

REPUBLIC OF KENYA



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OFFICE OF THE AUDITOR-GENERAL

REPORT

PARLIAMENT  
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THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
KENYA BROADCASTING CORPORATION

FOR THE YEAR  
ENDED 30 JUNE 2016





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**KENYA BROADCASTING CORPORATION**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**30 JUNE, 2016**

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**Prepared in accordance with the Accrual Basis of Accounting Method under the  
International Financial Reporting Standards**

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## KEY ENTITY INFORMATION AND MANAGEMENT

### Background information

The Kenya Broadcasting Corporation was formed in 1989 through an Act of parliament. The Corporation has a Board of Directors that is responsible for the general policy and strategic direction of the organization. It falls under the Ministry of Information, Communications and Technology.

### Principal Activities

The principal activity of KBC is to transmit objective, informative, educative and entertaining content to the public through high quality broadcasts.

### Key Management

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

- Managing Director,
- Heads of departments, and
- Assistant heads of departments.

### Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2015 and who had direct fiduciary responsibility were:

NO.	DESIGNATION	NAME
1	MANAGING DIRECTOR	WAITHAKA WAIHENYA
2	CORPORATION SECRETARY	PAUL JILANI
3	FINANCE & ADMINISTRATION MANAGER	H.M ISINTA
4	TELEVISION PROGRAMMES MANAGER	MONICA WACHEKE
5	MARKETING MANAGER	FLORENCE MIGUNDE

6	ADVERTISING MANAGER	CAROLYNE MUTUNGA
7	PROCUREMENT MANAGER	ROBERT WEKESA
8	Ass. MANAGER ICT	BENN MWALA
9	Ass. TECHNICAL SERVICES	SAMUEL NGUGI
10	MANAGER CORPORATE PLANNING, RESEARCH AND DEVELOPMENT	SAMWEL OTIENO
11	CORPORATE AFFAIRS MANAGER	EVELYNE MWAKINA
12	EDITOR IN-CHIEF	SAMUEL MAINA
13	PRINCIPAL INTERNAL AUDITOR	SAMWEL NJERU
14	AG.RADIO PROGRAMMES MANAGER	JONAH KUSERO
15	HUMAN RESOURCES MANAGER	DANIEL OKOTH

### **Fiduciary Oversight Arrangements**

KBC reports to the Public Investments Committee of parliament on unresolved matters raised by the Office of the Auditor General.

The Corporation is also answerable to the Parliamentary Committee on Information, Energy and Public works on budgetary issues and any other policy matters raised in the floor of the National Assembly.

### **Entity Headquarters**

P.O. Box 30456-00100,  
Broadcasting House,  
Harry Thuku Road,  
Nairobi, KENYA.

### **Entity Contacts**

Telephone: (254) 020-318823

Email: [finance@kbc.co.ke](mailto:finance@kbc.co.ke)

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



### **Entity Bankers**

1. Citibank N.A.,  
Citibank House, Upper Hill Road,  
P.O Box 30711-00100,  
Nairobi, Kenya.
2. Kenya Commercial Bank,  
Moi Avenue,  
Kencom House,  
P.O. Box 30081-00100,  
Nairobi, Kenya.
3. Commercial Bank Of Africa,  
CBA Centre,  
Mara and Ragati Roads, Upper Hill,  
P.O. Box 30437-00100,  
Nairobi, Kenya.




### **Auditors**

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

### **Principal Legal Advisor**

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

**THE BOARD OF DIRECTORS**

 <p>Eng. Edward Musebe Chairman</p>	<p>Currently GM ADIL, MD Chemelil sugar Company, projects Manager Unga Ltd, production Manager EAC, Engineering Manager EABL (Glass), Adjunct Lecturer USIU.</p>
 <p>Rev. Symon Kiuta</p>	<p>Master of Divinity(M.Div) Africa International University(AIU) Currently a Lecturer at Kabarak University Serving a second term as board member KBC</p>
 <p>Ms. Violet Chesang</p>	<p>Doctor of Philosophy (PHD) in English and Communication from Egerton University</p>



Mr. Mohammed Jabane

Master of Arts (International Relations) Nairobi University

Advanced Public Administration (K.I.A)

Bachelor of Arts, political Science-Nairobi University

Currently head of secretariat, Cabinet nominees

Policy formulation and review on State Corporations.



Mr. Samuel Itemere

Mr. Samuel Itemere is the Principle Secretary in the Ministry of Information, Communications and Technology in charge of State Department of Broadcasting and Telecommunications. He is the Principal Assistant to the Cabinet Secretary of Ministry of Information, Communications and Technology Republic of Kenya.

He serves as a Director to the Board of Communications Authority of Kenya, Kenya Broadcasting Corporation, Postal Corporation of Kenya, Kenya Institute of Communications, Kenya Yearbook Editorial Board and Media Council of Kenya. In addition Samuel is a gifted public communicator and has gained useful knowledge in the Broadcasting and Telecommunication sector.

Prior to joining Government, Mr. Itemere was the Managing Director of Equatorial bank and served as a Senior Manager with various Commercial Banks in Kenya for a period spanning over 20 years in running Retail, Corporate, Enterprise Banking and operations towards achieving and driving Business performance. He is also credited for being the first Managing Director of the Kenya Commercial Bank in South Sudan.

In his career in the banking industry, he was directly involved in facilitation of mobile banking services

hence contributing towards the expansion and extension of banking services through the mobile money banking infrastructure within and without the national and regional territory where the banks had footprints,

Mr. Samuel Itemere, holders a Bachelor of Arts in Economic from the University of Poona, India and Masters in Business Administration from the same University.



Ms. Joanne Mwangi

Ms. Mwangi was appointed as a director on March 25, 2013. She is the chair of the Finance and Marketing Committee of the KBC Board.

Holds a Bachelor of Arts Degree from the University of Nairobi, and an MBA, Strategic Management from the United States International University as well as numerous other professional accolades. She graduated with distinction in the Corporate Governance Training in 2014.

Ms Mwangi is the founder and Group Chief Executive Officer of Professional Marketing Services Group. She is also founder and chair of the Federation of Women Entrepreneur Associations (FEWA), which represents Kenya and chairs the board of FEMCOM at COMESA through Ms. Mwangi.





Bachelors degree from Kenyatta University

Masters in Communication from Leicester University

Previously Editor in Chief KBC,3 and a half years associate Editor standard newspapers, in charge of day to day running of KBC as Managing Director

<p>Mr. Waithaka Waihenya          Managing Director</p>	
<div data-bbox="284 376 555 719" data-label="Image"> </div> <p>Mr. Paul Jilani          Corporation Secretary</p>	<p>Bachelors of Law (LLB) and Masters in Business Administration(MBA)          Diploma in Law, Kenya school of Law          Certified public Secretaries(CPS)          Member Law society of Kenya(LSK)          Member Institute of Certified Public Secretaries of Kenya(ICPSK)          Corporation Secretary, Telkom Orange upto 2010          Corporation Secretary,KBC (currently)</p>

**MANAGEMENT TEAM**

 <p>Mr. Waithaka Waihenya Managing Director</p>	<p>Bachelors degree from Kenyatta University</p> <p>Masters in Communication from Leicester University</p> <p>Previously Editor in Chief KBC,3 and a half years associate Editor standard newspapers, in charge of day to day running of KBC as Managing Director</p>
 <p>Mr. Paul Jilani Corporation Secretary</p>	<p>Bachelors of Law (LLB) and Masters in Business Administration(MBA)</p> <p>Diploma in Law, Kenya school of Law</p> <p>Certified public Secretaries(CPS)</p> <p>Member Law society of Kenya(LSK)</p> <p>Member Institute of Certified Public Secretaries of Kenya(ICPSK)</p> <p>Corporation Secretary, Telkom Orange upto 2010</p> <p>Corporation Secretary,KBC (currently)</p>



Mr. H.M Isinta  
 Finance and Administration Manager

- MBA (Finance)
- Bachelor of Commerce(Accounting)
- CPA(K)



Ms. Monica Waceke  
 Television Programmes Manager

- 2011 September - 2012 September  
 University of Westminster, United Kingdom
- **Post Graduate MA in Communication Policy**
- 2009 September Korea Advance  
 Institute of Science and Technology  
 South Korea
- **Certificate in Media and Contents Policy in Convergence Era**
- 2006 November - International (CFI),  
 Uganda
- **Certificate in Schedule Building and Programming**
- 1999 - 2003 June - Daystar  
 University, Kenya
- **B.A., Communication (Electronic Media)**
- 1995-1998 - Loreto High School  
 Kiambu  
**Kenya Certificate of Secondary Education**



Mr. Robert Wekesa  
Procurement Manager

- Member- Chartered Institute of Purchasing and supplies-UK(MCIPS)
- Masters Degree Human Resources and Labour Laws
- Degree in Political science
- More than 15years experience in Procurement and Sourcing.



