REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Paper laid by the Majority Party Whip Hon. Benjamin Washiali, MP on 27-09-2017

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KENYA FILM CLASSIFICATION BOARD

FOR THE YEAR ENDED 30 JUNE 2016

KENYA FILM CLASSIFICATION BOARD

KENYA FILM CLASSIFICATION BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2016

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

TABLE OF CONTENTS

BUSINESS OVERVIEW

About Kenya Film Classification Board

Kenya Film Classification Board is a state corporation under the Ministry of Sports, Culture and the Arts established to regulate the creation, broadcast, distribution, exhibition and possession of film and broadcast content to conform to national values, culture and aspirations.
The principal mandate of the Board is derived from the Films and Stage Plays Act while the Kenya Information and Communications Act further empowers the Board to ensure that content that is of an adult nature is not broadcast during the watershed period (5am- 10pm).

The Board was established in September 1930 under Gazette Notice No. 500. Later, when Kenya attained independence in 1963, the Board was formally established through the enactment of the Films and Stage Plays Act, Cap 222 Laws of Kenya as the Kenya Film Censorship Board. In 2009, through Statute Laws (Miscellaneous Amendment Act), the Board became a state corporation and was renamed Kenya Film Classification Board. In 2013, the Board was categorized by the State Corporations Advisory Committee (SCAC) as a Regulatory Corporation.

Core Business

The principal functions of the Board are 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) Giving consumer advise, having due regard to the protection of women and children against sexual exploitation or degradation.
d) Register and license film agents, local and international filmmakers, distributors and exhibitors.
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.

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;

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

Report of the Directors

About this Report

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 Assessment 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, 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 2015 to 30 June 2016, 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 Assessment Committee and the Board rely on combined assurance in forming their view of the adequacy of the Board's risk management and internal controls.

Principal activities

The principal activities of the Board are to regulate 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.

Directors

The Directors who served during the period under review are:

NO	NAME	TITLE
1	Bishop Jackson Kipkemoi Kosgei	Chairman
2	Ezekiel Mutua, MBS	Chief Executive Officer
3	Dr. Kamau Thugge	Principal Secretary, National Treasury
4	Joe Robert Okudo, MBS	Principal Secretary, State Dept. Arts & Culture
5	Jarso Guyo Mokku	Independent Director
6	Katua Nzile	Independent Director
7	Chris Solomon Nambanga	Independent Director
8	Christiana Saiti Louwa	Independent Director
9	Khadija Rama Omar	Independent Director
10	Abraham Koech	Alt. Principal Secretary, National Treasury
11	Ernest Kerich	Alt. Principal Secretary, State Dept. Arts & Culture

Auditors

The Auditor General is responsible for the statutory audit of the company's financial statements in accordance with the provisions of the Public Audit Act, 2015.

By Order of the Board

Jarso Guyo Mokku,

DIRECTOR

Corporate Information

Board Headquarters

Uchumi house, 15th floor

Aga Khan Walk

P. O Box 44226-00100

Nairobi, Kenya

Board Contacts

Telephone :(254) 711-222-204, 773-753-355,

020-2250600

E-mail: info@kfcb.co.ke
Website: www.kfcb.co.ke

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

Independent Auditors

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084-00100

Nairobi, Kenya

Principal Legal Adviser

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya

LEADERSHIP OVERVIEW

Leadership is the action of leading people in an organization towards achieving goals. Leaders do this by influencing employee behaviour in several ways. A leader sets a clear vision for the organization, motivates and guides employees through the work process and builds morale.

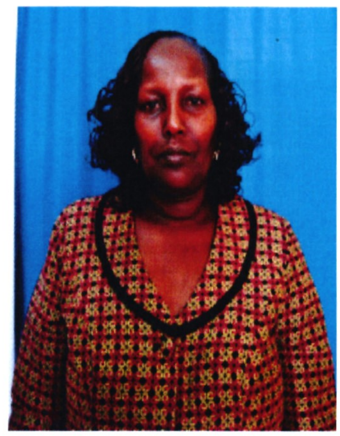
Demands and expectations of an organization's leadership have never been higher. But just how does the leadership develop winning strategies, execute them brilliantly and develop organizational capabilities and core competencies? Today's leadership must be able to transform the organization by leveraging technology to drive business value. IT must help reengineer how business is done in a global set up, and leverage technology to help develop brand and market presence. At KFCB we are committed to offer film and broadcast content regulatory services using highly skilled staff and state of the art ICTs.

The Board of Directors

Bsp. Jackson Kosgei
Chairman

Ezekiel Mutua, MBS
CEO

Ernest Kerich
Alt. PS State Dpt Arts & Culture



Abraham Koech
Alt. PS National Secretary

Khadija Rama Omar

Christiana Saiti Louwa

JarsoGuyoMokku

Chris Solomon Nambanga

KatuaNzile

Leadership Overview

Bishop Jackson Kipkemoi Kosgei

Bsp. Jackson Kosgei Chairman of KFCB Board of Directors was born in 1956.He holds a Bachelor of Arts degree in Religion, Social Science and Education from Pan African University, Bachelor of Science in Leadership and Management and Master of Arts Degree in Leadership. He has worked in executive positions of various institutions for over twenty five years.

Ezekiel Mutua, MBS

Mr. Ezekiel Mutua the Chief Executive Officer was born in 1967.He holds Master of Arts Degree in Communication Studies from the University of Nairobi and is currently pursuing a PhD at Moi University. He also holds a Bachelor of Arts Degree in Sociology and Linguistics from Kenyatta University.

He is an adept and experienced public servant, media and communications professional, having served as the Information Secretary (2011-2015) and Director of Information and Public Communications (2007-2011) in the Ministry of Information, Communications and Technology and Secretary General of the Kenya Union of Journalists. He has served in various Boards as a Director, including the Brand Kenya Board, Kenya Broadcasting Corporation (KBC), Kenya Copyright Board (KECOBO), the Kenya Vision 2030 Secretariat, the Kenya National Commission for UNESCO (KNATCOM), and the Media Council of Kenya.

In December 2010, Mr. Mutua was awarded the Moran of the Order of the Burning Spear (MBS) in recognition of his outstanding contribution to the country. He has progressively beefed up his leadership and management skills through diverse specialized courses in various institutions such as Strathmore Business School (Public Finance Policy), Kenya School of Government (Strategic Leadership Development Program) and Centre for Corporate Governance (Corporate Governance Course). He has over twenty years' experience as a journalist, trade unionist and senior Government Communication Advisor.

Ernest Kerich

Mr. Ernest Kerich is the alternate to the Principal Secretary State Department of Arts and Culture Ministry of Sports, Culture and the Arts. Currently he is the Director of the Department of Film Services in the Ministry of Sports, Culture & the Arts. He has worked in the public service for over 30 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 is the alternate to the Principal Secretary the National Treasury, He was born on 24th April, 1969. He holds Master of Business Administration-Strategic Management from Jomo Kenyatta University of Agriculture and Technology and Bachelor of Arts (Economics). He is currently an economist in the Government Investments Department, the National Treasury. He has previously worked with Post Bank Kenya as a Planning officer, Assistant Manager strategic planning and acted as the Manager Strategy and Change.

Khadija Omar Rama

Khadija Omar Rama holds a Bachelor of Arts Degree in Sociology & Psychology, Certificates in International policies & strategies, program Management, Management of Street Children and holds a certificate in teacher education (P1). She has attended various trainings and capacity building seminars and has also undergone training in Corporate Governance

She is the Program Director and founder of Pepo la Tumaini Jangwani. She has also established a children's home, ECD School, senior school, clinic and other outreach services. She has vast experience in Community Based Organizations for health and educational support for people living with HIV/AIDs. She is affiliated to Kenya Associations of Counsellors& Access Treatment Eastern & Central Africa.

She is a holder of the following awards; Humanitarian Award: International Women's Day, Kenya, United Nations Kenya: Certificate of Commendation for outstanding contribution to the national response to HIV/AIDS in Kenya, H.E. the President: Head of State's Commendation.

