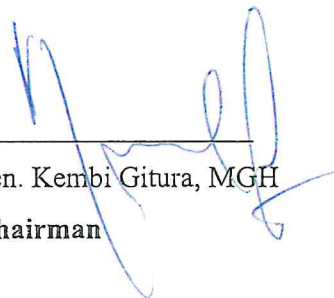
**Approval of the financial statements**

The *Fund's* financial statements were approved by the Board on 29th September 2021 and signed on its behalf by:



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Mrs. Mercy Wanjau, MBS  
Ag. Director General



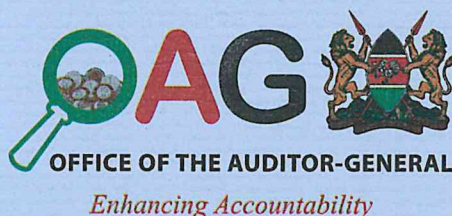
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Sen. Kembi Gitura, MGH  
Chairman



# REPUBLIC OF KENYA

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## **REPORT OF THE AUDITOR-GENERAL ON COMMUNICATIONS AUTHORITY OF KENYA - UNIVERSAL SERVICE FUND FOR THE YEAR ENDED 30 JUNE, 2021**

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### **PREAMBLE**

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

### **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 35 to 61, which comprise of the statement of financial position as at 30 June, 2021, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of



significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Communications Authority of Kenya - Universal Service Fund as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Information and Communications Act, Cap 411A (Revised in 2009) of the Laws of Kenya and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **Provisions for Bad and Doubtful Debts**

The statement of financial performance and the corresponding Note 11 to the financial statements reflects an amount of Kshs.41,300,000 as provision for bad and doubtful debts. Included in the provision is an amount of Kshs.53,565,000 owed by Telkom Kenya Limited which comprise general and specific provisions of Kshs.13,391,000 and Kshs.40,174,000 respectively. However, Telkom Kenya Limited vide letter Ref.TKL/RA/CA/(LIC) dated 21 December, 2020 confirmed Nil amount being owed to the Authority. Further, The National Treasury vide letter Ref. TNT/ZZ/331/02 dated 29 June, 2020 and 22 June, 2021 committed to provide Telkom Kenya Limited the amount of money required to cover frequency spectrum fees for financial years 2019/2020 and 2020/2021.

In the circumstances, the accuracy, and fair statement of the reported provisions for bad and doubtful debts balance of Kshs.41,300,000 for the year ended 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Communications 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 opinion.

#### **Key Audit Matters**

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

#### **Other Matter**

##### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,362,266,000 and Kshs.2,450,997,000



respectively resulting to an over-collection of Kshs.88,730,000. Further, the Fund expended Kshs.339,621,000 against an approved budget of Kshs.3,567,760,000 resulting to an under-expenditure of Kshs.3,228,138,000 or 90% of the budget. Further, the statement reflects budgeted revenue of Kshs.2,362,266,000 against budgeted expenditure of Kshs.3,567,760,000 resulting in an unbalanced budget by Kshs.1,205,494,000 contrary to Regulation 33(e) of the Public Finance Management (National Government) Regulations, 2015 which provides that the total budget revenue shall cover total budget expenditure.

The underperformance affected the planned activities and may have impacted negatively on service delivery.

## **2. Prior Year Audit Issues**

Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues. In addition, some of the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

## **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 matters 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**

#### **1. Project Status**

The statement of financial performance and the corresponding Note 8 to the financial statements reflects project costs expenditure of Kshs.295,294,000 which further includes amounts of Kshs.153,908,000, Kshs.69,253,000 and Kshs.72,133,000 relating to Education Broadband connectivity program, Voice Infrastructure projects and Government Services Automation projects, respectively. However, review of payment vouchers and supporting documents revealed that Inspection and Acceptance Committee reports, certificates of completion for the works and handover reports had not been done.

In the circumstances, it was not possible to confirm the status of the projects.

#### **2. Revenue from Exchange Transactions**

The statement of financial position and the corresponding Note 12 to the financial statements reflects an amount of Kshs.13,015,162,000 under cash and cash equivalents which includes an amount of Kshs.3,222,677,000 held in fixed deposits accounts in two (2) local commercial banks. Although the statement of financial performance reflects interest income of Kshs.822,012,000 from the fixed deposits, the deposits were made



without approval of The National Treasury. This is contrary to Section 21(1) of the Kenya Information and Communication Act, Chapter 411A which requires the Board to invest any of the funds of the Commission which are not immediately required for its purposes in such securities as The National Treasury may, from time to time, approve.

