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**THE AUDITOR-GENERAL**

**ON**

**KENYA FILM CLASSIFICATION BOARD**

**FOR THE YEAR ENDED  
30 JUNE, 2019**

12



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OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
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**KENYA FILM CLASSIFICATION BOARD**  
**A REGULATORY AND NON-COMMERCIAL ENTITY**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDING**  
**JUNE 30, 2019**

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

**Annual Kenya Regulatory & Non - Commercial (KENYA FILM CLASSIFICATION BOARD)  
Reports and Financial Statements  
For the year ended June 30, 2019**

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**I. KEY ENTITY INFORMATION AND MANAGEMENT**

**(a) Background information**

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

**(b) Principal Activities**

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

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

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

**Vision**

World Class Film and Broadcast Content Regulator.

**Mission**

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

**Core values**

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

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

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

**(c) Key Management**

<b>No.</b>	<b>Name</b>	<b>Designation</b>	<b>Date of Appointment</b>
1.	Bsp. Jackson Kosgei	Chairman	19th July 2018 (2nd term)
2.	Dr Ezekiel Mutua, MBS	Chief Executive Officer	26 <sup>th</sup> October, 2018
3.	Dr Kamau Thugge	Principal Secretary, National Treasury	7th June 2013
4.	Jerome Ochieng, CBS	Principal Secretary, State Department for Information Communication and Technology	18 <sup>th</sup> December, 2018
5.	Kennedy Ogola	Alt. Principal Secretary, State Department for Information Communication and Technology	18 <sup>th</sup> December, 2018
6.	Abraham Koech	Alt. Principal Secretary, National Treasury	7th June 2013 to 10 <sup>th</sup> January 2019
7.	June Gachui	Independent Director	20th September, 2018 (1st term)
8.	Joyce Wamucii	Independent Director	20th September, 2018 (1st term)
9.	Norman Magaya	Independent Director	20th September, 2018 (1st term)
10.	Nereah Alouch Okanga	Independent Director	21st October 2019 (2nd term)
11.	Rev. Canon David Lebarleiya	Independent Director	20th September, 2018 (1st term)
12.	Gathoni Kung'u	Independent Director	21st October 2019 (2nd term)
13.	Nehemiah Maina	Independent Director	20th September, 2018 (1st term)

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**(d) Fiduciary Management**

The Key Management personnel who held office during the Financial Year ended 30<sup>th</sup> June 2019 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Chief Executive Officer	Dr Ezekiel Mutua, MBS
2.	Head of Film Monitoring & Enforcement	Wilson Koskei
3.	Manager Finance and Accounts	CPA Paskal Martin Opiyo
4.	Manager Corporate Communication	Nelly Muluka
5.	Manager Human Resource & Administration	Solomon Weche
6.	Assistant Manager Audit	Francis Nguthu
7.	Head of Planning	Onesmus Muema
8.	Head of Supply Chain Management	Immaculate Mulaku
9.	Head of Legal services & Corporate Secretary	Loice Shalakh
10.	Head of Broadcast and Monitoring	Emmah Irungu
11.	Head of Film Examination & Classification	Redempta Amondi
12.	Head ICT	Petronillah Mueni

**(e) Fiduciary Oversight Arrangements  
Board's Composition**

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

The Board is currently composed of one (1) Non-executive Chairman, eight (8) Independent Members, the Chief Executive Officer and two (2) representatives of the PS State Department for Information Communication and Technology and the PS National Treasury respectively.

The Board of Directors has established four Committees which have specific terms of reference to guide their operations. The Committees meet quarterly. During the FY 2018/2019, the following is the attendance performance of each member in the Committees;

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

**Report of the Chairperson of Human Resource and Administration Committee**

**Joyce Wamucii Ndumia**

**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 five (5) members of the Board of Directors with the Manager Human Resource & Administration as the Secretary. The Committee is authorized by the Board to secure the attendance of external advisers to its meetings if it considers necessary, and to obtain reliable, up-to-date information about any of its business.

**Attendance**

The Committee held six (6) meetings in the Financial Year as shown below:

No.	Name	Attendance	FROM	TO
1	Joyce Wamucii Ndumia(Chair)	6/6	22-10-18	30-06-19
2	Kennedy Ogola (Rep Principal Secretary MICT)	4/6	21-01-19	30-06-19
3	Dr Ezekiel Mutua, MBS	5/6	22-10-18	30-06-19
4	Canon David Lebarleiya	2/6	24-06-19	30-06-19
5	Norman Magaya	6/6	22-10-18	30-06-19
6	Gathoni Kung'u	3/6	22-10-18	29-01-19
7	Nereah Okanga	4/6	22-10-18	29-01-19

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

**Report of the Chairperson of Finance Committee**

**Norman Magaya**



**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 Eight (8) members of the Board of Directors with the Manager Finance and Accounts as the Secretary. The representative of the National Treasury must be part of the Committee.

**Attendance**

The Committee held five (5) meetings in the Financial Year as shown below:

<b>No.</b>	<b>Name</b>	<b>Attendance</b>	<b>FROM</b>	<b>TO</b>
1	Norman Magaya (Chair)	5/5	01-11-18	30-06-19
2	Dr Ezekiel Mutua, MBS	4/5	01-11-18	30-06-19
3	Kennedy Ogola (Rep Principal Secretary MICT)	4/5	01-11-18	30-06-19
4	Abraham Koech	4/5	01-11-18	22-01-19
5	June Gachui	5/5	01-11-18	30-06-19
6	Canon David Lebarleiya	1/5	08-04-19	30-06-19
7	Nehemiah Maina	5/5	01-11-18	30-06-19
8	Gathoni Kung'u	3/5	09-01-19	30-06-19
9	Nereah Okanga	3/5	09-01-19	30-06-19

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

**Report of the Chairperson of Technical Development Committee  
Ms.Gathoni Kung'u**



**Mandate**

The Committee is responsible for reviewing customer service standards, reports and implementation of policies affecting the public, Entity 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 Eight (8) members of the Board of Directors with the Head of the Technical Department as the Secretary. The membership is drawn from members of the Board with expertise in the technical functions.

**Attendance**

The Committee held two (4) meetings in the Financial Year as shown below:

No.	Name	Attendance	FROM	TO
1	Gathoni Kung'u (Chair)			
2	Norman Magaya	4/4	08-01-19	30-06-19
3	Dr Ezekiel Mutua, MBS	3/4	15-01-19	30-06-19
4	Kennedy Ogola (Rep Principal Secretary MICT)	3/4	08-01-19	16-01-19
5	June Gachui	3/4	08-01-19	16-01-19
6	Canon David Lebarleiya	1/4	03-04-19	30-06-19
7	Nehemiah Maina	4/4	08-01-19	30-06-19
8	Gathoni Kung'u	4/4	08-01-19	30-06-19
9	Nereah Okanga	2/4	15-01-19	16-01-19

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

**Report of the Chairperson of the Audit & Risk Management Committee**

**Ms.Nereah Okanga**



**Ms.Nereah Okanga**

**Mandate**

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

**Membership**

The Committee comprises of five (5) members of the Board of Directors with the Manager Internal Audit function as the Secretary. 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 four (4) meetings in the Financial Year as shown below:

<b>No.</b>	<b>Name</b>	<b>Attendance</b>	<b>FROM</b>	<b>TO</b>
1	Nereah Okanga-Chair	4/4	20-11-18	30-06-19
2	June Gachui	4/4	20-11-18	30-06-19
3	Abraham Koech	¾	20-11-18	10-01-19
4	Nehemiah Maina	4/4	20-11-18	30-06-19
5	Joyce Wamucii Ndumia	¾	04-12-18	30-06-19

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

**(f) Entity Headquarters**

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

**(g) Entity Contacts**

Telephone :( 254) 711-222-204, 773-753-355,  
020-2250600

E-mail: [info@kfcg.co.ke](mailto:info@kfcg.co.ke)

Website: [www.kfcg.co.ke](http://www.kfcg.co.ke)

**(h) Entity Bankers**

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

**(i) Independent Auditors**

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

**(j) Principal Legal Adviser**

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

**II. THE BOARD OF DIRECTORS**



**Bsh. Jackson Kosgei**  
Chairman



**Ezekiel Mutua, MBS**  
CEO



**Norman Magaya**



**Ms. Nereah Aluoch Okanga**



**Ms. Gathoni Kung'u**



**Nehemiah Maina**



**Ms. June Gachui**



**Ms. Joyce Wamucii Ndumia**



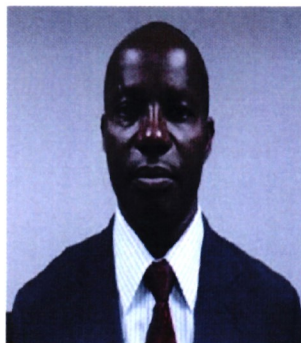
**Kennedy Ogola**

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Rev. Canon David Lebarleiya



CPA Peter Nyamete Mogire



**Bishop Jackson Kipkemoi Kosgei**

Bsp. Jackson Kosgei Chairman of KFCB Board of Directors was born in 1956. He is also the chairman of Community Development Society and a member of the Consumers Protection Advisory Committee in the Ministry of Trade. He has worked in the administration of institutional executive positions for over twenty years and in other levels for fifteen years. Bishop Kosgei has served in the Worldwide Gospel Church, Commissions and State Corporations among other responsibilities. Bishop Kosgei, who is accomplished in the work of the Gospel, is married with three grown-up children.



**Dr Ezekiel Mutua, MBS**

Dr. Ezekiel Mutua is the Chief Executive Officer of the Kenya Film Classification Board (KFCB). He was born on 6<sup>th</sup> June, 1967. Before his appointment to this position in 2015, he was the Secretary of Information at the Ministry of ICT, a post he held since 2011; was the Director of Information and Public Communications in the same ministry (2007-2011); served as the Secretary General of the Kenya Union of Journalists (2001-2007). Dr. Mutua's career in media was nurtured at the Nation Media Group where he worked as a journalist between 1994 and 2002, rising through the ranks from a Trainee Reporter to a Reporter and later an Editor. He holds a PhD in Communication Studies from Moi University, an Honorary Doctorate in Public Administration (Commonwealth University), a Masters in Communication Studies from the University of Nairobi and a BA in Sociology and Linguistics from Kenyatta University. Dr. Mutua has served as a Director in several State Corporations, including the Brand Kenya Board, Kenya Broadcasting Corporation, Media Council of Kenya and the Vision 2030 Secretariat. Dr. Mutua is married with two children.



**Gathoni Kung'u**

Born on 16<sup>th</sup> March, 1985, Ms. Gathoni Kung'u is the Managing Director of Gee Pictures Company Limited and is a Media Consultant. She holds a Bachelor of Arts degree in Communications with a Minor in Psychology and a Higher Diploma in Addiction Counselling. She is pursuing a Master's degree in Communication. As a multi-media professional with over ten years' experience in media relations and media production, Ms. Kungu is an accomplished TV and Film Producer/Director. She has been instrumental in producing and directing various ground-breaking Kenyan TV shows themed along a wide array of contemporary socio-economic issues. Most of her works have aired on mainstream TV stations and include the Patricia Show aired on MNET and Uongozi aired on NTV. Ms. Kungu is also effective in developing relationships and stakeholder management, having acted as point of contact and representative, both internally and externally, in initiatives aimed at upholding organizational and corporate image as well as branding and communication.



**Nereah Aluoch Okanga**

Born on 7<sup>th</sup> January 1973, Ms. Nereah Aluoch Okanga is an advocate of the High Court of Kenya currently working as the in-house legal counsel for Barclays Bank of Kenya Limited. She previously offered legal services as a Senior Associate at Anjarwalla & Khanna, Advocates. She obtained an undergraduate degree in International Political Economy in the United States, and did her graduate legal degree from the University of Bristol in the UK. Ms Okanga has a wealth of experience that spans over 15 (fifteen) years in training and practice, locally and internationally. She is well versed in various areas of legal practice including financial and banking law, corporate law, commercial law, land law and conveyancing, civil litigation, mergers and acquisitions, labour law, and the law of succession & employment. Her various professional roles and duties have required her to provide guidance on corporate governance, formulate policy and procedure and develop frameworks for compliance and risk management.



**June Gachui**

Born on 8<sup>th</sup> June, 1978, Ms. June Gachui is the Founder and Principal Consultant at JGIP Consultants as well as an Advocate of the High Court of Kenya specializing in Intellectual Property (IP) and Entertainment Law for over a decade. She is a multi-linguist, singer-songwriter, recording artist, thespian and professional Emcee. As a consultant, she has been involved in offering a wide range of IP and Legal Services, including trainings, client advisory, IP registration and project consulting for both private and public sector clients as well as for creative entrepreneurs across sectors. June has also served as the Kenya Association of Music Producers (KAMP) General Manager, Legal officer at Total Kenya Limited and has vast experience drawn from her time at the World Intellectual Property Organization New York office, Music Copyright Society of Kenya, IKM Advocates, Joan B. Peters TV and Entertainment Law Firm in Australia, just to name a few. MS. Gachui has served as a resource person for Africa's creative industry by running numerous workshops and seminars on matters protection and monetization of the creative arts and lobbying for better legislation and enforcement where infringement of these Intellectual Property Rights occurs. Ms Gachui also currently serves as the Co-Vice Chair of the Sports Culture and Heritage Sector Board at KEPSA.