Christina Saiti Louwa

Christina Saiti was born on 24thOctober, 1961. She holds a Diploma in Planning and Management of development projects, Diploma in education (S1) and a certificate in teacher education (P1).Previously worked as a Teacher, deputy Head Teacher Loyangalani Primary School. She has also worked as head teacher El-Molo Bay Primary school, Trainer of Trainers in primary schools management with the Ministry of Education and as a Divisional Primary Schools Inspector, DPSI. She has worked with UNPFII to champion the realisation of Millennium Development Goals (MDG's) and the Elmolo Forum a Rights based organization advocating for sustainable livelihoods and development of the Indigenous People's Rights.

She has also participated in UNPFII conference in Torino Island to raise awareness and funds for Indigenous people's rights. She has also undergone training in Corporate Governance

Jarso Guyo Mokku

Jarso Guyo Mokku was born on 22nd November, 1959. He holds Master of Arts Degree in Development Studies and a Graduate Diploma in development studies. He is the Manager and Director Social Development programmes at ASAL Stakeholders forum. He previously served as the Deputy Chief of Party of the Aga Khan Foundation(E.A), Director- Poverty Eradication Commission Ministry of planning and National Development, Programmes Manager& Deputy Country Director- Northern Aid, Nairobi Kenya, Pastoralist advisor and Inter Agency Relations Manager - United Nations-OCHA-Pastoralist Communication Initiative, Addis Ababa Ethiopia and lastly Programmes Co-ordinator-Action Aid International Kenya and Zimbabwe.

Chris Solomon Nambanga

Chris Solomon Nambanga was born on 12th July, 1966. He holds a Master of Arts in Development communications, Bachelor of Arts Degree in Journalism & Media Studies.

He is the Chief Executive Officer- Horizons Media Group, Chairman- Media School Africa and a Director of National Industrial Training Authority (NITA). He previously worked as Head of Sales and Marketing - Gold Crown Beverages (K) Ltd, Sales and Marketing Manager -Dorman's Limited, Marketing Executive -Nation Media Group, Area Sales Representative - Nestle Foods Limited and

Mt. Kenya & Western Regions Regional Representative - British American Tobacco Kenya Limited (BAT).

Katua Nzile

Mr. Katua Nzile holds a Master of Business Administration from Jomo Kenyatta University of Agriculture and Technology, Bachelor of Arts Degree Anthropology from the University of Nairobi and Diploma in Journalism from the International Institute of Journalism, Berlin and a Diploma in Business administration. He also holds certificates in TV operations management, performance management, media strategies and social change, writing business news, training the trainer's journalism, human resource management, sports journalism and Corporate Governance.

He is the Director of Strategy-Fountain Media Group and a Director- Machawood. He has worked as Deputy Group Editorial Director -Standard Group, Managing Editor -KTN, Senior News Editor - NTV, news editor - KTN and also as an Editor in KBC.

He is a member of various professional bodies which include Kenya Editor's Guild, International TV Professionals and Public Relations Society of Kenya (PRSK).

Chairman's Statement

Opening Statement

On my own behalf and that of the Board of Directors, I 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 2015/2016 Financial Year.

As a Board, we have so far established a reputation as a progressive organization. We have lived up to this reputation over the year by developing activities that have served to enhance delivery of our mandate. There is no doubt that, going forward, we are bound to do more with regard to developing solutions to the wide range of content regulatory challenges facing our country today.

Operating environment

So far, we have underscored the need to preserve our national moral imperatives. This is because without regulating the consumption of foreign content, our cultural and value systems stand the risk of being eroded. It is for this reason that we have worked through the year to strengthen existing regulatory mechanisms and developing new legal and policy directions aligned to the Constitution.

In this regard, the process of reviewing the Films and Stage Plays Act, Cap 222 Laws of Kenya is well on course. The Film Act, its proposed replacement, has already gone through key stages and will soon be presented to the National Assembly for ratification. We have deliberately tailored this process into our Strategic Plan for this Financial Year.

In line with our vision of becoming a world-class film and broadcast content regulator, the enactment of the law will mark a significant milestone in realizing our objectives. It will set a new pace for the Board as it will take into account emergent regulatory challenges.

Government's Incentives

The Government is committed to ensure growth of the film and broadcast industry.In 2015, the Government waived the withholding tax payable by foreign film producers, actors and crew members. In addition, the Government announced an incentive to exempt the goods and services used for film making from value added tax (VAT), and a revolving fund to finance local filmmakers. These moves are among increased efforts from both within and outside Kenya's creative industry to unlock the potential of the Sh200 billion industry.

The digital migration process in Kenya was initiated in 2009, which was three years after an ITU Member States Conference signed the GE06 Regional Agreement. The agreement set a time-line within which member nations ought to have switched from analogue to digital signals. In 2015 Kenya migrated in to the digital signal broadcasting space and this has opened up the film and broadcast industry both to the country and to the world.

Digital migration has presented consumers and content creators with immense opportunities that were previously not available. The migration has opened up more television and radio stations which now require content for airing and has provided employment opportunities for the population.

In the forthcoming financial year, it is envisaged that the Programing Code for Free-to-air TV and Radio services will come into force on 1st July, 2016. This will provide opportunities for the Kenyan film and broadcast industry because the Code requires broadcast stations to air at least 40% local content and attain up to 60% in the next three years.

Tribute

I wish to express my sincere and deep gratitude to the Government of Kenya, fellow Directors, employees, our customers and other stakeholders for their steadfast support and contribution towards our success in the year. I have no doubt in my mind that together we will continue to achieve even more in fulfilling the expectations of our mandate.

BISHOP JACKSON KOSGEI
CHAIRMAN

Management Team

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 & 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.

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

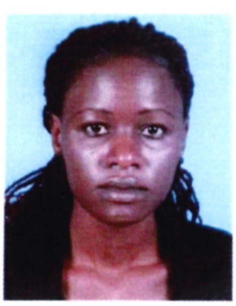
Supply Chain Management

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.

EmmahIrungu- B.Sc. IT, H.Dip PSY, Dip IT

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.

Ayaya Vincent - B. Com Finance, CPA (K)

Finance and Accounts

Responsible for formulating, interpreting and implementing financial policies, strategies procedures and programs. Also in charge of the Board's finances and financial reporting. In-charge of planning, sourcing and management of financial resources to achieve corporate objectives. Developing supplementary financial regulations and procedures to enhance internal controls.

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.

Paul Ng'ang'a - B. Com Finance, CPA (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.

Chief Executive Officer's Statement

We have come to the end of the 2015/2016 Financial Year, 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 2015/2016,the number of licensed film distributors and exhibitors grew from 4,752 to 6,177,which is a 77% growth .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.

In the broadcast sector, the level of compliance in regard to 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.

It is particularly inspiring that we have been able to record these achievements despite resistance from a section of stakeholders in the film industry and broadcast sector.

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 at the expense of our national norms and moral values. In order to deepen the understanding of our mandate by the public, we rolled out rigorous series of public sensitization programmes across the country. We fortified these programmes with regular media appearances to articulate our mandate, providing important platforms to inform the 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, the Board robustly participated in creating awareness about the Programming Code for the Free-to-Air TV and Radio services in Kenya which comes into force on 1st July, 2016.

To hasten the achievement of our public sensitization goals, we forged strategic partnerships with various organizations in both the public and private sector. For instance, in the period under review, we have collaborated with global technology giant Google to create online safety guards to protect children from accessing inappropriate content over the Internet. Specifically, KFCB partnered with Google in the Web Rangers program to empower children and the youth on responsible use of social media.

In addition, the Board worked with the Kenya Scouts Association, utilizing the association's networks to inform children and the youth on the responsible use of online content. The Board is now in the process of establishing a model of working with the Global Peace Foundation to educate children and the youth on responsible and intelligent content consumption.

Through KFCB's media Literacy Program, various sensitization programmes were carried out in learning institutions, educating children about the responsible use of film & broadcast content. In the Program, the Board has worked closely with the National Police Service, County Governments, and Nyumba Kumi Initiative under the Ministry of Interior & Coordination of National Government to address the security challenges associated with film and broadcast content consumption. The Board has partnered with Kenya Police to provide assistance in the enforcement of regulations.