The Management was therefore in breach of the law.

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

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

26 July, 2022

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**XIV. STATEMENT OF FINANCIAL PERFORMANCE**

|   | NOTE    | Financial<br>Year Ended<br>Jun-20-21<br>Kshs ('000) | Audited<br>Year Ended<br>Jun-19-20<br>Kshs ('000) |
|---|---------|---|---|
| <b>Revenue from Non-exchange transactions</b> |         |   |   |
| USF Levy                                      | 6       | 1,628,985   | 1,615,089   |
| <b>Revenue from Exchange transactions</b>     |         |   |   |
| Interest Income                               | 7       | 822,012   | 762,902   |
| <b>Total Revenue</b>                          |         | <b>2,450,997</b>                                    | <b>2,377,990</b>                                  |
| <b>Operating Expenses</b>                     |         |   |   |
| Project Costs                                 | 8       | 295,294   | 676,789   |
| Administrative Expenses                       | 9       | 2,564   | 57  |
| Audit Fees                                    | 10      | 464   | 464   |
| Provision for Bad & Doubtful Debts - General  | 11(a,b) | 1,126   | 47,420  |
| Provision for Bad & Doubtful Debts - Specific | 11(a,b) | 40,174  | 36,053  |
| <b>Total Expenses</b>                         |         | <b>339,621</b>                                      | <b>760,783</b>                                    |
| <b>Surplus for the Period</b>                 |         | <b>2,111,375</b>                                    | <b>1,617,208</b>                                  |

The notes set out on pages 35 to 59 form an integral part of these Financial Statements.



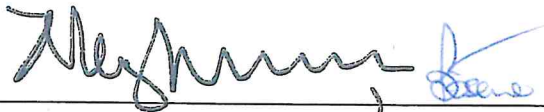

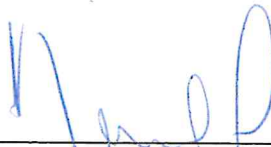


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**XV. STATEMENT OF FINANCIAL POSITION**

|  | NOTE | Financial<br>Year Ended<br>Jun-20-21<br>Kshs ('000) | Audited<br>Year Ended<br>Jun-19-20<br>Kshs ('000) |
|--|------|---|---|
| <b>Assets</b>                              |      |   |   |
| <b>Current Assets</b>                      |      |   |   |
| Cash & Cash Equivalents                    | 12   | 13,015,162  | 10,813,431  |
| Receivables from Non-Exchange transactions | 13   | 90,665  | 97,205  |
| Receivables from Exchange transactions     | 14   | <u>28,010</u>                                       | <u>331,276</u>                                    |
| <b>Total Assets</b>                        |      | <b>13,133,837</b>                                   | <b>11,241,912</b>                                 |
| <b>Liabilities</b>                         |      |   |   |
| <b>Current Liabilities</b>                 |      |   |   |
| Trade & Other Payables                     | 15   | 283,213   | 495,397   |
| Advance Income                             | 16   | <u>223</u>  | <u>7,490</u>                                      |
| <b>Total Liabilities</b>                   |      | <b>283,437</b>                                      | <b>502,887</b>                                    |
| <b>Net Assets</b>                          |      | <b>12,850,400</b>                                   | <b>10,739,025</b>                                 |
| <b>Accumulated Fund</b>                    | 17   | <b>12,850,400</b>                                   | <b>10,739,025</b>                                 |

The Financial Statements set out on pages 35 to 60 were signed on behalf of the Board of Directors by:

|   |   |   |
|---|---|---|
|  |  |  |
| Ag. Director General  | Director Finance & Accounts   | Chairman of the Board   |
| Mrs. Mercy Wanjau, MBS  | CPA. Joseph M. Kimanga  | Sen. Kembi Gitura, MGH  |
| Date: <u>29</u> September 2021  | Date: <u>29</u> September 2021  | Date: <u>29</u> September 2021  |