**Nehemiah Kipkoech Maina**

Born on 1<sup>st</sup> June, 1971, Mr. Nehemiah Kipkoech has been a Director at Manger Networks, Eldoret since 2001. He has previously served as a Pastor in Kapenguria District SDA Church (1999-2001). Mr. Kipkoech holds a Bachelor of Arts degree in Theology from the University of Eastern Africa, Baraton and a Bachelor of Arts in Religion from Hong Kong Adventist College. He has a sound background in counselling, enjoys working in busy and challenging environments and has always sought positions of responsibility and professional affirmation.

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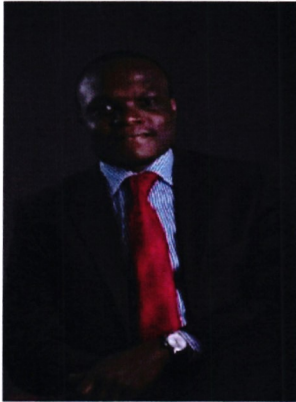
**Joyce Wamucii Ndumia**

Born on 3<sup>rd</sup> July, 1978, Ms. Joyce Wamucii is an Advocate of the High Court of Kenya and a member of the Law Society of Kenya. She has been practicing law in Nairobi since her admission to the bar in 2004. She has been a partner in Kairu & McCourt Advocates since December 2007. She graduated from University of Nairobi with a Bachelor of Laws and holds a Diploma from the Kenya School of Law, is a Certified Public Secretary - CPS (K) and an accredited corporate governance auditor. Ms. Wamucii is also a registered Patent Agent, Commissioner for Oaths and Notary Public. She has practiced for fourteen (14) years as an advocate in Nairobi and has acquired extensive experience in preparation of commercial securities and other commercial instruments and documents, Intellectual Property Law, Conveyancing, Banking Law and Company Secretarial.



**Kennedy Ogola**

Born on 30th August, 1982, Mr. Kennedy Ogola is an Applied Statistician/Economist with a Master's of Science (MSc) Social Statistics from Kenyatta University and an MSc Applied Statistics with IT from Maseno University. He works at the Ministry of ICT, coordinating project conceptualization and implementation, policy formulation and review, data analysis, performance management and development of blue paper. Previously he has worked with Alexander Forbes (Kenya) for three (3) years as a Risk Analyst and Transparency International as Lead Data Analyst. He is the representative of the Principal Secretary in the KFCB Board.



**Norman Magaya**

Born on 8<sup>th</sup> December, 1981, Mr. Norman Magaya is an advocate of the High Court of Kenya and has been practicing law in Nairobi since his admission to the bar and is also a member of the Law Society of Kenya. He has worked with K'opere and Co. Advocates (2011-2013), Nzaku and Co. Advocates (2013-14), Oluoch and Co Advocates (2014-2016) and JAB Orengo and Co. Advocates from 2017 to date. Mr. Magaya is a holder of a Bachelor of Laws from the Uganda Pentecostal University, Master of Laws specializing in Natural Resources Law and International Environmental Law from the Grotius School of Law. He has completed his PhD studies specializing in Oil and Gas law. Mr. Magaya is a fulltime lecturer at Kabarak University, School of Law. Previously, he taught at the Africa Nazarene University, Catholic University of Eastern Africa, Mt. Kenya University, Grotius School of Law in Uganda, Kenya School of Law and Inoorero University. He has published several scholarly journal articles with various reputable University Journals.

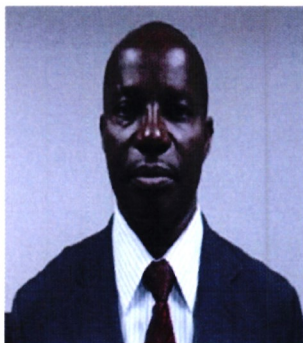


**Rev. Canon David Lebarleyia**

Born on 23<sup>rd</sup> March, 1973, Reverend Canon David Lebarleyia is an Anglican Church Minister having served in the Church Ministry for over 21 years. He holds a Bachelor of Science (BSc) in Community Development from Laikipia University and a Diploma in Theology from St. Pauls University. He is currently pursuing a Masters of Arts in Missiology at the Kenya Methodist University. Rev. Lebarleyia has previously served as Chairman in the Board of Management of Serian FM Community Radio as well as in various Boards of Management of numerous High Schools within Samburu County.

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**CPA Peter Nyamete Mogire**

Born in 1965, CPA Peter Nyamete Mogire is a qualified Accountant and works at National Treasury and Head Accounting Unit- Government Digital Payments (GDP). Pursuing B. Com [Accounting] from Catholic

University of Eastern Africa (CUEA). In addition, he is Certified Public Accountant of Kenya-CPA (K) and a member of the Institute of Certified Public Accountant of Kenya- ICPAK and in good standing. He has wide knowledge in Public Sector Accounting and Finance. He has worked in various Government Ministries including Ministry of Foreign Affairs where he worked at Kenya Embassy Tel Aviv – Israel as a Financial Attaché.

## **II. CHAIRMAN'S STATEMENT**

### **Opening Statement**



I would like to take this opportunity to sincerely thank the Kenya Film Classification Board fraternity for their resilience, perseverance, creativity, stamina and dependability, which has culminated in the successful completion of the 2018/2019 Financial Year. Indeed, because of you, the Board has established a bolstered client confidence as evidenced by the increased number of licensed film distributors, exhibitors, film agents and licensed films. This was catalyzed by the existence of appropriate infrastructure as well as the transfer of the film licensing function to the Board. In addition, there has been increased sensitization on the need to comply with the Films and Stage Plays Act Cap 222, Laws of Kenya and responsible consumption of media content.

### **Operating Environment**

The Board has indeed underscored the need to preserve our national values and foster national cohesion as embedded in Aspiration 5 of the African Union Agenda 2063. This has been fostered through increased low-cost high-impact initiatives and enhanced stakeholder partnerships. Further, through public sensitization initiatives in collaboration with County Governments, inter-faith organizations, institutions of learning, and all other players within the Creative Industry, our visibility has increased and our work appreciated among our stakeholders both locally and internationally.

In support of the Presidential Big 4 Agenda, the Board has aligned its projects to the Manufacturing Pillar by encouraging production and showcasing of local film content. As such, the Board's *Sinema Mashinani* initiative is one such project that seeks to nurture talents in creative arts among the youth. The initiative also aims to create sustainable job opportunities, promote entrepreneurship and importantly support the realization of the economic pillar of the vision 2030.

The Board is also committed to continue strengthening both local and international partnerships so as to create an enabling platform to form synergies that envisage the Sustainable Development Goals (SDGs) No. 8 that endeavors to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all and No.17 that seeks to strengthen the implementation and revitalize the global partnership for sustainable development and in discharge of our mandate.

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

**Tribute**

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



**Bsp Jackson Kosgei**  
**CHAIRMAN**

### **III. REPORT OF THE CHIEF EXECUTIVE OFFICER**



The Financial Year 2018/2019 has come to an end in what has been a momentous period for us here at the Kenya Film Classification Board (KFCB). In line with our mandate, we have successfully implemented various initiatives aimed at ensuring efficiency in regulating the creation, broadcast, distribution, possession and exhibition of film and broadcast content as required by the Films and Stage Plays Act Cap 222 Laws of Kenya

#### **Compliance with the Regulatory Framework.**

To enhance the levels of compliance, we have taken measures that have seen an impressive increase in compliance levels in the film and broadcast sector. The Board licensed 829 film makers, registered 162 film agents and carried out random inspection to 3,371 film premises to check on compliance with film regulations.

In addition, the Board examined and classified 421 films. Most films were rate PG-Parental Guidance Recommended (182) followed by GE-General Exhibition (108), 16-Not suitable for persons under 16 years (95), 18-Restricted to persons aged 18 years and above (36) and no film was R-restricted during the FY 2018-2019. Fourteen (14) companies submitted their commercial advertisement to the Board for examination and classification.

In the broadcast sector, the level of compliance in regard to classification of Broadcast content has increased. The Board successfully empowered students to safely consume media content by rolling out Media Literacy Programme to 600 schools through the Kenya National Drama Festivals country wide. The decision by the Board to take alcoholic advertisement to court has increased compliance of content produced for advertisement. 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.

In addition the Board reviewed the Rule Book used by schools, colleges and universities to include the standards for classification of film and Broadcast content.

In the year 2018/2019, the number of licensed film distributors and exhibitors declined from 6,678 to 6,077, which is a decrease of 9% compared to FY 2017-2018. 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

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**Giving Consumer Advice and Public Sensitization**

As we discharge our mandate, we remain alive to the fact that film and media content are powerful influencers of behavior and societal values. They are also channels of infiltration of foreign cultures and ideologies at the expense of our national norms and predominant cultural values. In order to create awareness and deepen the understanding of our mandate by the public, the Board rolled out rigorous public sensitization programs across the country. The Board carried out One hundred and eleven (111) sensitizations throughout the country during the FY2018/2019. We fortified these programs with regular media appearances to articulate our mandate, providing important platforms to inform the general public. The cross-sector stakeholder's forum held earlier in the year has created a better understanding that the Board's mandate also includes regulation of broadcast content.

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

**Revenue Growth**

In the year under review the Board witnessed slight turbulence in growth of revenues. These decline is attributed to long electioneering period that affected the performance of the general economy and our business environment. The internally generated income increased by 9.2 million, representing a percentage increase of thirty-two (32) percent compared to the previous FY 2017/2018. In total the income of the Board grew by 32 percent. Revenue from licensing declined from Ksh. 14.9 million to Kshs. 14.7 million while revenue from classification labels declined from Kshs. 4.37 million to Kshs. 4.22 million. Revenue from classification fees increased from Kshs.2.60 million to Kshs.2.79 million. However, revenue from Filming fees increased from Kshs.2.94 million to Kshs.5.03 million while revenue from Film agent fees grew from Kshs.1.58million to 1.96 million. In addition, revenue from Licensing of feature films, documentaries and series increased from Kshs.2.3 million to Kshs.4.22 million. The year also saw GoK grants increase from 406.75 million to 470.30 million. We would like to thank the National Treasury through our parent Ministry of Sports and Heritage for ensuring that we have the resources required to carry out our regulatory functions.

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**Future Outlook**

Going forward, KFCB remains committed to transforming the film industry in Kenya. As a regulator, our aim is to elevate the industry to global standards. We firmly believe that proper regulation will make a huge contribution to the attainment of the expectations of the Vision 2030 Social Pillar, which envisions that Kenyan shall formulate and adopt a core set of national values. The Board seeks to facilitate investment in the film industry, through the Sinema Mashinani Project with an objective to transform the sector. In specific, the board will continue to implement No. of the project; the Nairobi Film Centre (formerly Nairobi Cinema)

**Strategic Approach**

KFCB is adopting a combination of operational performance and organizational strategies to respond to the changing regulatory environment for the film and broadcast content. We have identified three key areas of focus in the next financial year. These include; building strategic partnerships that will enhance and offer value addition to our customers, improve on how technological advancements and media converges, review our standards on services delivery and improve on our current infrastructure.

**Appreciation**

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

Thank you.



**DR. EZEKIEL MUTUA, MBS  
CHIEF EXECUTIVE OFFICER**

#### **IV. CORPORATE GOVERNANCE STATEMENT**

Entity governance is the system of rules, practices and processes by which KFCB is directed and controlled. Entity 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 Entity disclosure.

Entity 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. Entity 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 Entity 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 Entity governance. The Board of Directors is committed to continued adherence to the highest standards of good Entity 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)."

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**Board's Composition and Appointment**

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

The Board is currently composed of one (1) Non-executive Chairman, eight (8) independent members, the Chief Executive Officer, one (1) representative for the PS National Treasury (retired on January 2019) and one (1) representative for the PS State Department of Arts and Culture.