Further, KFCB has collaborated 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.

In Africa, KFCB has signed a Memorandum of Understanding with South Africa's Film and Publication Board (FPB). This MOU envisions an exchange programme between the two organizations. As part of the MOU, we are currently in the process of creating uniform continental classification guidelines for child online safety. The collaboration will also go a long way in facilitating skills and knowledge exchange across the continent and enhancing growth of the local film industry.

Revenue Growth

In the year under review the Board witnessed remarkable growth in revenues, both internally generated income (A-I-A) and GoK grants. In the year, the GoK grants grew from Kshs. 78,967,767 to Kshs.180, 969,600 which is a 129% increase, while the A-I-A grew from Kshs. 20,312,939 to Kshs.25, 125,021 which is an increase of 20%. We would like to thank the National Treasury through our parent Ministry of Sports, Culture and the Arts 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, whose potential to transform the country is great.

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; review of the legal framework to address the gaps occasioned by globalization, technological advances 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.

EZEKIEL MUTUA, MBS

CHIEF EXECUTIVE OFFICER

CORPORATE GOVERNANCE

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 Statement

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)."

In the current financial year, the Board received an approval for certification to ISO 9001:2008-Quality Management System. As we cross over to the next financial year the Board looks forward to actual certification and initiate the process to migrate to ISO: 9001:2015 Quality Management System. The Board shall pay high fidelity to the implementation of the ISO standards.

Board's Composition

The Films & 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 non-executive Chairman, five independent members, the Chief Executive Officer and two non-independent directors.

Board's Diversity

The Board has following diverse set of skills;

Field of Expertise	Number
Education	2
Communication	3
Film Production	1
Economics & Finance	1
Psychology	1
Development Studies	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 8 meetings which were attended as follows:

No.	Name	Attendance
1.	Bishop Jackson Kosgei	8
2.	Ezekiel Mutua, MBS (Appointed in October 2015)	5
3.	Abraham Koech (Rep Principal Secretary National Treasury)	6
4.	Ernest Kerich (Rep Principal Secretary MOSCA)	8
5.	Katua Nzile	7
6.	Jarso Mokku Guyo	7
7.	Khadija Omar Rama	7
8.	Christiana Saiti Louwa	7
9.	Chris Solomon Nambanga	6
10.	Mactilda Anne Onyait (Retired in September 2015)	1

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 and a sitting allowance for meetings attended. The Directors are paid sitting allowances for the meetings 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 for these allowances.

The amounts paid to the directors is as shown below:

Description	2015/2016	2014/2015
	Shs 000	Shs 000
Board Members Allowance	14,292,223	8,674,350
Film Examiners Allowances	1,288,500	1,372,500
Conferences,Committes and Seminars	-	84,000
Board Members Insurance	521,401	780,486
Honoraria to chairman	985,000	1,849,540
Board Trainings	480,000	111,360
Total Board Expenses	**17,567,124**	**12,872,236**

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.

The Board of Directors

The members of the Board of Directors are shown on page 9. 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:

Providing the vision, mission, strategic direction and upholding the core values;

Putting in place management structures (organization, systems and human capital) to achieve these goals;

Ensuring targets are set and monitoring performance;

Guiding the implementation of strategic decisions and actions and advising management as appropriate;

Reviewing and approving annual budgets;

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.

Ensuring the preparation of annual financial statements and reports.

During the year under review, the Board of Directors met four times. The allowances, honoraria and other transactions related to the Board of Directors are disclosed in Note 5 to these financial statements.

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

Khadija Rama Omar

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 5 meetings in the financial year as shown below:

	NAME	ATTENDANCE
1.	Khadija Omar Rama	5
2.	Ernest Kerich	4
3.	JarsoGuyoMokku	4
4.	Chris Solomon Nambanga	4
5.	Katua Nzile (Moved from committee on 13th Oct, 2015)	1
6.	Christiana Saiti(Moved from Committee 13th Oct, 2015)	1

Report of the Chairperson of Finance and General Purpose Committee

JarsoGuyoMokku

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 three (3) 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 5 meetings in the financial year as shown below:

	NAME	**ATTENDANCE**
1.	JarsoGuyoMokku	5
2.	Abraham Koech	5
3.	Khadija Rama Omar (Joined on...)	2
4.	Mactilda Anne Onyait (Retired in Sept, 2015)	2

Report of the Chairperson of Technical Development Committee

Chris Solomon Nambanga

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 three (3) 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 4 meetings in the financial year as shown below:

	NAME	ATTENDANCE
1.	Chris Solomon Nambanga	4
2.	KatuaNzile	3
3.	Ernest Kerich	2
4.	Christiana Saiti Louwa	4
5.	Jarso Guyo Mokku (Moved from Committee in Sept 2015)	1

Report of the Chairperson of the Audit & Risk Committee

KatuaNzile

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 three (3) 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 4 meetings in the financial year as shown below:

	NAME	ATTENDANCE
1.	KatuaNzile	4
2.	Abraham Koech	4
3.	Christiana SaitiLouwa (Joined Committee in Oct, 2015)	2
4.	Mactilda Anne Onyait(Retired in Sept, 2015)	1

REVIEW OF PERFORMANCE

The Board signed the Annual Performance Contract 2015/16 financial year. The purpose of this Performance Contract is to establish clarity and consensus about priorities for the Board's Management in order to:

Ensure that systems are established to guarantee equality of all users of public services is achieved;

1. Ensure impartiality and fairness in the process of delivery of public services;
2. Ensure promotion of National Cohesion and National Values;
3. Ensure continuity of public services under all circumstances;
4. Establish systems to enable adaptability of public services to the needs of users;
5. Ensure professionalism and ethics in public service is achieved and maintained;
6. Establish systems to ensure promotion and protection of rights of users of public services and staff as enshrined in the Bill of Rights;
7. Institutionalize a culture of accountability, integrity, transparency and promote values and principles of the public service;
8. Ensure a corruption free public service;
9. Ensure effective, efficient and responsible use of public resources; and
10. Ensure responsiveness by staff in delivery of public services.

These targets are drawn from the Board's programmes based on overall objectives of the Strategic Plan which includes:

1. To review existing film policy and regulatory framework;
2. To develop capacity in the film industry;
3. To monitor broadcast content to ensure compliance with watershed period principles;
4. To strengthen regional offices to ensure effective and efficient regulation of film content;
5. To improve infrastructure for film regulation;
6. To inform consumers, society and the industry about film regulation; and
7. To ensure effective regulation of the film industry.

As at 30th September, 2016 PC evaluation had not been carried out across all MDAs. However, Midyear evaluation was carried in March, 2016 which was based on sampled indicators as tabulated below:

No.	Criteria	Performance Indicator	Unit Of Measure	Annual Target	Mid Year Target	Assessed Cumulative Achievement ($1^{st}+2^{nd}$ Quarter)	Variance From Mid Year Target
1.	Finance and Stewardship	Utilization of allocated funds	%	100	100%	99%	-1%
2.	Service Delivery	Service delivery innovations	No	2	0	0	0
3.	Non- Financial	Youth Internships/Industrial Attachment/Apprenticeship	No	40	20	25	+5
		Allocation of 30% of tenders to Youth, Women and Persons with Disabilities	Kshs	32,061,861.6	16,030,930	8,041,325	-7,987,605
4.	Operations	Film examination and classification	%	100%	50%	31.2%	-18.8%
		Film monitoring and enforcement	%	100%	50%	57.92%	+8%

		Broadcast monitoring	%	100%	50%	42.5%	-7.5%
		Projects implementation Completion rate	%	100%	50%	43.9%	-6.1%
5.	Corruption Eradication/Governance*	Mwongozo Code of Conduct Signing and compliance with the Mwongozo Code of Governance	%	100%	50%	60%	+10%
6.	National Cohesion and National Values	Implement measures to promote the realization of National Cohesion and National Values	%	100%	50%	56%	+6%
		Implement commitments in the President's Annual Report on National Values and Principles of Governance	%	100%	50%	70%	+20%

Finance and Stewardship

A-I-A

The Board achieved its target for internally generated funds by collecting Ksh.25, 125,021 against a target of Kshs. 21,000,000. This is as a result of: Increased public awareness campaigns; and The Board received additional function of licensing film makers and film agents.

