

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE:

18 JUL 2013

DAY:

Thursday

TABLED
BY:

CLERK-AT
THE-TABLE:

Majority Whip
Gutwude
debate

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA FILM CLASSIFICATION BOARD

FOR THE YEAR ENDED 30 JUNE 2018

PARLIAMENT
OF KENYA
LIBRARY



KENYA FILM CLASSIFICATION BOARD

A REGULATORY AND NON-COMMERCIAL ENTITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2018

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

TABLE OF CONTENTS

I.	KEY ENTITY INFORMATION AND MANAGEMENT.....	ii
II.	THE BOARD OF DIRECTORS.....	x
III.	MANAGEMENT TEAM.....	xiv
IV.	CHAIRMAN'S STATEMENT.....	xvii
V.	REPORT OF THE CHIEF EXECUTIVE OFFICER.....	xix
VI.	CORPORATE GOVERNANCE STATEMENT.....	xxii
VII.	MANAGEMENT DISCUSSION AND ANALYSIS.....	xxvii
VIII.	CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING.....	xxxiii
IX.	REPORT OF THE DIRECTORS.....	xxxv
X.	STATEMENT OF DIRECTORS' RESPONSIBILITIES.....	xxxvii
XI.	REPORT OF THE INDEPENDENT AUDITORS ON THE KENYA FILM CLASSIFICATION BOARD.....	xxxix
XII.	STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018.....	1
XIII.	STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018.....	2
XIV.	STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2018.....	3
XV.	STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018.....	4
XVI.	STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2018.....	5
XVII.	NOTES TO THE FINANCIAL STATEMENTS.....	8
XVIII.	APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS.....	54
XIX.	APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY.....	66
XX.	APPENDIX III: INTER-ENTITY TRANSFERS.....	68
XXI.	APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES...	69

I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

Kenya Film Classification Board (KFCB) is a Regulatory State Corporation established by *Films and Stage Plays Act Cap 222* Laws of Kenya to regulate the creation, broadcasting, possession, distribution and exhibition of film in the country with a view to protect children from exposure to harmful content and promote national values as enshrined in Article 10 of Constitution of Kenya, 2010. The *Kenya Information and Communications Act* further empowers the Board to impose age restrictions on all films to be aired by broadcast stations to ensure that content which depicts scenes intended for an adult audience is not aired between 5am – 10 pm (watershed period). The entity is domiciled in Nairobi (Headquarters), Kenya and has branches in Mombasa, Nakuru, Eldoret, Nyeri, Embu, Garisa, Isiolo, Kisumu and Kakamega.

(b) Principal Activities

The principal function of the Board is to regulate the creation, broadcasting, distribution, exhibition and possession of film and broadcast content by:

- a) Examining films, TV & Radio programmes, non-programme matter and posters for purposes of classification.
- b) Impose age restriction on viewership.
- c) Register and license film agents, local and international filmmakers, distributors and exhibitors.
- d) Giving consumer advise, having due regard to the protection of women and children against sexual exploitation or degradation.
- e) Prescribe and develop regulations and guidelines on film and broadcast content regulation in the country.
- f) Regulate and license stage plays and theatres as recommended by the Presidential Taskforce on Parastatal Reforms, 2013.
- g) Ensure that content which depicts, contain scenes or are of the language intended for adult audience are not aired during the watershed period i.e. 5am to 10pm
- h) Enforce the programming Code for the free-to-air radio and TV services by ensuring that all programme and non-programme matter, namely commercials, infomercials, documentaries, programme promotions, programme listings, community service announcements and station identifications are classified before they air.

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

Vision

World Class Film and Broadcast Content Regulator.

Mission

To safeguard the national values and norms through efficient and effective film and broadcast content regulatory services

Core values

Core values are our guiding principles and form the foundation of our culture. They include;

- (i) Professionalism- Our high level of excellence in delivering results to stakeholders.
- (ii) Accountability – Our responsibility to stakeholders for action taken.
- (iii) Innovation – Our commitment to initiative, creativity and continuous improvement aimed at adding value to our operations.
- (iv) Integrity- Our firm adherence to ethics and fidelity to doing right.
- (v) Team work- our willingness to cooperate and work together to achieve the corporate objectives.

(c) Key Management

A. BOARD OF DIRECTORS		
No.	Designation	Name
1.	Ag. Chair	Gathoni Kung'u
2.	Chief Executive Officer	Dr Ezekiel Mutua, MBS
3.	Principal Secretary, National Treasury	Dr Kamau Thugge
4.	Principal Secretary, State Dept. Arts & Culture	Josepheta Mukobe
5.	Independent Director	Nereah Alouch Okanga
6.	Alt. Principal Secretary, National Treasury	Abraham Koech
7.	Alt. Principal Secretary, State Dept. Arts & Culture	Ernest Kerich
B. ACCOUNTING OFFICER		
No.	Designation	Name
1.	Chief Executive Officer	Dr Ezekiel Mutua, MBS
C. MANAGEMENT		
No.	Designation	Name
1.	Chief Executive Officer	Dr Ezekiel Mutua, MBS
2.	Head of Corporate Communication	Nelly Muluka
3.	Head of Human Resource & Administration	John Malombe
4.	Head of Film Monitoring & Enforcement	Wilson Koskei
5.	Head of Film Examination & Classification	Redempta Amondi

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

6.	Head of Legal services & Corporate Secretary	Loice Shalakha
7.	Head of Finance and Accounts	CPA Paskal Martin Opiyo
8.	Head of Supply chain Management	Immaculate Mulaku
9.	Head ICT	Anthony Kamar
10.	Head of Audit	Francis Nguthu
11.	Head of Planning	Onesmus Muema

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Chief Executive Officer	Dr Ezekiel Mutua, MBS
2.	Head of Corporate Communication	Nelly Muluka
3.	Head of Human Resource & Administration	John Malombe
4.	Head of Film Monitoring & Enforcement	Wilson Koskei
5.	Head of Film Examination & Classification	Redempta Amondi
6.	Head of Legal services & Corporate Secretary	Loice Shalakha
7.	Head of Finance and Accounts	CPA Paskal Martin Opiyo
8.	Head of Supply chain Management	Immaculate Mulaku
9.	Head ICT	Anthony Kamar
10.	Head of Audit	Francis Nguthu
11.	Head of Planning	Onesmus Muema

(e) Fiduciary Oversight Arrangements

Board's Composition

The Films and Stage Plays Act Cap 222, Section 11(a) prescribes the composition of the Board as follows; a Chairman appointed by the Cabinet Secretary; the Principal Secretary in the parent Ministry; the Principal Secretary to the National Treasury; the Chief Executive Officer appointed under section 11C; and eight other members appointed by the Cabinet Secretary of the Parent Ministry.

The Board is currently composed of one (1) non-executive Chairman, two (2) independent members, the Chief Executive Officer and two (2) representatives of the PS National Treasury and PS State Department of Arts and Culture.

The Board of Directors has established four Committees which have specific terms of reference to guide their operations. The Committees which meet on a quarterly basis are as follows:

Report of the Chairperson of Human Resource and Administration



Hon Robert Kochale(Late)

Mandate

The committee is responsible for overseeing implementation of policies affecting staff performance and welfare. It is also responsible for advising and reviewing programmes aimed at addressing succession planning, advising and reviewing the remuneration of staff, reviewing staff performance, appraisal and reward systems. The Committee also continually reviews the organizational structure, core functions and optimum staff establishment of the Board.

Membership

The Committee comprises of four (4) members of the Board of Directors with the Head of Human Resource & Administration providing the secretariat. The committee is authorized by the Board to secure the attendance of external advisers at its meetings if it considers necessary, and to obtain reliable, up-to-date information about any of its business.

Attendance

The Committee held four (4) meetings in the financial year as shown below:

No.	Name	Attendance
1	Dr.Ezekiel Mutua, MBS	2/4
2	Ernest Kerich (Rep Principal Secretary MOSCA)	4/4
3	Nereah Okanga Alouch(Joined 23 rd March,2017)	4/4
4	Robert Kochalle(Passed on 30 th May,2018)	4/4



**Report of the Chairperson of Finance and General Purpose Committee
Hon Robert Kochale(Late)**

Mandate

The committee is responsible for reviewing the financial and asset management plans of the Board, approving the pre-qualified list of suppliers, annual work plans, procurement plans and budgets, reviewing and approving financial reports of the Board. The Committee is also responsible for the rationalization of the Board's Budget.

Membership

The Committee comprises of five (5) members of the Board of Directors with the Head of Finance and Accounts providing the secretariat. The representative of the National Treasury must be part of the committee.

Attendance

The Committee held three (3) meetings in the financial year as shown below:

No.	Name	Attendance
1	Dr.Ezekiel Mutua, MBS	2/3
2	Abraham Koech (Rep Principal Secretary National Treasury)	3/3
3	Ernest Kerich (Rep Principal Secretary MOSCA)	3/3
4	Nereah Okanga Alouch(Joined 23 rd March,2017)	2/3
5	Robert Kochalle(Passed on 30 th May,2018)	3/3

Report of the Chairperson of Technical Development Committee

Ms.Nereah Okanga



Mandate

The committee is responsible for reviewing customer service standards, reports and implementation of policies affecting the public, corporate and business strategies of the Board. The committee is also responsible for reviewing implementation of programmes, standards and compliance with various international and local legal requirements. Advising and initiating on the necessary legal requirements for purposes of effectiveness and efficiency in the regulation function.

Membership

The Committee comprises of five (5) members of the Board of Directors with the Head of the Technical department providing the secretariat. The membership is drawn from members of the Board with expertise in the technical functions.

Attendance

The Committee held two (2) meetings in the financial year as shown below:

No.	Name	Attendance
1	Dr.Ezekiel Mutua, MBS	2/2
2	Abraham Koech (Rep Principal Secretary National Treasury)	1/2
3	Ernest Kerich (Rep Principal Secretary MOSCA)	2/2
4	Nereah Okanga Alouch(Joined 23 rd March,2017)	2/2
5	Robert Kochalle(Passed on 30 th May,2018)	2/2

Report of the Chairperson of the Audit & Risk Management Committee

Ms.Nereah Okanga



Mandate

The committee is responsible for establishing and reviewing internal control systems, risk management issues, procedures and programmes being implemented by the Board. It is also responsible for overseeing the internal audit function and external audit. It also reviews the performance and considers the independence of the external auditors and confirms that all regulatory compliance is considered in the preparation of financial statements.

Membership

The Committee comprises of four (4) members of the Board of Directors with the Head of the Internal Audit function providing the secretariat. The Chairman of the Committee is an Independent Director, it is also a requirement that at least one member of the Board holds relevant qualifications in financial management or accounting with experience and knowledge in risk management and is a member of a professional body with good standing.

Attendance

The Committee held three (3) meetings in the financial year as shown below:

No.	Name	Attendance
1	Abraham Koech (Rep Principal Secretary National Treasury)	3/3
2	Ernest Kerich (Rep Principal Secretary MOSCA)	3/3
3	Nereah Okanga Alouch(Joined 23 rd March,2017)	3/3
4	Robert Kochalle(Passed on 30 th May,2018)	1/3

KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(f) Entity Headquarters

Uchumi house, 15th floor
Aga Khan Walk
P. O Box 44226-00100
Nairobi, Kenya

(g) Entity Contacts

Telephone : (254) 711-222-204, 773-753-355,
020-2250600
E-mail: info@kfcg.co.ke
Website: www.kfcg.co.ke

(h) Entity Bankers

Co-operative Bank of Kenya
Parliament Road Branch
P. O Box 5772-00200
Nairobi, Kenya

(i) Independent Auditors

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

(j) Principal Legal Adviser

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

II. THE BOARD OF DIRECTORS



Gathoni Kung'u
Ag. Chairman



Ezekiel Mutua, MBS
CEO



Ms Nereah Okanga Alouch
Independent Director



Abraham Koech

Alt. PS National Secretary



Ernest Kerich

Alt. PS State Dpt Arts & Culture



Hon. Robert Kochalle

Independent Director

Director's Profile

Dr Ezekiel Mutua, MBS

Dr. Ezekiel Mutua, MBS is the Chief Executive Officer of the Kenya Film Classification Board (KFCB). He was previously the Secretary of Information (2011 – 2015); Director of Information and Public Communications (2007-2011); Secretary General of the Kenya Union of Journalists (KUJ); and an editor with the Nation newspapers.

