

REPORT OF THE AUDITOR-GENERAL ON INFORMATION AND COMMUNICATION TECHNOLOGY AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Information and Communications Technology Authority set out on pages 1 to 53, which comprise of the statement of financial position as at 30 June, 2019, statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Information and Communication Technology Authority as at 30 June, 2019, 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 Legal Notice No.183 of 2013 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Prior Year Adjustments

The statement of changes in net assets reflects prior year adjustments balance of Kshs.966,237,911. However, Note 29(b) to the financial statements reflects prior year adjustments of Kshs.992,899,745 resulting to an unreconciled variance of Kshs.26,661,834. Further, the balance has not been accounted for in line with IPSAS 3-Accounting policies, changes in accounting estimates and errors, where prior year adjustments are allowed only in cases where there is a change in accounting policy or changes in accounting estimates arising from new information or new development and that restatement be done in the year it first occurred and the comparatives in the current year be restated.

Consequently, the accuracy of prior year adjustments of Kshs.996,237,911 reflected in the statement of changes in net assets as at 30 June, 2019 could not be confirmed.

2. Unauthorized Project Expenditure

The East Africa Regional Transport, Trade and Development Facilitation Project (EARTTDF IDA Project) is funded by the World Bank. As disclosed under Note 19 to the financial statements, the statement of financial performance reflects a balance of Kshs.124,499,336 in respect of the EARTTDF project. However, Management did not

provide a 'no objection' letter for the annual work plan and budget by the donor, as required under section II F(1) of the financing agreement, for audit verification.

Further, the statement of comparison of budget and actual amounts reflects a balance of Kshs.3,406,797,318 as payments during the year which includes payments of Kshs.1,384,583,478 for Letters of Credit (LCs) and an advance payment of Kshs.192,691,381 all totalling to Kshs. 1,577,274,859 that were made to various suppliers though not included in the budget for the year 2018/2019.

In the circumstances, the validity of the expenditure could not be ascertained

3. Unsupported Depreciation Expense

As disclosed under Note 11 to the financial statements, the statement of financial performance reflects depreciation expense of Kshs.26,957,200. However, the recomputed balance amounts of Kshs.31,827,796.20 resulted in an unreconciled variance of Kshs.4,870,596. The brought forward balance of property, plant and equipment of Kshs.116,145,692 could not be confirmed since there was no comprehensive fixed asset register.

Consequently, the accuracy and completeness of depreciation charge of Kshs.26,957,200 reflected in the statement of financial performance for the year ended 30 June, 2019 could not be confirmed.

4. Unsupported Rent and Parking

As disclosed under Note 13 to the financial statements, the statement of financial performance reflects general expenses of Kshs.62,527,743, which includes rent and parking of Kshs.38,131,158, out of which expenses amounting to Kshs.1,116,712 was not supported by a signed lease agreement.

Consequently, the accuracy and validity of rent and parking expenses balance of Kshs.1,116,712 for the year ended 30 June, 2019 could not be confirmed.

5. Inaccuracy of Presidential Digital Talent Program

As disclosed under Note 16 to the financial statements, the statement of financial performance reflects Presidential Digital Talent Program balance of Kshs.117,814,011. However, the approved project progress report, availed for audit review, reflected actual expenditure of Kshs.133,673,844 resulting to an unreconciled and unexplained variance of Kshs.15,859,833.

Under the circumstances, the accuracy and validity of the Presidential Digital Talent expenditure of Kshs.117,814,011 reflected in the statement of financial performance for the year ended 30 June, 2019 could not be confirmed.

6. Unsupported Special Grants Expenses

As disclosed under Note 17 to the financial statements, the statement of financial performance reflects special grant expenses of Kshs.1,162,405,194. The following observations were noted:

6.1 Shared Services

The balance includes payments totalling Kshs.18,534,541 in respect of maintenance of government data centre equipment contract. Review of records revealed that the maintenance contract commenced on 28 September, 2015 and expired on 27 September, 2016. However, the contract was extended on two occasions upto 31 March, 2018. Subsequently, the contract was again renewed on 18 June, 2018 for a further period of one year. Documentation in support of the procurement process for the contract extension and renewal were not provided for audit verification.

Further, the balance includes National Optic Fibre Backbone Infrastructure Project, NOFBI project of Kshs.40,638,599 out of which a balance of Kshs.21,029,390 was in relation to travel expenses through imprests issued to staff from the Authority as well as the State Department for ICT and Innovation although the project was being implemented by the State Department. Further, no documentation such as approved workplan/activities for the project, an agreement with the State Department to undertake the monitoring and evaluation activities was provided for audit review. There was no operational framework, annual monitoring and evaluation plan between the State Department detailing when and where the activities were to be undertaken.

In addition, the balance includes County Connectivity Project, CCP costs amounting to Kshs.115,936,321 for undertaking monitoring and evaluation of the project. Expenses amounting to Kshs.2,499,100 related to NOFBI project without an approval for reallocation. Examination of records revealed that imprests were issued to officers of the Authority as well as officers from the State Department for ICT and Innovation even though the project is implemented by the State Department. Further, supporting documents such as engagement agreement between the State Department and the Authority to undertake the monitoring and evaluation activities, operating framework, annual monitoring and evaluation workplan.

Under the circumstances, the accuracy, completeness and validity of expenditure amounting to Kshs.42,063,031 included under special grant expenses balance of Kshs.1,162,405,194 for the year ended 30 June, 2019 could not be confirmed.