Service Delivery Indicators

Customer Satisfaction

The Board implemented the findings and recommendations of the Customer satisfaction survey which was carried out in financial year 2014/2015. The key finding of the survey was that Board's mandate was not well understood by its stakeholders. The Board therefore carried out, **26** sensitisation programmes. Other key achievements were Participation and sponsorship of the National School Drama Festivals which was held in Meru, participation during the Annual Journalism Excellence Awards and Film Symposium which was held at the Technical University of Kenya.

Service delivery innovations

During the Financial year under review the Board initiated the development of an online licence application platform where customers will be able to apply for e-film regulatory license and an online e-film examination and classification application platform. These two innovations will greatly improve service delivery to the public and at the same time reduce the cost of operation.

Resolution of Public Complaints

The Board reconstituted the Board's Complaints Committee which worked very closely with the Commission on Administrative Justice (CAJ) to review and upload the complaints handling procedure on the Board's website. The committee also promptly addressed and resolved public complaints submitted to the Board and conducted capacity building by sensitizing staff on complaints handling procedures.

ISO Certification

During the period under review the Board carried out the following activities towards ISO 9001:2008 certification; internal audit, Phase 1& 2 certification audits and got approval for certification into ISO 9001:2008

Automation

The Board undertook various activities to achieve the Consumer and business adoption targets, and it was able to achieve the following; the website was redesigned to meet the accessibility, graphical look and usability requirements as set out by ICT Authority. Secondly, Revenue/Cost savings were achieved through delivery of e-services as the Board implemented an online movies portal which is embedded in the website thus eliminating the need to print the movie catalogue, installed an Interactive Voice Response System (IVRS) that is linked to the main office line and automating the HR, Finance and procurement processes through an ERP system.

NON-FINANCIAL INDICATORS

The Implementation of the Strategic Plan

The Board ensured that projects and programmes, as contained in the strategic and work plans, were budgeted for and implemented. The Board also started the process of reviewing its strategic plan to align it to a rather fast changing ICT environment, Content regulation in the era of media convergence and globalization, global partnership on Child online Protection, Changes in the legal and regulatory framework among others.

Asset Management

The Board ensured best use of the institution's assets in order to maximize taxpayers' value for money. This was done through maintaining and updating the asset register as well repair and maintenance of assets.

Disposal of Idle Assets

Disposal was done in full conformity with the existing legal framework. Activities undertaken include: Identification and preparation of a list of idle assets, The Boards Disposal Committee convened thrice in the period under review and all unserviceable and obsolete assets identified and disposed off.

Youth Internships/ Attachments/ Apprenticeships

In order for the institution to progressively involve youth in internship, industrial attachment/or apprenticeship programs the Board provided attachment to 46 interns against an annual target of **40** thereby surpassing the target by **6** interns. This was achieved due to a deliberate move by the management to accommodate as many interns as possible despite the limited office space. The Board also maintained a database for all internship applications made.

Youth, Women and Persons with Disabilities Empowerment

The Board maintained a list of suppliers prequalified under various categories. For the enterprises owned by youth, women and persons with disability, the Board maintained a database of such suppliers and received their registration documents on a continuous basis so as to provide opportunities to as many as possible.

The total expenditure on procurement of goods and services as at 30th June, 2016 was **Kshs. 110,094,161** out of which **Kshs. 64,594,161 targeted the youth** and out of this, **Kshs. 21,303,467** worth of procurement was awarded to youth, women and persons with disabilities was which translates to 33.33% of the total procurement spend. The Board also submitted quarterly reports to PPOA as required by the law.

Compliance with the Constitution

In the period under review, the Board initiated the review of the Film and Stage Plays Act Cap 222 and the draft bill is in the process of being subjected to the various stakeholders before is forwarded to parliament.

Compliance with Statutory Obligations

During the reporting period the Board developed an annual procurement plan based on the Annual Work plan and submitted to Public Procurement Oversight Authority (PPOA) in the prescribed format by 31st August, 2016 and as required by law.

Remittance of statutory deductions

Remittances for both PAYE and withholding VAT were made to KRA on a monthly basis as required by law. The Board also made deductions for NSSF and NHIF from staff and remitted the same to the respective organisations.

Disability Mainstreaming

In the effort of implementing Government policy on affirmative action for Persons with Disabilities, the Board carried out the following activities;

Developed and submitted an annual work plan on implementation of the Disability Mainstreaming Policy and other related mainstreaming objectives to the National Council for Persons with Disability (NCPWD),Sensitized 10 members of staff on disability mainstreaming requirements, Submitted quarterly reports to NCPWD and obtained a 92% level of compliance.

Gender Mainstreaming

The Board continued to implement Government policy on gender mainstreaming, by carrying the following key activities; Developed and submitted an annual work plan on implementation of gender policies to the National Gender and Equality Commission (NGEC). It also complied with 30% gender representation policy on appointments, promotions and employment as per the Constitution of Kenya 2010. Further the Board collected sex disaggregated data to guide in planning and programming and sensitized 10 staff on gender mainstreaming requirements and submitted quarterly reports to NGEC

Environmental Sustainability

In the concerted efforts to mitigate against environmental degradation, the Board undertook the following activities; Reconstituted the Environmental Sustainability committee, complied with Environmental Management and Coordination Act by implementing the recommendations of the environmental audit carried out in 2016,developed and submitted an annual work plan to National Environmental Management Authority (NEMA) and obtained a 94% level of compliance.

Safety and Security Measures

In the period under review the Board, constituted the safety and security measures committee and trained 10 officers on Information Security Management System (ISMS). The Board also sensitized 15 members of staff on staff safety and security in the workplace. Backups of documents were carried out on monthly basis to ensure that the Board does not lose any valuable data.

OPERATIONS

During the period under review the Board focused on the following key operational areas achieve 100%;

Film examination and classification: During the Contract period the Board was expected to examine and rate **350** films, sensitize **100** film producers on film regulation, develop an in-house training manual on film examination and classification, train 9 contracted film examiners and 10 non-technical members of staff on film classification and compliance matters and identify and award (The Film Warrior) to the most compliant film exhibitor (Cinema Theatre) in Kenya. Cumulatively, **409** films were examined, an in house training manual was finalised and operationalized, **5** members of staff and **9** contracted examiners were trained while the award of the "*film warrior* "was done where Planet Media prestige theatre won the award.

Broadcast monitoring: The Board sensitized 12 members from Nation Media Group and Media Max, conducted 4 media literacy programme in 8 Schools in various counties, monitored the broadcast stations and made a report with recommendations that informed meetings with media houses. The Board also compiled a list of unclassified TV adverts that run in the various TV channels and issued the violators with warning letters. The Board also Collaborated with NACADA in vetting the Alcoholic Drinks promotions adverts and materials as well as the communication Authority of Kenya.

Enforcement and compliance: The Board was able to cumulatively issue 6,177 film regulatory licenses against a target of **4,500**, carried out 2,211 random inspections, **26** sensitisations were carried out through the coordination of the regional offices in Nyeri, Eldoret, Embu, Nakuru ,Kisumu, Garissa, Kakamega and Mombasa while **474,252** classification labels were issued. As a result of the transferred functions from the DFS, **503** filming licenses were issued and **114** local agents registered.

Branding and Communication of Vision 2030 Projects

The Board continued to brand its communication materials with the Vision 2030 Logo and provided a link on its website on the same.

DYNAMIC /QUALITATIVE

Human Resource, Management and Development

Skills/Competence

In the Financial Year 2013/2014, the Board undertook Training Needs Assessment. In 2015/2016 the recommendations of the TNA report were implemented and a report compiled indicating that 40% of the staff were trained on various courses.

Performance Appraisal

All officers in the Board were placed under PAS and end of year appraisals were conducted by 30th June, 2016

Knowledge Management

During the period under review the Board trained 10 Heads of Departments on Knowledge management and developed mechanism for knowledge sharing and documentation.