**Board's Diversity**

The Board has following diverse set of skills;

<b>Field of Expertise</b>	<b>Number</b>
Film Production	1
Theology	3
Economics & Finance	2
Law	4

**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.

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The Board held 6 meetings which were attended as follows:

No.	Name	Attendance
1.	Jackson Kosgei	5/6
2.	Gathoni Kung'u(Chair)	6/6
3.	Dr Ezekiel Mutua, MBS	6/6
4.	Canon David Lebarleiya	4/6
5.	Joyce Wamucii Ndumia	6/6
6.	June Gachui	5/6
7.	Kennedy Ogola	4/6
8.	Nehemiah Maina	6/6
9.	Norman Magaya	6/6
10.	Nereah Okanga	6/6

**Directors' Remuneration**

The Directors' remuneration is in line with the guidelines provided in the State Corporations Act and the guidelines provided by the State Corporations Advisory Committee. The Chairman is paid a monthly honorarium of Kshs. 95,000, airtime of Kshs. 5,000 and a taxable sitting allowance for each meeting attended. The Directors are paid a taxable sitting allowances of Kshs. 20,000 for each meeting attended. The sitting allowance for the current Financial Year is prescribed in the Circular Ref no. OP/CAB.9/21/2A/LII/43 dated 23<sup>rd</sup> November 2004. Other allowances such as accommodation and travelling are prescribed by Circular Ref No. OP/SCAC.9/21.2 VOL.I (164) dated 28<sup>th</sup> April, 2015. The Chief Executive Officer does not qualify to receive the sitting allowance for any meeting he/she attends.

The amounts paid to the directors is as shown below:

Description	2018/2019	2017/2018
	Kshs.	Kshs.
Board Members Allowance	31,380,769	18,426,565
Film Examiners Allowances	3,154,100	2,141,500
Conferences, Committees and Seminars	33,000	-
Board Members Insurance	751,752	195,357
Honoraria to Chairman	1,190,000	1,020,000
Board Trainings	600,000	3,311,350
<b>Total Board Expenses</b>	<b>37,109,621</b>	<b>25,094,772</b>

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

**Declaration of Interest and Conflict of Interest**

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

**Board Charter**

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

**Succession Planning**

The review of the career guidelines & organization structure in the previous FY 2017-2018 was aligned with the strategic direction of the Board. The Board has transitioned into the new Organization Structure which will be implemented as from 1<sup>st</sup> July, 2019.

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**Board Training and Induction**

The Board conducted two trainings for directors on Finance for non-finance Directors and Mwongozo Board of Directors Induction conducted by the Institute of Public Accountants of Kenya (ICPAK)

	<b>TRAINING PROGRAM</b>	<b>SUMMARY OF TRAINING</b>
1.	Mwongozo Board of Directors Induction organized by the Institute of Certified Public Secretaries of Kenya and State Corporations Advisory Committee	<ol style="list-style-type: none"> <li>1. Board dynamics</li> <li>2. Ethical Leadership and integrity in the Public Service</li> <li>3. Legal, Policy and Institutional framework for Governance</li> <li>4. Statutory and Legal Compliance and the role of the Board.</li> <li>5. Public Procurement</li> <li>6. Accountability Measures</li> </ol>
2.	Training organized by Institute of Certified Public Accountants of Kenya (ICPAK)	<ol style="list-style-type: none"> <li>1. Strengthening the impact of the Board</li> <li>2. Governance and Resourcing</li> <li>3. Financial Innovations and immerging technological trends</li> <li>4. Improving Audit Committee Effectiveness</li> <li>5. Strategic Leadership in state corporations: Creating Public Value</li> <li>6. Top Global leadership and governance challenges facing corporations</li> <li>7. Cyber security Awareness</li> <li>8. Business Continuity Management (BCM) Awareness</li> </ol>

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**The Board of Directors**

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

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

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

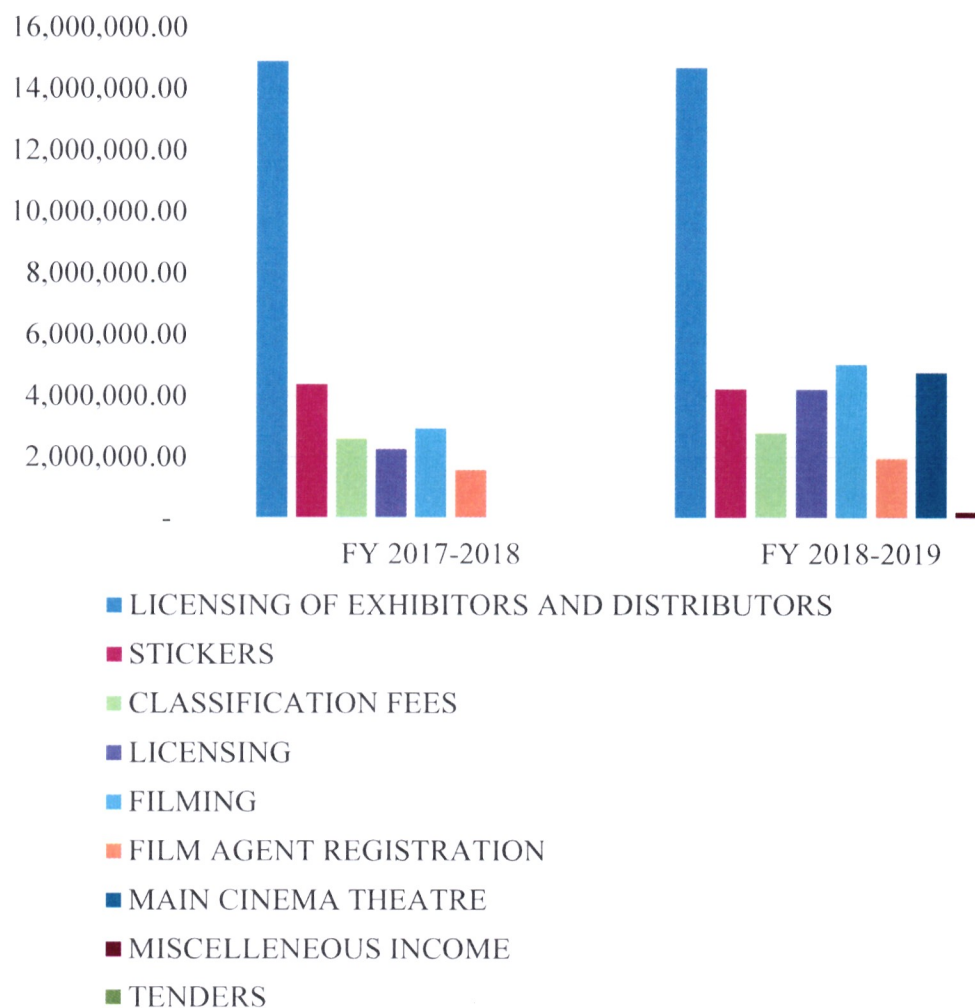
- i)** Providing the vision, mission, and strategic direction and upholding the core values;
- ii)** Putting in place management structures (organization, systems and human capital) to achieve these goals;
- iii)** Ensuring targets are set and monitoring performance;
- iv)** Guiding the implementation of strategic decisions and actions and advising management as appropriate;
- v)** Reviewing and approving annual budgets;
- vi)** Ensuring management of risk, overseeing the implementation of adequate internal control systems, compliance with relevant laws and regulations, and compliance with accounting and auditing standards.
- vii)** Ensuring the preparation of annual financial statements and reports.

**V. MANAGEMENT DISCUSSION AND ANALYSIS  
Financial Results and Review of Operations**

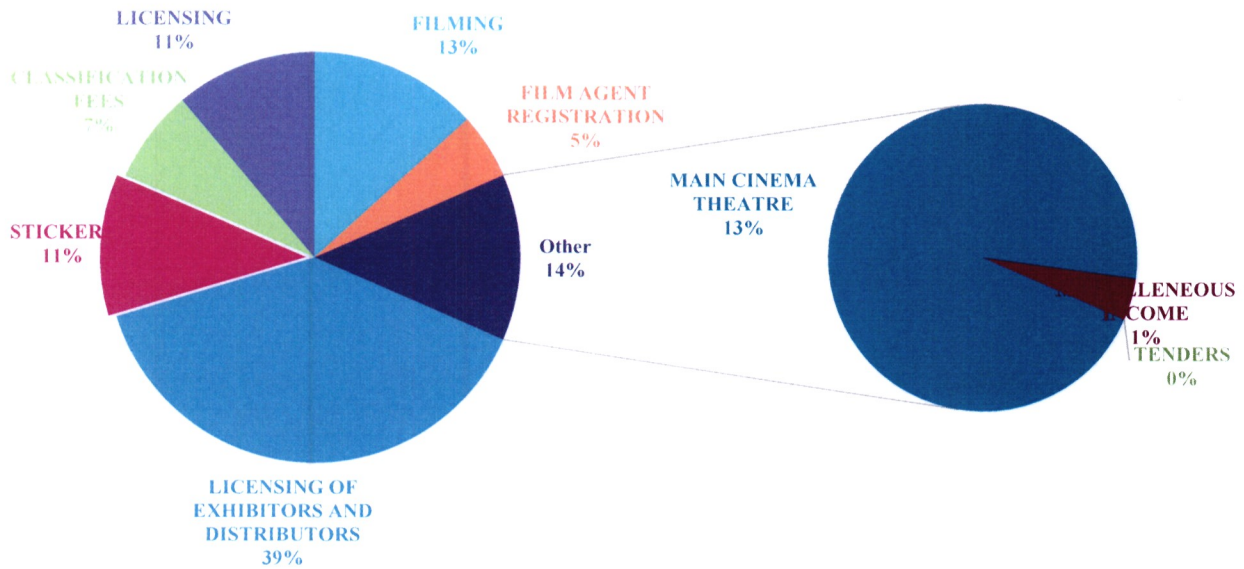
During the FY 2018-2019 the Board continued to scale its height in specific areas. The Board's Internally Generated Revenue rose by Ksh. 9.20 million representing a percentage increase of thirty-two (32) compared to the previous FY 2017-2018. In total the income of the Board grew by 48 percent. Revenue from licensing of exhibitors and distributors declined from Ksh. 14.9 million to Kshs. 14.7 million while revenue from classification labels declined from Kshs. 4.37 million to Kshs. 4.22 million. In addition, revenue from classification fees increased from Kshs.2.6 to Kshs.2.79 million. Further, revenue from Filming fees increased from Kshs.2.94to Kshs.5.03 million while revenue from Film agent fees grew from Kshs.1.58 to 1.96 million. In addition, revenue from Licensing of feature films, documentaries and series increased from Kshs.2.26 to Kshs. 4.22 million. The Board also established a new stream of income emanating from the Nairobi Film Centre (Formerly Nairobi Cinema) by raising Kshs.4.77 million from the services offered at the Centre. The year also saw GoK grants increase from 406.75 million to 470.30 million, this is as a result of the Board receiving additional mandate of regulating films, the new programmes launched by the Board to undertake consumer awareness through public sensitization programmes under the banner "Media Literacy Programme "and additional development grants for the Leasing of a cinema theatre now known as the Nairobi Film Centre. The bar graph below shows the performance of revenue;

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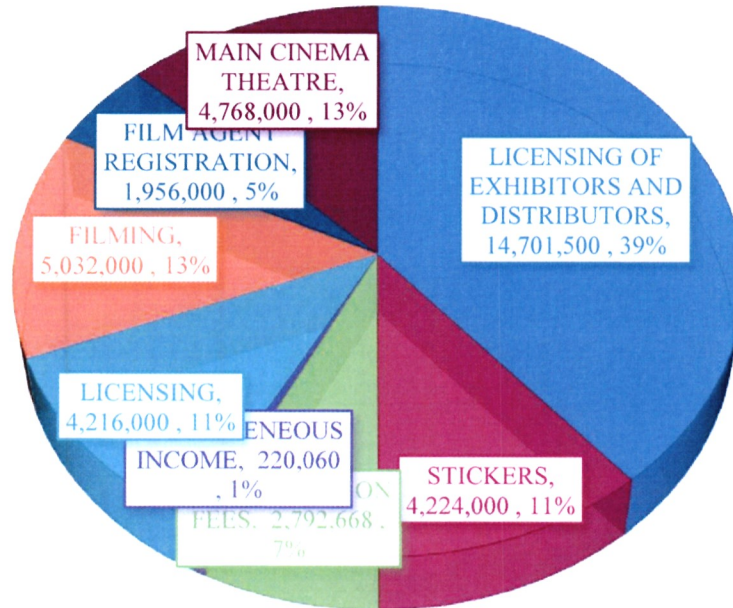
**PERFORMANCE OF INTERNALLY GENERATED INCOME FOR FY 2018-2019 IN  
COMPARISON TO FY 2017-2018**



**PERFORMANCE OF INTERNALLY GENERATED INCOME PER  
 CLASS OF INCOME IN PERCENTAGE FY 2018-2019**



**PERFORMANCE OF INTERNALLY GENERATED INCOME**



The Board continued to implement its Strategic Plan and more focus shifted to realm of advocacy where the Board remained active in conducting public awareness regarding how film and broadcast content can impact negatively on children especially if infiltrated by harmful content. This is in line with section 15(1) (a) of the Films and Stage Plays Act, Cap 222 which requires the Board to give consumer advice on consumption of film and broadcast content. As the Board discharges its mandate, it remains alive to the fact that film and media content are powerful influencers of behavior and societal values. They are also channels of infiltration of foreign cultures and ideologies at the expense of our national norms and predominant cultural values. In order to create awareness and deepen the understanding of the Board’s mandate by the public, the Board rolled out rigorous public sensitization programs across the country. One hundred and eleven (111) sensitizations were carried out throughout the country during the First, Second, Third and Fourth Quarters of the FY 2018-2019. The Board fortified these programs with regular media appearances to articulate its mandate, providing important platforms to inform the general public.