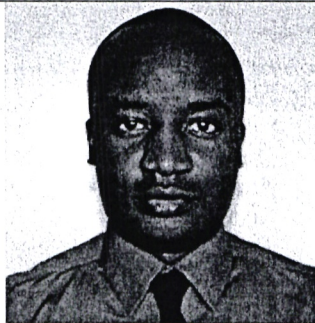
Mr. Samwel Otieno  
Manager Corporate planning, Research and Development

- Bsc. in Electrical Engineering (Light Current Option)
- Registered Graduate Engineer with ERB
- Registered Graduate Member with IEK
- Member of IEEE



Ms. Everlyn Mwakina  
Corporate Affairs Manager

Holds a Bachelor of Arts in Philosophy, Literature and Kiswahili (Kenyatta University), a Post Graduate Diploma in Mass Communication (University of UON) and an Executive Masters of Business Administration Eastern and Southern African Management Institute (ESAMI) & Maastricht School of Management (MsM). She also holds a certificate in Strategic Leadership Development from Kenya School of Government and a host of other professional certificates.



Mr. Benn Mwala  
Ag. Manager Information  
communications Technology and  
Technical Services

BSc in Computer Science  
MSc in Information Technology -  
(Management Information Systems)

Information Technology Infrastructure Library  
(ITIL)  
Syspro ERP Administration



Mr. Samuel Ngugi

Ag. AMTS

Higher Diploma in Electrical Engineering  
PART I





Ms. Carolyn Mutunga

Advertising Manager

- MBA: Strategic Management
- Bachelor of Commerce: Marketing and Business Administration.
- KCSE: Pangani Girls High School



Holds a Bachelor of Commerce (Marketing) and a Masters in Strategic Management from the University of Nairobi as well as a CIM Post-Graduate Diploma.

<p>Ms. Florence Migunde Marketing Manager</p>	
 <p>Mr. Samuel Njeru Principal Internal Auditor</p>	<ul style="list-style-type: none"> <li>• Bachelor of Commerce Degree (Accounting) from the University of Nairobi and</li> <li>• CPA (K).</li> <li>• Currently pursuing MBA from U.O.N.</li> </ul>
 <p>Mr. Jonah Kusero Ag. Radio Programmes Manager</p>	<p><b>EDUCATION</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> MA ( Project planning and Management) University of Nairobi</li> <li><input type="checkbox"/> BA (HONS) Economics. University of Punjab, India</li> <li><input type="checkbox"/> Dip Marketing Management</li> </ul> <ul style="list-style-type: none"> <li>• Certificate in Radio and TV production.</li> <li>• Certificate in Broadcast Journalism.</li> <li>• Certificate in Management Skills</li> <li>• Certificate in managing the training and development functions</li> </ul>



Mr. Daniel Okoth

Human Resource Manager

- Bachelor of Arts in Government and Public Administration
- Post graduate Diploma in Human Resource Management

## CHAIRMAN'S STATEMENT

The financial year 2015/2016 marks twenty seven years of existence of Kenya Broadcasting Corporation. Since the liberalization of media industry in Kenya in the 1990s, Kenya Broadcasting Corporation has consistently worked hard to be relevant in the competitive business environment. To date, the Corporation's rich portfolio of brands comprises of two TV channels and fifteen radio services.

The total revenue realized decreased by 21% from Kshs 2.7 billion last year to Kshs 2.1 billion this year. This is attributed to a drop in dividends from Multichoice Kenya Ltd where KBC is a 40% shareholder by kshs 260 million as well as a reduction in Government grant by kshs 192.2 million.

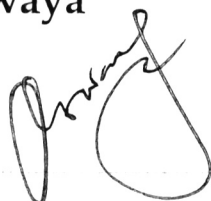
The total expenditure decreased by 69% from Kshs 8 billion last year to Kshs 2.5 billion this year. The reduction in expenditure is explained by lower interest that the Government charged KBC on account of repaying Japanese loan this year and a drop in electricity expenditure by kshs 35.3 million as a result of installing new FM radio transmitters and switching off medium wave radio transmitters that consume a lot of electricity. Loss after tax decreased by 93% from Kshs 5.3 billion to Kshs 368.4 million due to reduced expenses.

The Corporation hired a new team of news presenters that brought in fresh outlook and passion in news reading. We installed nine new FM radio transmitters at various sites in the country that has expanded radio coverage and improved signal quality. New studio lighting equipments were installed during the financial year contributing to screen clarity. Radio digitization was implemented for four brands to enhance signal quality. Digital TV transmission migration roll-out countrywide has progressed well. Both urban and rural areas are receiving Digital Tv transmissions except for a few areas in North Eastern Kenya where implementation is going on.

Finally, to improve staff morale and increase their productivity, we awarded 11% basic salary increment to staff in lower cadres in July 2015.

**Kennedy Mbwaya**

**Director**



## REPORT OF THE MANAGING DIRECTOR

The year 2015/2016 was quite eventful and fruitful for us as KBC family and the entire Kenya citizenry for live coverage of the Obama visit in July 2015, the pope visit in November 2015 and world trade organization conference (WTO) in December, 2015. At the same time, we successfully transmitted live the London Marathon in April 2016. I therefore take this opportunity to thank all the staff for giving their best in ensuring successful transmission of the matches and also the individual and corporate customers for patronizing the event.

We continued to fulfill our public broadcasting mandate of informing, educating and entertaining the public through radio and television services and thereby propagating all that consolidates national unity, peace, love and development. This is evidenced by the live transmission of National Assembly and the Senate House proceedings. Cumulatively, we have fifteen high power TV transmitters countrywide, seventeen low power TV transmitters, thirty nine high power FM radio transmitters, thirty seven low power FM radio transmitters and twelve medium wave transmitters countrywide. We remained committed to realizing our mission of transmitting objective and quality content. Our signal quality, news and programming improved by procuring modern equipments and recruiting new presenters. During the year, we promoted the various TV and radio brands via road-shows, outside interaction events, billboards and print media.

KBC through SIGNET implemented digital TV transmission countrywide save for some areas in North Eastern Kenya where the process of sites development and installing transmitters is going on. Currently, we are hosting thirty active clients in the digital TV platform compared to twenty three last year. The number of Kenyans watching digital TV transmission has been growing with increasing availability of set-top boxes in the market, increasing awareness and the continuing drop in the prices of set-top boxes.

The Corporation has been working towards ISO certification for the last two years. We have been able to comply with the necessary requirements and KBC was ISO certified in August 2014.

Management worked towards saving costs and realized a 69 % reduction in total expenses driven mainly by 17% drop in electricity costs and lower Government interest on account of repaying interest on Japanese loan. We continued extending automation and integration of financial processes in the KBC branch offices into SYPRO financial system which realized significant efficiency and accountability.

During the financial year, management was able to award staff a salary increment of 11% to appreciate, recognize their work effort, motivate them and reviewed upwards staff subsistence allowance in line with SRC rules. In the same direction, staff were also provided with monetary Christmas token and shopping vouchers in December 2015.

As stated in another section of these financial statements, we were able to undertake a number of corporate social responsibility activities and we intend to do more in the forthcoming year.

**Mr. Waithaka Waihenya**

**Managing Director**



## **CORPORATE GOVERNANCE STATEMENT**

The Corporation complies with corporate governance principles. We have Board of Directors in place that oversees the policy issues of the institution. The management team in existence is responsible for the day to day management of the institution. The following committees of the Board are in existence:

1. Finance & Marketing committee.
2. Editorial & Technical committee.
3. Human Resources committee.
4. Audit committee.

Management has also put in place various management committees the apex of which is the senior management committee that meets weekly on Tuesdays.



## CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Kenya Broadcasting Corporation is committed to adopting the best practice in Corporate Social Responsibility (CSR), a concept through which organizations integrate social and environmental concerns into their operations and interaction with their stakeholders on a voluntary basis. Besides forging profit making partnerships with her stakeholders, the national broadcaster recognizes the need to contribute towards social and environmental objectives.

In 2015/2016, KBC Board approved the Corporate Communication and Corporate Social Responsibility (CSR) Policy to guide and enhance partnerships with our stakeholders through the delivery of services that are mutually beneficial to the Corporation and the society at large. While conducting our business in line with the expectations of diverse clientele, KBC also sees Corporate Social Responsibility as a discipline that helps to manage emerging and often unprecedented risks presented to us in a changing world.

Since its establishment, KBC has been associated with exemplary work in partnering with individuals, institutions, communities and Government to ensure societal or communal needs are urgently addressed. KBC has been recognized as a Corporation that is transparent and ethical in all its dealings as well as making a positive contribution to the community in which it operates.

KBC will generally cover the marginalized communities / areas where it has its business operations. As a part of the national broadcaster's CSR strategy, and in line with the objectives specified above and the Vision 2030 and the Millennium Development Goals (MDGs) launched by the United Nations (UN) and adopted by Government of Kenya. The scope of CSR activities cover the following areas: Education/literacy enhancement to disadvantaged groups; Health; Drinking Water/Sanitation; Environment; Community Development and Social Empowerment; Promotion of Sports and

traditional forms of Art and Culture; and any other activity as may be identified by the Corporate Communication Department or the CSR Advisory Committee.

Apart from implementing CSR, KBC closely monitors and evaluates activities to ensure desirable achievement and analyze the impact.

Finally, the Corporation participated in the Kenya Communication Sports Annual Event (KECOSO) in September 2015 at Machakos



## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2016 which show the state of Kenya Broadcasting Corporation's affairs

### **Principal activities**

The principal activities of Kenya Broadcasting Corporation are broadcasting and provision of digital television transmission infrastructure platform.

### **Results**

The results of Kenya Broadcasting Corporation for the year ended June 30, 2016 are set out on pages 1 to 4

### **Auditors**

The Auditor General is responsible for the statutory audit of the Kenya Broadcasting Corporation in accordance with the Public Finance Management (PFM) Act, 2012.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Public Management Act, 2012 and the State Corporations Act, requires the Directors to prepare financial statements in respect of Kenya Broadcasting Corporation, which give a true and fair view of the state of affairs of Kenya Broadcasting Corporation at the end of the financial year and the operating results of Kenya Broadcasting Corporation for that year. The Directors are also required to ensure that Kenya Broadcasting Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of Kenya Broadcasting Corporation. The Directors are also responsible for safeguarding the assets of Kenya Broadcasting Corporation.

The Directors are responsible for the preparation and presentation of the Kenya Broadcasting Corporation's financial statements, which give true and fair view of the state of affairs of Kenya Broadcasting Corporation for and as at the end of financial year ended on June 30, 2016. This responsibility includes:

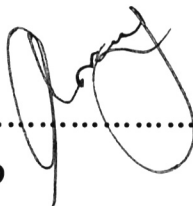
- i. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- ii. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of Kenya Broadcasting;
- iii. Designing, 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 Kenya Broadcasting Corporation;
- v. Selecting and applying appropriate accounting policies; and
- vi. Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Kenya Broadcasting Corporation financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards, and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Kenya Broadcasting

Corporation financial statements give a true and fair view of the state of Kenya Broadcasting Corporation's transactions during the financial year ended June 30, 2016, and of the Kenya Broadcasting Corporation financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for Kenya Broadcasting Corporation, which have been relied upon in the preparation of Kenya Broadcasting Corporation 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 Kenya Broadcasting Corporation will not remain a going concern for at least the next twelve months from the date of this statement.

**KENNEDY MBWAYA** .....  
**DIRECTOR OF THE BOARD**



**MR. WAITHAKA WAIHENYA** .....  
**MANAGING DIRECTOR**



# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA BROADCASTING CORPORATION FOR THE YEAR ENDED 30 JUNE 2016

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Broadcasting Corporation set out on pages 24 to 55 which comprise the statement of financial position as at 30 June 2016, and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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*Report of the Auditor-General on the Financial Statements of Kenya Broadcasting Corporation for the year ended 30 June 2016*

of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

## **Basis for Adverse Opinion**

### **1.0 Property, Plant and Equipment**

#### **1.1 Unsupported Valuation of Assets**

The statement of changes in equity for the year ended 30 June 2016 reflects a revaluation reserve figure of Kshs.11,616,174,000 whose supporting valuation report/analysis was not availed for audit review.

In addition, note 8 to the financial statements reflects additions figure of Kshs.184,992,954 under plant and machinery whose supporting schedules/analysis was not availed for audit review. In the circumstances, it has not been possible to confirm that the existence, accuracy and validity of property, plant and equipment balance of Kshs.16,915,900,000 as at 30 June 2016.

#### **1.2 Generators**

In July 2000, and as reported in the previous years, the Corporation made an arrangement with Kenya Electricity Generating Company Ltd (KenGen) whereby the Corporation loaned KenGen five (5) generators which were subsequently installed at Jomo Kenyatta University and University of Nairobi under an Emergency power supply project. The generators which had an estimated value of Kshs.29 million are part of the Corporation's portfolio of assets. However, as observed in the previous years, no compensation for use of generators appears to have been paid to the Corporation as at the date of this report and no explanation has been provided for the anomaly.

#### **1.3 Unclear transfer of Corporation land**

The property, plant and equipment balance of Kshs.16,915,900,000 as at 30 June 2016 includes land LR No.209/10370 designated as Norfolk Car Park measuring 2.19 acres valued at Kshs.1,431,000,000 which was transferred to Kenya Cultural Centre vide letter Ref: No. KBC/MD/14/6/C VOL.VII dated 11 October 2016. It is not clear and management has not explained the circumstances under which the Corporation's land was transferred to Kenya Cultural Centre contrary to the requirements of Chapter five, Article 62 Section 4 of the Constitution which states that public land shall not be disposed of or otherwise used except in terms of an Act of Parliament specifying the nature and terms of that disposal or use.

Further, the said Parcel of Land has two allotment letters reflecting different sizes as follows; allotment letter dated 12 August 1994 indicates the size of the land as 0.8861 hectares while allotment letter dated 8 March 2004 indicate 0.8737 hectares. In addition

the survey plan indicates the size of the same parcel of land as 0.21 hectares which differs with the acreage indicated in the two (2) allotment letters.

Consequently, it has not been possible to confirm the size and ownership status of the parcel of land and that the property, plant and equipment balance of Kshs.16,915,900,000 as at 30 June 2016 is fairly stated.

#### **1.4 Land Building**

As previously reported, the property, plant and equipment balance of Kshs.16,915,900,000 as at 30 June 2016 includes land and buildings balance of Kshs.12,857,874,001 and Kshs.906,930,251 respectively totalling Kshs.13,767,804,252. The balance of Kshs.13,767,804,252 also includes land and building valued at Kshs.5,712,992,000 with letters of allotment and Kshs.903,767,000 in respect of un-surveyed and un-adjudicated land all totalling Kshs.6,616,759,000 whose ownership documents were not availed for audit review. The balance also excludes the unvalued land LR No 75893/111/66A situated at Voi Township measuring 3.7 acres which the valuer could not locate during the time of valuation of assets in November 2014. In addition, the Corporation's land LR No75893/111/64A measuring 0.7413 acres located at Voi Township and valued at Kshs.1,600,000 had been taken over by the Ministry of Mining and a building was being erected on it. Further, a parcel of land No LR.No.11773 - Ngong TX station located at Kajiado County differed in size as the letter of allotment indicates that the land is measuring 33.419 acres (13.53 hectares) while information available indicates that the actual size on the ground is 124.79055 acres valued at Kshs.2,700,000,000.