Prevention of Alcohol and Drug Abuse

In the report period the Board implemented activities/programmes aimed at reducing the prevalence of alcohol and drug abuse and minimizing the negative effects thereof. The Board therefore, trained the ADA committee members, developed and submitted an annual work plan to NACADA and continued to submit quarterly reports as required. The Board also obtained a certificate of compliance.

Prevention of HIV/AIDS Infections

The Board implemented activities that mitigate against HIV/AIDS Infections. During the FY 2015/16, the Board committed to adopt combination of Prevention Approach which is a mix of behavioural, structural and biomedical interventions targeting specific populations. In this regard therefore, the Board achieved the following; Allocated ACU a budget item in rationalised budget, reconstituted the HIV/AIDS Committee, developed and submitted an annual work plan and quarterly reports to the National Aids Control Council (NACC).

Work Environment and Employee Satisfaction

The Board conducted work environment and employee satisfaction surveys which rated the Board at 77% and 80% respectively. The Board is currently implementing the recommendations of the surveys.

Corruption Eradication

The Board implemented this target in a view of combating and preventing corruption, unethical practices and promoting standards and best practices in governance. This is in line with the Ethics and Anti-Corruption Commission Act No.22 of 2011 and the Leadership and Integrity Act of 2012. In line with this therefore, the Board carried out corruption risk assessment and mitigation, enhanced integrity in public procurement, implemented internal mechanisms that encourage and protect whistle blowing on corruption and unethical conduct and submitted quarterly reports to the Ethics and Anti-Corruption Commission in the prescribed formats provided in the EACC website

Mwongozo Code of Conduct

The Board provided periodic reports to the oversight agency (SCAC) on critical governance issues including; legal audits and board self-evaluation. The Board also ensured that all Board of Directors signed the Mwongozo code of conduct.

NATIONAL COHESION AND NATIONAL VALUES

In line with the government policy of promoting national values and principles of governance and creating a peaceful and cohesive nation, the Board submitted quarterly reports to Directorate of National Cohesion and National Values and implemented measures to promote the realization of National Cohesion and National Values as identified in legislation, policies, regulation, programmes and administrative actions. The Board also submitted a report on the commitments of the President's report of 2014 on national values and principles of governance by 31st December, 2015 and annual report on measures taken and progress achieved in the realization of National Values and principles.

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, 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 Boards 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 5 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

	Strategic Objective	Strategies
	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.
	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.
	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
	To empower the public with knowledge and skills to make informed choices.	Empower film content consumers and stakeholders with relevant knowledge and skills.
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

CORPORATE SOCIAL RESPONSIBILITY

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:

We recognize that our social, economic and environmental responsibilities to our stakeholders are integral to our operations.

We value feedback from our stakeholders and will maintain open dialogue to ensure that we fulfil the requirements outlined within this policy.

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.

Employees are responsible for the performance of this policy.

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.

As a result of this CSR policy, it is expected that the Board will be able to prominently mainstream corporate social responsibility in its operations.

FINANCIAL STATEMENTS

Statement of Directors' Responsibilities

Section 82 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 Board, which give a true and fair view of the state of affairs of the Board at the end of the financial year/period and the operating results of the Board for that year/period. The Directors are also required to ensure that the Board keeps proper accounting records which disclose with reasonable accuracy the financial position of the Board. The Directors are also responsible for safeguarding the assets of the Board.

The Directors are responsible for the preparation and presentation of these financial statements, which give a true and fair view of the state of affairs of the Board for and as at the end of the financial year (period) ended on June 30, 2016. This responsibility includes:

Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;

Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Board;

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;

Safeguarding the assets of the Board;

Selecting and applying appropriate accounting policies; and

Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Board's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Board's financial statements give a true and fair view of the state of Board's transactions during the financial year ended June 30, 2016, and of the Board's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Board, which have been relied upon in the preparation of the Board's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Board 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 Board's financial statements were approved by the Board on ________________ 2016 and signed on its behalf by:

Director　　　　Director　　　　Director

Results

The results of the Board for the year ended June 30, 2016 are set out on page 48 to 53

By Order of the Board

Loice M. Shalakha

Company Secretary

Nairobi.

Date:......7/3/17........

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.oagkenya.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 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Kenya Film Classification Board set out on pages 48 to 79, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in equity, 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.

Management's Responsibility for the Financial Statements

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 such 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.

The 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1.0 Cash and Cash Equivalents

The cash-and-cash equivalents 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 due 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 cash book.

In the circumstances, the accuracy and completeness of the cash-and-cash equivalents balance of Kshs.54,329,125 as at 30 June 2016 cannot be confirmed.

2.0 Trade and Other Payables

(i) Trade Payables

The statement of financial position reflects trade and other payables balance of Kshs.6,546,154 as at 30 June 2016 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.

(ii) 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 reasons have been provided for the failure to pay the audit fees.

3.0 Outstanding Imprests

The statement of financial position as at 30 June 2016 reflects receivables from exchange transactions balance of Kshs.2,548,800 out of which Kshs.1,642,095 relates to imprests which have been outstanding beyond the due dates. 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 imprests cannot be confirmed.

4.0 Bulk Purchase of Classification Stickers

Examination of stores records maintained at the Board's Uchumi House Stores disclosed that six (6) million classification stickers were procured at a total 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 Cards revealed a balance of 4,552,509 stickers worth Kshs.36,788,567 which had not been used or issued to their regional offices 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 which is likely to turn the stickers into deadstock.

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

5. Employee Costs

Employee costs increased from Kshs.23,209,958 as at 30 June 2015 to Kshs.41,833,990 as at 30 June 2016 an increase of Kshs.18,624,032 or 80%. The increase was attributed to implemetation of new salary structure as advised by the Salaries and Remuneration Commission in August 2015. However, an analyses 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.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kenya Film Classification Board as at 30 June 2016, 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 Stage Plays Act, 2012 and the Public Finance Management Act, 2012.

Other Matter

1.0 Budget and Budgetary Performance

1.1 Revenue

Total revenue on record having been as received during the financial year ended 30 June 2016 totalled Kshs.206,094,621 against budgeted estimates of Kshs.209,954,600 thus resulting in a shortfall of Kshs.3,859,979 or 2% as shown in the table below:

Revenue component	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	Excess/(Shortfall) %
GOK grants	188,954,600	180,969,600	(7,985,000)	(4)
Licensing	13,465,000	15,320,500	1,855,500	14
Classification Stickers/Labels	5,000,000	4,707,020	(292,980)	(6)
Sale of Tenders	35,000	25,000	(10,000)	(29)
Censorship Fees	2,500,000	2,602,879	102,879	4
Filming fees & Extensions	0	1,194,000	1,194,000	100
Boarded Items/Disposal	0	33,521	33,521	100
Film agent fees & Registration	0	836,000	836,000	100
License –Feature Films & Doc & Series	0	361,000	361,000	100
Other income	0	45,101	45,101	100
TOTAL	**209,954,600**	**206,094,621**	**3,859,979**	**2**

The shortfall mainly occurred in Government grants where the Kenya Film Clasification Board (KFCB) had budgeted to revenue of Kshs.188,954,600 but instead received Kshs.180,969,600 thus falling short by Kshs.7,985,000 or 4% of the budget.

The Board further, collected Kshs.2,391,000 for which no provision was made in the budget. The reason given for the unbudgeted income was that there was change in law necesitating introduction of various filming and licences fees from enhanced key activities of the Board.

1.2 Expenditure

In addition, the Board had budgeted to spend Kshs.209,954,600.00 but actual expenditure amounted to Kshs.192,873,761.00 resulting in an under-expenditure of Kshs.17,080,839.00 as detailed in the statement of comparison of budget and actual amounts and as summarised below:

Expenditure component	Budget Kshs.	Actual Kshs.	Over/(Under) Kshs.	Over/(Under) %
Compensation of Employees	46,245,089	41,833,990	(4,411,099)	(10)
Goods and services	110,094,161	68,717,492	(41,376,669)	(38)
Rents and rates	14,398,416	11,426,012	(2,972,404)	(21)
Other payments	30,616,934	36,374,520	5,757,586	19
Depreciation expense	-	29,521,746	29,521,746	100
Transfer to MOSCA	8,600,000.00	5,000,000	(3,600,000)	(42)
TOTAL	**209,954,600**	**192,873,761**	**17,080,839**	**8**

From the analysis, the Board under spent in almost all the budgeted components, except Other Payments where Kshs.36,374,520 was incurred against a budget of Kshs.30,616,934 thus resulting to an over-expenditure Kshs.5,757,586 or 19%.