He is an adept and experienced public servant, media and communications professional, having served as the Information Secretary, Director of Information and Public Communications and Secretary General of the Kenya Union of Journalists. He previously served as director at the Kenya Broadcasting Corporation (KBC) and has sat in various public Boards including the Brand Kenya Board, Kenya Broadcasting Corporation (KBC) and the Media Council of Kenya.

In December 2010, Dr. Mutua was awarded the Moran of the Order of the Burning Spear (MBS) in recognition of his outstanding contribution to the country.

He has pursued Media Studies up to PhD level and in 2017 he was awarded a Doctor of Administration Degree by the Commonwealth University in recognition of his role in championing protecting children from exposure to harmful film and broadcast content at the Kenya Film Classification Board.

Ernest Kiprono Kerich

Ernest Kiprono Kerich is the alternate Director to the Cabinet Secretary Ministry of Sports, Culture and the Arts. He was born 7th July, 1959. He is currently the Director, Department of Film Services in the Ministry of Sports, Culture & the Arts. He has worked in the public service for over 36 years in various Ministries; Information & Broadcasting, Tourism and Information, Information transport and Communications and at the Office of the President under the Presidential Press Service. He has vast experience in the film industry and has attended various forums, festival and sensitisations on film regulation, development and marketing both locally and internationally.

Abraham Koech

Mr. Abraham Koech serves as the alternate Director to the Cabinet Secretary, National Treasury. He was born on 21st April, 1969. He holds Master of Business Administration-Strategic Management from Jomo Kenyatta University of Agriculture and Technology and Bachelor of Arts honours in Economics from University of Nairobi. He is currently a Chief Investment Officer at the National Treasury and has over 21 years of service in corporate and the public sector.

Gathoni Kung'u

Gathoni Kung'u is a multi-media professional with over ten years' experience in media relations and media production. Experienced in working in all creative disciplines, she has a wide range of knowledge in digital production processes, with an in-depth understanding of both technical and creative aspects.

An accomplished TV and Film Producer/Director, she has been instrumental in producing and directing various ground-breaking Kenyan TV shows, themed along a wide array of contemporary socio-economic issues. Most of her works have aired on mainstream TV stations. These include the Patricia Show, aired on MNET; Uongozi, aired on NTV; among others.

Her wealth of experience in agency creative teams has seen her produce national and regional brands, promotional TV and Radio commercials that have been aired across various media platforms. She is a great team partner, and a skilled negotiator with successful records in solving complex strategic, schedule and budget issues, and managing multiple high visibility projects simultaneously.

Ms. Kung'u is also effective in developing relationships and stakeholder management, having acted as point of contact and representative, both internally and externally, in initiatives aimed at upholding organizational and corporate image, branding and communication activities.

She is a holder of a BA in Communications, with a Minor in Psychology, and a Higher Diploma in Addiction Counseling. She is currently pursuing a Master's degree in Communication. Ms. Kung'u is the Managing Director of Gee Pictures Company Limited and is a Media Consultant.

Hon. Robert Kochalle (Late)

Hon. Robert Ltaramatwa Kochalle is a Director at the Kenya Film Classification Board (KFCB). He previously served as the Assistant Minister for Tourism and Wildlife. He was also Assistant Minister of State in the Office of the President. Prior to this, he was Member for Parliament for Laisami Constituency. He has served in various other Boards, including Chemilil Sugar Co. Ltd and the Kenya Industrial Research and Development Institute (KIRDI).

Nereah Okanga

Nereah Aluo Okanga is an advocate of the High Court of Kenya with a wealth of experience that spans over 15 (fifteen) years in training and practice locally and internationally. Ms. Okanga's vision is to empower people by promoting social justice and enhancing economic independence through civic education and by providing affordable but quality legal services. Ms Okanga is well versed in various areas of legal practice, including financial and banking law, corporate law, commercial law, land law and conveyancing, civil litigation, mergers and acquisitions, labour & employment law, and the law of succession. Her various professional roles and duties have required her to provide guidance on corporate governance, formulate policy and procedure, and develop frameworks for compliance and risk management. Ms. Okanga currently works as in-house legal counsel for Barclays Bank of Kenya Limited; and previously offered legal services as a Senior Associate at Anjarwalla & Khanna, Advocates. She obtained an undergraduate degree in International Political Economy in the United States, and obtained her graduate legal degree from the University of Bristol in the UK.

III. MANAGEMENT TEAM



Dr Ezekiel Mutua, MBS- MA-Communication Studies, BA-Sociology and Linguistics

Chief Executive Officer

The Chief Executive Officer is responsible for the day to day operations of the Board and ensures that the mission is achieved. Further he is responsible for the execution and communication of the Board's strategies, decisions and policies. He also provides leadership to senior management and staff. He is the accounting and authorised officer of the Board and the link between the Board and the management.

Wilson Koskei - Dip. Film/Video Production

Film Monitoring & Enforcement

Responsible for ensuring that creation, broadcasting, distribution, exhibition and possession of film and broadcast content is in line with the provisions of Films and Stage plays Act cap 222 and the Kenya Information & Communication Act. Liaising with professional bodies and other stakeholders on matters relating to film and broadcast content regulation.



John N. Malombe - MBA, PGD (HRM) PDG (ED.)

Human Resource and Administration

Responsible for initiating, formulating and implementing the Board's human resource and administration policies, strategies and procedures. Developing and managing the staff welfare schemes. Provision of advice on human resource management principles with a view to upholding corporate core values and fulfilment of social responsibilities.

Nelly Muluka Aluoch- MA Communication Studies, B.Ed. English Literature.
Corporate Communications



Responsible for initiating designing, developing reviewing and implementing the Board's communication's strategy geared towards attaining and sustaining a positive public image of the Board. Also responsible for coordinating interactive public functions and events to promote and publicise activities of the Board. Managing customer feedback including compliments suggestions and complaints on service delivery.

Onesmus David Muema - B.A Economics & Mathematics

Planning & Research



Responsible for coordinating the preparation of annual Ministerial Public Expenditure Review (MPER) and the Medium Term expenditure framework (MTEF). Collecting, collating, processing and interpreting statistical data for the Board. Coordinating appraisal of development projects undertaken by the Board. Coordinating preparation of progress report on performance contracting.

Immaculate Mulaku - B. A., Dip CIP

Supply Chain Management



Responsible for providing oversight in the efficient and effective operations of the supply chain function of the Board. A key aspect of this role is ensuring the Board's planning, buying, and monitoring of procurement; and initiatives which support strategic organizational goals and objectives.

Loice M. Shalakha - LLB, Dip. Kenya School of Law

Legal Services and Corporation Secretary

Responsible for providing legal services to ensure that appropriate interpretation of the legal safeguards and the rights of the Board including patents, copyrights and trademarks of the Board. Providing legal advice and assistance on all aspects of government regulation and preparing opinions and legal interpretations on various matters related to the interpretation and review of statutory instruments. Custodian of the company interests in regard to property and indemnity. Providing guidance and support and is secretary to the Board.





Redemptah Amondi - B.A., Dip Film/ Video production

Film Examination & Classification

Responsible for developing and prescribing standards for classification of film and broadcast content. Giving consumer advice and imposing age restriction on viewership of film and broadcast content.

Emmah Irungu- B.Sc. IT, H. Dip PSY, Dip IT

Broadcast Monitoring Unit

Responsible for initiating designing, developing reviewing and implementing the Board's strategy on broadcast content regulation. She is in -charge of monitoring the media content to ensure compliance to the programming code for Free-to-Air TV and Radio.



CPA Paskal Martin Opiyo, MBA, BA Hons., CPA (K)

Finance and Accounts

Advises the Accounting Officer, the Board of Directors and Committees of the Board, Management and other stakeholders on all financial and accounting matters of the Board. Provides strategic direction and oversight to the formulation, interpretation and implementation of financial regulations, procedures and policies to enhance internal controls. In addition, responsible for supervising, training, mentoring and coaching Finance and Accounts staff.

Anthony Kamar - MBA, BBM, FCSK

Information Communication Technology

Responsible for planning, operating and supporting the Board's IT infrastructure, enabling users to carry out their roles; efficiently, effectively, securely and at a minimum cost. Developing and maintaining ICT policies and standards at the Board.



Francis Ngala Nguthu -B.COM (Finance). IIA (K)

Internal Audit

Reports functionally to the Board and administratively to the Chief Executive Officer. Responsible for reviewing and appraising the soundness and efficiency of all systems of control including financial, operational and internal control systems and procedures.

IV. CHAIRMAN'S STATEMENT



Opening Statement

Let me take this opportunity to first of all thank everyone in the Kenya Film Classification Board family for the good work, which has culminated in the successful completion of the 2017/2018 Financial Year. As a Board, we have established a reputation of progression as an organization as recorded in the increased number of licensed film distributors, exhibitors, film agents and licensed films. This was catalyzed by the existence of appropriate infrastructure well as the transfer of the film licensing function to the Board. In addition, increased creation on the need to comply with the Films and Stage Plays Act Cap 222, laws of Kenya and responsible consumption of media content.

Operating environment

As a Board, we have underscored the need to preserve our national values and foster national cohesion. This has been fostered through increased low-cost high-impact stakeholder partnerships and sponsorships. Further, through enhanced public sensitization initiatives with County Governments, inter-faith religious organizations, institutions of learning as well as players within the creative industry.

In support of the Presidential Big 4 Agenda, the Board has aligned its projects to the manufacturing pillar by encouraging production and showcasing of local film content. As such, the Board's Sinema Mashinani initiative is such one project that seeks to nurture the creative arts talents among the youth. The initiative also aims to create job opportunities, promote entrepreneurship and importantly support the realization of the economic pillar of the vision 2030. The Board is also committed to continue strengthening both local and international partnerships so as to create an enabling platform to form synergies that envisage the Sustainable Development Goal (SDG) no. 17 that seeks to strengthen the implementation and revitalize the global partnership for sustainable development in discharge of its mandate.

I take note that as a Board, we need to keep abreast with the changing operational and technological advancements to enable us to progressively deliver our mandate efficiently and effectively. This can only happen through Government support. In this regard, my heartiest gratitude to the Government of Kenya for the continued support.

Tribute

I wish to express my sincere and deep gratitude to the Government of Kenya, fellow Directors (especially those who retired on 31st May, 2018), employees, our customers and other stakeholders for their steadfast support

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

and contribution towards our success in the year. I have no doubt that together we will continue to achieve even more in fulfilling the expectations of our mandate.



GATHONI KUNG'U

AG. CHAIRMAN

V. REPORT OF THE CHIEF EXECUTIVE OFFICER



The Financial Year 2017/2018 has come to an end in what has been a momentous period for us here at the Kenya Film Classification Board (KFCB). In line with our mandate, we have successfully implemented various initiatives aimed at ensuring efficiency in regulating the creation, broadcast, distribution, possession and exhibition of film and broadcast content as required by the Films and Stage Plays Act Cap 222 Laws of Kenya.

Compliance with the Regulatory Framework.

To enhance the levels of compliance, we have taken measures that have seen an impressive increase in compliance levels in the film and broadcast sector. In the year 2017/2018, the number of licensed film distributors and exhibitors grew from 6,594 to 6,678, which is a 1.25% growth compared to FY 2016-2017. The aim of the regulatory decisions taken in the course of the year, has been to ensure conformity of film and broadcast content with national aspirations and moral values. The Board licensed 484 film makers, registered 127 film agents and carried out random inspection to 3,003 film premises to check on compliance with film regulations.

In addition, the Board examined and classified 376 films, 625 hours of broadcast content. Most films were rated PG-Parental Guidance Recommended (148) followed by 16-Not suitable for persons under 16 years (113), GE-General Exhibition (84), 18-Restricted to persons aged 18 years and above (47) and only one (1) film was R-restricted during the FY 2017-2018.

In the broadcast sector, the level of compliance in regard to classification of Broadcast content has increased. The board received broadcast content from seventeen (17) TV station amounting to 625 hours of content. Further, the decision by the Board to take alcoholic advertisement to court has increased compliance of content produced for advertisement. Forty-five (45) companies submitted their commercial advertisement to the Board for examination and classification. This can be directly attributed to the advertising guidelines KFCB announced in May 2016, discouraging the broadcast of adult-rated content within the watershed period (5.00am-10.00pm) when children are part of the potential audience.

Giving Consumer Advice and Public Sensitization

As we discharge our mandate, we remain alive to the fact that film and media content are powerful influencers of behavior and societal values. They are also channels of infiltration of foreign cultures and ideologies at the expense of our national norms and predominant cultural values. In order to create awareness and deepen the understanding of our mandate by the public, the Board rolled out rigorous public sensitization programs across the country. The Board carried out Eighty-five (85) sensitizations were carried out throughout the country

during the FY2017/2018. We fortified these programs with regular media appearances to articulate our mandate, providing important platforms to inform the general public. The cross-sector stakeholder's forum held earlier in the year has created a better understanding that the Board's mandate also includes regulation of broadcast content.