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**Compliance with the Regulatory Framework.**

To enhance the levels of compliance, the Board took measures that have seen an impressive increase in compliance levels in the film and broadcast sector as provided for through the Film and Stage Plays Act, Cap 222. During the year the number of licensed film distributors and exhibitors was 6,077 against a target of 7,000 exhibitors and distributors targeted during the period 2018/2019 Financial Year. The number of filming licenses issued to film makers was 829 against a target of 600. The number of random inspections done to film premises during the year was 3,371 against a target of 3,000. Furthermore, the Board licensed 162 film agents against a target of 150 during the FY 2017/2018.

In terms of the number of film and broadcast content examined and classified, the Board classified 421 films against a target of 600. Most films were rated PG-Parental Guidance Recommended (182) followed by GE-General Exhibition(108),16-Not suitable for persons under 16 year (95), 18-Restricted to persons aged 18 years and above(36) and no film was R-restricted during the FY 2018-2019 .The aim of the regulatory decisions taken in the course of the year has been first to ensure conformity of film and broadcast content with national aspirations and moral values and secondly to protect children from exposure to harmful film and broadcast content.

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

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

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**STRATEGIC DIRECTION**

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

**STRATEGIC MODEL**

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

The Board has identified five strategic issues, namely;

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

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

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

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

	<b>Strategic Objective</b>	<b>Strategies</b>
1.	To improve the policy, legal and regulatory environment in the film, broadcast sector and performing Arts	<p>Review the existing policies, legal and regulatory framework to address the emerging issues.</p> <p>Conduct public awareness on the formulated policy, legal and regulatory framework.</p>
2.	To enhance compliance to film, broadcast content and the performing arts regulations for promotion of national values and aspirations	<p>Develop regulations that promote the formation of film exhibitors and distributors associations. (provide a platform)</p> <p>Timely and efficient rating and classification of film and broadcast content decisions</p> <p>Timely issuance of filming licenses ,exhibitor, distributors licenses and registration of filming agents within fifteen(15) minutes of application</p> <p>Enhance compliance through continuous monitoring of broadcast channels including online media to ensure compliance with the regulation of film and broadcast content</p> <p>Roll out monitoring initiatives to ensure increased compliance by industry</p>
3.	To empower the public with knowledge and skills to make informed choices.	Empower film content consumers and stakeholders with relevant knowledge and skills through Public Awareness and Media Literacy Programmes
4.	To enhance visibility and engagements with stakeholders	<p>Develop a comprehensive communication strategy.</p> <p>Maintain a structured and effective response to stakeholders' enquiries and concerns.</p> <p>Position the Board's brand and Entity identity</p> <p>Build capacity to address customer feedback.</p>
5.	To improve institutional efficiency and effectiveness for quality service delivery	<p>Institutionalize performance contracting and appraisal system</p> <p>Promote Research to support evidence based decision making.</p> <p>To strengthen human resources /capital</p> <p>Improve the work environment</p> <p>Create an enabling IT environment</p> <p>Diversify revenue resources base through implementing programmes and projects that will generate revenue e.g. Nairobi Film Centre</p>

## **VI. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING**

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

### **Corporate Social Responsibility Statement**

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

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

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

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

The policy is guided by the following principles:

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

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

**(i) CSR Activities**

During the 2018/2019 financial year, the Corporate Communications Department engaged in the following CSR activities:

- i. The Board participated in the inaugural Mr and Miss Deaf Kenya Beauty Pageant 2019 which was held at the Nairobi Film Centre (NFC) on May 30, 2019. The aim of the Deaf Beauty Pageant was to create public awareness about HIV/Aids, drug abuse, and poverty as well as highlight the plight of persons with hearing impairment.
- ii. The Board participated in a tree planting exercise in Nyakach, Kisumu County on 21st July 2018 in adherence to the Presidential Directive given during the inauguration of the National Tree Planting Day at the Moi Forces Academy, Nairobi on 12th May, 2018 that a tree planting program be conducted countywide by both the National and County Governments. This is in support of environmental conservation which is a key pillar in the Presidential Big Four Agenda.
- iii. The Board participated during the Uhai Festival organized by the County Government of Machakos that brought together Persons with Disabilities (PWDs). The festival took place at the Machakos Peoples Park, Machakos County on 22nd to 23rd September 2018. Themed: "Celebrating Life" the event brought together persons differently abled from various counties who participated in various sporting activities. The aim of the event was to hone and nurture their skills and talents as well as foster inclusion & integration.
- iv. **Sports**  
The Board participated in KECOSO games 2018 and won a trophy as the Most Disciplined Team

## **PARTNERSHIPS AND COLLABORATIONS**

### **1. Mr & Miss Albinism 2018 Edition**

KFCB was the main sponsor of the 2018 Edition of the Mr & Miss Albinism held on 30th November, 2018 at the Kenya International Convention Centre with contestants drawn from East Africa. Themed “Let’s Inform the world” or “Tujulishe Ulimwengu,” the objectives were:

- ❖ To end prejudice, discrimination and social oppression towards persons with albinism.
- ❖ Expose Persons with Albinism to the beauty atmosphere, providing role models and other positive individuals to emulate, facilitating positive interactions between them and the society, and providing them with a positive program in which they can participate.
- ❖ Create awareness to the public and enhance social inclusion.
- ❖ Create a platform for the youths (Persons with Albinism) to meet positive role models from different backgrounds to emulate.
- ❖ Attract sponsorship to support the Albinism Society of Kenya’s life changing programs
- ❖ To attract economic empowerment sponsored programs through training initiatives on entrepreneurship
- ❖ To change people’s perception on PWAs beauty; and
- ❖ To demystify myths and misconceptions on Albinism.

### **2. Annual 72nd Cannes International Film Festival**

The Kenya Film Classification Board Director June Gachui and the CEO Dr. Ezekiel Mutua, MBS on Thursday 16th May 2019 led the Kenyan Delegation to the Pavillon Afriques at the annual 72nd Cannes International Film Festival in a Country Panel Discussion on the Filming landscape in Kenya.

The festival run from May 14th – 25th, 2019 had seven Kenyan films premier at the global event. For the first time in its history, the Cannes International film festival hosted an ‘African Pavilion’ within the film market specifically to discuss the business film in Africa. The objective of the ‘African Pavilion’ was to create the venue for movies and promote the diversity and plurality of

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African film and broadcast content. The African Pavilion was attended by numerous filmmakers (globally) keen on opportunities for filmmaking and co-productions in Kenya.

**3. Zanzibar International Film Festival 2018**

The Kenya Film Classification Board participated in the Zanzibar International Film Festival (ZIFF), also known as Festival of the Dhow Countries, which is an annual film festival held in Zanzibar, Tanzania. Described as the largest cultural event in East Africa, the festival entailed plethora of activities and experiences that included local and international discussion panels, workshops, screening of the best local and international cinema and evenings of musical concerts including a Gala each evening. Themed: Speak Up and Be Heard (Sema na Usikike) the 2018 edition of ZIFF took place from 7th July to 15th July, 2018. The festival was organized in partnership with DISCOP Zanzibar which aims to accelerate the development of a sustainable production and distribution of film ecosystem across Africa and the Middle East. The Board sponsored ten local film makers to attend the festival.

**4. Zebra Poetry Film Festival Munster 2018**

The 2018 ZEBRA Poetry Film Festival was organized in partnership with Kunststiftung Nordrhein-Westfalen, the Ministry of Culture and Science of North Rhine-Westphalia and the City of Münster in German also invited all filmmakers for the festival's poem "Endless wall-to-wall carpet (of the VIP foyer)" by Ann Cotten. Organized by Filmwerkstatt Münster in cooperation with Haus für Poesie, Berlin. In support of nurturing talent that aligns well with the Board's mandate, KFCB sponsored two (2) talented film makers: Daniel Karanja Ng'endo and Jairus Ong'etta Okara, whose Short Film MISFIT was accepted for screening at the film festival held from 26th to 30th September 2018. Mr. Jairus Ong'etta Okara, was the reigning Mr. Albinism in Kenya and a testimony that differently abled persons are capable of excelling through utilization of their talents as depicted in his role as the main actor in MISFIT. Notably, MISFIT scooped the Silver Dhow Award under the Film School Category during the 2018 edition of the Zanzibar International Film Festival in July 2018. The film highlighted the plight of persons with albinism in the modern Africa society.

**5. Screening of the Flesh Business Film at the German Goethe Zentrum, Kampala, Uganda**

The Board participated during the screening of the Flesh Business Film at the German Goethe Zentrum, Kampala on Tuesday 25th September, 2018. The feature film won the Best Documentary Award during the Africa Magic Viewer's Choice Awards (AMVCA) in Nigeria, September, 2018 as well as competed for the coveted Golden Dhow in the category of Best Documentary Film during the Zanzibar International Film Festival held in July 2018. The Board sponsored Mr. Denis Maina Wanjohi, the Director of the film to participate during the screening which created a platform for him to not only showcase the film but also accorded Epic Films the opportunity to learn from renowned film producers in the film industry. The Board was represented by Mr. Emmanuel Mbutu and Ms. Nancy Marangu, who leveraged on the opportunity to network with legendary players in the film industry

**6. The 24th Edition of Afrika Film Festival**

Afrika Film festival Leuven, organized the Young African Film Makers Award (YAFMA) a competition for Young African Filmmakers Award for documentaries, fiction and animation supported by UNESCO. Kenyan Short films MISFIT, Ten O'clock and Climate Children were among the short films selected to contest for the YAFMA Awards. The Board was represented by Ms. Jennifer Naserian, Regional Manager Central Region from 26th to 29th April, 2019. The Board sponsored the producers of the film 'MISFIT' which was screened on 27th April, 2019. The film highlighted the challenges faced by people living with albinism in society.

**7. Kenya and Friends in the Park United Kingdom 2018**

The Board sponsored Ms. Cynthia Mukanzi to participate during the Kenya and Friends in the Park 2018 held in the United Kingdom. Themed: celebrating African/Kenyan Culture, Diversity, Investment, Pride and Networking was held on 28th July, 2018 at Barking Park, Longbridge Road, Barking, and London. The organizers used animatronics with sounds featuring different animals in Africa/Kenya using technology and creativity to provide magical adventure for the audiences. The conveners also partnered with AIL TV to stream live the event. The project promoted Kenyan culture through entertainment, sports, fashion, games, food, music and dance and created awareness regards different ethnicity, promote local and international trade and tourism, promote Kenyan entrepreneurs, investments and networking, bring families together to embrace their diverse cultures that helps them in their personal growth. Importantly, the initiative aimed to pave way for reconciliation and healing within communities and promoted the spirit of togetherness by

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recognizing, challenging and addressing the barriers to full, effective and meaningful participation, while promoting national cohesion.

**8. Cinemadamare Film Festival 2018**

The Kenya Film Classification Board sponsored two representatives from the Youth Film Platform – Kenya: Ms Racheal Wainana and Mr Oluoko Samuel Ochieng’, to participate during the CinemadaMare Film Festival (CFF). CFF is an annual festival that brought together more than 100 professional filmmakers drawn from across the world. The filmmakers participated in making films in the longest traveling film campus in the world. CinemadaMare provided a platform to showcase diverse talents of creative filmmakers who contribute to the growth of the creative industry with the unique aspect of the travelling campus. In 2018 the festival was held in Italy, Rome from 14th June to 8th September, 2018 and covered 12 cities of Italy, the climax of the event was the Venice Film Festival.

Ms. Wainana won the prize for best Production during the 6th weekly Cinema damare competition in Vasto. The festival took the participants to a new city every week whereby they produced new films and screen within six (6) days. Ms Wainaina won the award through the film The Darkest Hour directed by Lilian Ngugi from Kenya. She was able to cast the best actors and actresses, secure a church for a wedding scene and convince tourist to act as extras.

## **VIII. REPORT OF THE DIRECTORS**

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

### **Statement of Directors**

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

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

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

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

### **Reporting Boundary**

This report reviews our performance for the year from 1 July 2018 to 30 June 2019, with two years' comparative information as well as short and medium-term targets. Material events up to the date of approval have been included.

### **Assurance & Audit Approach**

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

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of *KFCB*'s affairs.

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**Principal activities**

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

**Results**

The results of the entity for the year ended June 30, 2019 are set out on **page 1 to 8**

**Directors**

The members of the Board of Directors who served during the year are shown on page iii. During the year 2018-2019 one director retired in the Month of April 2019, Abraham Koech. No replacement was made.