Significant under-expenditure occurred under Goods and Services where Kshs.110,094,161 was budgeted for but only Kshs.68,717,492 was spent resulting in an under-expenditure of Kshs.41,376,669 or by 38%. The under-expenditure was attributed to late release of grants by the parent Ministry hence the purchase of budgeted non-current assets could not be undertaken.

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

Nairobi

14 June 2017

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2016

		2015/2016	2014/2015
Revenue from non-Exchange Transactions	**NOTES**	**Kshs.**	**Kshs.**
Income	**2 (a),3**	206,094,621	99,280,706
Total Revenue		**206,094,621**	**99,280,706**
Expenses			
Employee Costs	**4**	41,833,990	23,209,958
Board Expenses	**5**	17,567,124	12,872,236
Depreciation and Amortisation Expense	**6**	29,521,746	26,265,736
Repairs and Maintenance	**7**	7,950,173	14,319,687
Transfer to MOSCA	**8**	5,000,000	8,000,000
Provision of Audit Fees	**15**	229,680	174,000
General expenses	**9**	74,690,188	73,022,372
Total Expenses		**176,792,901**	**157,863,989**
Surplus/Deficit for the Period		29,301,720	(58,583,283)

The notes set out on pages35 to 60 form an integral part of the Financial Statements

STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	NOTES	2015/2016 Kshs.	2014/2015 Kshs.
Assets			
Current Assets			
Cash and Cash Equivalents	10	54,329,125	6,131,638
Receivable from Exchange Transactions	11	2,548,800	1,113,696
Inventories	12	36,788,567	40,271,762
		93,666,491	**47,517,096**
Non-Current Assets			
Property, Plant and Equipment	13	59,602,504	66,880,676
Intangible Assets	14	6,124,671	12,287,385
		65,727,175	**79,168,061**
Total Assets		**159,393,666**	**126,685,157**
Liabilities			
Current Liabilities			
Trade and Other Payables from Exchange Transactions	15	5,773,646	2,896,616
Provisions	15	403,680	174,000
Employee Obligations	15	368,828	68,748
Total Liabilities		**6,546,154**	**3,139,365**
Net Assets			
Accumulated Surplus		152,847,512	123,545,792
Total Net assets and Liabilities		**159,393,666**	**126,685,157**

The Financial Statements set out on pages 30to 34were signed on behalf of the Board of Directors by:

Chief Executive Officer

Date 7.3.2017

Chairman of the Board

Date 7.3.2017

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30 June 2016

	Accumulated surplus	Total
Balance as at 30 JUNE 2014	**182,129,075**	**182,129,075**
Surplus/(deficit) for the period	(58,583,283)	**(58,583,283)**
Transfers to/from accumulated surplus	-	-
Balance as at 30 JUNE 2015	**123,545,792**	**123,545,792**
Surplus for the period	29,301,720	29,301,720
Transfers to/from accumulated surplus	-	-
Balance as at 30 JUNE 2016	**152,847,512**	**152,847,512**

STATEMENT OF CASHFLOWS

For The Period Ended 30 June 2016

	NOTES	2015/2016 Kshs.	2014-2015 Kshs.
CASHFLOW FROM OPERATING ACTIVITIES			
Net Surplus From Operation		29,301,720	(58,583,283)
ADJUSTMENTS			
Decrease /(Increase) in Receivable from Non-Exchange Transactions	11	(1,435,104)	1,750,063
Decrease/(Increase) in Stock	12	3,483,195	3,317,716
Increase/(Decrease) in Trade and Other Payables from Exchange Transactions in Payables	14	3,406,790	(9,074,561)
Adjustment For Depreciation	13	29,521,746	26,265,736
Net Cashflow From Operating Activities		**64,278,347**	**(36,324,329)**
CASHFLOW FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	13	(16,080,860)	(14,375,792)
Net Cashflow From Investing Activities		**(16,080,860)**	**(14,375,792)**
CASHFLOW FROM FINANCING ACTIVITIES			
Net Cashflow From Financing Activities			-
Net Increase in Cash and Cash Equivalent		48,197,487	(50,700,121)
Cash and Cash Equivalent At The Beginning of the Period		**6,131,638**	**56,831,759**
Cash and Cash Equivalent At The End of the Period	10	**54,329,125**	**6,131,638**

`STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	SUMMARY OF STATEMENT OF COMPARISON OF BUDGET AND ACTUAL EXPENDITURE FY 2015-2016					
		Original Budget	Adjustment	Final Budget	Actual Expenditure	Performance
SNO.	**Descriptions**	**2015-2016**	**2015-2016**	**2015-2016**	**2015-2016**	**2015-2016**
1	**Revenue**	**KSHS**	**KSHS**	**KSHS**	**KSHS**	**KSHS**
2	Licensing	13,465,000	-	13,465,000	15,320,500	(1,855,500)
3	Classification Stickers/labels	5,000,000	-	5,000,000	4,707,020	292,980
4	Sale Of Tenders	35,000	-	35,000	25,000	10,000
5	Censorship Fees	2,500,000	-	2,500,000	2,602,879	(102,879)
6	Filming Fees & Extensions	-	-	-	1,194,000	(1,194,000)
7	Boarded Items/Disposal	-	-	-	33,521	(33,521)
8	Film Agent fees & Registration	-	-	-	836,000	(836,000)
9	Licence -Feature films,Doc & series	-	-	-	361,000	(361,000)
10	Other Income	-	-	-	45,101	(45,101)
11	GOK Grants	188,954,600	-	188,954,600	180,969,600	7,985,000
12	**Total Revenue**	**209,954,600**	**-**	**209,954,600**	**206,094,621**	**3,859,979**
13	**Expenses**				-	
14	Compensation of employees	46,245,089	-	46,245,089	41,833,990	4,411,099
15	Goods and services	110,094,161	-	110,094,161	68,717,492	41,376,669
16	Rent and Rates	14,398,416	-	14,398,416	11,426,012	2,972,404
17	Other payments	30,616,934	-	30,616,934	36,374,520	(5,757,586)
18	Depreciation Expense	-	-	-	29,521,746	(29,521,746)
19	Transfer to MOSCA	8,600,000	-	8,600,000	5,000,000	3,600,000
20	**Total Expenses**	**209,954,600**	**-**	**209,954,600**	**192,873,761**	**17,080,839**
21	**Surplus/Deficit**	**-**	**-**	**-**	**13,220,860**	**(13,220,860)**

	NOTES TO STATEMENT OF COMPARISON OF BUDGET ON ACTUAL BASIS					
	Revenue(A-I-A;2-9)					
	Revenue no .6-7 were new revenue streams received by the Board as result of taking over all the regulation functions for the film industry from the Department of Film Services as from 1st January 2016(second half of the financial year).Therefore this is the first year the board is reporting on this streams of income.					
	Goods and services include the following expenses; acquisition of non-current assets, utilities and services, communication supplies and services, newspaper & periodicals subscriptions, training and public sensitizations, hospitality and supplies services, general office supplies, fuel and lubricants, other operating expenses, routine maintenance and bank charges. During the period, there was a variance of Kshs.41, 376,669 compared to the budget. This is because there were some non-current assets were not purchased as planned due to late receipt of GoK grants hence the funds have been carried to the subsequent year to implement the projects which were non-current in nature hence, low absorption of funds in the period under review.					
	Other payments include the following expenses; Local travel and accommodation, Foreign travel and accommodation, Trade shows and exhibitions, Board expenses and regional offices expenses. The variance between the budget and the actual expenditure is as a result of over expenditure from Board of directors expenses which was as a result of constant consolation resulting from classification decisions of film and broadcast content that were being made by management which required adoption by Board of directors before the decision are made public. **Employee Costs;** This cost rose from Kshs.23,209,958.00 for the year 2014 -2015 to Kshs. 41,833,990 resulting into an increase of Kshs.18,624,032 or 74.01%. This increase was occasioned by the implementation of the new salary structure as advised by the Salaries and Remuneration Commission vide letter Ref No.SRC/TS/CBT/3/3 Vol. IV (6).					
	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	13,220,860				
	Add: Additional Non-current Assets for the Period	16,080,860				
	Surplus as per Statement of financial Position ended 30th June,2016	**29,301,720**				
	*SCBA; Statement of comparison of budget on actual basis.					