Further, KFCB increased our collaborations with religious organizations, parents and the media to educate the public about the role of content in preserving culture and upholding national moral values. The Board has regarded these organizations as important partners in the process of countering the adverse effects of content to children and the youth and mobilizing public support.

Revenue Growth

In the year under review the Board witnessed slight turbulence in growth of revenues. This decline is attributed to long electioneering period that affected the performance of the general economy and our business environment. The internally generated income dropped by 1.97 million, representing a percentage decline of six (6) percent compared to the previous FY 2016/2017. In total the income of the Board grew by 6 percent. Revenue from licensing declined from Ksh. 16.81 million to Kshs. 14.9 million while revenue from classification labels declined from Kshs. 5.38 million to Kshs. 4.37 million. The same trend was replicated as revenue from classification fees declined from Kshs. 2.90 million to Kshs. 2.6 million. However, revenue from Filming fees increased from Kshs. 2.66 million to Kshs. 2.94 million while revenue from Film agent fees grew from Kshs. 1.30 million to 1.58 million. In addition, revenue from Licensing of feature films, documentaries and series increased from Kshs. 1.57 million to Kshs. 2.3 million. The year also saw GoK grants increase from 388.25 million to 406.75 million. We would like to thank the National Treasury through our parent Ministry of Sports and Heritage for ensuring that we have the resources required to carry out our regulatory functions.

Future Outlook

Going forward, KFCB remains committed to transforming the film industry in Kenya. As a regulator, our aim is to elevate the industry to global standards. We firmly believe that proper regulation will make a huge contribution to the attainment of the expectations of the Vision 2030 Social Pillar, which envisions that Kenyan shall formulate and adopt a core set of national values. The Board seeks to facilitate investment in the film industry, through the Sinema Mashinani Project with an objective to transform the sector.

Strategic Approach

KFCB is adopting a combination of operational performance and organizational strategies to respond to the changing regulatory environment for the film and broadcast content. We have identified three key areas of focus in the next financial year. These include; building strategic partnerships that will enhance and offer value

addition to our customers, improve on how technological advancements and media converges, review our standards on services delivery and improve on our current infrastructure.

Appreciation

I wish to convey my gratitude and appreciation to the Board of Directors for their strategic support and guidance and our staff for their dedicated service throughout the year. We are confident that with the continued support of our Board of directors and other partners in the implementation of these strategies we shall achieve our overall goal to safeguard the national values and norms through efficient and effective film and broadcast content regulatory services.

Thank you.



DR. EZEKIEL MUTUA, MBS
CHIEF EXECUTIVE OFFICER

VI. CORPORATE GOVERNANCE STATEMENT

Corporate governance is the system of rules, practices and processes by which KFCB is directed and controlled. Corporate governance essentially involves balancing the interests of the Board's stakeholders including the Government, management, clients, suppliers, and the community at large. It also provides the framework for attaining the Board's objectives and encompasses practically every sphere of management from action plans and internal controls to performance measurement and corporate disclosure.

Corporate governance is the structure and system of rules, practices and processes by which organizations are directed, controlled and held accountable. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in organizations. Corporate governance essentially involves balancing the interests of many stakeholders in an organization. This includes its shareholders, Government, management, customers, suppliers, financiers and community. It provides the framework for achieving the objectives of an organization and creates benchmarks for measurement of corporate performance and disclosure. Kenya Film Classification Board recognizes the need to conduct its business and operations with integrity and in accordance with the principles of good corporate governance. The Board of Directors is committed to continued adherence to the highest standards of good corporate governance and business ethics in Kenya Film Classification Board's operations.

Statement of Compliance

KFCB is committed to the highest ethical standards and embracing global best practice in decision-making structures to ensure compliance with applicable legal principles. The Board's vision, mission and core values provide the framework in which the Board safeguards the national values and norms through efficient and effective film and broadcast content regulatory services. This is done in line with the provisions of the Constitution of Kenya, Films & Stage Plays Act Cap 222 and the Kenya Information and Communications Act. In its operations the Board adheres to Public Procurement & Asset Disposal Act 2015, Employment Act 2007 and Occupational Safety & Health Act 2007 among other legislations. In addition, the Board is in compliance with the governance tenets of the "Code of Governance for Government Owned Entities (Mwongozo Code)."

Board's Composition and Appointment

The Films and Stage Plays Act Cap 222, Section 11(a) prescribes the composition of the Board as follows; a Chairman appointed by the Cabinet Secretary; the Principal Secretary in the parent Ministry; the Principal Secretary to the National Treasury; the Chief Executive Officer appointed under section 11C; and eight other members appointed by the Cabinet Secretary of the Parent Ministry.

The Board is currently composed of one (1) non-executive Chairman, two (2) independent members, the Chief Executive Officer and two (2) representatives for the PS National Treasury and PS State Department of Arts and Culture.

Board's Diversity

The Board has following diverse set of skills;

Field of Expertise	Number
Education	1
Communication	1
Film Production	2
Economics & Finance	1
Law	1

Separation of Powers of the Chairman & Chief Executive Officer

The separation of the functions of the Chairman and the CEO ensures the independence of the Board and Management. The requisite balance of power, increased accountability, clear definition of responsibilities and improved decision making is attained through this distinction between the non-executive and executive roles.

Board Meetings

The Board meets at least once per quarter or more often in accordance with requirements of the business.

The Board's work plan and calendar of meetings is prepared at the beginning of the financial year. Adequate notice is given for each board meeting and the agenda and papers are circulated in good time.

The Board held 6 meetings which were attended as follows:

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

No.	Name	Attendance
1	Gathoni Kung'u	7/7
2	Dr.Ezekiel Mutua, MBS	5/7
3	Abraham Koech (Rep Principal Secretary National Treasury)	7/7
4	Ernest Kerich (Rep Principal Secretary MOSCA)	7/7
5	Nereah Okanga Alouch	7/7
6	Robert Kochalle(Passed on 30 th May,2018)	5/7

Directors' Remuneration

The Directors' remuneration is in line with the guidelines provided in the State Corporations Act and the guidelines provided by the State Corporations Advisory Committee. The Chairman is paid a monthly honorarium of Kshs. 80,000, airtime of Kshs. 5,000 and a taxable sitting allowance for each meeting attended. The Directors are paid a taxable sitting allowances of Kshs. 20,000 for each meeting attended. The sitting allowance for the current financial year is prescribed in the circular Ref no. OP/CAB.9/21/2A/LII/43 dated 23rd November 2004. Other allowances such as accommodation and travelling are prescribed by circular Ref No. OP/SCAC.9/21.2 VOL.I (164) dated 28th April, 2015. The Chief Executive Officer does not qualify to receive the sitting allowance for any meeting he/she attends.

The amounts paid to the directors is as shown below:

	2017/2018	2016/2017
	Kshs.	Kshs.
Board Members Allowance	18,425,965	24,603,710
Film Examiners Allowances	2,141,500	1,804,500
Conferences, Committees and Seminars	-	381,000
Board Members Insurance	195,357	798,204
Honoraria to chairman	1,020,000	1,010,000
Board Trainings	3,311,350	1,335,600
Total Board Expenses	25,094,172	29,933,014

The Films and Stage Plays Act, Cap 222 Section 11(B) provides that the Board may from time to time co-opt such number of persons as it may determine, having regard to number of films requiring examination to examine and classify films. Such persons are paid a sitting allowance of Kshs. 2,500 per film classified and a meal allowance of Kshs. 1,000. This expenditures forms part of the Board expenses reported as film examiners allowance.

Declaration of Interest and Conflict of Interest

The directors are obligated to fully disclose to the Board any real or potential conflict of interest, which comes to his/her attention, whether direct or indirect. The statutory duty to avoid situations in which they have or may have interests that conflict with those of the Board has been observed by the Board of Directors.

Board Charter

The Board has an approved board charter. The charter provider provides details of the Board composition, size of the board, the role of the board, powers of the board of directors and the tenure of the directors as prescribed in the Films and Stage Plays Act, Cap 222

Succession Planning

The Board during the FY 2017-2018 initiated the review of the career frameworks and organization structure to align them with the strategic direction of the board. The review is now complete and the board is expected to implement the new career guidelines and organization structure as from next financial year.

Board Training and Induction

The Board conducted two trainings for directors on Finance for non-finance Directors conducted by the Institute of Public Accountants of Kenya(ICPAK) and High Board performance programme by Global Focus.

The Board of Directors

The members of the Board of Directors are shown on **page x** and their profiles indicated on **page xi to page xiii**. The Board is chaired by a non-executive Chairman and all the Directors have extensive business and administrative experience in private and public sectors that is applied for the benefit of Kenya Film Classification Board.

The principal responsibility of the Board of Directors is to establish the long term goals of the Kenya Film Classification Board.

The Board also ensures that effective plans are developed and implemented. Their responsibilities entail:

- i)** Providing the vision, mission, and strategic direction and upholding the core values;
- ii)** Putting in place management structures (organization, systems and human capital) to achieve these goals;
- iii)** Ensuring targets are set and monitoring performance;

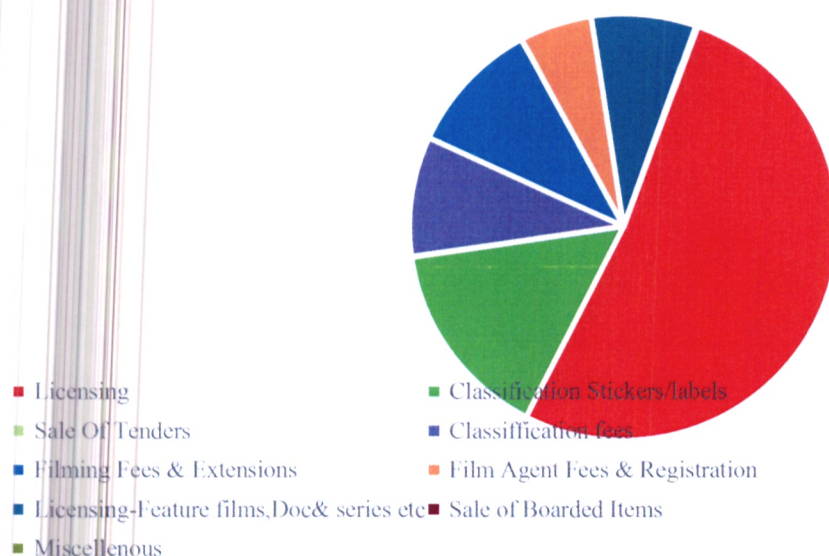
- iv) Guiding the implementation of strategic decisions and actions and advising management as appropriate;
- v) Reviewing and approving annual budgets;
- vi) Ensuring management of risk, overseeing the implementation of adequate internal control systems, compliance with relevant laws and regulations, and compliance with accounting and auditing standards.
- vii) Ensuring the preparation of annual financial statements and reports.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results and Review of Operations

During the FY 2017/2018 saw the Board continue to scale its height in specific areas while in other areas there were downfalls emanating from underperforming economy due to a long electioneering period. The Board's internally generated revenue dropped by Ksh. 1.97 million representing a percentage decline of six (6) percent compared to the previous FY 2016/2017. In total the income of the Board grew by 6 percent. Revenue from licensing declined from Ksh. 16.81 million to Kshs. 14.9 million while revenue from classification labels declined from Kshs. 5.38 million to Kshs. 4.37 million. The same was trend was replicated as revenue from classification fees declined from Kshs.2.90 to Kshs.2.6 million. However, revenue from Filming fees increased from Kshs.2.66 to Kshs.2.94 while revenue from Film agent fees grew from Kshs.1.30 to 1.58 million. In addition, revenue from Licensing of feature films, documentaries and series increased from Kshs.1.57 to Kshs. 2.3 million. The year also saw GoK grants increase from 388.25 million to 406.75million, this this is as a result of the Board receiving additional mandate of regulating the film industry from the Department of Film Services as a result of the Presidential Task force recommendations on Parastatal reforms and the new programmes launched by the Board to undertake consumer awareness through public sensitization programmes under the banner "Media Literacy Programme". The bar graph below shows the performance of revenue;

Internally Generated Income for FY2017/2018 In Kshs.