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**XVI. STATEMENT OF CHANGES IN NET ASSETS**

|                               | <b>NOTE</b> | <b>Retained<br/>Earnings<br/>Kshs ('000)</b> | <b>Total<br/>Kshs ('000)</b> |
|-------------------------------|-------------|--|------------------------------|
| <b>As at July 1, 2020</b>     |             | 10,739,025                                   | 10,739,025                   |
| Surplus/ Deficit for the year | 17          | 2,111,375                                    | 2,111,375                    |
| <b>As at June 30, 2021</b>    |             | <b>12,850,400</b>                            | <b>12,850,400</b>            |
| <b>As at July 1, 2019</b>     |             | 9,121,818                                    | 9,121,818                    |
| Surplus/ Deficit for the year | 17          | 1,617,208                                    | 1,617,208                    |
| <b>As at June 30, 2020</b>    |             | <b>10,739,025</b>                            | <b>10,739,025</b>            |

The Changes in Net Assets statement is to be read in conjunction with notes to and forming part of the Financial Statements as set out on pages 35 to 60.

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**XVII. STATEMENT OF CASH FLOWS**

|   | NOTE | Financial<br>Year Ended<br>Jun-20-21<br>Kshs ('000) | Audited<br>Year Ended<br>Jun-19-20<br>Kshs ('000) |
|---|------|---|---|
| <b>Operating Activities</b>                         |      |   |   |
| Cash generated from/(used in) Operations            | 18   | 2,201,732   | 1,360,488   |
| <b>Net Cash generated from/(used in) Operations</b> |      | <b>2,201,732</b>                                    | <b>1,360,488</b>                                  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING</b>       |      | 10,813,431  | 9,452,942   |
| <b>CASH AND CASH EQUIVALENTS AT END</b>             |      | <b>13,015,162</b>                                   | <b>10,813,431</b>                                 |

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 35 to 59.



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**XVIII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

|   | Approved<br>Budget<br>FY<br>2020/21<br>Kshs<br>(‘000) | Adjustments<br>FY 2020/21<br>Kshs (‘000) | Final<br>Budget<br>FY<br>2020/21<br>Kshs<br>(‘000) | Actual<br>Year Ended<br>FY 2020/21<br>Kshs (‘000) | Performance<br>Difference<br>FY 2020/21<br>Kshs (‘000) | Utilization<br>FY<br>2020/21<br>(%) | Budget<br>Notes<br>FY<br>2020/21<br>No. |
|---|---|--|--|---|--|-------------------------------------|---|
| <b>Revenue from non-exchange transactions</b> |   |  |  |   |  |                                     |   |
| USF Levy                                      | 1,488,375   | 218,439                                  | 1,706,814  | 1,628,985   | (77,830)   | 95.4%                               | 1                                       |
| Interest Income                               | <u>734,401</u>  | <u>(78,949)</u>                          | <u>655,452</u>                                     | <u>822,012</u>                                    | <u>166,560</u>   | <u>125.4%</u>                       | 2                                       |
| <b>Total Revenue</b>                          | <b>2,222,776</b>                                      | <b>139,490</b>                           | <b>2,362,266</b>                                   | <b>2,450,997</b>                                  | <b>88,730</b>  | <b>103.8%</b>                       |   |
| <b>Expenses</b>                               |   |  |  |   |  |                                     |   |
| Project Costs                                 | 2,012,864   | 1,504,372                                | 3,517,236  | 295,294   | 3,221,942  | 8.4%                                | 3                                       |
| Other Expenses                                | <u>54,256</u>   | <u>(3,732)</u>                           | <u>50,524</u>                                      | <u>44,328</u>                                     | <u>6,196</u>   | <u>87.7%</u>                        | 4                                       |
| <b>Total Expenses</b>                         | <b><u>2,067,120</u></b>                               | <b><u>1,500,640</u></b>                  | <b><u>3,567,760</u></b>                            | <b><u>339,621</u></b>                             | <b><u>3,228,138</u></b>                                | <b><u>9.5%</u></b>                  |   |

**Budget Notes**

1. USF Levy performance due to Actual Revenue from Broadcasting Sector exceeding the budget
2. Interest income positive performance due to the significant collection realized within 1st quarter, hence invested for a longer duration
3. Project costs affected by Covid-19 and processes of starting Voice Phase III
4. Other Expenses include the implementation of Access Gap Studies & prov. of bad debts

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**XIX. 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 2021

| Standard                    | Impact   |
|-----------------------------|--|
| Other Improvements to IPSAS | <b>Applicable: 1<sup>st</sup> January 2021:</b><br>a) Amendments to IPSAS 13, to include the appropriate |