Further, the Corporation's Jamhuri Park land LR. No 15090 measuring 100 acres was allegedly grabbed, out of which 60 acres was recovered by Kenya Anti-Corruption Commission and was allocated/reverted to Kenya Forest service while the Corporation was reallocated 29 acres leaving land measuring 11 acres which has not been accounted for as at the date of this report. It is not clear and management has not explained why part of the recovered land was given to Kenya Forest Service. Available information also reveals that the Corporation's Sauti house in Mombasa which houses the Mombasa office, has a pending court case and part of its land was grabbed by Housing Finance Company of Kenya (HFCK) while, the Corporation land in Nyali TX L.R.No 1476/1 measuring approximately 22.8 hectares was encroached into by squatters and a stone fence erected at a cost of Kshs.3,512,700 was demolished. It was further noted that most of the Corporation's land had unresolved cases pending in court. Although indications are that the Corporation has made attempts at the Ministry of Lands, Housing and Urban Development to have outstanding issues resolved, no meaningful progress appears to have been achieved as at the date of this report.

In the circumstances, it has not been possible to confirm that the property, plant and equipment balance of Kshs.16,915,900,000 as at 30 June 2016 is fairly stated.

#### **1.5 Land without Title Deeds**

Available information indicates that the Corporation owns twenty five (25) parcels of land valued at Kshs.6,102,849,000 that are un-surveyed, un-adjudicated and whose

ownership documents such as title deeds and certificates of lease were not availed for audit review. Although, the management is aware of the above anomaly, no evidence of any action being taken by the management to obtain ownership documents of these parcels of land was availed for audit verification. In addition, and as previously reported in 2014/2015 report, the balance of land excludes unvalued land LR.No.75893/111/66A situated at Voi Township measuring 3.7 acres which the valuer could not locate during the time of valuation of assets in November 2014. The management has not provided satisfactory explanations for the above anomalies.

The following is a breakdown of the 25 parcels of land without title deeds:

No	Description	Ownership Document	Location	Purchase Date	Book Value
1	L.R. NO: 209/10370-Norfolk Car Park	Letter of allotment	Nairobi	30th Nov 2014	1,431,000,000.00
2	216/KLF/2/97-Mambrui , Malindi	Letter of allotment	Malindi	30th Nov 2014	482,000.00
3	Kisumu/Mun/Block 10/97-Kisumu	Letter of allotment	Kisumu	30th Nov 2014	204,460,000.00
4	L.R. NO: L96/16, Karen	Letter of allotment	Nairobi	30th Nov 2014	13,000,000.00
5	LR.NO.12679 Jamhuri HQ	Letter of allotment	Nairobi	30th Nov 2014	1,300,000,000.00
6	LR.No: 11773 Ngong TX Station	Letter of allotment	Kajiado	30th Nov 2014	2,700,000,000.00
7	L.R. NO: 191,Marsabit	No documents	Marsabit	30th Nov 2014	5,600,000.00
8	55/KLF/2/89-Malindi	No documents	Malindi	30th Nov 2014	4,400,000.00
9	Garissa town Block III/13	No documents	Garissa	30th Nov 2014	9,400,000.00
10	Garissa TX Station	No documents	Garissa	30th Nov 2014	9,500,000.00
11	MI /XXI /522-Sauti House, Mombasa Island	No documents	Mombasa	30th Nov 2014	313,250,000.00
12	Samburu/Lodekejek/37,Maralal, Samburu District	No documents	Samburu	30th Nov 2014	5,600,000.00
13	L.R. NO: 6073/1-Kapsimotwa , Nandi District	No documents	Nandi	30th Nov 2014	7,265,000.00
14	L.R. NO: 11283-Limuru	No documents	Kiambu	30th Nov 2014	15,372,000.00
15	Mazeras , Kwale District	No documents	Kwale	30th Nov 2014	3,600,000.00
16	L.R. NO: 451/12262- Nakuru, Menegai Hill	No documents	Nakuru	30th Nov 2014	33,000,000.00
17	Nyamninia, Siaya District	No documents	Siaya	30th Nov 2014	30,250,000.00
18	Unsurveyed Plot, Nyeri District	No documents	Nyeri	30th Nov 2014	4,100,000.00
19	Unsurveyed Plot, Timboroa, Koibatek District	No documents	Uasin Gishu	30th Nov 2014	1,120,000.00

20	Unsurveyed Land, Wajir TX Station	No documents	Wajir	30th Nov 2014	1,700,000.00
21	Unadjudicated Land, Voi TX Station	No documents	Taita Taveta	30th Nov 2014	4,200,000.00
22	Voi Township, Plan NO: 75893/III/64A	No documents	Taita Taveta	30th Nov 2014	1,600,000.00
23	Voi Township, Plan NO: 75893/III/65A	No documents	Taita Taveta	30th Nov 2014	2,800,000.00
24	Unsurveyed Plot, Nyambene Hills, Meru	No documents	Meru	30th Nov 2014	850,000.00
25	Lamu Unserved	No documents	Lamu	30th Nov 2014	300,000.00
	<b>TOTAL</b>				<b>6,102,849,000.00</b>

Consequently, it has not been possible to confirm ownership status and existence of the twenty five (25) parcels of land valued at Kshs.6,102,849,000 as at 30 June 2016.

### 1.6 Land with Disputes

Further, available information at the Corporation indicates that the following (10) parcels of land measuring 211.58785 acres and valued at Kshs.7,597,582,000 are under disputes that has been on for a long period of time:

No	LR No.	Location	Size in Acre	Value	Ownership
1	LR No. 1/9218	Donyo Sabuk Komarock	1.234	1,820,000,000	With title
2	M1/XX/522	Sauti House Mombasa Island	1.253	313,250,000	No title
3	No LR No	Lamu - Unserved	0.018	130,000	No title
4	LR No 26326	Longata	19.365	461,000,000	With title
5	16/KLF/2/97	Mambrui Malindi	7.17	482,000	With letter of allotment
6	No. LR No	Timboroa Koibatek	4.8	1,120,000	No ownership document
7	LR No 75893/111/64A	Voi Township	0.7413	1,600,000	No ownership document
8	LR No 11773	Ngong Station Kajiado	124.79055	2,700,000,000	With letter of allotment
9	LR No 12676	Jamhuri Headquarters	29	1,300,000,000	With letter of allotment
10	LR No 1476/1	Nyali	22.85	1,000,000,000	With title deed
			<b>211.58785</b>	<b>7,597,582,000</b>	

Consequently, it has not been possible to confirm the existence and ownership status of the ten (10) parcels of land valued Kshs.7,597,582,000 as at 30 June 2016.

## 1.7 Unclear Transfer of KBC land to Staff Pension Fund

Available information indicate that the Corporation is in the process of transferring four (4) parcels of land valued at Kshs.2,036,250,000 to Kenya Broadcasting Corporation staff pension Fund for unremitted outstanding arrears totalling Kshs.225,111,000 as at 30 June 2016, contrary to chapter five (5), Article 62, Section 4 of the Constitution of Kenya which may lead to loss of Corporation land as detailed below:

- LR.No.1/9218 Donyo Sabuk/Komarock 1,234.26 acres (with title deed) valued at kshs.1,820,000,000.
- LR. No. Ntirimiti settlement scheme/153, Marania Meru District 238.45 acres (with title deed) valued at Kshs.130,000,000.
- LR. No.1932/4 Kitale Municipality 200 acres (With title deed) valued at Kshs.56,000,000 and
- Nyamninia, Siaya District 107.98 acres (Without ownership documents) valued at Kshs.30,250,000.

It is not clear and the management has not explained why land worth Kshs.2,036,250,000 is being exchanged with a pension debt of Kshs.225,111,000 resulting to a possible loss of Corporation land valued at Kshs.1,811,139,000. In the circumstances, it has not been possible to confirm that the above transfer of four (4) Corporation parcels of land valued at Kshs.2,036,250,000 to the KBC Pension Fund is in the best interest of the stakeholders.