COMPARISON OF REVENUE FOR FY 2017/2018 AND FY 2016/2017



Source/Type of Revenue

The Board continued to implement its Strategic Plan and more focus shifted to realm of advocacy where the Board remained active to conduct public awareness regarding how film and broadcast content can impact negatively on children especially if infiltrated by harmful content. This is in line with section 15(1) (a) of the Films and Stage Plays Act, Cap 222 which requires the board to give consumer advice on consumption of film and broadcast content. As we discharge our mandate, we remain alive to the fact that film and media content are powerful influencers of behavior and societal values. They are also channels of infiltration of foreign cultures and ideologies at the expense of our national norms and predominant cultural values. In order to create awareness and deepen the understanding of our mandate by the public, the Board rolled out rigorous public sensitization programs across the country. Eighty-five (85) sensitizations were carried out throughout the country during the first, second third and fourth quarter of the FY2017/2018. We fortified these programs with regular media appearances to articulate our mandate, providing important platforms to inform the general public.

Compliance with the Regulatory Framework.

To enhance the levels of compliance, the Board took measures that have seen an impressive increase in compliance levels in the film and broadcast sector as provided for through the Film and Stage Plays Act, Cap 222. During the year the number of licensed film distributors and exhibitors was 6,678 against a target of 6,700 exhibitors and distributors targeted during the period 2017/2018 financial year. The number of filming licenses issued to film makers was 484 against a target of 450. The number of random inspections done to film premises during the year was 3,003 against a target of 2,600. Furthermore, the board licensed 127 film agents against a target of 85 during the FY 2017/2018.

In terms of the number of film and broadcast content examined and classified, the Board classified 393 films against a target of 350 and 625 hours of broadcast content during the period against a target of 630 hours. Most films were rate PG-Parental Guidance Recommended (148) followed by 16-Not suitable for persons under 16 year (113),GE-General Exhibition(84),18-Restricted to persons aged 18 years and above(47) and only one (1)film was R-restricted during the FY 2017-2018 .The aim of the regulatory decisions taken in the course of the year has been first to ensure conformity of film and broadcast content with national aspirations and moral values and secondly to protect children from exposure to harmful film and broadcast content.

In the broadcast sector, the level of compliance in regard to the classification of Broadcast content has increased. This can be directly attributed to the advertising guidelines KFCB announced in May 2016, discouraging the broadcast of adult-rated content within the watershed period (5.00am-10.00pm) when children are part of the potential audience.

The future continues to hold exciting opportunities for the Board. To take advantage of this the Board plans to contribute towards the development of the industry through implementing programmes that assist talented youth in job and wealth creation. This will be achieved through appropriation of at least ten percent (10%) of our income to develop the infrastructure required to boost investment in the industry. To effect this, the Board has strategically conceptualised the Sinema Mashinani Project which we assist to revive the culture of screen and cinema going in the Country.

STRATEGIC DIRECTION

An organization's strategic direction is a combination of its vision, mission, strategies and its core values. Without clarity and specificity here, organizations will struggle to make strategic decisions, allocate resources effectively, and align their employees' efforts and measure performance and progress against targets. Kenya Film Classification Board has put in place a Strategic Plan that clearly defines the Board's strategic direction, delineating specific and measureable milestones.

STRATEGIC DIRECTION

The Board has a strategic model that has been adopted to achieve its Vision and Mission in the next 3 years. It includes the strategic themes and key objectives that have been identified to address issues and challenges in regulating the film industry. It also enumerates the accompanying strategies to be pursued in this endeavour.

The Board has identified five strategic issues, namely;

1. Weak Legal Framework
2. Low visibility and negative perception by some stakeholders
3. Low level of compliance with film and broadcast regulations
4. Inadequate service delivery to the public
5. Inadequate infrastructure and equipment

To address the above strategic issues, the following strategic objectives have been identified

1. To improve the policy, legal and regulatory environment in the film, broadcast sector and performing Arts
2. To enhance visibility and perception among some stakeholders
3. To enhance compliance to film, broadcast content and the performing arts regulations for promotion of national values and aspirations
4. To empower the public with knowledge and skills to make informed choices.
5. To improve institutional efficiency and effectiveness for quality service delivery

The strategic objectives will be met by implementing the following strategies;

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

	Strategic Objective	Strategies
1.	To improve the policy, legal and regulatory environment in the film, broadcast sector and performing Arts	Review the existing policies, legal and regulatory framework to address the emerging issues. Conduct public awareness on the formulated policy, legal and regulatory framework.
2.	To enhance compliance to film, broadcast content and the performing arts regulations for promotion of national values and aspirations	Develop regulations that promote the formation of film exhibitors and distributors associations. (provide a platform) Roll out monitoring initiatives to ensure increased compliance by industry
3.	To empower the public with knowledge and skills to make informed choices.	Empower film content consumers and stakeholders with relevant knowledge and skills.
4.	To enhance visibility and perception among some stakeholders	Develop a comprehensive communication strategy. Position the Board's brand and corporate identity Build capacity to address customer feedback.
5.	To improve institutional efficiency and effectiveness for quality service delivery	Institutionalize performance contracting and appraisal system Promote Research to support evidence based decision making. To strengthen human resources Improve the work environment Create an enabling IT environment Diversify finance resources base

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Corporate Social Responsibility (CSR) refers to business practices involving initiatives that directly benefit the society. A business's CSR can encompass a wide variety of tactics, from giving away a portion of organizations resources to charity, to implementing "greener" business operations. The Board has embraced measures such as environment friendly practices to reduce contributing to global warming, donating resources to children homes, and ethical labour practices.

Corporate Social Responsibility Statement

As a Board we acknowledge that we need to promote socially responsible behaviour. This will help build our reputation and strengthen relationships with customers, stakeholders and the general public. In order to achieve this, the Board has been able to identify the key pillars in enhancing corporate social responsibility, both internally and externally. These are as follows:

In the year under review, the Board developed a corporate social responsibility policy which provides the framework within which the Board's CSR activities will be transacted. This policy aims to provide guidelines through which the Board can identify the pillars under which Corporate Social Responsibility (CSR) can be achieved. It also outlines the commitment of the Board in addressing the issues under each pillar, identifies the projects which will be undertaken by the Board under social responsibility and gives the structure, including time-frame and evaluation mechanisms for the projects which will be implemented.

This policy will be implemented in line with Government laws, regulations and internal policies.

The main pillars under this policy are human rights, labour practices, Community involvement and development, consumer issues, environment and fair operating practices.

The policy is guided by the following principles:

- (i) We recognize that our social, economic and environmental responsibilities to our stakeholders are integral to our operations.
- (ii) We value feedback from our stakeholders and will maintain open dialogue to ensure that we fulfil the requirements outlined within this policy.
- (iii) The Chief Executive Officer is responsible for the implementation of this policy and will make the necessary resources available to realize our corporate social responsibilities.
- (iv) Employees are responsible for the performance of this policy.
- (v) Building and sustaining efforts geared towards collaborations and partnerships with other industry stakeholders.

Through the years, the Board has been able to partner with various institutions and will work towards enhancing its regulatory and advisory role in film matters in the coming years. We also take responsibility for ensuring that we care for our environment since we have an obligation to our community, stakeholders and customers. The Board actively encourages our staff to recognize those responsibilities and behave in a responsible manner toward the society in which we operate.

(i) CSR activities

During the 2017/2018 financial year, the Corporate Communications Department engaged in the following CSR activities:

1. Sponsorship of Loreto Msongari Students

The Board sponsored students from Loreto Msongari to participate during the Zanzibar International Film Festival (ZIFF), that took place from 10th to 16th July 2017 at the Park Hyatt Zanzibar.

2. Slejjendary Music

The management of Kenya Film Classification Board (KFCB) donated food stuff during the Toboana Easter event held at Jericho in Makadara, Nairobi County on Sunday 1st April, 2018 from 10am to 6pm. The event was hosted by Slejjendary Music founded by Larry Ingutia Mwatia also known as Slejj, a Gospel artist.

(ii) Promotion of education through talent

The Board sponsored four (4) students to join the Kenya Film School at a cost of Kshs. 400,000

(iii) Sports

The Board participated in KECOSO games 2017 and won a trophy as the most disciplined team

IX. REPORT OF THE DIRECTORS

This report is prepared and aligned with integrated reporting and includes principles of International Public Sector Accounting Standards and takes into account other guidelines published in this regard.

Statement of Directors

The Board, assisted by the Finance & General purpose and Audit and Risk Management Committees is ultimately responsible for the integrity and completeness of the integrated report and any supplementary information.

The Board has applied its collective mind to the preparation and presentation of the Integrated Report and has concluded that it is presented in accordance with the International Public Sector Accounting Standards.

Members of the Board are responsible for the preparation of financial statements that give a true and fair view of state of affairs and outcome of the Board at the end of each financial year. They ensure that the Board keeps accounting records that disclose, with reasonable accuracy, the nature of its business activities and financial position. They are also responsible for safeguarding the assets of the Board.

The content is further guided by legal requirements such as; the State Corporations Act Cap 436, the Public Financial Management Act, 2015, International Public Sector Accounting Standards and Corporate Governance Guidelines as well as global best practices in integrated reporting.

Reporting Boundary

This report reviews our performance for the year from 1 July 2017 to 30 June 2018, with two years' comparative information as well as short and medium-term targets. Material events up to the date of approval have been included.

Assurance & Audit Approach

Our combined assurance model is at two key levels, namely review by management and supplemented by internal auditors and the Auditor General in order to optimize governance oversight, risk management and control. The Audit and Risk Management Committee and the Board rely on combined assurance in forming their view of the adequacy of the Board's risk management and internal controls.

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of *KFCB's* affairs.

Principal activities

The principal activities of the Board continue to be regulating the creation, broadcasting, possession, distribution and exhibition of films by; Examining every film and every poster submitted under the Act for purposes of classification; Imposing age restrictions on viewership; Giving consumer advice, having regard to the protection of women and children against sexual exploitation or degradation in cinematograph films and on the internet; and licensing and issuing certificates to; film producers, agents, distributors and exhibitors of films.

Results

The results of the entity for the year ended June 30, 2018 are set out on **page 1 to 7**

Directors

The members of the Board of Directors who served during the year are shown on page iii During the year 2017-2018 one director passed on in the Month of April 2018, the Late Hon.Robert Kochalle. No replacement was made.

Dividends/Surplus remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The entity did not make any surplus during the year FY 2017/18 and hence no remittance to the Consolidated Fund

Auditors

The Auditor General is responsible for the statutory audit of the entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



Loice Shalakha
Corporate Secretary

Nairobi

Date.....

23RD APRIL 2019

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and *section 14 of the State Corporations Act*, require the Directors to prepare financial statements in respect of that *entity*, which give a true and fair view of the state of affairs of the *entity* at the end of the financial year/period and the operating results of the *entity* for that year/period. The Directors are also required to ensure that the *entity* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *entity*. The Directors are also responsible for safeguarding the assets of the *entity*.

The Directors are responsible for the preparation and presentation of the *Kenya Film Classification Board's (KFCB's)* financial statements, which give a true and fair view of the state of affairs of KFCB for and as at the end of the financial year (period) ended on June 30, 2018. 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 entity; (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 *Board*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for KFCB 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 and section 14 of the State Corporations Act. The Directors are of the opinion that KFCB's financial statements give a true and fair view of the state of *KFCB's* transactions during the financial year ended June 30, 2018, and of *KFCB's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for *KFCB's*, which have been relied upon in the preparation of *KFCB'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 *KFCB's* 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 *KFCB*'s financial statements were approved by the Board on _____ 2018 and signed on its behalf by:



Director



Director

Director

**XI. REPORT OF THE INDEPENDENT AUDITORS ON THE KENYA FILM
CLASSIFICATION BOARD**

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA FILM CLASSIFICATION BOARD FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Film Classification Board set out on pages 1 to 66, which comprise the statement of financial position as at 30 June 2018, 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 Kenya Film Classification Board as at 30 June 2018, 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 Film and Stage Plays Act, Chapter 222 of the laws of Kenya.

Basis for Qualified Opinion

Bulk Purchase of Classification stickers

As previously reported, six million classification stickers were procured between 30 November 2010 and January 2012 at a total cost of Kshs.47,500,000.

Examination of stores records maintained at the Board's Uchumi House Stores disclosed that 3,577,109 stickers worth Kshs.29,570,607 had not been used or issued to the regional offices across the country. Although the management has confirmed that the inventory is slow moving in the last seven years and is becoming obsolete with changes in technology, no justification has been provided for purchase of stickers in bulk without proper planning and consideration of emerging technology which is likely to turn the stickers into deadstock.