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| Standard | Impact   |
|----------|--|
|          | <p>references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks.</p> <p>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment.</p> <p>Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved.</p> <p>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets.</p> <p>Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.</p> <p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs).</p> <p>Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard.</p> <p>There was no impact on the financial statements</p> |

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**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 2021**

| <b>Standard</b>                           | <b>Effective date and impact:</b>   |
|---|---|
| <b>IPSAS 41:</b><br>Financial Instruments | <p><b>Applicable: 1<sup>st</sup> January 2023:</b></p> <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. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• 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.</li> </ul> |
| <b>IPSAS 42:</b><br>Social Benefits       | <p><b>Applicable: 1<sup>st</sup> January 2023</b></p> <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>  |



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| Standard  | Effective date and impact:  |
|---|---|
|   | <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> <p>There Universal Service Fund was established specifically to extend universal service access to ICT services, hence the entirety of the financial statements represents social benefits.</p>  |
| <p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p> | <p><b>Applicable: 1st January 2023:</b></p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> |

**iii. Early adoption of standards**

The Authority did not have early adoption of any new or amended standards in year 2021.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **(i) 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 operating license.

###### **ii) Revenue from exchange transactions**

###### **Interest income**

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

##### **(ii) Budget information**

The 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.

##### **(iii) 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.

##### **(iv) Property, plant and equipment**

The Fund does not own any property plant and equipment.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(v) Financial instruments**

**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 performance.

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.

**(vi) 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.

**(vii) Impairment of financial assets**

The Fund assesses at each reporting date whether there is objective evidence that a financial asset or an Fund of financial assets is impaired. A financial asset or an Fund 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.

**(viii) Financial liabilities**

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.

**(ix) 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.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(i) 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 operating license.

**ii) Revenue from exchange transactions**

**Interest income**

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

**(ii) Budget information**

The 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.

**(iii) 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.

**(iv) Property, plant and equipment**

The Fund does not own any property plant and equipment.



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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(v) Financial instruments**

**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 performance.

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.

**(vi) 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.

**(vii) Impairment of financial assets**

The Fund assesses at each reporting date whether there is objective evidence that a financial asset or an Fund of financial assets is impaired. A financial asset or an Fund 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.

**(viii) Financial liabilities**

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.

**(ix) 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.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

**(x) 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.

**(xi) 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.

**(xii) 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.

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(xiii) 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.

**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 Quarter 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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, 2021.



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**5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

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

**a) 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

**b) 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.

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**NOTES TO THE FINANCIAL STATEMENTS**

**6. REVENUE FROM NON-EXCHANGE TRANSACTIONS**

|                                      | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|--------------------------------------|---------------------|---------------------|
|                                      | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| USF Levy - Broadcasting Sector       | 86,570              | 72,015              |
| USF Levy - Telecommunications Sector | 1,538,631           | 1,513,839           |
| USF Levy - Postal & Courier Sector   | 3,784               | 29,235              |
|                                      | <u>1,628,985</u>    | <u>1,615,089</u>    |

The USF 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**

|  | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|--|---------------------|---------------------|
|  | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| Cash Investments and fixed deposits    | 963,312             | 897,531             |
| Withholding Tax 15% Deducted at Source | (141,300)           | (134,630)           |
|  | <u>822,012</u>      | <u>762,902</u>      |

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

**8. PROJECT COSTS**

|  | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|--|---------------------|---------------------|
|  | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| Education Broadband Connectivity Program | 153,908             | 297,717             |
| Voice Infrastructure Projects            | 69,253              | 379,072             |
| Government Services Automation Projects  | 72,133              | 0                   |
|  | <u>295,294</u>      | <u>676,789</u>      |

**9. ADMINISTRATIVE EXPENSES**

|                              | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|------------------------------|---------------------|---------------------|
|                              | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| Bank Charges                 | 57                  | 57                  |
| Universal Access Gap Studies | 2,507               | 0                   |
|                              | <u>2,564</u>        | <u>57</u>           |

**10. AUDIT FEES**

|            | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|------------|---------------------|---------------------|
|            | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| Audit Fees | 464                 | 464                 |
|            | <u>464</u>          | <u>464</u>          |