9. Unsupported Connected Summit Expenses

As disclosed under Note 20 to the financial statements, the statement of financial performance reflects connected summit expenses amounting to Kshs.46,032,526. However, the Management did not provide supporting documents such as approved budget and workplan and the procurement process for audit verification. Further, two (2) suppliers were not in the prequalified list of suppliers, three (3) suppliers were paid approximately 82% of total expenditure with one getting Kshs.29,417,330 or 64%, yet this was not a specialized service.

Under the circumstances, the validity of connected summit expense of Kshs.46,032,525 for the year ended 30 June, 2019 could not be confirmed.

10. Inaccuracy of Presidential Digital Talent Program

As disclosed under Note 22 (a) to the financial statements, the statement of financial position reflects cash and cash equivalents of Kshs. 4,868,186,440. The balance includes Presidential Digital Talent Program balance of Kshs.46,947,693. However, progress report on the program reflects a balance of Kshs.3,007,187 resulting to an unreconciled variance of Kshs.43,940,506.

Consequently, the accuracy of Presidential Digital Talent Program, cash and cash equivalents balance of Kshs.46,947,693 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Information and Communications Technology Authority 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 judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.7,119,116,766 and Kshs.6,641,257,212 respectively, resulting to an under-funding of Kshs.477,859,554 or 6.7% of the budget. The under-funding mainly occurred under the donor funded programmes. Similarly, the Project expended Kshs.3,406,797,318 against an approved budget of Kshs.7,119,116,766 resulting to an under-expenditure of Kshs.3,712,319,448 or 52% of the budget. The under-expenditure occurred under the programs and purchase of fixed assets.

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

2. Unresolved Prior Year Matters

In the previous years' audit reports, several issues were raised. However, although the Management has indicated that the issues have been responded to, the matters have

remained unresolved as the Public Investments Committee finalized hearings on the same.

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. Unsupported Transparency and Communication Infrastructure Project, TCIP Expenses

As disclosed under Note 18 to the financial statements, the statement of financial performance reflects Transparency and Communication Infrastructure Project, TCIP expenses amount of Kshs.55,962,008. It was noted that the Authority used part of the proceeds of TCIP Project funds financed by the World Bank for the supply, installation, configuration and commissioning of a Resource Management System (RMS). The budgetary allocation as per TCIP procurement plan was Kshs.71,400,000. The supplier was awarded the contract at a contract price of Kshs.62,954,452.60 and the contract was signed on 15 April, 2016. The implementation period was agreed to be three (3) months upon submission of an agreed project plan. However, during the audit review, three (3) years after the contract was signed, the operational usage of the system was at only 9.7 % with human resource module not signed-off completely. Total amount of Kshs.50,363,562.04 had already been paid to the supplier with an outstanding balance of Kshs.12,590,890.52 as at 16 February, 2018. The Management has explained that the system had not been handed over and the issues noted had not been resolved at the time of audit.

Further, the amount includes payment to seven (7) consultants working on Integrated Financial Management Information System (IFMIS) and information security system. However, the Management did not provide, for audit review the consultants' contract and pre-agreed performance indicators. Further, documents availed for audit indicate that TCIP project came to an end on 31 December, 2016 with a grace period of four (4) months to ensure closure and continuity.

Under the circumstances, it was not possible to confirm the value for money in respect of TCIP expenses totalling Kshs.55,962,008 for the year ended 30 June, 2019.

2. National Optic Fibre Backbone Infrastructure Project, NOFBI Loan

The NOFBI project is implemented by the State Department for ICT and Innovation and funded by Export Import Bank of China at approximately Kshs.16,500,000,000. Although

the Authority has started repayment of the loan, the loan has not been recorded in the Authority's financial statements. Further, although the NOFBI Project network is being used by most of the data service providers in the country, the Project Manager did not also avail for audit review, the billings done in the last four (4) years of which the proceeds should fund the loan repayments. Management did not also provide the service provision framework in place between NOFBI Project Managers and the user audit review. The Government has therefore, been funding the operation of private commercial entities without recovering the cost. This amounts to imprudent use of public resources. No explanation has been provided for the exclusion of the loan in the accounting records.

Under the circumstances, the Management has not effectively managed public resources and value for money on the investment could not be ascertained.

3. Slow Project Funds Absorption

The East Africa Regional Transport, Trade and Development Facilitation Project (EARTTDF IDA Project) which started in November, 2015 with an estimated completion date of December, 2021 had notably consumed 60% of its lifecycle to completion. However, the estimated budget/funding for the project amounts to approximately Kshs.2,979,795,000 while accumulated expenditure as at 30 June, 2019 amounts to Kshs.182,905,071 (6.13% of the estimated budget of the entire project). At the current project funds absorption level, the project life will lapse without full absorption of the project financing.

In the circumstances, it has not been possible to determine whether the Project's objectives will be met and whether value for money has been achieved.

4. Non-Recovery of Outstanding Pasha Loans

The statement of financial position reflects Pasha Fund asset of Kshs.45,193,389. The balance represents loans advanced to entrepreneurs to set up information hubs to be repaid within nine (9) years. However, the balance is in arrears and there has been no collection during the year under review. No provision for impairment of this asset has been created in the financial statements even though recovery is clearly doubtful. Additionally, there has been no interest charged on the revolving fund balance even though the loan has remained unpaid for twelve (12) months.

In the circumstances, it has not been possible to confirm whether Management has prudently managed public resources.

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 Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Authority'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 the Management is aware of the intention to liquidate the Authority 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 Authority 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management’s use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority’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 Authority 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 Authority 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

21 July, 2021