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation

The Board's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Board and all values are rounded to the nearest thousand (Ksh000). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

2. 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 Board and can be measured reliably.

b) Budget information – IPSAS 24

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

c) 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 Board 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.

d) Leases

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

e) 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%

f) 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.

g) Provisions

Provisions are recognized when the Board 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 Board 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.

Contingent liabilities

The Board 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.

Contingent assets

The Board 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 Board 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.

h) Nature and purpose of reserves

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.

i) Changes in accounting policies and estimates – IPSAS 3

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

j) Employee benefits – IPSAS 25

Retirement benefit plans

The Board provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an Board pays fixed contributions into a separate Board (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.

k) Foreign currency transactions – IPSAS 4

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.

l) 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 Impre sts and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

m) Financial instruments

Financial assets and financial liabilities are recognized in the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument.

Financial Assets

Receivables

Trade receivables are carried at anticipated realised value. An estimate is made for bad and doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps taken to recover them have failed.

Impairment of financial assets

When a receivable is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the receivable is written off against the related provision for receivable impairment. Such receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are included in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

Financial liabilities

Trade payables

Trade payables are current and are stated at their nominal value.

n) Comparative figures

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

o) Significant judgments and sources of estimation uncertainty – IPSAS 1

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Board 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 Board. Such changes are reflected in the assumptions when they occur IPSAS 1.140

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 Board

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

p) Subsequent events – IPSAS 14

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, 2016

q)Related parties

The Board 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 Board, or vice versa. Members of key management are regarded as related parties and comprise the Board of Directors, the chief executive officer and the senior managers.

The following transactions were carried out with related parties;

	2015/2016	2014/2015
	Kshs.	Kshs.
(i) Key management compensation		
Salaries and other short term employment benefits	41,809,735	23,209,958
(ii) Board remuneration		
Allowances paid to board members	17,537,124	12,872,237
(iii) Grants from related parties		
Grant from GOK	180,969,600	78,967,767

r) Financial Risk Management Objectives and Policies

An entity's activity exposes it to a variety of financial risks, including credit risk, liquidity risk and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

The authority regularly reviews its risk management policies and systems to reflect changes in markets and emerging best practices. Risk management is carried out by the management under the supervision of the Board of Directors.

The Board provides policies for overall risk management, as well as policies covering specific areas such as liquidity risk, interest rate risk, credit risk, use of non-derivative financial instruments and investing excess liquidity.

s) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the company.

Credit risk arises from bank balances, trade receivables and amounts due from related parties. The company's 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 ratings in accordance with limits set by the Board. The utilization of credit limits is regularly monitored.

Classification of credit risk bearing assets

The table below represents company's maximum exposure to credit risk as at 30 June 2016and 2015.

		At 30 June 2016		
	Fully performing	**Past due**	**Impaired**	**Total**
Bank balances	54,329,125	-	-	54,329,125
		At 30 June 2015		
Bank balances	**6,138,638**	-	-	6,138,638

Bank balance includes cash in hand and deposits held with banks. Bank balances are not restricted to any use by the client. The entity does not have trade receivables.

t) Liquidity risk management

Liquidity risk is the risk that the entity will not be able to meet its financial obligations when they fall due. The authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging the authority's reputation.

The entity ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. All liquidity policies and procedures are subject to review and approval by the board of directors. All capital investments are funded by accumulated fund or grants from treasury.

The table below provides a contractual maturity analysis of the Board's financial liabilities:

	1-6	**6-12**	**1 – 5**	
	months	**months**	**years**	**Total**
	Kshs	**Kshs**	**Kshs**	**Kshs**
At 30 June,2016				
Financial liabilities				
Trade payables	6,491,899	-	-	6,491,899
At 30 June,2015				
Financial liabilities				
Trade payables	3,139,365	-	-	3,139,365

3. Revenues and Grants

3.(a)GOK Grants

	2015/2016	2014/2015
	Kshs.	Kshs.
GOK grants Recurrent	88,269,600	78,967,767
GOK grants Development	92,700,000	-
Total government grants and subsidies	**180,969,600**	**78,967,767**

The Board receives GOK grants from the National Treasury through the Ministry of Sports, Culture and the Arts. Recurrent GOK grants are used to cater for daily operation and maintenance while the Development GOK grants are used to acquire non-current assets. Hence the Recurrent grants are dealt with in the statement of performance whereas the Development grants are dealt with in the statement of financial position. Where the development expenditure is not related to acquisition of non-current assets, the expenses is dealt with in the statement of performance.

3.(b)Licensing and classification fees

	2015/2016	2014/2015
	Kshs.	Kshs.
Licensing	15,320,500	13,562,500
Classification stickers/Labels	4,707,020	4,483,400
Classification Fees	2,602,879	2,165,529
Sale of Tenders	25,000	51,900
Filming Fees & Extension	1,194,000	-
Film Agent Fees & registration	836,000	-
Licensing-Features, short films & doc	361,000	-
Total	**25,046,399**	**20,263,329**

The Board receives licensing fees from cinema theatres, video shows/vendors, video libraries; sale of classification stickers and classification fees as per the Films and Stage plays Act Cap 222, Second schedule. The Board received new functions from the Department of Film Services hence the new income from Filming fees and registration, film agency fees, and licensing of features, short films and documentaries.

3 (c) Other revenue

	2015/2016 Kshs.	2014/2015 Kshs.
Sale of Boarded Items	**33,521**	**49610**
Miscellaneous	45,101	-
	78,622	**49,610**
Total Revenue(3a+3b+3c)	**206,094,621**	**99,280,706**

4 (a) Employee costs

	2015/2016 Kshs.	2014/2015 Kshs.
Basic salaries	15,497,361	5,293,141
House Allowance	10,508,424	1,693,547
Medical allowance	-	-
Entertainment Allowance	-	-
Domestic Allowance	-	-
Commuter Allowance	2,315,352	876,143
Extraneous Duty Allowance	3,845,000	9,243,046
Leave Allowance	82,000	54,000
Staff Medical Allowance	2,233,249	1,751,862
Acting Allowance	-	-
Special Duty Allowance	-	380,221
Employer contribution-Pension	879,216	
NSSF Employer Contribution	46,000	33,600
Staff Personal Accident Insurance	170,082	30,000
Transfer Allowance		382,823
Responsibility Allowance	306,500	324,000
Non-Practising Allowance	180,000	180,000
Casual Employees cost	183,686	-
Employee costs	**36,246,870**	**20,242,383**

4 (b) Employee costs-CEO

	2015/2016 Kshs.	2014/2015 Kshs.
Basic salaries	3,284,720	563,508
House Allowance	880,000	560,000
Entertainment Allowance	660,000	790,833
Domestic Allowance	62,400	189,800
Leave Allowance	60,000	126,717
Extraneous Duty Allowance	640,000	736,717
Total CEO's Remuneration	**5,587,120**	**2,967,575**
Total Employee Costs	**41,833,990**	**23,209,958**

Employee cost during the financial year 2015-2016 increased by 74% compared to the FY 2014-2015 .this is because the Board implemented the new salary structure as advised by the Salaries and Remuneration Commission vide letter Ref No.SRC/TS/CBT/3/3 Vol. IV (6)

5.Board Expenses

	2015/2016 Kshs.	2014/2015 Kshs.
Board Members Allowance	14,292,223	8,674,350
Film Examiners Allowances	1,288,500	1,372,500
Conferences,Committes and Seminars	-	84,000
Board Members Insurance	521,401	780,486
Honoraria to chairman	985,000	1,849,540
Board Trainings	480,000	111,360
Total Board Expenses	**17,567,124**	**12,872,236**