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**11. (A) PROVISIONS ON BAD & DOUBTFUL DEBTS**

|   | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|---|---------------------|---------------------|
|   | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| Bad & Doubtful debts Provision - General  | 1,126               | 47,420              |
| Bad & Doubtful debts Provision - Specific | <u>40,174</u>       | <u>36,053</u>       |
|   | <u>41,300</u>       | <u>83,473</u>       |

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

**11. (B) AGING RECEIVABLES ANALYSIS**

| <b>GENERAL</b>                                   |                    |             | <b>TOTAL DEBT</b>   |                    |                     |
|--|--------------------|-------------|---------------------|--------------------|---------------------|
| <b>PROVISION</b>                                 | <b>AMOUNT</b>      | <b>RATE</b> | <b>FY 2020-2021</b> | <b>TOTAL DEBT</b>  | <b>FY 2019-2020</b> |
| <b>AGE OF DEBT</b>                               | <b>Kshs ('000)</b> | <b>(%)</b>  | <b>Kshs ('000)</b>  | <b>AMOUNT</b>      | <b>Kshs ('000)</b>  |
| 1 Year   | 148,094            | 25%         | 37,023              | 174,547            | 43,637              |
| 1-2 Year   | 119,255            | 50%         | 59,627              | 6,572              | 3,286               |
| Over 2 Years                                     | <u>161,827</u>     | 100%        | <u>161,827</u>      | <u>210,429</u>     | <u>210,429</u>      |
| <b>TOTAL</b>                                     | <u>429,176</u>     |             | <u>258,478</u>      | <u>391,549</u>     | <u>257,352</u>      |
| <b>INCREASE IN GENERAL PROVISION</b>             |                    |             | 1,126               |                    | 47,420              |
| <b>SPECIFIC</b>                                  |                    |             | <b>DEBT</b>         |                    |                     |
| <b>PROVISION</b>                                 | <b>AMOUNT</b>      | <b>RATE</b> | <b>FY 2020-2021</b> | <b>AMOUNT</b>      | <b>FY 2019-2020</b> |
|  | <b>Kshs ('000)</b> | <b>(%)</b>  | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b> | <b>Kshs ('000)</b>  |
| 1 Year   | 53,565             | 75%         | 40,174              | 48,070             | 36,053              |
|  |                    |             | 40,174              |                    | 36,053              |
| <b>TOTAL BAD &amp; DOUBTFUL DEBTS PROVISIONS</b> |                    |             | <u>298,652</u>      |                    | <u>293,405</u>      |

**12(a). CASH & CASH EQUIVALENTS**

|                  | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|------------------|---------------------|---------------------|
|                  | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| Current Accounts | 9,023,000           | 475,121             |
| Call Deposits    | 769,485             | 219,388             |
| Fixed Deposits   | 3,222,677           | 10,118,922          |
| Petty Cash       | <u>0</u>            | <u>0</u>            |
|                  | <u>13,015,162</u>   | <u>10,813,431</u>   |

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**12(b). CURRENT ACCOUNTS**

|  | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|--|---------------------|---------------------|
|  | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| Cooperative Bank of Kenya A/c No. 01136154597800 | 9,021,494           | 473,605             |
| NCBA Bank PLC A/c No. 7910850017                 | <u>1,506</u>        | <u>1,516</u>        |
|  | <u>9,023,000</u>    | <u>475,121</u>      |

**12(c). ON CALL DEPOSITS**

|                       | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|-----------------------|---------------------|---------------------|
|                       | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| Cooperative Bank-CALL | 769,485             | 219,388             |
| NCBA Bank PLC-CALL    | <u>0</u>            | <u>0</u>            |
|                       | <u>769,485</u>      | <u>219,388</u>      |

**12(d). FIXED DEPOSITS**

|                        | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|------------------------|---------------------|---------------------|
|                        | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| Cooperative Bank-FIXED | (0)                 | 7,140,794           |
| NCBA Bank PLC-FIXED    | <u>3,222,677</u>    | <u>2,978,127</u>    |
|                        | <u>3,222,677</u>    | <u>10,118,922</u>   |
| <b>GRAND TOTAL</b>     | <u>13,015,162</u>   | <u>10,813,431</u>   |

**13. (a) RECEIVABLES FROM NON EXCHANGE TRANSACTIONS**

|  | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|--|---------------------|---------------------|
|  | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| USF Levy Receivables                       | 424,819             | 389,881             |
| Accum. Provisions for Bad & Doubtful Debts | (334,704)           | (293,405)           |
| Related Party - Assets                     | <u>550</u>          | <u>729</u>          |
|  | <u>90,665</u>       | <u>97,205</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 regularly reconciled and settled.