**Dividends/Surplus remission**

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per cent of its surplus funds reported in the audited financial statements after the end of each financial year. The entity did not make any surplus during the year FY 2018/2019 and hence no remittance to the Consolidated Fund

**Auditors**

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

By Order of the Board



**Loice Shalakhia  
Corporate Secretary  
Nairobi  
28<sup>th</sup> August, 2019**

## **IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

The Directors are responsible for the preparation and presentation of the *Kenya Film Classification Board's (KFCB's)* financial statements, which give a true and fair view of the state of affairs of KFCB for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the *Board*; (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for KFCB financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and section 14 of the State Corporations Act. The Directors are of the opinion that KFCB's financial statements give a true and fair view of the state of *KFCB's* transactions during the financial year ended June 30, 2019, and of *KFCB's* financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for *KFCB's*, which have been relied upon in the preparation of *KFCB's* financial statements as well as the adequacy of the systems of internal financial control.

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

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**Approval of the financial statements**

The *KFCB*'s financial statements were approved by the Board on 29<sup>th</sup> August, 2019 and signed on its behalf by:



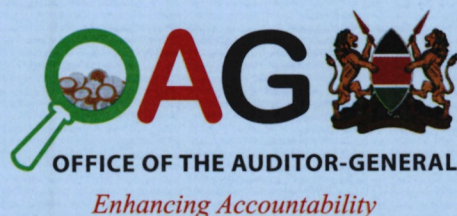
Chairperson of the Board



Accounting Officer/CEO

# REPUBLIC OF KENYA

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

## **REPORT OF THE AUDITOR-GENERAL ON KENYA FILM CLASSIFICATION BOARD FOR THE YEAR ENDED 30 JUNE, 2019**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Film Classification Board set out on pages 1 to 59, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, the statement of cash flows, the statement of changes in net assets and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report the financial statements present fairly, in all material respects, the financial position of the Kenya Film Classification Board as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the State Corporations Act, 2012, the Film and Stage Plays Act, 2012 and the Public Financial Management Act, 2012.

#### **Basis for Qualified Opinion**

##### **Bulk Purchase of Classification Stickers – Impairment of Inventories**

The statement of financial position reflects inventory of Kshs.29,570,607. As previously reported, the Board procured six million film classification stickers between 30 November, 2010 and January, 2012 at a total cost of Kshs.47,500,000. Examination of stores records maintained at the Board's Uchumi House Stores revealed that 2,784,789 stickers valued Kshs.29,570,607 had not been used or issued to the regional offices across the country. Although the Management acknowledges that the inventory is slow moving and may have become obsolete due to changes in technology, no provision for impairment loss has been made in the financial statements.

Consequently, the accuracy and fair statement of inventory as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Film Classification Board Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. I have determined that there are no key audit matters to communicate in my report.

### **Other Matters**

#### **Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.504,854,600 and Kshs.508,213,728 respectively resulting to an over funding of Kshs.3,359,128. Similarly, the Board expended Kshs.524,253,073 against an approved budget of Kshs.504,854,600 resulting to an over-expenditure of Kshs.19,398,473.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter(s) described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **Payment of Rent without Valid Lease Agreement**

The Board incurred rent and rates expenditure of Kshs.10,249,250 paid to ICDC as rent for Cinema Space for the period from October, 2018 to February, 2019. The payment was made without a signed lease agreement.

In the absence of a valid lease agreement for Cinema Space the legality of the rent payment for the year ended 30 June, 2019 could not be confirmed.

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

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

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

### **Basis for Conclusion**

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

### **Responsibilities of Management and those Charged with Governance**

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

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

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.

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

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

## **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

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

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

- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
**Nancy Gathungu**  
**AUDITOR GENERAL**

**Nairobi**

**12 November, 2021**

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**XI. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019**

Revenue from non-Exchange Transactions	NOTES	2018/2019	2017/2018
		Kshs.	Kshs.
Income	4 (a), 6	508,213,728	435,462,199
<b>Total Revenue</b>		<b>508,213,728</b>	<b>435,462,199</b>
<b>Expenses</b>			
Employee Costs	7	148,614,908	73,287,186
Board Expenses	8	37,109,621	25,094,772
Depreciation and Amortization Expense	9	52,550,187	50,567,969
Repairs and Maintenance	10	19,319,532	12,658,964
Transfer to MOSCA	11	9,000,000	8,600,000
General expenses	12	266,086,766	263,411,722
<b>Total Expenses</b>		<b>532,681,014</b>	<b>433,620,613</b>
<b>Surplus/Deficit for the Period</b>		<b>(24,467,286)</b>	<b>1,841,586</b>

The notes set out on **pages 9 to 52** form an integral part of these Financial Statements

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**XII. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019**

	NOTES	2018/2019	2017/2018
		Kshs.	Kshs.
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	13	25,516,778	4,593,131
Prepayments	14	7,014,420	6,705,630
Receivable from Exchange Transactions	15	210,727	86,519
Inventories	16	26,444,847	29,570,607
		<b>59,186,772</b>	<b>40,955,887</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	17	129,073,337	129,500,556
Intangible Assets	18	14,920,235	22,920,957
		<b>143,993,573</b>	<b>152,421,513</b>
<b>Total Assets</b>		<b>203,180,344</b>	<b>193,377,400</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and Other Payables from Exchange Transactions	19	45,083,348	10,813,118
<b>Total Liabilities</b>		<b>45,083,348</b>	<b>10,813,118</b>
<b>Net Assets</b>			
Accumulated Surplus		158,096,997	182,564,282
<b>Total Net assets and Liabilities</b>		<b>203,180,344</b>	<b>193,377,400</b>

The Financial Statements set out on **pages 1 to 8** were signed on 29<sup>th</sup> August, 2019 on behalf of the Board of Directors by:



**Chief Executive Officer**  
Dr. Ezekiel Mutua, MBS



**Manager Finance and Accounts**  
CPA Paskal Martin Opiyo  
ICPAK Member Number: 3989



**Chairman of the Board**  
Chairman, Jackson Kosgei

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**XIII. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2019**

	Accumulated surplus	Total
<b>Balance as at 30 JUNE 2017</b>	<b>180,722,696</b>	<b>180,722,696</b>
Surplus/(Deficit) for the period	1,841,586	1,841,586
Transfers to/from accumulated surplus	-	-
<b>Balance as at 30 JUNE 2018</b>	<b>182,564,282</b>	<b>182,564,282</b>
Surplus/(Deficit) for the period	(24,467,286)	(24,467,286)
Transfers to/from accumulated surplus	-	-
<b>Balance as at 30 JUNE 2019</b>	<b>158,096,996</b>	<b>158,096,996</b>

The accumulated surplus support the Net Assets in Financial Statements provided.

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**XIV. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019**

	NOTE	2018/2019	2017/2018
		Kshs.	Kshs.
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Receipts of GoK Recurrent Grants	6a	440,303,500	394,254,600
Receipts of GoK Development Grants	6a	30,000,000	12,500,000
<b>GOK Grants</b>		<b>470,303,500</b>	<b>406,754,600</b>
Licensing	6b	14,701,500	14,904,000
Classification stickers/Labels	6b	4,224,000	4,374,500
Classification Fees	6b	2,792,668	2,601,999
Sale of Tenders	6b	-	6,000
Filming Fees & Extension	6b	5,032,000	2,935,000
Film Agent Fees & registration	6b	1,956,000	1,584,000
Licensing-Features, short films & doc	6b	4,216,000	2,264,000
Main Cinema -Artists	6b	4,768,000	-
Other Income	6c	220,060	38,100
<b>Receipts from Internally Generated Revenue</b>		<b>37,910,228</b>	<b>28,707,599</b>
<b>Total Receipts</b>		<b>508,213,728</b>	<b>435,462,199</b>
<b>Payments</b>			
Employee Costs	7	148,614,908	73,287,186
Board Expenses	8	37,109,621	25,094,772
Depreciation and Amortization Expense	9	52,550,187	50,567,968
Repairs and Maintenance	10	19,319,532	12,658,964
Transfer to MOSH	11	9,000,000	8,600,000
General Expenses/Administrative Costs	12	266,086,766	263,411,722
<b>Total Payments</b>		<b>532,681,014</b>	<b>433,620,612</b>
<b>Net surplus from operations</b>		<b>(24,467,286)</b>	<b>1,841,587</b>
Increase/Decrease in prepayments	14	(308,790)	(6,705,630)
Net change in receivables from non-exchange transaction	15	456,502	325,291
Increase/Decrease in Stock	16	3,125,760	3,237,130
Adjustment For Depreciation	17,18	52,550,187	50,567,969
Decrease in Trade and Other Payables from Exchange Transactions in Payables	19	34,270,229	(5,049,500)
<b>Net Cash generated from Operating Activities</b>	26	<b>65,626,602</b>	<b>44,216,847</b>
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment	17,18	(44,122,246)	(80,658,401)
<b>Net Cash generated from investing activities</b>		<b>(44,122,246)</b>	<b>(80,658,401)</b>
<b>CASHFLOW FROM FINANCING ACTIVITIES</b>			

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Net Cash generated from Financing Activities		0	-
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>21,504,356</b>	<b>(36,441,556)</b>
Increase/(Decrease) Staff Imprest and Other Imprests	13	(580,710)	(257,800)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR</b>	<b>13</b>	<b>4,593,131</b>	<b>41,292,487</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR</b>	<b>13</b>	<b>25,516,777</b>	<b>4,593,131</b>

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**XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2019  
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL EXPENDITURE FY 2018-2019**

SNO.	Descriptions	Original Budget		Adjustment		Final Budget		Actual Income		Performance	
		2018/2019	KSHS	2018/2019	KSHS	2018/2019	KSHS	2018/2019	KSHS	2018/2019	KSHS
1	Income										
1	Licensing	18,100,000				18,100,000		14,701,500		(3,398,500)	
2	Classification Stickers/labels	4,900,000				4,900,000		4,224,000		(676,000)	
3	Sale Of Tenders	-				-		-		-	
4	Classification fees	3,000,000				3,000,000		2,792,668		(207,332)	
5	Filming Fees & Extensions	3,600,000				3,600,000		5,032,000		1,432,000	
6	Miscellaneous	-				-		220,060		220,060	
7	Boarded Items/Disposal	-				-		-		-	
8	Film Agent Fees & Registration	1,900,000				1,900,000		1,956,000		56,000	
9	Licensing-Feature films, Documentaries,& series etc.	3,000,000				3,000,000		4,216,000		1,216,000	
10	Main Cinema –Artists	-				-		4,768,000		4,768,000	
11	GOK Grants	470,354,600				470,354,600		470,303,500		(51,100)	
	<b>Total Revenue</b>	<b>504,854,600</b>				<b>504,854,600</b>		<b>508,213,728</b>		<b>3,359,128</b>	
	<b>Expenses</b>	<b>Original Budget</b>	<b>Adjustment</b>	<b>Final Budget</b>	<b>Actual Expenditure</b>	<b>Performance</b>					
		<b>2018/2019</b>	<b>2018/2019</b>	<b>2018/2019</b>	<b>2018/2019</b>	<b>2018/2019</b>					
12	Compensation of employees	166,809,952				166,809,952		148,614,908		18,195,044	
13	Board Expenses	32,000,000				32,000,000		37,109,621		(5,109,621)	
14	Repairs and Maintenance	17,750,000				17,750,000		19,319,532		(1,569,532)	
15	General Expenses	232,845,288				232,845,288		266,086,766		(33,241,478)	
16	Transfer to MOSCA	9,000,000				9,000,000		9,000,000		-	

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17	Non-Current Assets	46,449,360	-	46,449,360	2,327,114
	<b>Total Expenses</b>	<b>504,854,600</b>	<b>-</b>	<b>504,854,600</b>	<b>(19,398,473)</b>
	<b>Surplus/Deficit</b>	<b>-</b>	<b>-</b>	<b>(16,039,345)</b>	<b>(16,039,345)</b>
<b>NOTES TO STATEMENT OF COMPARISON OF BUDGET ON ACTUAL BASIS</b>					
1	<b>Income (1-11) :</b>				
	The Government Grants grew by 15% from Kshs.406, 754,600 to 470,303,500 during the period. The internally generated income increased by 32.06% from Kshs.28,707,599 to 37,910,228 compared to the previous Financial Year 2017-2018. The increase is as a result of the contribution of income received from the Nairobi Film Centre. The Centre contributed Kshs.4,768,000. Overall, the total income for the Board increased by 16.7%				
2	<b>Compensation of employees (12) :</b>				
	The budget of employee cost was absorbed at 89%. The under absorption is as a result of late absorption of ten (10) Technical Officers that were absorbed in the last quarter of the financial year				
3	<b>Board Expenses (13) :</b>				
	The board expenses had an over expenditure of 16%. This is as a result of appointment of new directors to the Board hence the need for inductions and trainings for the new Directors.				
4	<b>Repairs and Maintenance (14) :</b>				
	The costs of repairs slightly increased by 9%. The absorption level was high due to the refurbishment of the cinema theatre and increased service and maintenance of the Board's vehicles.				
5	<b>General Expenses (15) :</b>				
	The General expenses/Administrative costs increased by 14%. This is as a result of increased number of public awareness and campaigns.				
6	<b>Transfer to MOSCA (16) :</b>				
	This is the targeted A-I-A collected as per the printed budget estimates. The amount was transferred to the state department of Arts and Culture.				
7	<b>Non-Current Assets (17) :</b>				
	These comprises of cost of acquisition of motor vehicles, fixtures and fittings, data processing equipment, plant and equipment and intangible assets such as software. The expenditure was within range at an absorption rate of 95%.				
	<b>Adjustments:</b> The Adjustments in the budget during the period are as a result of budget cuts by National Treasury and reallocations				
8	Reconciliation of the statement of comparison of budget on actual basis with the statement of financial performance is as follows;				
	Surplus /Deficit from the SCBA	(16,039,345)			