## 2. Trade and other Payables

The statement of financial position as at 30 June 2016 reflects trade and other payables balance of Kshs.1,445,479,000 which includes an amount of Kshs.933,753,000 in respect of statutory and other deductions which had not been remitted to the respective institutions as detailed below:-

Particulars	Amount (Kshs)
Pension	225,111,000
Statutory Deduction	21,968,000
Medical Fund	197,512,000
co-operative Deductions	31,354,000
Insurance	3,269,000
SAYE	14,000
Other Deductions	8,370,000
Value added Tax (VAT)	446,155,000
<b>Total</b>	<b>933,753,000</b>

It is not clear and management has not explained if and when the amount of Kshs.933,753,000 will be remitted to the respective Institutions. The Corporation is

therefore in breach of the law and the unremitted amounts may attract fines and penalties. The Corporation has also not made provision for possible penalties in the financial statements. In the circumstances, it has not been possible to confirm the accuracy, validity and completeness of trade and other payable balance of Kshs.1,445,479,000 as at 30 June 2016

### **3. Japanese loan**

As previously reported, the Corporation's statement of financial position as at 30 June 2016 reflects a loan from Overseas Economic Cooperation Fund (OECF) of Japan as disclosed in note 16(a) and 16(b) of the financial statements. The OECF loan which was guaranteed by the Government in 1989 funded the Corporation's modernization programme, a project mooted out of a study by the government in February 1988. The Corporation contracted a Japanese firm to undertake the modernisation project at a sum of Japanese Yen.11,904,566,500 with a Kenya Currency portion of Kshs.98,507,000. The loan was interest bearing and as at 30 June 2016 the loan balance was Kshs.11,444,040,000 and interest thereof Kshs.42,742,091,000. Although, the Parliamentary Investment Committee discussed the issue concerning the loan when the Corporation appeared before the committee, no definite resolution was reached and the Corporation has continued to reflect the loan and interest balance in its financial statements. Although management has explained that there are on-going negotiations with the Government to convert Government of Kenya Loan into equity, it is not certain when the process will be completed. The management has not been servicing the loan which had been guaranteed by the National Treasury and had accumulated to Kshs.54,186,131,000 as at 30 June 2016.

### **4. Going Concern**

As in the previous years, the Corporation recorded a loss of Kshs.8,404,156,000 (2015 – loss Kshs.5,347,434,000) thereby increasing the cumulative losses to Kshs.50,139,270,000 as at 30 June 2016. Further, the statement of financial position reflects current liabilities balance of Kshs.55,645,254,000 which exceeds current assets balance of Kshs.1,138,346,000 resulting to a negative working capital of Kshs.54,506,908,000. The Corporation is therefore technically insolvent and its continued existence as a going concern is dependent upon the financial support of the Government and its creditors.

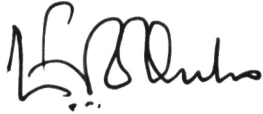
### **5. Administration Costs**

Included in the administration costs amount of Kshs.10,107,970,000 is an amount of Kshs.14,473,372 in respect of subsistence allowance paid to various officers who were involved in primary infrastructure on the Digital Terrestrial Television coverage roll out DVB-T2 platform project which was not budgeted for. The amount of Kshs.14,473,372 as also disclosed, is shown as a deficit in the project's financial statements for the year ended 30 June 2016. The Corporation was therefore in breach of the law.

Consequently, it has not been possible to confirm the propriety of expenditure totalling 14,473,372 for the year ended 30 June 2016.

## **Adverse Opinion**

In my opinion, except for the effect of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of the Kenya Broadcasting Corporation as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with Kenya Broadcasting Act, Cap. 221 of the Laws of Kenya.



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

**Nairobi**

**06 September 2017**

**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 30 June 2016**

	NOTES	2015/2016 Kshs'000'	2014/2015 Kshs'000'
<b>REVENUES</b>			
Sales	1	1,005,694	1,116,805
Grants from National Government	2	891,997	1,084,199
Other income	3	<u>245,195</u>	<u>503,898</u>
<b>TOTAL REVENUES</b>		<b><u>2,142,886</u></b>	<b><u>2,704,902</u></b>
<b>EXPENSES</b>			
Administration costs	4	10,107,970	7,724,633
Selling and distribution costs	5	145,976	124,730
Depreciation of property plant and equipment	6	<u>291,756</u>	<u>209,452</u>
<b>TOTAL OPERATING EXPENSES</b>		<b><u>10,545,702</u></b>	<b><u>8,058,455</u></b>
<b>OPERATING (LOSS)</b>		<b><u>(8,402,816)</u></b>	<b><u>(5,353,553)</u></b>
Finance Income/cost	7	(1,340)	6,119
<b>OPERATING (LOSS)</b>		<b><u>(8,404,156)</u></b>	<b><u>(5,347,434)</u></b>

**STATEMENT OF FINANCIAL POSITION**

AS AT 30 JUNE 2016

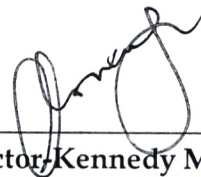
ASSETS	NOTES	2015/2016 Kshs '000'	2014/2015 Kshs '000'
<b>NON CURRENT ASSETS</b>			
Property, Plant and Equipment	8	16,911,900	16,293,768
Investments	9	<u>400</u>	<u>400</u>
<b>Total Non-current Assets</b>		<b><u>16,912,300</u></b>	<b><u>16,294,168</u></b>
<b>CURRENT ASSETS</b>			
Inventories	10	75,938	65,652
Trade and other Receivables	11	1,056,593	899,683
Cash and bank balances	12	<u>5,815</u>	<u>34,827</u>
<b>TOTAL CURRENT ASSETS</b>		<b><u>1,138,346</u></b>	<b><u>1,000,162</u></b>
<b>TOTAL ASSETS</b>		<b><u>18,050,646</u></b>	<b><u>17,294,330</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary Share capital	13	928,488	928,488
Revaluation reserve	14	11,616,174	11,616,174
Accumulated surplus / losses		<u>(50,139,270)</u>	<u>(41,735,114)</u>
<b>Total Capital and Reserves</b>		<b><u>(37,594,608)</u></b>	<b><u>(29,190,452)</u></b>
<b>CURRENT LIABILITIES</b>			
Trade Payables	15	1,445,479	1,480,332
GOK Loan (principal)	16(a)	11,444,040	10,439,580
GOK ( Loan interest)	16(b)	42,742,091	34,514,726
Bank Overdraft	17	<u>13,644</u>	<u>50,144</u>
<b>TOTAL CURRENT LIABILITIES</b>		<b><u>55,645,254</u></b>	<b><u>46,484,782</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>18,050,646</u></b>	<b><u>17,294,330</u></b>

Signed:



\_\_\_\_\_  
Managing Director -Waithaka Waihenya

Date \_\_\_\_\_



\_\_\_\_\_  
Director, Kennedy Mbwaya

Date: \_\_\_\_\_

**STATEMENT OF CHANGES IN EQUITY**

FOR THE YEAR ENDED 30 JUNE 2016

	Ordinary Share Capital	Revaluation Reserve Kshs '000'	Accumulated surplus/Losses Kshs '000'	Totals Kshs "000"
1/7/2013	928,488	1,729,692	(31,253,766)	(28,595,586)
Loss for the year			(5,500,806)	(5,500,806)
30/06/2014	<u>928,488</u>	<u>1,729,692</u>	<u>(36,754,572)</u>	<u>(34,096,392)</u>
1/7/2014	<u>928,488</u>	<u>1,729,692</u>	<u>(36,754,572)</u>	<u>(34,096,392)</u>
Acc depreciation (building) as at 1/7/2014		(366,892)	366,892	-
Loss for the year			(5,598,431)	(5,598,431)
Revaluation reserve 16(b)		10,253,374	-	10,253,374
30/06/2015	928,488	11,616,174	(41,986,111)	(29,441,449)
Loss for the year 30/06/2016	928,488	11,616,174	(8,404,156) (50,139,270)	(8,404,156) (37,594,608)

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

### Receipt

Grant from national government	2	891,997	1,084,199
Sales of goods	1	1,005,694	1,116,805
Other income	3	<u>245,195</u>	<u>502,961</u>
		<b><u>2,142,886</u></b>	<b><u>2,703,965</u></b>

### Payments

Compensation of employees		702,365	648,365
Payments of goods and services		<u>1,360,263</u>	<u>2,236,703</u>
		<b><u>2,062,628</u></b>	<b><u>2,885,068</u></b>