Report of the Auditor-General on the Financial Statements of Kenya Film Classification Board for the year ended 30 June 2018

In view of the foregoing, it has not been possible to confirm that the Board obtained value for money from the bulk purchases of the stickers.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter(s) described in the Basis for Qualified Opinion 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.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter(s) described in the Basis for Qualified Opinion section of my report, 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.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 Those Charged with Governance

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 governance.

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

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

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.

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities,

financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and 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:

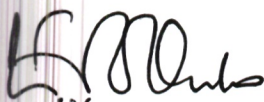
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence

obtained up to the date of my audit report. However, future events or conditions may cause the to cease to continue as a going concern or 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 to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

19 July 2019

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

XII. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

	NOTES	2017/2018	2016/2017
		Kshs.	Kshs.
Revenue from non-Exchange Transactions			
Income	4 (a), 6	435,462,199	418,927,810
Total Revenue		435,462,199	418,927,810
Expenses			
Employee Costs	7	73,287,186	57,450,050
Board Expenses	8	25,094,772	29,933,014
Depreciation and Amortisation Expense	9	50,567,969	44,410,112
Repairs and Maintenance	10	12,658,964	15,064,209
Transfer to MOSCA	11	8,600,000	8,600,000
General expenses	12	263,411,722	235,595,241
Total Expenses		433,620,613	391,052,626
Surplus/Deficit for the Period		1,841,586	27,875,184

The notes set out on **pages 8 to 53** form an integral part of these Financial Statements

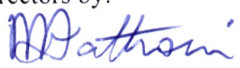
III. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	NOTES	2017/2018	2016/2017
		Kshs.	Kshs.
Assets			
Current Assets			
Cash and Cash Equivalents	13	4,593,131	41,292,487
Prepayments	14	6,705,630	-
Receivable from Exchange Transactions	15	86,519	154,010
Inventories	16	29,570,607	32,807,736
		40,955,887	74,254,233
Non-Current Assets			
Property, Plant and Equipment	17	129,500,556	93,254,973
Intangible Assets	18	22,920,957	29,076,108
		152,421,513	122,331,081
Total Assets		193,377,400	196,585,314
Liabilities			
Current Liabilities			
Trade and Other Payables from Exchange Transactions	19	10,813,118	15,862,618
Total Liabilities		10,813,118	15,862,618
Net Assets			
Accumulated Surplus		182,564,283	180,722,696
Total Net assets and Liabilities		193,377,401	196,585,314

The Financial Statements set out on pages 1 to 7 were signed on behalf of the Board of Directors by:


Chief Executive Officer
 Dr. Ezekiel Mutua, MBS


Head of Finance and Accounts
 CPA Paskal Martin Opiyo
 ICPAK Member Number: 3989


Chairman of the Board
 Ag. Chairperson, Gathoni Kung'u

Date 23/04/2019

Date 23/04/2019

Date 23/04/2019

XIV. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2018

	Accumulated surplus	Total
Balance as at 30 JUNE 2016	152,847,512	152,847,512
Surplus/(deficit) for the period	27,875,184	27,875,184
Transfers to/from accumulated surplus	-	-
Balance as at 30 JUNE 2017	180,722,696	180,722,696
Surplus/(Deficit) for the period	1,841,586	1,841,586
Transfers to/from accumulated surplus	-	-
Balance as at 30 JUNE 2018	182,564,282	182,564,282

Note:

- For items that are not common in the financial statements, the entity should include a note on what they relate to – either on the face of the statement of changes in equity/net assets or among the notes to the financial statements.*
- Prior year adjustment should have an elaborate note describing what the amounts relate to. In such instances a restatement of the opening balances need to be done.*

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

XV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	NOT E	2017/2018	2016/2017
		Kshs.	Kshs.
CASHFLOW FROM OPERATING ACTIVITIES			
Net Surplus From Operation		1,841,587	27,875,184
ADJUSTMENTS			
Adjustment for cash imprests and advances for the period	13	791,800	1,049,600
Decrease/(Increase) in Prepayments	14	(6,705,630)	
Decrease /(Increase) in Receivable from Non-Exchange Transactions	15	325,291	1,345,190
Decrease/(Increase) in Stock	16	3,237,130	3,980,831
Adjustment For Depreciation	17,18	50,567,968	44,410,112
Increase/(Decrease) in Trade and Other Payables from Exchange Transactions in Payables	19	(5,049,500)	9,316,463
Net Cashflow From Operating Activities		45,008,646	87,977,380
CASHFLOW FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	17,18	(80,658,401)	(101,014,018)
Net Cashflow From Investing Activities		(80,658,401)	(101,014,018)
CASHFLOW FROM FINANCING ACTIVITIES			
Net Cashflow From Financing Activities			
Net Increase in Cash and Cash Equivalent		(35,649,755)	(13,036,638)
Cash and Cash Equivalent At The Beginning of the Period		40,242,887	54,329,125
Cash and Cash Equivalent At The End of the Period	13	4,593,132	41,292,487

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2018

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL EXPENDITURE FY 2017-2018						
		Original Budget	Adjustment	Final Budget	Actual Income	Performance
SN O.	Descriptions	2017/2018	2017/2018	2017/2018	2017/2018	2017/2018
	Income	KSHS	KSHS	KSHS	KSHS	KSHS
1	Funds from FY 2016/2017	32,427,570		32,427,570	32,427,570	-
2	Licensing	17,000,000		17,000,000	14,904,000	(2,096,000)
3	Classification Stickers/labels	5,400,000		5,400,000	4,374,500	(1,025,500)
4	Sale Of Tenders	20,000		20,000	6,000	(14,000)
5	Classification fees	3,500,000		3,500,000	2,601,999	(898,001)
6	Filming Fees & Extensions	2,800,000		2,800,000	2,935,000	135,000
7	Miscellaneous	-		-	38,100	38,100
8	Boarded Items/Disposal	30,000		30,000	-	(30,000)
9	Film Agent Fees & Registration	1,550,000		1,550,000	1,584,000	34,000
10	Licensing-Feature films,Documentaries& series etc.	1,700,000		1,700,000	2,264,000	564,000
11	GOK Grants	444,254,600	(37,500,000)	406,754,600	406,754,600	-
	Total Revenue	508,682,170	(37,500,000)	471,182,170	467,889,769	(3,292,401)
	Expenses	Original Budget	Adjustment	Final Budget	Actual Expenditure	Performance
		2017/2018	2017/2018	2017/2018	2017/2018	2017/2018
12	Compensation of employees	95,173,270	(21,228,557)	73,944,713	73,287,186	657,527
13	Board Expenses	26,020,000		26,020,000	25,094,772	925,228
14	Repairs and Maintenance	21,570,000		21,570,000	12,658,676	8,911,324

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

15	General Expenses	244,891,330	21,228,557	266,119,887	263,411,722	2,708,165
16	Transfer to MOSCA	9,000,000		9,000,000	8,600,000	400,000
17	Non-Current Assets	112,027,570	(37,500,000)	74,527,570	80,658,401	(6,130,831)
	Total Expenses	508,682,170	(37,500,000)	471,182,170	463,710,757	7,471,413
	Surplus/Deficit	-	-	-	4,179,012	4,179,012

NOTES TO STATEMENT OF COMPARISON OF BUDGET ON ACTUAL BASIS

1 Income(1-11)

The government grants grew by 5% from Kshs.388, 254,600 to 406,754,600. There was budget cuts in development grants by Kshs.37, 500,000. These affected the performance of the budget. The internally generated income reduced by 6.41% from Kshs.30, 673,210 to 28,707,599 compared to the previous financial year 2016-2017. The reduction in A-I-A is attributed to the electioneering period bearing in mind that majority of our clients were affected with the long period of electioneering that affected their businesses. In addition funds from the previous FY 2016-2017 of Kshs.32, 427,570 was included in the budget as income. This funds were received and reported in the income statement in the year received. Therefore the under performance of income of Kshs3, 292,401 was the deficit of income deviation from the target of income budgeted for of Kshs.32, 000,000 against the actual collection of Kshs.28, 707,599.

2 Compensation of employees:

The budget of employee cost was absorbed at 99% .The adjustment in the original budget was as a result of the Board putting on hold recruitment of ten(10) technical staff and cost savings from late recruitment of the Audit and Finance manager in the month of March 2018.

3 Board Expenses

The Board expenses were within the budgeted amount with a saving of four (4) percent

4 Repairs and Maintenance

The cost of repair reduced significantly. The absorption levels were low since but of the repairs earmarked during the period through the development budget could not be undertaken due to reduction in allocation hence this impacted on funds budgeted for to match and supplement the refurbishment of the cinema theatre.

5 General Expenses

The general expenses/administration cost had an over expenditure of about 1%. This is as a result of increased number of public awareness campaigns by the Board.

6 Transfer to MOSCA

This is the targeted A-I-A collected as per the printed budget estimates. The amount was transferred to the state department of Arts and Culture.

7 Non-Current Assets

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

These comprises of cost of acquisition of motor vehicles, fixtures and fittings, data processing equipment, plant and equipment and intangible assets such as softwares. The over expenditure is due to reduction of budgets after commitments had already been done. This as a result of reduction in development funds that had been earmarked to continue with renovation of Nairobi cinema.

Adjustments: The Adjustments in the budget during the period are as a result of budget cuts by national treasury and reallocations

8 Reconciliation of the statement of comparison of budget on actual basis with the statement of financial performance is as follows;

Surplus /Deficit from the SCBA	4,179,012
Add: Additional Non-current Assets for the Period	80,658,401
Less: Depreciation	(50,567,968)
Funds from previous year-2016-2017	(32,427,570)
Deficit as per Statement of financial Performance ended 30th June, 2018	1,841,875

*The cost of acquisition of non-current asset and surplus funds from FY 2016/2017 is not reported in the statement of financial performance hence the reconciliation.

*Depreciation cost is a non-cash item hence not included in the budget for FY 2017/2018

*SCBA; Statement of comparison of budget on actual basis

XVII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kenya Film Classification Board is established by and derives its authority and accountability from the Films and Stage Plays Act, Cap 222. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is established to regulate the creation, broadcast, distribution, exhibition and possession of film and broadcast content to conform to national values, culture and aspirations. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The principal activities of the Board continue to be regulating the creation, broadcasting, possession, distribution and exhibition of films by; Examining every film and every poster submitted under the Act for purposes of classification; Imposing age restrictions on viewership; Giving consumer advice, having regard to the protection of women and children against sexual exploitation or degradation in cinematograph films and on the internet; and licensing and issuing certificates to; film producers, agents, distributors and exhibitors of films.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The 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, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined 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 entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 1 to 28

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act (include any other applicable legislation), 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 2018

Standard	Impact
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach. No impact do the statements

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 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 2018

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations. This standard is not applicable to the transaction of our entity.

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

Licensing and Classification fees

The Board recognizes revenues from licensing fees, sale of classification stickers and classification fees when the event occurs and the asset recognition criteria are met. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Board and the fair value of the asset can be measured reliably.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Budget information

The original budget for FY 2017/2018 was approved by the National Assembly on 30th April, 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity did not record additional appropriations during the FY 2017/2018.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under **section XVI** of these financial statements.

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Taxes (Continued)

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Taxes (Continued)

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on a straight line basis annually regardless of the date of purchase and carrying amount written –off after the useful life of the assets. The annual depreciation rates are as follows:

Furniture, Fixtures and fittings	12.5%
Plant and Equipment	12.5%
Electronic Data processing equipment	30.0%
Motor Vehicles	25.0%

Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

g) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite. Amortization of intangible assets for the Board is calculated on a straight line at rates of 20%.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Research and development costs

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Research and development costs (Continued)

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

i) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention

and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

- The debtors or an entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity 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.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Inventory is a composition of Classification stickers/labels which is valued at the lower cost and net realizable value. Inventory was purchased in two folds, the first batch of four million stickers (4) was bought at a cost of Kshs.7.40 and the second batch of two million stickers (2) was bought at a cost of Kshs.8.95. The usage of the inventory is based on FIFO

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Board.

k) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Contingent liabilities

The Entity does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Provisions (Continued)

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. *The Board has accumulated funds which finance the non –current assets.*

m) Changes in accounting policies and estimates

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical. The Board creates and maintains accumulated surplus funds in terms of specific requirements. GOK Grants related to development expenditure that acquired property, plant & equipment and other assets are presented in the statement of financial position. To this extent, the accumulated surplus funds finances capital assets every year. GOK Grants for recurrent expenditure are dealt with in the income statement in the period in which it was received.

n) Employee benefits

Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors 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 the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

p) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

r) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

s) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash Imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

t) Budget information

The original budget for FY 2017-2018 was approved by the National Assembly on 30th April, 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity did not record additional appropriations during the FY 2017/2018.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Budget information (Continued)

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section xxx of these financial statements.

a) Comparative figures

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

b) 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, 2018.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity'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. State all judgements, estimates and assumptions made: e.g.