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	<b>Add: Additional Non-current Assets for the Period</b>	44,122,246		
	<b>Less: Depreciation &amp; Amortization</b>	(52,550,187)		
	Funds from previous year-2016-2017			
	<b>Deficit as per Statement of financial Performance ended 30th June,2019</b>	<b>(24,467,286)</b>		
	*The cost of acquisition of non-current asset and surplus funds from FY 2018/2019 is not reported in the statement of financial performance hence the reconciliation.			
	*Depreciation cost is a non-cash item hence not included in the budget for FY 2018/2019			
	<b>*SCBA;Statement of comparison of budget on actual basis</b>			

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**XVI. NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

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

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The Financial Statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of Financial Statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the Financial Statements, are disclosed in Note **1 to 29**

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

The Financial Statements have been prepared in accordance with the PFM Act, the State Corporations Act (include any other applicable legislation), and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

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**3. ADOPTION OF NEW AND REVISED STANDARDS**

**i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2019**

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

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**3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)**

**ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019**

Standard	Effective date and impact:
<p><b>IPSAS 41:</b> Financial Instruments</p>	<p><b>Applicable: 1<sup>st</sup> January 2022:</b> The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> <li>• No impact to the statements, however we will adopt it in this current FY 2019/2020)</li> </ul>
<p><b>IPSAS 42:</b> Social Benefits</p>	<p><b>Applicable: 1<sup>st</sup> January 2022</b> The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <ol style="list-style-type: none"> <li>(a) The nature of such social benefits provided by the entity;</li> <li>(b) The key features of the operation of those social benefit schemes; and</li> <li>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</li> </ol> <p>No impact to the statements, however we will adopt it in this current FY 2019/2020)</p>

**iii. Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2019

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

##### **a) Revenue recognition**

###### **i) Revenue from non-exchange transactions**

###### **Licensing and Classification fees**

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

###### **Transfers from other government entities**

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

##### **b) Budget information**

The original budget for FY 2018/2019 was approved by the National Assembly on 30<sup>th</sup> April, 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity did not record additional appropriations during the FY 2018/2019.

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

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

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

**c) Taxes**

***Current income tax***

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

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

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**e) Taxes (Continued)**

***Deferred tax***

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

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

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits

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

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

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

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

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

***Sales tax***

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

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

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

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**d) Investment property**

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

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

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

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

**e) Property, plant and equipment**

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

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

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

Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired

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in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

**f) Leases**

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

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

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

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

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

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

**g) Intangible assets**

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

**h) Research and development costs**

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

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

The ability to measure reliably the expenditure during development.

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

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

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

**i Financial instruments**

***Financial assets***

***Initial recognition and measurement***

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

***Loans and receivables***

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

***Held-to-maturity***

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Impairment of financial assets***

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

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

***Financial liabilities***

***Initial recognition and measurement***

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

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

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**i) Financial instruments (Continued)**

***Loans and borrowing***

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

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

**j) Inventories**

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

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

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

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

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

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

**k) Provisions**

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

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

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

***Contingent liabilities***

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

***Contingent assets***

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**l) Nature and purpose of reserves**

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

**m) Changes in accounting policies and estimates**

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical. The Board creates and maintains accumulated surplus funds in terms of specific requirements. GOK Grants related to development expenditure that acquired property, plant & equipment and other assets are presented in the statement of financial position. To this extent, the

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

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

accumulated surplus funds finances capital assets every year. GOK Grants for recurrent expenditure are dealt with in the income statement in the period in which it was received.

**n) Employee benefits**

**Retirement benefit plans**

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

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

**o) Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise

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

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

**p) Borrowing costs**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

**q) Related parties**

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

**r) Service concession arrangements**

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

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

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

**s) Cash and cash equivalents**

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

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

**t) Budget information**

The original budget for FY 2018-2019 was approved by the National Assembly on 30<sup>th</sup> April, 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity did not record additional appropriations during the FY 2018/2019.

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

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

**u) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

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

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

**v) Comparative figures**

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

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

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

**Useful lives and residual values**

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

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

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**Provisions**

Provisions were raised and management determined an estimate based on the information available.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

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

**6 REVENUE**

**6 a) TRANSFERS FROM MINISTRIES, DEPARTMENTS AND AGENCIES**

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income	Amount deferred under deferred income	Amount recognized in capital fund.	Total grant income during the year 2018/2019)	2017/2018
	KShs	KShs	KShs	KShs	KShs
Ministry of Sports Culture & the Arts/State Department of Arts & Culture	470,303,500	-	-	470,303,500	406,754,600
<b>Total</b>	<b>470,303,500</b>	<b>-</b>	<b>-</b>	<b>470,303,500</b>	<b>406,754,600</b>

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

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

**6. REVENUE (Continued)**

<b>6.(b)Licensing and classification fees</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Licensing	14,701,500	14,904,000
Classification Stickers/labels	4,224,000	4,374,500
Sale Of Tenders		6,000
Classification fees	2,792,668	2,601,999
Filming Fees & Extensions	5,032,000	2,935,000
Film Agent Fees & Registration	1,956,000	1,584,000
Licensing-Feature films, Documentary & series etc.	4,216,000	2,264,000
Main Cinema -Artists	4,768,000	
<b>Total</b>	<b>37,690,168</b>	<b>28,669,499</b>

<b>6 ( c ) Other revenue</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Sale of Boarded Items	-	-
Miscellaneous	220,060	38,100
	<b>220,060</b>	<b>38,100</b>
<b>Total Internally generated Income (6b+6c)</b>	<b>37,910,228</b>	<b>28,707,599</b>
<b>Total Revenue(6a+6b+6c)</b>	<b>508,213,728</b>	<b>435,462,199</b>

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

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

**7 EMPLOYEE COSTS**

7 (a) Employee costs	2018/2019	2017/2018
	Kshs.	Kshs.
Basic salary	54,596,742	23,178,219
House Allowance	20,657,605	16,194,901
Commuter Allowance	5,799,105	3,842,140
Extraneous Duty Allowance	-	606,000
Leave Allowance	1,102,732	1,498,708
Staff Medical Allowance	22,895,044	8,603,426
Special Duty Allowance	21,800	109,719
Employer contribution-Pension	4,682,327	1,515,210
NSSF Employer Contribution	205,020	94,800
Staff Personal Accident Insurance	164,957	-
Transfer Allowance	42,200	21,770
Responsibility Allowance	2,003,200	578,000
Non-Practicing Allowance	545,000	255,000
Casual Employees cost	204,181	269,952
Gratuity	1,550,067	-
Internship Programme	154,167	150,000
NITA Training Levy Employer Contribution	-	489,798
<b>Employee costs</b>	<b>114,624,147</b>	<b>57,407,643</b>

7(b) Employee costs-CEO	2018/2019	2017/2018
	Kshs.	Kshs.
Basic salaries	10,428,240	4,080,000
House Allowance	960,000	960,000
Entertainment Allowance	1,200,000	1,200,000
Leave Allowance	60,000	399,990
Extraneous Duty Allowance	720,000	720,000
Gratuity	3,893,042	-
<b>Total CEO's Remuneration</b>	<b>17,261,282</b>	<b>7,359,990</b>

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7(c) Employee costs-Key Management	2018/2019	2017/2018
	Kshs.	Kshs.
Basic salaries	9,853,187	4,709,046
House Allowance	3,417,166	2,019,855
Commuter Allowance	1,236,130	561,957
Leave Allowance	264,064	198,423
Employer contribution-Pension	70,670	-
NSSF Employer Contribution	10,000	3,000
Extraneous Duty Allowance	1,878,261	1,027,273
<b>Total Key Management's Remuneration</b>	<b>16,729,478</b>	<b>8,519,553</b>
<b>Total Employee Costs</b>	<b>148,614,908</b>	<b>73,287,186</b>

The remuneration of employees including the Chief Executive Officer is per the advice provided by the Salaries and Remunerations Commission(SRC) through letter Ref. no. SRC/TS/JE/SRSC/3/33/4Vol. VI (34) and Ref. no. SRC/TS/JE/SRSC/3/33/4Vol. VI (58).

The CEO's Basic pay was reviewed by the Board with effect from 1<sup>st</sup> November 2018. The remuneration of the Chief Executive Officer is as provided for in Section 11 C (i) of the Films and Stage Plays Act, Cap 222.

#### **8 BOARD EXPENSES**

Description	2018/2019	2017/2018
	Kshs.	Kshs.
Board Members Allowance	31,380,769	18,426,565
Film Examiners Allowances	3,154,100	2,141,500
Conferences, Committees and Seminars	33,000	-
Board Members Insurance	751,752	195,357
Honoraria to chairman	1,190,000	1,020,000
Board Trainings	600,000	3,311,350
<b>Total Board Expenses</b>	<b>37,109,621</b>	<b>25,094,772</b>

The Board expenses comprises of sitting allowances paid to directors on attendance of board meetings or an activity in which a director is invited in writing by the Chief Executive Officer or a meeting as a result of a board minute, travelling cost of directors to activities invited by the Board and Chairman's monthly honoraria plus airtime. Other expenses include the sitting

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allowance and meal allowance paid to part time film examiners. The Board Member's insurance costs are guided as per circular Ref No. OP/CAB.9/1A/VOL.XX (132).

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

**9 DEPRECIATION AND AMMORTIZATION EXPENSES**

<b>Description</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Property, Plant and Equipment	44,549,465	42,167,543
Intangible assets	8,000,722	8,400,426
<b>Total depreciation and amortization</b>	<b>52,550,187</b>	<b>50,567,969</b>

**10 REPAIRS AND MAINTENANCE**

<b>10.Repairs and maintenance</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Property & Equipment	1,830,250	1,322,400
Motor Vehicles	6,258,348	4,957,357
Minor Alterations to Building	1,211,330	818,960
Computer Softwares and Networks	1,222,020	-
Insurance of Motor Vehicle & plant Equipment	2,524,018	1,995,247
ICT Infrastructure & development	6,273,566	3,565,000
<b>Total repairs and maintenance</b>	<b>19,319,532</b>	<b>12,658,964</b>

**11 TRANSFERS TO MINISTRIES, DEPARTMENT AND AGENCIES**

<b>Description</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Transfer to MOSCA	9,000,000	8,600,000
<b>Total to MOSCA</b>	<b>9,000,000</b>	<b>8,600,000</b>

Transfers to ministry is the A-I-A submitted to State Department of Arts and Culture during the FY 2018-2019 as provided in the budget estimates for the year.

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

**12 GENERAL EXPENSES**

<b>Description</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Utilities Supplies & Services	4,299,177	2,559,665
Com Supplies & Services	7,738,862	4,974,323
Local Travelling Accommodation	41,316,442	62,915,345
Foreign Travel	21,605,792	16,701,114
Newspaper and Periodical Subscription	748,910	464,751
Printing Expenses	24,143,719	11,587,885
Advertising	6,862,174	9,397,482
Trade Shows and Exhibition	21,524,739	27,982,876
Cleaning Services	2,155,700	1,937,750
Rents and Rates	43,275,449	20,941,571
Training & Sensitization Programme Costs	19,707,085	37,012,159
Bank Charges	498,465	406,007
County Offices Expense	16,995,520	15,953,881
Hospitality supplies and services	26,996,842	21,350,960
Audit Fees	807,360	-
Office & Gen Supplies	17,877,268	12,083,545
Fuel Oil & Lubricants	6,115,863	3,491,088
Other Operating Expenses	3,417,400	13,651,320
<b>Total General expenses</b>	<b>266,086,766</b>	<b>263,411,722</b>

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

**13 CASH AND CASH EQUIVALENTS**

<b>13.Cash and Cash Equivalents</b>		
<b>Description</b>	<b>2018/2019</b>	<b>2017-2018</b>
	<b>Kshs</b>	<b>Kshs</b>
Recurrent account	2,199,518	3,387,923
Development account	11,479,356	96,573
Others(cash in hand)	126,814	316,835
Other(cash Imprests and advances)	211,090	791,800.00
Cash in transit	11,500,000	-
<b>Total cash and cash equivalents</b>	<b>25,516,778</b>	<b>4,593,131</b>

Cash Imprest and Advances comprises of Imprests and Advances issued to authorised Public Officers which were not surrendered or accounted for at the end of the Financial Year.