**Net cashflow from operating activities** **80,258** **(181,103)**

### Cash flows from investing activities

Purchase of property plant and equipments		(291,430)	(309,268)
Dividends		220,000	480,000
Interest			173
Exchange gain		<u>(1,340)</u>	<u>6,119</u>
<b>Net Cash flow used in investing activities</b>		<b><u>72,770</u></b>	<b><u>177,024</u></b>

### Cash flow from financing activities

Proceeds from borrowings		753,254	663,517
Repayment of borrowings		-753,254	-663,517

**Net increase /decrease in cash and cash equivalent** **7,488** **-4,079**

Cash and cash equivalent as at 1<sup>st</sup> july 2016 -15,317 -11,238

**Cash and cash equivalent as at 30 june 2016** **-7,829** **-15,317**

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

### i. Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis except for the measurement at revalued 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 Financial Reporting Standards allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the entity's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest thousand(kshs.000)

The financial statements have been prepared in accordance with the PFM Act, the state Corporations Act, and International Financial Reporting Standards. The accounting policies adopted have been consistently applied to all years presented.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**ii. New and amended standards adopted by the company**

A number of new and revised standards and interpretations have been adopted in the current year. Their adoption has had no material impact on the amounts reported in these financial statements. At the date of preparation of these financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective for the year presented.

Amendments issued in December 2014 to IAS 1 'Presentation of financial statements' which will be effective for annual accounting periods beginning on or after 1 January 2016 clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

Amendments issued in June to IAS 16 'Property, plant and equipment' and IAS 41 'Agriculture' which will be effective for annual periods beginning on or after 1 January 2016 define bearer plants and include them within IAS 16's scope while the produce growing on bearer plants remain within the scope of IAS 41.

Amendments issued in May 2014 to IAS 16 and IAS 38 'Intangible assets' which will be effective for annual periods beginning on or after 1 January 2016 add guidance and clarity that the use of revenue based methods to calculate the depreciation of an asset is not appropriate ; however , this presumption can be rebutted in certain limited circumstances.

Amendments ( Annual improvements of IFRS 2012 - 2014 cycle, issued in September 2014 ) to IAS 19 'Employee Benefits' which will be effective for annual periods on or after 1 January 2016 clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amendments issued in August 2014 to IAS 27 'Separate financial statements' which will be effective for annual periods beginning on or after 1 January 2016 reinstate the equity method option to account for investments in subsidiaries, joint venture and associates In separate financial statements.

Amendment (annual improvements to IFRS 2012 -2014 cycle, issued in September 2014) to IFRS 5 'Non-current Assets Held for Sale and Discounted Operations' which will be effective for annual periods beginning on or after 1 January 2016 adds specific guidance when an entity reclassifies an asset (or group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for distribution accounting is discontinued.

Amendment (annual improvements to IFRS 2012 -2014 cycle, issued in September 2014) to IFRS 7 'Financial instruments: Disclosures' which will be effective fo annual periods beginning on or after 1 January 2016,adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.

IFRS 9 'Financial instruments' (Issued in July 2014) will replace IAS 39 and will be effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and de-recognition.

IFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

In respect of financial liabilities, the most significant effect of IFRS 9 where the fair value option is taken will be in respect of the amount of change in fair value of a financial liability designated as at fair value through profit and loss that is at is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In respect of impairment of financial assets, IFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract.

**iii. Revenue Recognition**

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or expected to be received in the ordinary course of the KBC’S activities, net of value added tax (VAT), where applicable, and when specific criteria have been met for each of KBC’S activities as described below

- a. **Revenue from the sale of goods and services** is recognized in the year in which KBC delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- b. **Grants from National Government** are recognized in the year in which the KBC actually receives such grant
- c. **Finance Income** comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.
- d. **Dividend Income** is recognized in the income statement in the year in which the right to receive the payment is established
- e. **Rental Income** is recognized in the income statement as it accrues using the effective lease agreements.
- f. **Other Income** is recognized as it accrues

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**iv. In-Kind Contributions**

In-kind contributions are donations that are made to KBC in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-

kind contributions can be reliably determined, the entity includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

**v. Property, Plant and Equipment**

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at revalued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at revalued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**vi. Depreciation and impairment of property, plant and equipment**

The principal accounting policies in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years reported on.

**a. Basis of preparation**

The financial statements are prepared in accordance with the international financial reporting standards. The historical cost basis of accounting is applied.

**b. Depreciation**

- Depreciation is provided for on the cost /valuation of assets on reducing balance method with effect from 1<sup>st</sup> July 1998.
- A full year's depreciation is provided for on fixed assets acquired at least nine (9) months prior to the end of the financial year.
- The corporation's equipments are divided into eleven (11) classes listed below and depreciated at the rate shown against each class.

<u>ASSETS CLASS</u>	<u>DEPRECIATION RATE</u>
1) Buildings	2.0%
2) Plant and machinery	6.5%
3) Transmitter equipment	10%
4) Studio equipments	10%
5) Ob equipments	10%
6) Portable equipments	10%
7) Program links	6.0%
8) Furniture and fittings	12.5%
9) Motor vehicles	20.0%
10) Office equipments	12.5%
11) Computer and accessories	30.0%

**c. Intangible assets**

Intangible assets comprise purchased computer software licenses, which are capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over the estimated useful life of the intangible asset from the year that they are available for use, usually over three years.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**d. Amortization and impairment of intangible assets**

Amortization is calculated on the straight line basis over the estimated useful life of computer software of three years.

**e. Investment property**

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

**f. Finance and operating Leases**

Leases which confer substantially all the risks and rewards of ownership to entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognized in the statement of financial position to the extent of prepaid lease rentals at the end of the year.

**g. Fixed interest investments (bonds)**

Fixed interest investments refer to investment funds placed under central bank of Kenya (CBK) long term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. The bonds are measured at fair value through profit or loss.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**h. Quoted investments**

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

**i. Unquoted investments**

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

**j. Inventories**

Inventories are stated at the lower of cost and net realizable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

**k. Trade And Other Receivables**

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**l. Taxation**

Current income tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

**m. 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 authorized public officers and /or branch offices which were not surrendered accounted for at the end of the financial year.

**n. Borrowings**

Interest bearing loans and overdraft are initially recorded at fair value being received, net of issue costs associated with borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption are accounted for on

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

**vii. Trade And Other Payables**

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at a fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

**viii. Retirement Benefits Obligations**

The entity operates a defined contribution scheme for all fulltime employees from July 1, 2013. The scheme is administered by an in-house team and is funded by contributions from both the corporation and its employees. The corporation also contributes to the statutory national social security fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The corporation'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.

**ix. Provision for staff leaves pay**

Employees' entitlements to annual leave are recognized as they accrue at the employees. A provision is made for the estimated liability for annual leave at the reporting date.

**x. Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which KBC operates Kenya shillings. Transactions in the foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or variations where items are re-measured. Any foreign gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

**xi. Comparative Figures**

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

**xii. 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<sup>th</sup> 2016.

**xiii. Financial risk management**

Information about the Corporation's exposure to risks, its objectives, policies and processes for measuring and managing such risks, as well as quantitative disclosure, is discussed in this note. The management of capital is also discussed.

The Corporation has an integrated risk management framework. The Corporation's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement and reporting. Three types of risks are reported as part of the risk profile, namely operational, strategic and business continuity risks.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the Kenya Broadcasting Corporation, a strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored into the organization's strategy and business model which could have an impact on the Corporation's performance.

Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of the Corporation. One of the key risks for the Kenya Broadcasting Corporation, identified both under the operational and strategic risk categories, is financial sustainability of the Corporation. The financial risks, as defined by IFRS 7, and the management thereof, form part of this key risk area.

The Board of Directors has delegated the management of the Corporation wide risk to the Audit Committee. One of the committee's responsibilities is to review risk management strategies in order to ensure business continuity and survival. Most of the financial risks arising from financial instruments are managed in the centralized finance function of the Corporation.