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 Entity 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 market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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.

6 REVENUE

6 a) TRANSFERS FROM MINISTRIES, DEPARTMENTS AND AGENCIES

6 a) TRANSFERS FROM MINISTRIES, DEPARTMENTS AND AGENCIES

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income	Amount deferred under deferred income	Amount recognized in capital fund.	Total grant income during the year	2016/2017
	Kshs	Kshs	Kshs	Kshs	Kshs
Ministry of Sports Culture & the Arts/State Department of Arts & Culture	406,754,600	-	-	406,754,600	388,254,600
Total	406,754,600	-	-	406,754,600	388,254,600

Transfers from ministry comprises of GOK grants for recurrent and development recognized during the financial year.

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

6.(b)Licensing and classification fees	2017/2018	2016/2017
	Kshs.	Kshs.
Licensing	14,904,000	16,809,000
Classification Stickers/labels	4,374,500	5,379,500
Sale Of Tenders	6,000	20,000
Classification fees	2,601,999	2,897,010
Filming Fees & Extensions	2,935,000	2,661,100
Film Agent Fees & Registration	1,584,000	1,296,000
Licensing-Feature films,Doc& series etc	2,264,000	1,565,600
Total	28,669,499	30,628,210

6 (c) Other revenue	2017/2018	2016/2017
	Kshs.	Kshs.
Sale of Boarded Items	-	17,000
Miscellaneous	38,100	28,000
	38,100	45,000
Total Revenue(b+c)	28,707,599	30,673,210

Note 6(a) reports income defined under the Films and Stage Plays (cinematographic films) (forms and fees) regulations Second Schedule provides fees charged on Film fees & extensions, Film Agents and registration and licensing. On the other hand, the Films and Stage Plays (film censorship) Regulations provides fees charged on film examination & classification, License fees for video libraries, video shows, theatres and commercials. On the other hand, note 6(b), other income, includes revenue received from sale of boarded items and income received but cannot be classified as the revenues prescribed under the Films and Stage Plays Act, Cap 222 laws of Kenya.

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

7 EMPLOYEE COSTS

7 (a) Employee costs	2017/2018	2016/2017
	Kshs.	Kshs.
Basic salaries	27,887,265	20,931,473
House Allowance	18,214,756	13,874,428
Medical allowance	-	-
Entertainment Allowance	-	-
Domestic Allowance	-	-
Commuter Allowance	4,404,097	3,191,206
Extraneous Duty Allowance	1,633,273	1,280,000
Leave Allowance	1,697,131	1,062,674
Staff Medical Allowance	8,603,426	1,184,797
Acting Allowance	-	5,384,975
Special Duty Allowance	109,719	
Employer contribution-Pension	1,515,210	1,262,695
NSSF Employer Contribution	97,800	59,800
Staff Personal Accident Insurance	-	140,041
Transfer Allowance	21,770	362,500
Responsibility Allowance	578,000	180,000
Non-Practising Allowance	255,000	182,150
Casual Employees cost	269,952	488,316
Internship Programme	150,000	675,000
NITA Training Levy Employer Contrib	489,798	-
Employee costs	65,927,196	50,260,055

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

7(b) Employee costs-CEO	2017/2018	2016/2017
	Kshs.	Kshs.
Basic salaries	4,080,000	4,080,000
House Allowance	960,000	960,000
Entertainment Allowance	1,200,000	1,200,000
Domestic Allowance		-
Leave Allowance	399,990	229,995
Extraneous Duty Allowance	720,000	720,000
Total CEO's Remuneration	7,359,990	7,189,995
Total Employee Costs	73,287,186	57,450,050

The remuneration of employees including the Chief Executive Officer is per the advice provided by the Salaries and Remunerations Commission(SRC) through letter Ref no. SRC/TS/3/3 Vol. IV
(6)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 BOARD EXPENSES

Description	2017/2018	2016/2017
	Kshs.	Kshs.
Board Members Allowance	18,426,565	24,603,710
Film Examiners Allowances	2,141,500	1,804,500
Conferences, Committees and Seminars	-	381,000
Board Members Insurance	195,357	798,204
Honoraria to chairman	1,020,000	1,010,000
Board Trainings	3,311,350	1,335,600
Total Board Expenses	25,094,772	29,933,014

The Board expenses comprises of sitting allowances paid to directors on attendance of board meetings or an activity in which a director is invited in writing by the Chief Executive officer or a meeting as a result of a board minute, travelling cost of directors to activities invited by the Board and chairman's monthly honoraria plus airtime. Other expenses include the sitting allowance and meal allowance paid to part time film examiners. The Board member's insurance costs are guided as per circular Ref No. OP/CAB.9/1A/VOL.XX (132).

9 DEPRECIATION AND AMMORTIZATION EXPENSES

Description	2017/2018	2016/2017
	Kshs.	Kshs.
Property, plant and equipment	42,167,543	33,428,861
Intangible assets	8,400,426	10,981,251
Total depreciation and amortization	50,567,969	44,410,112

10 REPAIRS AND MAINTENANCE

Description	2017/2018	2016/2017
	Kshs.	Kshs.
Property & Equipment	1,322,400	941,208
Motor Vehicles	4,957,357	3,161,671
Minor Alterations to Building	818,960	936,400
Computer Softwares and Networks	-	1,466,200
Insurance of Motor Vehicle & plant Equipment	1,995,247	3,027,040
ICT Infrastructure & development	3,565,000	5,531,690
Total repairs and maintenance	12,658,964	15,064,209

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 TRANSFERS TO MINISTRIES, DEPARTMENT AND AGENCIES

Description	2017/2018	2016/2017
	Kshs.	Kshs.
Transfer to MOSCA	8,600,000	8,600,000
Total to MOSCA	8,600,000	8,600,000

Transfers to ministry is the A-I-A submitted to State Department of Arts and Culture during the FY 2017-2018 as provided in the budget estimates for the year.

12 GENERAL EXPENSES

Description	2017/2018	2016/2017
	Kshs.	Kshs.
Utilities Supplies & Services	2,559,665	2,979,542
Com Supplies & Services	4,974,323	3,655,075
Local Travelling Accommodation	62,915,345	47,813,702
Foreign Travel	16,701,114	21,362,932
Newspaper and Periodical Subscription	464,751	577,189
Printing Expenses	11,587,885	10,382,840
Advertising	9,397,482	19,694,733
Trade Shows and Exhibition	27,982,876	11,555,360
Cleaning Services	1,937,750	673,106
Rents and Rates	20,941,571	21,584,525
Training & Sensitization Programme Costs	37,012,159	37,761,643
Bank Charges	406,007	352,813
County Offices Expense	15,953,881	12,161,809
Hospitality supplies and services	21,350,960	17,696,186
Audit Fees	-	201,840
Office & Gen Supplies	12,083,545	14,501,105
Fuel Oil & Lubricants	3,491,088	3,849,999
Other Provisions	-	-
Other Operating Expenses	13,651,320	8,790,842
Total General expenses	263,411,722	235,595,241

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 CASH AND CASH EQUIVALENTS

Description	2017-2018	2016-2017
	KShs	KShs
Recurrent account	3,387,923	5,014,518
Development account	96,573	32,427,570
Others(cash in hand)	316,835	2,800,799
Other(cash Imprests and advances)	791,800	1,049,600.00
Total cash and cash equivalents	4,593,131	41,292,487

Cash Imprest and advances comprises of Imprests and advances issued to authorised public officers which were not surrendered or accounted for at the end of the financial year.

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)

Annual Reports and Financial Statements

For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 (a). DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS

		2017-2018	2016-2017
Financial institution	Account number	KShs	KShs
a) Recurrent account			
Co-Operative Bank	01141198827700	3,351,302	5,010,522
Co-Operative Bank	01141198827702	16,446	836
Co-Operative Bank	01141376392400	2,540	310
Co-Operative Bank	01141198827704	25	25
Co-Operative Bank	01141198827705	240	1,350
Co-Operative Bank	01141198827706	590	200
Co-Operative Bank	01141198827707	500	-
Co-Operative Bank	01141198827708	14,580	1,150
Co-Operative Bank	01141198827709	1,700	125
Sub- total		3,387,923	5,014,518
b) Development account			
Co-Operative Bank	01141198827701	96,573	32,427,570
Sub- total		96,573	32,427,570
c) Others(specify)			
Cash In Hand-HQRS		316,215	2,799,604
Petty Cash-HQRS		-	-
Cash in Hand-Mombasa		-	-
Cash In Hand-Garissa		-	-

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)

Annual Reports and Financial Statements

For the year ended June 30, 2018

Cash in Hand-Embu		-	195
Cash In hand-Eldoret		620	-
Cash In Hand-Kisumu		-	-
Cash In Hand-Nyeri		-	1,000
Cash In Hand-Kakamega		-	-
Cash In Hand-Nakuru		-	-
KFCB ISIOLO		-	-
Cash In Hand-Isiolo		-	-
M pesa		-	-
Sub- total		316,835	2,800,799
Cash imprests and advances		791,800	1,049,600.00
Sub- total		791,800	1,049,600
Grand total		4,593,131	41,292,487

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 PREPAYMENTS

Description	2017/2018	2016/2017
	Kshs.	Kshs.
Rent deposits	6,705,630	-
Total Prepayments	6,705,630	-

Prepayments consists of rent deposit paid as a result of renting a new office space in Mombasa regional office, Nairobi Film Centre (Formerly Nairobi Cinema) and 14th floor as follows;

- Mombasa regional office – Kshs. 582,945.00
- Nairobi Film Centre – Kshs. 5,590,500.00
- 14th Floor (Headquarters) – Kshs. 532,185.00

15 RECEIVABLE FROM EXCHANGE TRANSACTIONS

Description	2017/2018	2016/2017
	Kshs.	Kshs.
Salary advances	86,519	154,010.00
Total Receivable from Exchange Transactions	86,519	154,010.00

16 INVENTORIES

Description	2017/2018	2016/2017
	Kshs.	Kshs.
Classification Stickers	29,570,607	32,807,737
Total Inventories	29,570,607	32,807,737

Inventory is a composition of Classification stickers/labels which is valued at the lower cost and net realizable value. Inventory was purchased in two folds, the first batch of four million stickers (4) was bought at a cost of Kshs.7.40 and the second batch of two million stickers (2) was bought at a cost of Kshs.8.95. The usage of the inventory is based on FIFO.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Board. The cost of printing the stickers is closed on the printing expenses for the period.

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018
NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 PROPERTY, PLANT AND EQUIPMENT

17. Property, plant and equipment					
	Motor Vehicle	Plant and Equipment	Data Processing Equipment	Furniture, Fixtures & Fittings	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Cost					
At 1 July 2016	29,616,800	55,406,343	35,002,620	50,033,283	170,059,046
Additions	34,611,580	21,918,160	7,032,320	3,519,270	67,081,330
At 30 June 2017	64,228,380	77,324,503	42,034,940	53,552,553	237,140,376
Additions	13,825,000	9,331,464	11,536,340	43,720,321	78,413,125
At 30 June 2018	78,053,380	86,655,967	53,571,280	97,272,874	315,553,501
Depreciation and impairment					
At 1 July 2016	(20,058,590)	(35,628,685)	(32,677,525)	(22,091,741)	(110,456,541)
Depreciation	(13,786,091)	(9,180,594)	(3,808,477)	(6,653,699)	(33,428,861)
At 30 June 2017	(33,844,681)	(44,809,279)	(36,486,002)	(28,745,440)	(143,885,402)
Depreciation	(14,321,657)	(9,865,759)	(6,117,108)	(11,863,019)	(42,167,543)
At 30 June 2018	(48,166,338)	(54,675,038)	(42,603,110)	(40,608,459)	(186,052,945)
Net book values					
At 30 June 2018	29,887,042	31,980,929	10,968,170	56,664,415	129,500,556
At 30 June 2017	30,383,699	32,515,224	5,548,938	24,807,114	93,254,974

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 INTAGIBLE ASSETS-SOFTWARES

Cost	Kshs.
At 1 July 2016	30,813,569
Additions	33,932,688
At 30 June 2017	64,746,257
Additions-internal development	2,245,275
At 30 June 2018	66,991,532
Amortization and impairment	
At 1 July 2016	(24,688,898)
Amortization	(10,981,251)
At 30 June 2017	(35,670,149)
Amortization	(8,400,426)
Impairment loss	-
At 30 June 2018	(44,070,575)
Net book values	
At 30 June 2018	22,920,957
At 30 June 2017	29,076,108