**14. RECEIVABLES FROM EXCHANGE TRANSACTIONS**

|                   | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|-------------------|---------------------|---------------------|
|                   | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| Accrued Interest  | 28,010              | 331,276             |
| Other Receivables | <u>0</u>            | <u>0</u>            |
|                   | <u>28,010</u>       | <u>331,276</u>      |



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**15. TRADE AND OTHER PAYABLES**

|                           | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|---------------------------|---------------------|---------------------|
|                           | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| Accounts Payables         | 282,606             | 493,489             |
| Accruals                  | 580                 | 1,798               |
| Related Party - Liability | <u>27</u>           | <u>110</u>          |
|                           | <u>283,213</u>      | <u>495,397</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 regularly reconciled and settled.

**16. ADVANCE INCOME**

|   | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|---|---------------------|---------------------|
|   | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| Payments Received in Advance                    | 223                 | 7,490               |
| Advance Billing relating to Subsequent quarters | <u>0</u>            | <u>0</u>            |
|   | <u>223</u>          | <u>7,490</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. ACCUMULATED FUND**

|                        | <b>FY 2020-2021</b> | <b>FY 2019-2020</b> |
|------------------------|---------------------|---------------------|
|                        | <b>Kshs ('000)</b>  | <b>Kshs ('000)</b>  |
| Accumulated Fund B/fwd | 10,739,025          | 9,121,818           |
| Surplus for the Period | <u>2,111,375</u>    | <u>1,617,208</u>    |
|                        | <u>12,850,400</u>   | <u>10,739,025</u>   |

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**18. CASH GENERATED FROM OPERATIONS**

|   | <b>FY 2020-2021</b>     | <b>FY 2019-2020</b>     |
|---|-------------------------|-------------------------|
|   | <b>Kshs ('000)</b>      | <b>Kshs ('000)</b>      |
| <b>a) Cash generated from/(used in) operations</b>              |                         |                         |
| Surplus before remittances                                      | 2,111,375               | 1,617,208               |
| Non Cash adjustments on Retained Earnings                       | <u>0</u>                | <u>58</u>               |
|   | <b><u>2,111,375</u></b> | <b><u>1,617,266</u></b> |
| <b>b) Changes in Working Capital adjustments</b>                |                         |                         |
| Increase/Decrease in Receivables from Non Exchange Transactions | 6,541                   | 69,340                  |
| Increase/Decrease in Receivables from Exchange Transactions     | 303,265                 | (313,802)               |
| Increase/Decrease in Receivables Trade & Other Payables         | (212,183)               | (12,315)                |
| Increase/Decrease in Receivables Advance Income                 | <u>(7,267)</u>          | <u>0</u>                |
| <b>Net Working Capital Changes</b>                              | <b><u>90,356</u></b>    | <b><u>(256,777)</u></b> |
| <b>Net cash flows from operating activities</b>                 | <b><u>2,201,732</u></b> | <b><u>1,360,488</u></b> |

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**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 Fund 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 Fund's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

| Description                                | Total Amount             | Fully Performing         | Past Due             | Impaired        |
|--|--------------------------|--------------------------|----------------------|-----------------|
|  | Kshs ('000)              | Kshs ('000)              | Kshs ('000)          | Kshs ('000)     |
| <b>At 30 June 2021</b>                     |                          |                          |                      |                 |
| Receivables from Non-exchange transactions | 90,665                   | 72,532                   | 18,133               | -               |
| Receivables from exchange transactions     | 28,010                   | 28,010                   | -                    | -               |
| Bank Balances                              | <u>13,015,162</u>        | <u>13,015,162</u>        | -                    | -               |
| <b>Total</b>                               | <u><b>13,133,837</b></u> | <u><b>13,115,704</b></u> | <u><b>18,133</b></u> | <u><b>=</b></u> |
| <b>At 30 June 2020</b>                     |                          |                          |                      |                 |
| Receivables from Non-exchange transactions | 97,205                   | 77,764                   | 19,441               | -               |
| Receivables from exchange transactions     | 331,276                  | 331,276                  | -                    | -               |
| Bank Balances                              | <u>10,813,431</u>        | <u>10,813,431</u>        | -                    | -               |
| <b>Total</b>                               | <u><b>11,241,912</b></u> | <u><b>11,222,471</b></u> | <u><b>19,441</b></u> | <u><b>=</b></u> |

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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.