Cash-In-Transit is Recurrent GOK grants was transferred from the Ministry of Sports and Heritage on 28<sup>th</sup> June 2019 but had not reflected in the Board's account by 30<sup>th</sup> June 2019. The amount was received on 11<sup>th</sup> July 2019.

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**13 (a). DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS**

Financial institution	Account number	2018/2019		2017-2018	
		KShs		KShs	
<b>a) Recurrent account</b>					
Co-Operative Bank	01141198827700	2,035,387		3,351,302	
Co-Operative Bank	01141198827702	117,566		16,446	
Co-Operative Bank	01141376392400	80		2,540	
Co-Operative Bank	01141198827704	25		25	
Co-Operative Bank	01141198827705	80		240	
Co-Operative Bank	01141198827706	16,130		590	
Co-Operative Bank	01141198827707	-		500	
Co-Operative Bank	01141198827708	250		14,580	
Co-Operative Bank	01141198827709	30,000		1,700	
<b>Sub- total</b>		<b>2,199,518</b>		<b>3,387,923</b>	
<b>b) Development account</b>					
Co-Operative Bank	01141198827701	11,479,356		96,573	
<b>Sub- total</b>		<b>11,479,356</b>		<b>96,573</b>	
<b>c) Others(specify)</b>					
Cash In Hand-HQRS		47,994		316,215	
Petty Cash-HQRS		-		-	
Cash in Hand-Mombasa		-		-	
Cash In Hand-Garissa		-		-	
Cash in Hand-Embu		-		-	
Cash In hand-Eldoret		77,370		620	
Cash In Hand-Kisumu		-		-	
Cash In Hand-Nyeri		1,250		-	
Cash In Hand-Kakamega		200		-	

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Cash In Hand-Nakuru			-
KFCB ISIOLO		-	-
Cash In Hand-Isiolo		-	-
Cash in Transit		11,500,000	-
M pesa		-	-
<b>Sub- total</b>		<b>11,626,814</b>	<b>316,835</b>
Cash imprests and advances		211,090	791,800.00
<b>Sub- total</b>		<b>211,090</b>	<b>791,800</b>
<b>Grand total</b>		<b>25,516,778</b>	<b>4,593,131</b>

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

**14 (a) PREPAYMENTS**

<b>14 (a) Prepayments</b>	<b>2018/2019</b>	<b>2017-2018</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Rent deposits	7,014,420	6,705,630.00
<b>Total Prepayments</b>	<b>7,014,420</b>	<b>6,705,630.00</b>

Prepayments consists of rent deposit paid as a result of renting a new office space in Mombasa Regional Office, Nairobi Film Centre (Formerly Nairobi Cinema) and 14<sup>th</sup> Floor as follows;

**14 (b) PREPAYMENTS**

<b>Description</b>	<b>Amount(Kshs)</b>
Mombasa Regional Office	582,945
Nairobi Film Centre	5,590,500
14 <sup>th</sup> Floor (Headquarters)	532,185
Isiolo Regional Office	308,790
<b>Total</b>	<b>7,014,420</b>

**15 RECEIVABLE FROM EXCHANGE TRANSACTIONS**

<b>15(a) Receivable from Exchange Transactions (Other Debtors &amp; Salary Advance)</b>	<b>2018/2019</b>	<b>2017-2018</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Salary advances	210,727	86,519
<b>Total Receivable from Exchange Transactions</b>	<b>210,727</b>	<b>86,519</b>

<b>15 (b) Receivable from Exchange Transactions</b>	<b>2018/2019</b>	<b>2017-2018</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Staff Imprest and Advances	211,090	791,800
Salary advances	210,727	86,519
<b>Total Receivable from Exchange Transactions</b>	<b>421,817</b>	<b>878,319</b>

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**16 (a) INVENTORIES**

<b>Description</b>	<b>2018/2019</b>	<b>2017-2018</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Classification Stickers	26,444,847	29,570,607
<b>Total Inventories</b>	<b>26,444,847</b>	<b>29,570,607</b>

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

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or

Consumption in the ordinary course of operations of the Board. The cost of printing the stickers is closed on the printing expenses for the period.

**(b) Cost of Goods Sold**

The cost of goods sold comprises the cost of printing classification stickers/labels. This is recognized by determining the number of stickers/labels sold and multiply with the cost of printing. During the financial year 2018-2019, the Board sold Four Hundred and Twenty-Two Thousand Four Hundred (**422,400**) classification stickers/labels through sales (**see note 6b**). The cost of goods sold is therefore Three Million One Hundred and Twenty-Five Thousand Seven Hundred and Sixty i.e.  $(422,400 * 7.40) = 3,125,760$ .

<b>16.(b) Cost of Goods Sold</b>	<b>2018/2019</b>	<b>2017-2018</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Classification Stickers	3,125,760	3,237,130
<b>Total Cost of Goods Sold</b>	<b>3,125,760</b>	<b>3,237,130</b>

The above cost of goods sold is closed on the printing expense under administrative costs.

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

**17 PROPERTY, PLANT AND EQUIPMENT**

Description	Motor Vehicle		Plant and Equipment		Data Processing Equipment		Furniture, Fixtures & Fittings		Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	
<b>17. Property, plant and equipment</b>									
<b>At 30 June 2017</b>	<b>64,228,380</b>	<b>77,324,503</b>	<b>42,034,940</b>	<b>53,552,553</b>	<b>237,140,376</b>				
Additions	13,825,000	9,331,464	11,536,340	43,720,321	78,413,125				
<b>At 30 June 2018</b>	<b>78,053,380</b>	<b>86,655,967</b>	<b>53,571,280</b>	<b>97,272,874</b>	<b>315,553,501</b>				
Additions	-	2,071,840	8,147,440	33,902,966	44,122,246				
<b>At 30 June 2019</b>	<b>78,053,380</b>	<b>88,727,807</b>	<b>61,718,720</b>	<b>131,175,840</b>	<b>359,675,747</b>				
<b>Depreciation and impairment</b>									
<b>At 30 June 2017</b>	<b>(33,844,691)</b>	<b>(44,809,279)</b>	<b>(36,486,016)</b>	<b>(28,745,416)</b>	<b>(143,885,402)</b>				
Additions	(14,321,657)	(9,865,759)	(6,117,108)	(11,863,019)	(42,167,543)				
<b>At 30 June 2018</b>	<b>(48,166,348)</b>	<b>(54,675,038)</b>	<b>(42,603,124)</b>	<b>(40,608,435)</b>	<b>(186,052,946)</b>				
Depreciation	(14,321,645)	(7,621,542)	(7,851,561)	(14,754,717)	(44,549,465)				
<b>At 30 June 2019</b>	<b>(62,487,993)</b>	<b>(62,296,580)</b>	<b>(50,454,685)</b>	<b>(55,363,152)</b>	<b>(230,602,411)</b>				
<b>Net book values</b>									
<b>At 30 June 2019</b>	<b>15,565,387</b>	<b>26,431,227</b>	<b>11,264,035</b>	<b>75,812,688</b>	<b>129,073,337</b>				
<b>At 30 June 2018</b>	<b>29,887,032</b>	<b>31,980,929</b>	<b>10,968,156</b>	<b>56,664,439</b>	<b>129,500,556</b>				
<b>At 30 June 2017</b>	<b>30,383,689</b>	<b>32,515,224</b>	<b>5,548,924</b>	<b>24,807,137</b>	<b>93,254,974</b>				

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

**18 INTAGIBLE ASSETS-SOFTWARES**

<b>18.Intangible assets-software</b>	
<b>Cost</b>	<b>Kshs.</b>
<b>At 30 June 2017</b>	<b>64,746,257</b>
Additions–internal development	2,245,275
<b>At 30 June 2018</b>	<b>66,991,532</b>
Additions–internal development	-
<b>At 30 June 2019</b>	<b>66,991,532</b>
<b>Amortization and impairment</b>	
<b>At 30 June 2017</b>	<b>(35,670,149)</b>
Amortization	(8,400,426)
Impairment loss	-
<b>At 30 June 2018</b>	<b>(44,070,575)</b>
Amortization	(8,000,722)
Impairment loss	-
<b>At 30 June 2019</b>	<b>(52,071,297)</b>
<b>Net book values</b>	
<b>At 30 June 2019</b>	<b>14,920,235</b>
<b>At 30 June 2018</b>	<b>22,920,957</b>
<b>At 30 June 2017</b>	<b>29,076,108</b>

**19 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS**

<b>Description</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs</b>	<b>Kshs.</b>
Trade Payables	40,773,802	10,410,425
Provisions for Audit Fees	807,360	
Refund Payables	(10,000)	
VAT Payable	938,680	48,643
Employee obligations	2,573,505	354,051
<b>Total trade and other payables</b>	<b>45,083,347</b>	<b>10,813,119</b>

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

**20 RELATED PARTIES**

**Nature of related party relationships**

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

**Government of Kenya**

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

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

<b>20. Related Parties</b>	<b>2018/2019</b>	<b>2017/2018</b>
	<b>Kshs</b>	
<b>Transactions with related parties</b>		
<b>a) Grants from the Government</b>		
Grants from National Govt	470,303,500	406,754,600
<b>Total</b>	<b>470,303,500</b>	<b>406,754,600</b>
<b>b) Expenses incurred on behalf of related party</b>		
Payments of salaries and wages for employees	86,634,599	46,682,639
Payments for goods and services	27,989,548	10,725,004
<b>Total</b>	<b>114,624,147</b>	<b>57,407,643</b>
<b>c) Key management compensation</b>		
Board of Directors Expenses	37,109,621	25,094,772
Compensation to the CEO	17,261,282	7,359,990
Compensation to key management	16,729,478	8,519,553
<b>Total</b>	<b>71,100,381</b>	<b>40,974,315</b>

## **21 FINANCIAL RISK MANAGEMENT**

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

### **(i) Credit risk**

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

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

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

### **(i) Credit risk**

<b>Details</b>	<b>Total amount</b>	<b>Fully performing</b>	<b>Past due</b>	<b>Impaired</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>At 30 June 2019</b>				
Receivables from exchange transactions	210,726	210,726	-	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	25,305,688	25,305,688	-	-

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<b>Total</b>	<b>25,516,414</b>	<b>25,516,414</b>	-	-
<b>At 30 June 2018</b>				
Receivables from exchange transactions	86,519	86,519	-	-
Receivables from non-exchange transactions	-	-	-	-
Bank balances	3,801,331	3,801,331	-	-
<b>Total</b>	<b>3,887,850</b>	<b>3,887,850</b>	-	-

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

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

The Board of Directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated

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**21 FINANCIAL RISK MANAGEMENT (Continued)**

**(i) Liquidity risk management**

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

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

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

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
<b>At 30 June 2019</b>				
Trade payables	-	29,569,971	-	29,569,971
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligation	-	2,573,505	-	2,573,505
<b>Total</b>	-	<b>32,143,476</b>	-	<b>32,143,476</b>
<b>At 30 June 2018</b>				
Trade payables	-	10,459,067	-	10,459,067
Current portion of borrowings	-	-	-	-
Provisions	-	-	-	-
Deferred income	-	-	-	-
Employee benefit obligation	-	354,051	-	354,051
<b>Total</b>	-	<b>10,813,118</b>	-	<b>10,813,118</b>

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**(iii) Market risk**

The Board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

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

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

**a) Foreign currency risk**

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

	<b>Ksh</b>	<b>Other currencies</b>	<b>Total</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>At 30 June 2019</b>			
Financial assets(investments, cash ,debtors)	Nil	Nil	Nil
<b>Liabilities</b>			
Trade and other payables	Nil	Nil	Nil
Borrowings	Nil	Nil	Nil
Net foreign currency asset/(liability)	Nil	Nil	Nil

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

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**22 FINANCIAL RISK MANAGEMENT (Continued)**

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
<b>At 30 June 2019</b>			
Financial assets(investments, cash ,debtors)	Nil	Nil	Nil
<b>Liabilities</b>			
Trade and other payables	Nil	Nil	Nil
Borrowings	Nil	Nil	Nil
Net foreign currency asset/(liability)	Nil	Nil	Nil

**b) Foreign currency sensitivity analysis**

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

	Change in	Effect on Profit	Effect on
	currency rate	before tax	equity
	Kshs	Kshs	Kshs
<b>2019</b>			
Euro	10%	-	-
USD	10%	-	-
<b>2018</b>			
Euro	10%	-	-
USD	10%	-	-

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

**c) Interest rate risk**

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

***Management of interest rate risk***

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

***Sensitivity analysis***

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

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

**Fair value of financial assets and liabilities**

***a) Financial instruments measured at fair value***

Determination of fair value and fair values hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

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

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

<b>22</b>	<b>SEGMENT INFORMATION</b>	
	The Board has ten (10) Regional Offices namely Nairobi, Mombasa, Nakuru, Eldoret, Kisumu, Kakamega, Nyeri, Embu, Isiolo and Garisa. The following is the cost of operating the Regional Offices during the FY 2018-2019. The cost is reported under the general expenses/administration costs for the FY 2018-2019	
	<b>Description</b>	<b>Amount</b>
1	Cost of Running Regional Offices	2,800,470
2	Inspections and Raids	3,123,450
3	Travelling Costs	8,800,900
4	Public Sens. Programmes	2,270,700
	<b>Total</b>	<b>16,995,520</b>

**23 CONTINGENT LIABILITIES**

The Board has no contingent liabilities.