19 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Description	2017/2018	2016/2017
	Kshs.	Kshs.
Trade payables	10,459,067	15,059,771
Provision of Audit Fees & other provisions	-	403,680
Employee obligations	354,051	399,167
Total trade and other payables	10,813,118	15,862,618

20 RELATED PARTIES

Nature of related party relationships

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 RELATED PARTIES (Continued)

Government of Kenya

The Government of Kenya is the principal shareholder of the *entity*, holding 100% of the *entity's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the *entity*, both domestic and external. Other related parties include:

- i) The National Government;
- ii) The Parent Ministry;
- iii) Employees
- iv) Board of directors

Related Parties	2017/2018	2016/2017
	Kshs	Kshs
Transactions with related parties		
a) Grants from the Government		
Grants from National Govt	406,754,600	388,254,600
Total	406,754,600	388,254,600
b) Expenses incurred on behalf of related party		
Payments of salaries and wages for xxx employees	73,287,186	57,450,050
Payments for goods and services for xxx	-	-
Total	73,287,186	57,450,050
c) Key management compensation		
Board of Directors Expenses	25,094,172	29,933,014
Compensation to the CEO	7,359,990	7,189,995
Compensation to key management	-	-
Total	32,454,162	37,123,009

21 FINANCIAL RISK MANAGEMENT

The *entity's* activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company'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 company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 FINANCIAL RISK MANAGEMENT (Continued)

Deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

(i) Credit risk (Continued)

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

(i) Credit risk

	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2018				
Receivables from exchange transactions	86,519	86,519	-	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	3,801,331	3,801,331	-	-
Total	3,887,850	3,887,850	-	-
At 30 June 2017				
Receivables from exchange transactions	154,010	154,010	-	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	40,243,697	40,243,697	-	-
Total	40,397,707	40,397,707	-	-

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from staff salary advances

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 FINANCIAL RISK MANAGEMENT (Continued)

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 entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2018				
Trade payables	-	10,459,067	-	10,459,067
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligation	-	354,051.00	-	354,051
Total	-	10,813,118	-	10,813,118
At 30 June 2017				
Trade payables	-	15,059,771	-	15,059,771
Current portion of borrowings	-	-	-	-
Provisions	-	403,680	-	403,680
Deferred income	-	-	-	-
Employee benefit obligation	-	399,167	-	399,167
Total	-	15,862,618	-	15,862,618

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing 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, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2018			
Financial assets(investments, cash ,debtors)	Nil	Nil	Nil
Liabilities			
Trade and other payables	Nil	Nil	Nil
Borrowings	Nil	Nil	Nil
Net foreign currency asset/(liability)	Nil	Nil	Nil

The entity manages foreign exchange risk form future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 FINANCIAL RISK MANAGEMENT (Continued)

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2017			
Financial assets(investments, cash ,debtors)	Nil	Nil	Nil
Liabilities			
Trade and other payables	Nil	Nil	Nil
Borrowings	Nil	Nil	Nil
Net foreign currency asset/(liability)	Nil	Nil	Nil

b) Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

(iii) Market risk (Continued)

b) Foreign currency sensitivity analysis

	Change in	Effect on Profit	Effect on
	currency rate	before tax	equity
	Kshs	Kshs	Kshs
2018			
Euro	10%	-	-
USD	10%	-	-
2017			
Euro	10%	-	-
USD	10%	-	-

c) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company'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.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

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

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of Kshs xxx (2016: Kshs xxx). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Kshs xxx (2012 – Kshs xxx)

Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *entity's* market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The *entity* considers relevant and observable market prices in its valuations where possible.

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 SEGMENT INFORMATION

The Board has ten (10) regional offices namely Nairobi, Mombasa, Nakuru, Eldoret, Kisumu, Kakamega, Nyeri, Embu, Isiolo and Garisa. The following is the cost of operating the regional offices during the FY 2017-2018. The cost is reported under the general expenses/administration costs for the FY 2017-2018;

Description	Amount
Cost of Running regional Offices	2,925,445
Inspections and Raids	2,800,100
Travelling Costs	7,067,902
Public Sens. Programmes	3,160,434
Total	15,953,881

23 CONTINGENT LIABILITIES

The Board has no contingent liabilities.

24 CAPITAL COMMITMENTS

Description	2017-2018	2016-2017
	Kshs	Kshs
Authorised for	-	-
Authorised and contracted for	19,337,719	11,853,469
Total	19,337,719	11,853,469

The capital commitments relate to two projects; development of an online licensing system at a cost Kshs. 11,853,469 and expansion of Enterprise Resource Planning System (Microsoft Navision) at a cost of Kshs. 7,484,250. This is a management system of operations for Human resource, procurement and Finance.

25 EMPLOYEE BENEFIT OBLIGATIONS

The entity operates a Defined Contribution scheme for all full-time employees from October 1, 2015. The scheme is based on 12.5 percent for employer contribution and 7.5 percentage employee contribution based on the basic salary of an employee on a monthly basis. The scheme administrator is Britam Kenya.

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 CASH GENERATED FROM OPERATIONS

Description	2017-2018	2016-2017
	KShs	KShs
Net Surplus From Operation	1,841,587	27,875,184
ADJUSTMENTS		
Adjustment for cash imprests and advances for the period	791,800	1,049,600
Decrease /(Increase) in Receivable from Non-Exchange Transactions	325,291	1,345,190
Decrease/(Increase) in Prepayments	(6,705,630)	
Decrease/(Increase) in Stock	3,237,130	3,980,831
Adjustment For Depreciation	50,567,968	44,410,112
Increase/(Decrease) in Trade and Other Payables from Exchange Transactions in Payables	(5,049,500)	9,316,463
Net Cashflow From Operating Activities	45,008,646	87,977,380

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

28 ULTIMATE AND HOLDING ENTITY

The entity is a State Corporation/ or a Semi- Autonomous Government Agency under the **Ministry of Sports and Heritage** Its ultimate parent is the Government of Kenya.

29 Currency

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

**XVIII. APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDIT
RECOMMENDATIONS**

The following is the summary of issues 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.

1. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT

KFCB/SYSTEMS/VOL.I/2013/2014 (2)

a) Issue / Observations from Auditor

Unsupported rent payments

The Kenya Film Classification Board (KFCB) paid rent totaling Kshs 11,513,324.00 to three (3) landlords for the year ended 30 June 2014. However, lease agreements have not been fully signed between the landlords and the board.

Under the circumstances, the validity, legality and accuracy of the rental payments could not be ascertained as at 30 June 2014.

b) Management comments

The lease between KFCB and the three landlords have been signed accordingly.

c) Focal Point person to resolve the issue (*Name and designation*)

Loice Shalakha

Legal Officer

Status :(*Resolved / Not Resolved*)

Resolved

2. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT

KFCB/SYSTEMS/VOL.I/2013/2014 (2)

a) Issue / Observations from Auditor

Board allowances

I draw attention to the following matters:

The Films and Stage Plays Act, 1998 revised 2012, requires that the quorum of meetings of the Board shall be five members. However, all Board meetings held from 24 September 2013 to 30 June 2014 had either three (3) or four (4) members contrary to the requirements of the Act.

Consequently, the legality of the Board meetings, resolutions and allowances paid totaling to Kshs 3,888,900.00 could not be confirmed as at 30 June 2014.

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

(Continued)

b) Management comments

The contract period of the Board of Directors expired on 25th July, 2013 therefore all of the Directors retired with an exception of one. The Board sought authority from the Principal Secretary, Ministry of Sports, Culture and the Arts to nominate an alternate member to represent him and allow the Board to sit and deliberate on crucial matters with the present members.

c) Focal Point person to resolve the issue (Name and designation)

Ezekiel Mutua, MBS

Chief Executive Officer

d) Status : (Resolved / Not Resolved)

Not Resolved

3. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT

Audit Financial Statements for the year ended 30 June 2015

a) Issue / Observations from Auditor

Budget & Budgetary Control

Revenue

There was a shortfall in the revenue by Kshs. 1,373,894 which mainly occurred in government grants where the Board had budgeted for Kshs. 87,654,600 but received Kshs. 78, 967,767.00 resulting in shortfall of Kshs. 8, 686,833.00 or 9.91% which was also a reduction of 55.41% from Kshs. 177,116,488 in 2013/2014. The shortfall was attributed to non-allocation of development funds during the financial year under review.

b) Management comments

The board received grants totalling Kshs 78,967,767.00 from the Ministry of Sports Culture and the Arts and this decrease was occasioned by two factors;

1. Non Allocation of development funds
2. Non receipt of all the recurrent funds from the Ministry

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

(Continued)

However, the Ag. Chief Executive Officer on 29th May, 2015 wrote to the Principal Secretary, Ministry of Sports Culture and the Arts vide letter Ref: KFCB/HQS/RD/51(99) requesting for the balance of Kshs. 8,686,833.00 to enable the Board meet its obligations for the financial Year 2014/2015. However, no response has been received by the Board to this effect.

c) Focal Point person to resolve the issue (Name and designation)

Ezekiel Mutua, MBS

Chief Executive Officer

d) Status : (Resolved / Not Resolved)

Not Resolved

4. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT

Audit Financial Statements for the year ended 30 June 2015

a) Issue / Observations from Auditor

Over Expenditure

A comparison between the approved Budget and the Actual expenditure reflected in the statement of financial performance revealed that the Board spent in excess of the voted provision.

The Board had budgeted to spend Kshs. 52,772,769 on Goods and Services but spent Kshs. 64,342,378 resulting in an over expenditure of Kshs. 11,569,609 or by 21.92%. Likewise, the Board has budgeted to spend Kshs. 22,035,000 on other payments but spent Kshs. 34,369,752.00 resulting to over expenditure of Kshs. 12,334,752 or by 55.98%.

The draft report of the Auditor General for the financial statements also indicates that the amount of Kshs. 34,369,752 highlighted as other payments was not analysed or supported by any verifiable documents. Under the circumstances, the propriety of the Kshs. 34,369,752.00 expenditures could not be confirmed.

b) Management comments

There was over-expenditure on goods and services and likewise on other payments as reported. However, this was occasioned by the fact that during the year, the board anticipated to absorb civil servants from the Ministry of Sports, culture and the Arts

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS
(Continued)

and therefore the budgets allocated for the personnel emoluments. However, this did not take place since the Board of Directors were inaugurated in the financial year under review and in this respect formed a Human Resource Committee which was tasked with the responsibility of ensuring that the process was undertaken within the government laws and regulations. As a result, the amount of Kshs. 51,555,569 which was budgeted for only Kshs.23, 209,957 was required and the rest, Kshs.28, 345,611 was available to be spent on the above mentioned votes.

This amount of Kshs. 34,369,752.00 as indicated in the draft report of the Auditor General on the Financial Statements for the Year ended 30 June, 2015 is composed of various votes

c) Focal Point person to resolve the issue (Name and designation)

Ezekiel Mutua, MBS

Chief Executive Officer

d) Status : (Resolved / Not Resolved)

Not Resolved

5. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT

Audit Financial Statements for the year ended 30 June 2016

a) Issue / Observations from Auditor

Cash and Cash Equivalent

The cash and cash equivalent balance of Kshs.54,329,125 reflected in the statement of financial position and analysed under Note 10 to the financial statements excludes reconciling items totalling to Kshs.374,500. Review of the bank reconciliation statement for the development account as at 30 June 2016 indicated that Kshs.315,631 of the reconciling items balance relates to a stale cheque to Value-added tax(VAT) dating back to the year 2011. The management has not explained why the cheque has not been reversed in the cashbook.