6.Depreciation and amortization expense

	2015/2016 Kshs.	2014/2015 Kshs.
Property, plant and equipment	23,359,032	20,103,022
Intangible assets	6,162,714	6,162,714
Total depreciation and amortization	**29,521,746**	**26,265,736**

7.Repairs and maintenance

	2015/2016 Kshs.	2014/2015 Kshs.
Property & Equipment	-	6,515,880
Motor Vehicles	1,223,713	1,371,311
Minor Alterations to Building	263,700	-
Computer Softwares and Networks	-	3,777,860
Insurance of Vehicle & plant Equipment	909,720	1,164,636
ICT Infrastructure & development	5,553,040	1,490,000
Total repairs and maintenance	**7,950,173**	**14,319,687**

8.Transfers to Ministry

	2015/2016 Shs	2014/2015 Shs
Transfer to MOSCA	5,000,000	8,000,000
Total to MOSCA	**5,000,000**	**8,000,000**

9. General expenses

The following are included in administrative/general expenses:	2015/2016 Kshs.	2014/2015 Kshs.
Utilities Supplies & Services	942,317	502,850
Com Supplies & Services	3,354,211	4,783,322
Local Travelling Accommodation	12,424,891	9,743,285
Foreign Travel	379,306	2,928,153
Newspaper and Periodical Subscriptions	128,730	395,420
Printing Expenses	3,799,649	3,383,578
Advertising	50,000	4,319,839
Trade Shows and Exhibition	-	4,039,928
Cleaning Services	496,866	921,592
Rents and Rates	11,426,012	9,050,756
Training & Sensitization Prog.Costs	15,368,519	8,839,278
Bank Charges	197,233	126,502
County Offices Expense	5,983,700	4,786,150
Hospitality supplies and services	5,244,222	4,105,073
Office & Gen Supplies	5,024,081	8,228,745
Fuel Oil & Lubricants	1,630,945	1,917,950
Other Provisions	-	15,000
Other Operating Expenses	8,239,506	4,934,951
Total General expenses	**74,690,188**	**73,022,372**

10.Cash and Cash Equivalents

	2015/2016 Kshs.	2014/2015 Kshs.
Bank	50,690,694	6,033,887
Cash-on-hand and intransit	3,638,431	97,751
Total cash and cash equivalents	**54,329,125**	**6,131,638**

11.Receivable from Exchange Transactions

	2015/2016 Kshs.	2014/2015 Kshs.
Salary advances	329,024	211,920
Staff Imprests	2,219,776	901,776
Total Receivable from Exchange Transactions	**2,548,800**	**1,113,696**

12.Inventories

	2015/2016 Kshs.	2014/2015 Kshs.
Classification Stickers	36,788,567	40,271,762
Total Inventories	**36,788,567**	**40,271,762**

13.Property,plantandequipment

Cost	Motor Vehicle Kshs	Plant and Equipment Kshs	Data Processing Equipment Kshs	Furniture, Fixtures & Fittings Kshs	Total Kshs
At 1 July 2014	**20,766,800**	**52,922,378**	**31,133,588**	**38,605,274**	**143,428,040**
Additions	-	490,300	3,071,000	6,988,846	10,550,146
At 30 June 2015	**20,766,800**	**53,412,678**	**34,204,588**	**45,594,120**	**153,978,186**
Additions	8,850,000	1,993,665	798,032	4,439,163	**16,080,860**
At 30 June 2016	**29,616,800**	**55,406,343**	**35,002,620**	**50,033,283**	**170,059,046**
Depreciation and impairment					
At 1 July 2014	(7,462,700)	(22,026,308)	(27,367,188)	(10,138,292)	**(66,994,488)**
Depreciation	(5,191,700)	(6,676,585)	(2,535,471)	(5,699,266)	**(20,103,022)**
At 30 June 2015	**(12,654,400)**	**(28,702,893)**	**(29,902,659)**	**(15,837,558)**	**(87,097,510)**
Depreciation	(7,404,200)	(6,925,792)	(2,774,880)	(6,254,160)	**(23,359,032)**
At 30 June 2016	**(20,058,600)**	**(35,628,685)**	**(32,677,539)**	**(22,091,718)**	**(110,456,542)**
Net book values					
At 30 June 2016	**9,558,200**	**19,777,658**	**2,325,081**	**27,941,565**	**59,602,504**
At 30 June 2015	**8,112,400**	**24,709,785**	**4,301,929**	**29,756,562**	**66,880,676**

As at 30 June, 2016 property plant and equipment- data processing equipment had a cost of Kshs.35, 002,620 out of which Kshs. 25,753,018 were fully depreciated. The notional depreciation charge on these assets is Kshs. 2,774,881.

14.Intangible assets-software

Cost	Kshs.
At 1 July 2014	**26,987,923**
Additions	3,825,646
At 30 June 2015	**30,813,569**
Additions–internal development	-
At 30 June 2016	**30,813,569**
Amortization and impairment	
At 1 July 2014	**(12,363,470)**
Amortization	(6,162,714)
At 30 June 2015	**(18,526,184)**
Amortization	(6,162,714)
Impairment loss	-
At 30 June 2016	**(24,688,898)**
Net book values	
At 30 June 2016	**6,124,671**
At 30 June 2015	**12,287,385**

15.Trade and other payables from exchange transactions

	2015/2016	2014/2015
	Kshs.	Kshs.
Trade payables	5,773,646	2,896,616
Provision of Audit Fees & other provisions	403,680	174,000
Employee obligations	368,828	68,748
Total trade and other payables	**6,546,154**	**3,139,365**

PROGRESS ON FOLLOW UP OF AUDITOR 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 Mohamed Said Karama is in the initial stages of drafting

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

Loice Shalakha

Legal Officer

Status :*(Resolved / Not Resolved)*

Not 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.

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

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 expenditure could not be confirmed.

b) Management comments

There were 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 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 2015

a) **Issue / Observations from Auditor**

Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transactions balance of Kshs. 1,113,696.00 as at 30 June 2015. The figure represents salary advances and outstanding staff imprests balances of Kshs. 211,920.00 and Kshs. 901,776.00 respectively. Included in the outstanding imprests balance of Kshs. 901,776.00 was Kshs. 45,520 held by a former director. In view of the foregoing, it has not been possible to confirm the recoverability of the outstanding imprest held by the former director as at 30 June 2015.

b) **Management comments**

The Statement of financial position reflects a decrease of about 100% as compared with the previous financial year in receivables from exchange transactions. This decrease is attributed to the surrender of Imprests and recovery of salary advances to members of staff.

The draft report of the Auditor General on the Financial Statements for the Year ended 30 June, 2015 also shows that the receivables from exchange transactions include an amount of Kshs. 901,776.00 in respect of staff Imprests. The report further states that an amount of Kshs. 45,520.70 included in the staff Imprests is brought forward from the previous period 2013/2014. This amount is outstanding travel imprest (transport) issued to a Director who exited the Board in the last financial year and is yet to be reached to provide receipts for the travel.

The report also states that an amount of Kshs 482,500.00 categorized as staff advances to eight (8) members of staff has been irregularly included in the Kshs. 901,776.00 outstanding Imprests. This is not true. This is because the Board has classified the imprest system into five categories as follows;

a. Staff imprest(represented as "Staff Imp")-Travel imprest
b. Other imprest which is a temporary imprest(represented as "OSimp")
c. Staff Advance (represented as "staff adv.")-which represents standing imprest ;
d. Board of directors travel imprest (represented as "BD_IMP"); and
e. Salary advance (represented as "Sal Adv.") which represents the salary advance issued to members of staff.

Therefore the amount of Kshs.482,500 is correctly reported as debtors for the Board due to the classification system adopted by the Board. It should be noted that the abbreviation STAFF ADV means staff advance and is a standing Imprest.

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

Ezekiel Mutua, MBS

Chief Executive Officer

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

Resolved

Chief Executive Officer

Date....7-3-2017....

Chairman of the Board

Date....7.3.2017....