**24 CAPITAL COMMITMENTS**

<b>Description</b>	<b>2018-2019</b>	<b>2017-2018</b>
	<b>Kshs</b>	<b>Kshs</b>
Authorised for	-	-
Authorised and contracted for	17,844,106	19,337,719
<b>Total</b>	<b>17,844,106</b>	<b>19,337,719</b>

The Board is currently implementing component No. 1 of Sinema Mashinani Project. Component No. 1 of this project is leasing, refurbishment and equipping of Nairobi Film Centre (Formerly Nairobi Cinema). The centre shall be multipurpose facility that provides infrastructure for film and broadcast content regulation while at the same time provide a platform for the youth to venture into the creative arts (film and performance art) production. Further, the centre enhance the Board's capability to provide film and broadcast content classification services while ensuring the growth of film & art in showcasing talent in the sector.

In the current FY 2018/2019, the Board was allocated Kshs. 30 Million in which Kshs.17, 844,106 was expended during the year.

**25 EMPLOYEE BENEFIT OBLIGATIONS**

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

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

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

**26 CASH GENERATED FROM OPERATIONS**

	NOT E	2018/2019 Kshs.	2017/2018 Kshs.
<b>CASHFLOW FROM OPERATING ACTIVITIES</b>			
Net surplus from operations		<b>(24,467,286)</b>	<b>1,712,586</b>
Depreciation	17	44,549,458	42,167,543
Amortization	18	8,000,728	8,400,426
<b>Operating Surplus/(Deficit) before working capital changes</b>		<b>28,082,900</b>	<b>52,280,555</b>
Decrease/(Increase) in Prepayments	14	(308,790)	(6,705,630)
Decrease /(Increase) in Receivable from Non-Exchange Transactions	15	456,502	325,291
Decrease/(Increase) in Stock	16	3,125,760	3,237,130
Increase/(Decrease) in Trade and Other Payables from Exchange Transactions in Payables	19	34,270,229	(4,920,500)
<b>Net Cash flow From Operating Activities</b>		<b>65,626,602</b>	<b>44,216,846</b>

**27 EVENTS AFTER THE REPORTING PERIOD**

Cash-In-Transit is GOK recurrent grants that were transferred from the Ministry of Sports & Heritage, State Department of Heritage & Culture. This amount was received by the Board on 11<sup>th</sup> July, 2019.

**28 ULTIMATE AND HOLDING ENTITY**

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

**29 Currency**

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

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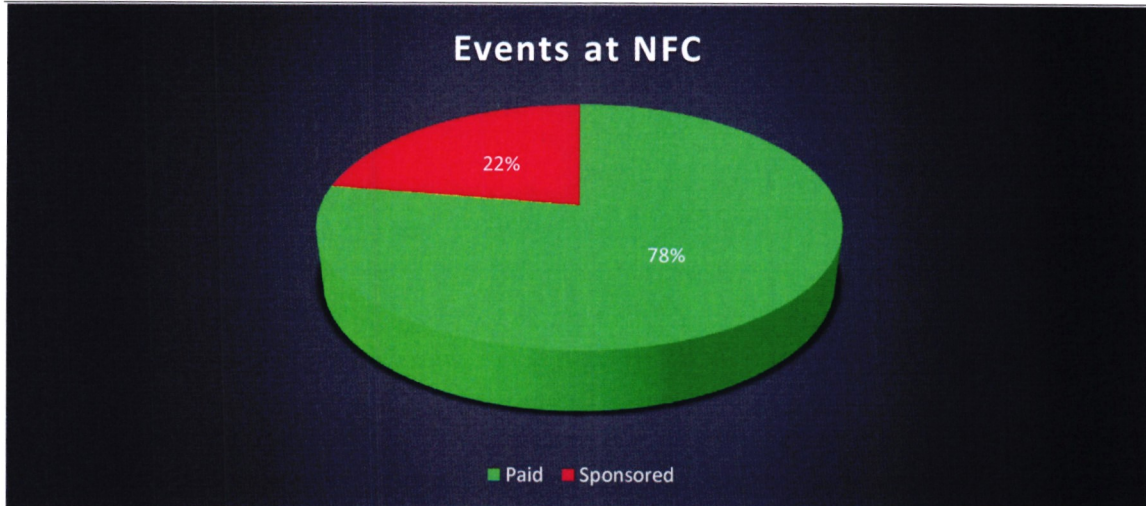
**XVII. APPENDIX I: NAIROBI FILM CENTRE (FORMERLY NAIROBI CINEMA)**

In the financial period under review the Board managed to acquire the Nairobi Film Centre formerly the Nairobi Cinema by signing a 6-year lease. The Nairobi Film Centre is envisioned to be the **Centre of Excellence for the Film Industry** in Kenya. The facility is Part of the Sinema Mashinani Project which is an initiative that seeks to aid film regulation while at the same time provide a platform to showcasing talent and promote creation and consumption of films by the people and for the people in order to celebrate Kenya's cultural diversity. The Kenya Film Classification Board is aligned to the Big Four Agenda under the manufacturing pillar. The project has five components namely: Nairobi Film Centre, Cinematic Arts Talent Nurturing Centres, Mobile Cinematic Arts Talent Nurturing Units and Cinemobile Vans. The Sinema Mashinani project is premised on three foundations:

- **Collaborate** with ALL stakeholders within the film industry first locally, then internationally on compliance with the content guidelines and the provisions of the Film & Stage Plays Act, Cap 222 for the advancement of both the production and consumption of local Kenyan Films;
- To **Create** High Quality Cinematic content that enforces Kenya's National values by identifying, training and supporting local Kenyan filmmakers with State of the Art Audio-visual Film Production Equipment and Post Production and Exhibition Facilities.
- To **Curate** (collect, archive, exhibit) local films, and international films with historical, ideological, artistic or cultural relevance.

The existence of the facility has enabled the Board interact with the various forms of art in the creative economy who have at various times been sensitized on the functions of the Board and the various provisions of the Films and Stage Plays Act Cap 222 laws of Kenya. The facility has seen the various partnerships forged with the various industry stakeholders. To this end the Board was able to sponsor various initiatives to take place at the facility due to these partnerships. The utility of the space is as shown in the diagram below.

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The facility is yet to be equipped with the requisite equipment to ensure that all the regulatory functions of the Board are undertaken at the facility. In the Financial Years 2020/2021 – 2021/2022, the Board intends to equip the facility with State of the Art Cinema Projectors, sound and lighting to ensure that the film classification function is wholly undertaken at the facility unlike the current state where film examiners have to go to where the clients are to conduct the examination.

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

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

**1. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT**

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

**a) Issue / Observations from Auditor**

**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**

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**APPENDIX II: PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS**

**(Continued)**

**2. 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 29<sup>th</sup> 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

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

**3. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT**

Audit Financial Statements for the year ended 30 June 2015

**a) Issue / Observations from Auditor**

**Over Expenditure**

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

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

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

**b) Management comments**

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

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

**4. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT**

Audit Financial Statements for the year ended 30 June 2016

**a) Issue / Observations from Auditor**

**Bulk Purchase of Classification Stickers**

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

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

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

**b) Management Responses**

It is true that the financial statements availed for audit revealed that Inventory was purchased in two folds, the first batch of four million stickers (4) was bought at a cost of Kshs.7.40 and the second batch of two million stickers (2) was bought at a cost of Kshs.8.95. The usage of the inventory is based on FIFO. It is also true that the current inventories which relates to classification stickers of Kshs.36, 788,567.00 has over five years in the stores and the rate at which these classification stickers are being demanded or sold to the market is very slow due to the change in technology. However for the last six years the Board has collected Kshs.22, 067,600.

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

Ezekiel Mutua, MBS

**Chief Executive Officer**

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

*Not Resolved*

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

**5. REFERENCE NO. ON THE EXTERNAL AUDIT REPORT**

Audit Financial Statements for the year ended 30 June 2018

**a. Issue / Observations from Auditor**

**Bulk Purchase of Classification Stickers**

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

Examination of stores records maintained at the Board's Uchumi House Stores disclosed that classification stickers worth Kshs 29,570,607 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 a slow moving an 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, it has not been possible to confirm that the board obtained value for money from the bulk purchases of the stickers.

**b. Management Responses**

It is true that the financial statements availed for audit revealed that Inventory was purchased in two folds, the first batch of four million stickers (4) was bought at a cost of Kshs.7.40 and the second batch of two million stickers (2) was bought at a cost of Kshs.8.95. The usage of the inventory is based on FIFO. It is also true that the current inventories which relates to classification stickers of Kshs.29, 570,607.00 has over six (6) years in the stores and the rate at which these classification stickers are being demanded or sold to the market is very slow due to the change in technology. However, over the last six (6) years the Board has collected revenue of Kshs.26, 442,100 from the stickers which is more than half the cost of printing classification stickers.

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

Ezekiel Mutua, MBS

**Chief Executive Officer**

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

*Not Resolved*

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**Guidance Notes:**

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



Chief Executive Officer



Chairman of the Board

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

**Projects**

**Status of Projects completion**

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

	<b>Project</b>	<b>Total project Cost</b>	<b>Total expended to date</b>	<b>Completion % to date</b>	<b>Budget</b>	<b>Actual</b>	<b>Sources</b>
1	Development of an Online Licensing System	11,853,469	2,370,694	20%	14,000,000	-	GOK GRANTS
2	Acquisition and Refurbishment of a Cinema Theatre	234,700,000	96,402,966	41%	30,000,000	33,902,966	GOK GRANTS
	<b>Total</b>	<b>246,553,469</b>	<b>98,773,660</b>		<b>44,000,000</b>	<b>33,902,966</b>	

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<b>XX. APPENDIX III: INTER-ENTITY TRANSFERS</b>			
<b>APPENDIX III: INTER-ENTITY TRANSFERS</b>			
<b>ENTITY NAME: KENYA FILM CLASSIFICATION BOARD</b>			
<b>Break down of Transfers from the State Department of Arts and Culture</b>			
<b>FY 18/19</b>	<b>Bank Statement Date</b>	<b>Amount (KShs)</b>	<b>Indicate the FY to which the amounts relate</b>
a. Recurrent Grants			
	03-09-18	110,088,650	FY 2018/2019
	07-11-18	98,588,650	FY 2018/2019
	18-02-19	110,037,550	FY 2018/2019
	10-05-19	110,088,650	FY 2018/2019
	Cash in Transit-11/07/2019	11,500,000	FY 2018/2019
	<b>Sub-Total</b>	<b>440,303,500</b>	
	<b>Bank Statement Date</b>	<b>Amount (KShs)</b>	<b>Indicate the FY to which the amounts relate</b>
b. Development Grants			
	23-10-18	15,000,000	FY 2018/2019
	20-03-19	15,000,000	FY 2018/2019
	<b>Sub-Total</b>	<b>30,000,000</b>	
	<b>Total</b>	<b>470,303,500</b>	

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



Manager Finance & Accounts  
 Kenya Film Classification Board

Head of Accounting Unit  
 State Department for Arts and Culture

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

Name of the MDA/Don or Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development /Others	Total Amount - KSH.	Where Recorded/recognized					Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
State Department for Arts and Culture	03-09-18	Recurrent	110,088,650	110,088,650	-	-	-	-	110,088,650
State Department for Arts and Culture	23-10-18	Development	15,000,000	15,000,000					
State Department for Arts and Culture	07-11-18	Recurrent	98,588,650	98,588,650	-	-	-	-	98,588,650
State Department for Arts and Culture	18-02-19	Recurrent	110,037,550	110,037,550	-	-	-	-	110,037,550
State Department for Arts and Culture	20-03-19	Development	15,000,000	15,000,000	-	-	-	-	15,000,000
State Department	10-05-19	Recurrent	110,088,650	110,088,650	-	-	-	-	110,088,650