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

| Description            | Less Than<br>(1) Month | Between<br>(1-3) Months | Over<br>(5) Months  | Total                 |
|------------------------|------------------------|-------------------------|---------------------|-----------------------|
| At 30 June 2021        | Kshs ('000)            | Kshs ('000)             | Kshs ('000)         | Kshs ('000)           |
| Trade & Other Payables | 226,571                | 56,643                  | -                   | 283,213               |
| Advance Income         | -                      | -7,267                  | 7,490               | 223                   |
| <b>Total</b>           | <b><u>226,571</u></b>  | <b><u>49,376</u></b>    | <b><u>7,490</u></b> | <b><u>283,437</u></b> |
| At 30 June 2020        |                        |                         |                     |                       |
| Trade & Other Payables | 396,317                | 99,079                  | -                   | 495,397               |
| Advance Income         | -                      | -                       | 7,490               | 7,490                 |
| <b>Total</b>           | <b><u>396,317</u></b>  | <b><u>99,079</u></b>    | <b><u>7,490</u></b> | <b><u>502,887</u></b> |

**(iii) Market risk**

The Board has put in place an internal audit function to assist it in assessing the risk faced by the Fund 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



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

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 Fund'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.

**b) Management of interest rate risk**

To manage the interest rate risk, management has endeavoured to bank with The Fund 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 Fund's capital risk management is to safeguard the Board's ability to continue as a going concern. The Fund's structure comprises of the following funds:

**Communications Authority of Kenya Universal Service Fund**  
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**For the Year Ended 30 June 2021**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

| Description                                 | FY 2020-2021 | FY 2019-2020 |
|---|--------------|--------------|
|   | Kshs ('000)  | Kshs ('000)  |
| Accumulated Fund                            | 12,850,400   | 10,739,025   |
| <b>Total Funds</b>                          |              |              |
| Cash & Bank balances                        | 13,015,162   | 10,813,431   |
| Net debt/(excess cash and cash equivalents) |              |              |
| <b>Gearing</b>                              | <b>0%</b>    | <b>0%</b>    |

**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.

**a) Top Management Remuneration and Advances**

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

**b) Communications Authority of Kenya**

During the year, some contributors to the Fund made payment of the USF levy to Communications Authority of Kenya's (CA) bank account. 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.

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:

**Communications Authority of Kenya Universal Service Fund**  
**Annual Financial Statements**  
**For the Year Ended 30 June 2021**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

| Description               | FY 2020-2021 | FY 2019-2020 |
|---------------------------|--------------|--------------|
|                           | Kshs ('000)  | Kshs ('000)  |
| Amount Receivable from CA | 550          | 729          |
| Amount Payable to CA      | 27           | 110          |

**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**

During the year under review, the following contracts were contracted and shall continue to be implemented in the following year.

| Description                   | FY 2020-2021 | FY 2019-2020 |
|-------------------------------|--------------|--------------|
|                               | Kshs ('000)  | Kshs ('000)  |
| Authorised for                | 0            | 0            |
| Authorised and contracted for |              |              |

**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 FUND**

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.)



## APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

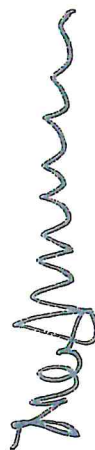
The following is the summary of the issue raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

| 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 21<sup>st</sup> 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 <sup>th</sup> June 2021 |

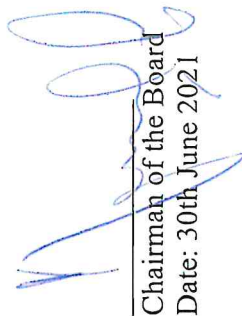


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| Reference No. | Issue / Observations from Auditor  | Management comments | Focal Point person to resolve the issue | Status: | Time frame: |
|---------------|--|---------------------|---|---------|-------------|
|               | <p>payable after 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 June 2021



Chairman of the Board  
Date: 30th June 2021

**APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY**

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

**APPENDIX III: INTER-ENTITY TRANSFERS**

During the Financial year 2020/2021, the Communications Authority of Kenya Universal Fund did not receive recurrent nor development grants, direct receipts nor direct payments from other entities.

**APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

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