The Corporation's exposure to risk, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated. The Corporation has exposure to the following risks as a result of its financial instruments:

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk

**(a) Credit risk**

The Corporation has exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Credit risk mainly arises from electricity receivables, short term deposits and bank balances. Counterparty risk is the risk that a counterparty is unable to meet its financial and/or contractual obligations during the period of a transaction. Delivery or settlement risk is the risk that counterparty does not deliver on its contractual commitment on maturity date (including the settlement of

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2016  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

money and delivery of securities) Credit risk arising from short term deposits and bank balances are low because the counter parties are financial institutions with high credit ratings.

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

at 30/6/2016	Current	30days	90days	Over 90 days	Total
Trade and other receivables	92,383,888.23	58,096,615.35	29,559,375.54	1,236,855,830.35	1,466,228,429.57

at 30/6/2015	Current	30days	90days	Over 90 days	Total
Trade and other receivables	27,402,832	44,740,396	33,077,117	1,179,153,466	1,284,373,813

**Management of receivables**

All customers are required to pay within the credit terms. The Company has well-established credit control procedures that monitor activity on customer accounts and action should the customer not comply with payment terms. These procedures include the issue of a notice and reminders for payment, an internal collection process; follow up of the customer by telephone or in person, negotiations of mutually acceptable payment arrangements and letters of demand.

If nonpayment results, we engage external debt collectors. The legal collection process is pursued thereafter.

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2016  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Progress on the collection process is reviewed on a regular basis and if it is evident that the amount will not be recovered, it is recommended for write-off in terms of the Company's policy. The process of recovery continues unless it is confirmed that there is no prospect of recovery or the costs of such action outweighs the benefits to be derived. Amounts written off are determined after taking into account the value of the security held.

The Corporation evaluates the concentration of risk with respect to its receivables as low, as its customers are located in all regions in Kenya and it supplies to different classes of customers including individuals, corporate, private industries and businesses, companies and Government institutions.

**(b) Liquidity risk**

Liquidity risk is the risk that the Corporation will not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows from revenue and capital and operational outflows. The objective of the Corporation's liquidity management is to ensure that all foreseeable operational, capital expansion and loan commitment expenditure can be met under both normal and stressed conditions. The Corporation has adopted an overall balance sheet approach, which consolidates all sources and uses of liquidity, while aiming to maintain a balance between liquidity, profitability and interest rate considerations. The Corporation's liquidity management process includes:

- projecting cash flows and considering the cash required by the Corporation and optimizing the short-term requirements as well as the long-term funding;
- monitoring statement of financial position liquidity ratios;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- maintaining liquidity contingency plans.

### **Management of liquidity risk**

The Corporation has an established corporate governance structure and process for managing the risks regarding guarantees and contingent liabilities. All significant guarantees issued by the Corporation are approved by the board of directors and are administratively managed by the treasury department. Updated guarantee schedules are compiled every month.

### **(c) Market risk**

Market risk is the risk that the fair value or future cash flow of financial instruments will fluctuate because of changes in foreign exchange rates, commodity prices and interest rates. The objective of market risk management policy is to protect and enhance the statement of financial position and statement of comprehensive income by managing and controlling market risk exposures within acceptable parameters and to optimize the funding of business operations and facilitate capital expansion. The Company is exposed to the following risks:

#### **(i) Currency risk**

Currency risk arises primarily from purchasing imported goods and services directly from overseas or indirectly via local suppliers and foreign borrowings. The Company is exposed to foreign exchange risk arising from future commercial transactions and recognized assets and liabilities that are denominated in a currency other than the functional currency of the Company:

#### **(ii) Commodity or price risk**

The Company is exposed to price risk on the fuel that is used for the generators in case of power-outs and motor vehicles to the extent that the customers are not able to pay for the additional costs passed on to them since they also benchmark the prices we offer with those offered by our competitors in the media industry

### **Management of commodity risk**

Exposure due to commodity risk is managed by passing the cost of fuel used for the generators to customers. In addition the Corporation has well-established credit control

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2016  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

procedures that monitor activity on customer accounts and allow for remedial action should the customer not comply with payment terms.

These procedures include an internal collection process; follow up of the customer telephonically or in person, negotiations of mutually acceptable payment arrangements and letters of demand.

If nonpayment results, we engage external debt collectors. The legal collection process is pursued thereafter.

(iii) **Interest rate risk**

Interest rate risk is the risk that the Corporation's financial condition may be adversely affected as a result of changes in interest rate levels. The Company's interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Long-term borrowings issued at fixed rates expose the Company to fair value interest rate risk.

The interest rate risk exposure arises mainly from interest rate movements on the Company's borrowings.

**Management of interest rate risk**

To manage the interest rate risk, management has endeavored to only sign and obtain borrowings from institutions that offer contracts with fixed interest rates. Based on the various scenarios, the Company also manages its fair value interest rate risk by using floating -to- fixed interest rate swaps, where applicable.

NOTES TO THE FINANCIAL STATEMENTS

	2015/2016	2014/2015
<b>1. SALES</b>	<b>Kshs'000'</b>	<b>Kshs'000'</b>
Gross sales of services	1,005,694	1,116,805
<b>2. GRANTS FROM NATIONAL GOVERNMENT</b>		
Current grants received	424,717	485,500
Capital	<u>467,279</u>	<u>598,699</u>
	<b><u>891,997</u></b>	<b><u>1,084,199</u></b>
<b>3. Other income</b>		
Dividend income	220,000	480,000
Miscellaneous income	8,824	8,882
Parking fees	15,371	14,079
Interest income	<u>1,000</u>	<u>937</u>
<b>Total</b>	<b><u>245,195</u></b>	<b><u>503,898</u></b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015/2016	2014/2015
4(a) ADMINISTRATION COSTS	Kshs '000'	Kshs'000'
Staff Cost (note 4,b)	1,029,700	1,004,675
Directors emoluments	8,625	10,671
Electricity and water	173,267	208,645
Communication services and supplies	13,350	12,602
Transport, travelling and subsistence	40,514	34,319
printing, stationery and photocopying	6,321	48,828
Rent expenses	52,442	19,804
Staff training expenses	11,287	15,768
Insurance costs	2,121	12,878
Bank charges and commissions	8,230,377	5,947,014
Office and general supplies and services	14,374	12,443
Auditors remuneration	580	580
Legal fees	54,609	21,185
Consultancy fees	7,695	21,252
Repairs and maintenance	100,365	77,309
Provision for bad and doubtful debts	30,133	29,294
Program telephone lines	135,754	138,536
Program production expenses	190,961	105,200
Other operating expenses	<u>5,495</u>	<u>3,630</u>
	<b><u>10,107,970</u></b>	<b><u>7,724,633</u></b>

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015/2016	2014/2015
	Kshs '000'	Kshs'000'
<b>4 (b) STAFF COST</b>		
Salaries and allowances of permanent employees	848,838	863,358
Wages of temporary employees	86,432	78,290
Pension contributions	85,090	52,170
Gratuity	145	8,862
Staff welfare	9,195	1,995
<b>TOTAL</b>	<b><u>1,029,700</u></b>	<b><u>1,004,675</u></b>
<b>5. SELLING AND DISTRIBUTION COSTS</b>		
Marketing and promotional expenses	86,050	70,225
Sales commission	53,059	42,718
Other selling and distribution costs(news prdn)	<u>6,867</u>	<u>11,427</u>
	<b><u>145,976</u></b>	<b><u>124,370</u></b>
<b>6. DEPRECIATION(8)</b>	<b>291,756</b>	<b>209,452</b>
<b>7. FINANCE GAIN /LOSS</b>	<b>(1,340)</b>	<b>6,119</b>

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**8. PROPERTY, PLANT AND EQUIPMENT**