In the circumstance the accuracy and completeness of the cash and cash equivalent balances of Kshs.54, 329,125 as at 30 June.2015 cannot be confirmed.

b) Management Responses

The Board from time to time remits amounts to the Kenya Revenue Authority of the Value Added Tax withheld from various suppliers of goods and services. The above mentioned amount of Kshs. 315,613 relates to a remittance that the Board made to Kenya Revenue Authority in the year 2011

5



Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

but the Cooperative bank which the Board banks with debited the account twice for this payment. The board has written to the bank several times for the bank to address the issue and in the last communication to the Bank, the Board has demanded for a refund for the same amount since this error was committed by the bank and not the Board.

c) Focal Point person to resolve the issue (Name and designation)

Ezekiel Mutua, MBS

Chief Executive Officer

d) Status :(Resolved / Not Resolved)

Resolved

6. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT

Audit Financial Statements for the year ended 30 June 2016

a) Issue / Observations from Auditor

Trade payables

The statement of financial position reflects trade and other payables balance of Kshs.6,546, 154 as at 30 June, 2015 out of which an amount of Kshs.1, 066,480 has been outstanding since 2014/2015 financial year. No reasons have been given for the failure to settle the amounts payable.

b) Management Responses

- i. It is true that an amount of Ksh.1, 066,479.66 of accounts payable has been outstanding for more than one financial year as shown in the following table:

Trade payable Schedule FY 2015-2016		Aged Overdue Amounts	
Name	Balance at 30.06.2016	1 - 366 days	367 - 731 days
SHUNZA SECURITY SERVICES	819,000.00	810,620.34	8,379.66
KENYA SCHOOL OF LAW	894,000.00	0.00	894,000.00
UNES/UON	163,500.00	0.00	163,500.00
FAME BY RAINI LTD	600.00	0.00	0.00
	1,877,100.00	810,620.34	1,066,479.66

The obligations due to M/s Kenya School of Law is a result of the Board not receiving the final report on compliance of KFCB with Kenya Law which was the output of the services offered by the School. Immediately the report is submitted, the obligation will be paid.

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

M/s UNES/UON represents tuition fees for training of staff, Redempta Amondi. This is a continuing course for Masters that is paid per semester and shall be settled as per the request of the student.

Whereas for M/s Shunza Securities, they have an annual contractual obligation with the Board in which the Board will clear the amounts as per services rendered and invoice received to settle the same.

M/s Fame by Raini Ltd, the amount will be settled soonest.

c) Focal Point person to resolve the issue (Name and designation)

Ezekiel Mutua, MBS

Chief Executive Officer

d) Status : (Resolved / Not Resolved)

Resolved

7. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT

Audit Financial Statements for the year ended 30 June 2016

a) Issue / Observations from Auditor

Outstanding Audit Fee

Similarly, the management did not settle audit fees amounting to Kshs.201,840 for services rendered in 2014/2015 financial year. No reason have been provided for the failure to pay the audit fees.

b) Focal Point person to resolve the issue (Name and designation)

Ezekiel Mutua, MBS

Chief Executive Officer

c) Status : (Resolved / Not Resolved)

Resolved

8. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT

Audit Financial Statements for the year ended 30 June 2016

a) Issue / Observations from Auditor

Outstanding Imprest

The statement of financial position as at 30 June 2016 reflects receivables from exchange transaction balance of Kshs.2, 548,800 out of which Kshs.1, 642,095 relate to Imprests which have

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

been outstanding beyond the due date. It is not clear why the unaccounted for Imprests have not been recovered from the respective officers' monthly salaries in accordance with section 71(2) of the Public Finance Management Act, 2012.

Consequently, the recoverability of the outstanding Imprest cannot be confirmed.

b) Management Responses

Aged as of 30 June 2016					
Aged by Posting Date			Date issued	Due date for surrender	current status
No.	Name	Balance			
ADV 032	Nancy Munyi	10,000.00	10/15/2014	10/21/2014	This Imprest warrants were surrendered by the respective officers. However, the system failed to recognize and post the surrenders. This is being resolved by the system developer. They shall immediately be cleared from the register.
ADV 040	Johnson Mshimba	10,000.00	10/15/2014	10/21/2014	
ADV 055	Boniface Ndirangu	10,500.00	07/11/2014	7/17/2014	
IMP0 09	Hillary Kilemi	42,300.00	10/19/2015	10/27/2015	
IMP0 16	Purity Kabutu	15,000.00	7/17/2015	12/07/2015	
OSIO 26	Redempta Amondi	195.00	8/22/2016	9/15/2016	
OSIO 35	Lameck Omingo	151,600.00	2/22/2016	01/06/2016	
OSIO 46	Antony K. Aminasiwa	15,000.00	10/17/2014	09/10/2016	
OSIO 85	ANGELLA MUTEMI	47,100.00	3/29/2016	4/22/2016	
IMP0 090	Onesmus Mutua	66,000.00	10/07/2014	10/13/2014	Cleared
IMP0 151	Onesmus Mutua	25,200.00	03/02/2015	03/10/2015	Cleared
ADV 057	EDGAR CHIRCHIR	50,000.00			The Board recommended the amounts to be written off.
ADV 060	Anthony Gathu	164,000.00			
IMP0 262	KHADIJA OMAR RAMA	267,000.00	09/10/2015	9/22/2015	Outstanding, recovery to be instituted
IMP0 355	KHADIJA OMAR RAMA	129,800.00	1/28/2016	02/05/2016	Outstanding, recovery to be instituted
IMP0 260	CHRIS SOLOMON NAMBANGA	230,600.00	09/10/2015	9/22/2015	Outstanding, recovery to be instituted
IMP0 288	CHRIS SOLOMON NAMBANGA	75,200.00	10/13/2015	10/21/2015	Outstanding, recovery to be instituted
IMP0 08	MACTILDA ANNE ONYAIT	230,600.00	09/10/2015	9/22/2015	Cleared
IMP0 90	EVE ODETE	51,000.00	4/19/2016	4/26/2016	Cleared
IMP0 91	SIMIYU WERUNGA	51,000.00	4/19/2016	4/26/2016	Cleared
	Total Imprests	1,642,095.00			

c) Focal Point person to resolve the issue (Name and designation)

Ezekiel Mutua, MBS

Chief Executive Officer

d) Status : (Resolved / Not Resolved)

Resolved

9. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT

Audit Financial Statements for the year ended 30 June 2016

a) Issue / Observations from Auditor

Bulk Purchase of Classification Stickers

Examination of stores records maintained at the Boards Uchumi House Stores disclosed that six(6) million classification stickers were procured at cost of Kshs.47,500,000 between 30 November 2010 and January 2012 at Kshs.7.40 and Kshs 8.95 each respectively. Review of the Board of Survey Report as at 30 June 2016 together with the Stores Ledger and Stock Control Card revealed a balance of 4,552,509 stickers worth Kshs 36,788,567 which had not been used or issued to their regional officers across the country in the last five (5) years an indication that the stickers were slow moving items.

Although the management has confirmed that the inventory is slow moving and is becoming obsolete with changes in technology, no justification has been provided for purchase of stickers in bulk without proper planning and consideration of emerging technology is likely to turn the stickers into dead-stock

In view of the foregoing, the propriety of the bulk purchase of Kshs.47, 500,000 could not be confirmed.

b) Management Responses

It is true that the financial statements availed for audit revealed that Inventory was purchased in two folds, the first batch of four million stickers (4) was bought at a cost of Kshs.7.40 and the second batch of two million stickers (2) was bought at a cost of Kshs.8.95. The usage of the inventory is based on FIFO. It is also true that the current inventories which relates to classification stickers of Kshs.36, 788,567.00 has over five years in the stores and the rate at which these

classification stickers are being demanded or sold to the market is very slow due to the change in technology. However for the last six years the Board has collected Kshs.22, 067,600.

c) Focal Point person to resolve the issue (*Name and designation*)

Ezekiel Mutua, MBS
Chief Executive Officer

d) Status :(*Resolved / Not Resolved*)

Not Resolved

10. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT

Audit Financial Statements for the year ended 30 June 2016

a) Issue / Observations from Auditor

Employee Costs

Employee costs increased from Kshs.23,209,958 as at 30 June 2015 to Kshs.41,833,990 at 30 June 2016 an increase of Kshs. 18,624,032 or 800%.The increase was attributed to implementation of new salary structure as advised by the Salaries and Remuneration Commission in August 2015.However,an analysis supporting the increase was not provided for audit review.as a result, regularity ,validity and accuracy of the employee costs totalling Kshs.41,833,990 could not be confirmed.

b) Management Responses

The Board from 2009/2010-2014/2015 had a salary structure that was pegged or was the same as the Civil Service Salary structure.The salaries were therefore reviewed by the Salaries and Remuneration Commission ,hence the employee cost increased in FY 2015/2016 as a result of two reason;

- i. The Board received a salary review of its employees from the Salaries and remuneration Commission on 4th August,2015 Ref no.SRC/TS/CBT/3/3 Vol.IV(6) which led to the increase of employee costs.
- ii. Introduction of employer contribution to pension scheme as result of implementing the National Treasury Circular No.12/14 to ensure that staff have a Defined Contribution(DC) pension scheme,

c) Focal Point person to resolve the issue (*Name and designation*)

Ezekiel Mutua, MBS
Chief Executive Officer

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

d) Status :(Resolved / Not Resolved)

Resolved

11. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT

Audit Financial Statements for the year ended 30 June 2016

a) Issue / Observations from Auditor

Outstanding Trade and Other Payables

Statement of financial position reflects trade and other payables balance of Kshs.15,862,618 as at 30 June.2017 out of which an amount of Kshs.1,177,077 has been outstanding since 2015/2016 financial year

No reason have been given for failure to settle the long outstanding payables.

b) Management Responses

NO.	PAYEE	AMOUNT	REMARKS
1	KENYA SCHOOL OF LAW	894,000.00	The obligations due to M/s Kenya School of Law is a result of the Board not receiving the final report on compliance of KFCB with Kenya Law which was the output of the services offered by the School.Immediately the report is submitted,the obligation will be paid.
2	VAS CONSULTANTS LTD	161,994.00	They have not presented the final report to enable us make the final payment as agreed in the contract.
3	UNIGLOBE NORTHLINE TRAVEL	35,465.00	All the invoices will be re-confirmed and cross-checked on the services delivered. The outstanding amounts will be settled in the course of FY 2017/2018.
4	ABRABO AGENCIES	7,586.00	
5	LAICO REGENCY HOTEL	28,500.00	
6	FAME BY RAINI LTD	600.00	
7	JUBILEE INSURANCE	48,932.00	

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

(Continued)

a) Focal Point person to resolve the issue (Name and designation)

Ezekiel Mutua, MBS

Chief Executive Officer

b) Status :(Resolved / Not Resolved)

Resolved

Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.


Chief Executive Officer

Date 23/04/2019


Chairman of the Board

Date 23/04/2019

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

XIX. APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Status of Projects completion

(Summarise the status of project completion at the end of each quarter, i.e. total costs incurred, stage which the project is etc.)

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources
1	Development of an Online Licensing System	11,853,469	2,370,694	20%	14,000,000	2,370,694	GOK GRANTS
2	Acquisition and Refurbishment of a Cinema Theatre	234,700,000	35,562,570	15%	50,000,000	35,562,570	GOK GRANTS
	Total	246,553,469	37,933,264		64,000,000	37,933,264	

Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

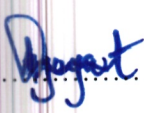
XX. APPENDIX III: INTER-ENTITY TRANSFERS

	APPENDIX III: INTER-ENTITY TRANSFERS			
	ENTITY NAME:	KENYA FILM CLASSIFICATION BOARD		
	Break down of Transfers from the State Department of Arts and Culture			
	Description	Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
a .	Recurrent Grants			
		06/07/2017	40,000,000	FY 2016/2017
		09/08/2017	88,563,650	FY 2017/2018
		03/11/2017	84,563,650	FY 2017/2018
		13/02/2018	84,563,650	FY 2017/2018
		23/04/2018	96,563,650	FY 2017/2018
		Sub-Total	394,254,600	
	Description	Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
b .	Development Grants	09/08/2017	12,500,000	FY 2017/2018
		Sub-Total	12,500,000	
		Total	406,754,600	

The above amounts have been communicated to and reconciled with the parent Ministry

Finance Manager
Kenya Film Classification Board

Head of Accounting Unit
State Department for Arts and Culture

for Sign..... 

Sign.....

Date..... 23/04/2019

Date.....



Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)
Annual Reports and Financial Statements
For the year ended June 30, 2018

XXI. APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KSH	Where Recorded/recognized					Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
State Department for Arts and Culture	06/07/2017	Recurrent	40,000,000	40,000,000	-	-	-	-	40,000,000
State Department for Arts and Culture	09/08/2017	Recurrent	88,563,650	88,563,650	-	-	-	-	88,563,650
State Department for Arts and Culture	09/08/2017	Development	12,500,000	12,500,000	-	-	-	-	12,500,000
State Department for Arts and Culture	03/11/2017	Recurrent	84,563,650	84,563,650	-	-	-	-	84,563,650
State Department for Arts and Culture	13/02/2018	Recurrent	84,563,650	84,563,650	-	-	-	-	84,563,650
State Department for Arts and Culture	23/04/2018	Recurrent	96,563,650	96,563,650	-	-	-	-	96,563,650
Total			406,754,600	406,754,600	-	-	-	-	406,754,600