COST/ VALUATION	LAND Kshs	BUILDINGS Kshs	PLANT & MACHINERY Kshs	TRANSMITTE R EQUIPMENT Kshs	STUDIO EQUIPMENT Kshs	OB EQUIPMENT Kshs	PORTABLE EQUIPMENT Kshs	PROGRAM LINKS Kshs	FURNITURE & FITTINGS Kshs	MOTOR VEHICLES Kshs	OFFICE EQUIPMENT Kshs	COMPUTER EQUIPMENT Kshs	TOTALS Kshs
At 01 July 2014	2,001,375,000	908,410,000	341,230,000	9,564,705,000	924,442,000	235,533,000	150,327,000	609,168,000	31,550,000	170,254,000	37,419,000	189,062,000	15,163,475,000
Additions		14,201,000	305,000	248,271,000	29,046,000		1,715,000		3,296,000	150,000	4,106,000	8,178,000	309,268,000
<b>valuations</b>	<b>12,857,874,000</b>	<b>913,767,000</b>	<b>1,793,235,000</b>	<b>444,076,000</b>	<b>40,739,000</b>	<b>24,801,000</b>	<b>2,068,000</b>	<b>41,610,000</b>	<b>19,102,000</b>	<b>0</b>	<b>7,212,000</b>	<b>12,631,000</b>	<b>16,157,115,000</b>
At 30 June 2015	12,857,874,000	927,968,000	1,793,540,000	692,347,000	69,785,000	24,801,000	3,783,000	41,610,000	22,398,000	36,987,000	11,318,000	20,809,000	16,503,220,000
DEPRECIATIO N At 30 June		-	-	-	-	-	-	-	-	133,417,000	-	-	133,417,000
Charge for the year		18,275,000	116,580,000	44,408,000	6,979,000	2,480,000	378,000	2,497,000	2,800,000	7,397,000	1,415,000	6,243,000	209,452,000
At 30 June 2015		18,275,000	116,580,000	44,408,000	6,979,000	2,480,000	378,000	2,497,000	2,800,000	140,814,000	1,415,000	6,243,000	342,868,000
Net book value at 30 June 2015	12,857,874,000	909,693,000	1,676,960,000	647,939,000	62,807,000	22,321,000	3,405,000	39,113,000	19,598,000	29,590,000	9,903,000	14,566,000	16,293,768,000
At 01 July 2015	12,857,874,001	927,968,700	1,793,539,902	692,346,356	69,784,572	24,801,138	3,782,528	41,609,550	22,398,243	170,404,000	11,317,444	20,809,288	16,636,634,723
Additions		15,746,672	180,992,954	648,207,063	45,738,390	111,360	516,880		1,899,031		2,411,990	14,264,935	913,889,275
At 30 June 2016	12,857,874,001	943,714,372	1,974,532,856	1,340,553,419	115,522,963	24,912,498	4,299,408	41,609,550	24,297,274	170,404,000	13,729,434	35,074,223	17,546,523,998
DEPRECIATIO N													
At 01 July 2015		18,275,340	116,580,094	44,407,628	6,978,457	2,480,114	378,253	2,496,573	2,799,780	140,814,000	1,414,681	6,242,787	342,867,705
Charge for the year		18,508,781	109,002,388	129,614,579	10,854,451	2,243,238	392,115	2,346,779	2,667,187	5,918,000	1,539,344	8,649,431	291,756,293
At 30 June 2016		36,784,121	225,582,481	174,022,207	17,832,908	4,723,352	770,368	4,843,352	5,486,967	146,732,000	2,954,025	14,892,218	634,623,998
Net book value at 30 June 2016	12,857,874,001	906,930,251	1,748,950,375	1,166,531,213	97,690,055	20,189,145	3,529,039	36,766,198	18,810,307	23,672,000	10,775,409	20,182,006	16,911,900,000
Net book value at 30 June 2015	12,857,874,000	909,693,000	1,676,960,000	647,939,000	62,807,000	22,321,000	3,405,000	39,113,000	19,598,000	29,590,000	9,903,000	14,566,000	16,293,768,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**9. INVESTMENTS**

The corporation owns 40% of the shareholding in Multi choice which manages DSTV. Multi choice has a paid up Ordinary Share Capital of Kshs. 1,000,000. The shares are valued at cost.

**10. INVENTORIES**

	2015/2016	2014/2015
	Kshs'000'	Kshs'000'
Engineering Stores	64,520	57,713
Fuel, Oil, And Lubricants	6,299	2,227
Stationery And General Stores	<u>5,119</u>	<u>5,712</u>
	<b><u>75,938</u></b>	<b><u>65,652</u></b>

**11(a) TRADE AND OTHER RECEIVABLES**

Trade Receivables	1,466,228	1,283,952
Provision for Bad and Doubtful Debts	<u>(442,115)</u>	<u>(411,982)</u>
Net receivables	1,024,113	871,970
Staff Receivables	22,826	22,611
Other Receivables	<u>9,654</u>	<u>5,102</u>
<b>Net Trade and Other Receivables</b>	<b><u>1,056,593</u></b>	<b><u>899,683</u></b>

**11(b) Provision for bad and doubtful debts**

Opening balance	411,982	382,688
provision for the year	<u>30,133</u>	<u>29,294</u>
	<b><u>442,115</u></b>	<b><u>411,982</u></b>

**11(c) AGEING ANALYSIS**

At June 30, the ageing analysis of the gross trade receivables was as follows;

	2015/2016 Kshs'000'	2014/2015 Kshs'000'
Less than 30 days	150,480	27,403
Between 30 and 60 days	49,333	44,740
Between 61 and 90 days	29,559	33,077
Between 91 and 120 days	27,632	13,569
Over 120 days	<u>1,209,224</u>	<u>1,165,584</u>
	<u>1,466,228</u>	<u>1,284,373</u>

**11(d) STAFF RECEIVABLES**

Gross staff loans and advances	20,502	27,713
Provision for impairment loss	<u>(366)</u>	<u>(366)</u>
	<b>20,136</b>	<b>27,347</b>
Less amount due within one year	<u>(10,034)</u>	<u>(11,964)</u>
Amount due after one year	<u>10,102</u>	<u>15,383</u>

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**12. BANK AND CASH BALANCES**

	2015/2016 Kshs'000'	2014/2015 Kshs'000'
Cash At Bank	4,856	33,828
Cash At Hand	<u>959</u>	<u>999</u>
	<u>5,815</u>	<u>34,827</u>

**13. SHARE CAPITAL**

Kenya broadcasting corporation is 100% owned by the government. The share capital figure reported in the financial statement is carried forward since the formation of KBC. We don't have the share certificate but the share value is ksh.928,488.

**14. REVALUATION RESERVE**

The revaluation reserve relates to the reevaluation of certain items of property plant and equipment. As indicated in the statement of changes in equity, the revaluation surplus is not distributable. Reserves comprise of accumulated losses that KBC has made over the years

NOTES TO THE FINANCIAL STATEMENTS (Continued)

<b>15. TRADE AND OTHER PAYABLES</b>	<b>2015/2016</b>	<b>2014/2015</b>
	<b>Kshs'000'</b>	<b>Kshs'000'</b>
Trade creditors	508,155	692,044
Vat	446,148	368,693
Statutory Deduction	21,968	18,108
Medical	197,512	176,102
Insurance	3,269	1,879
Pension	225,111	212,135
Coop liabilities	31,354	3,159
S.A.Y.E	14	14
NHIF	3,578	-
Other deductions	<u>8,370</u>	<u>8,198</u>
	<b><u>1,445,479</u></b>	<b><u>1,480,332</u></b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**16(a). G.O.K. Loan**

The corporation undertook Radio MW Modernization Project under the Japanese Loan guaranteed by the Government of Kenya of **kshs.15,441,716,710.00**. However, due to its inability to meet loan repayment obligation, the Corporation requests Treasury to pay. Once the Treasury pays, it treats it as a loan to Kenya Broadcasting Corporation and therefore expects reimbursement with interest at market rates. This financial year a provision has been made on the interest

<b>YEAR</b>	<b><u>AMOUNT PAID</u></b> <b>KSHS '000'</b>
1992/93	133,912
1993/94	208,706
1994/95	165,151
1995/96	194,427
1996/97	174,094
1997/98	177,075
1998/99	431,617
1999/2000	797,091
2000/2001	NIL
2001/2002	881,095
2002/2003	702,825
2003/2004	134,287
2004/2005	NIL
2005/2006	NIL
2006/2007	271,808
2007/2008	568,713
2008/2009	422,465
2009/2010	1,210,865
2010/2011	965,807
2011/2012	989,526
2012/2013	862,171
2013/2014	735,425
2014/2015	663,517
2015/2016	<u>753,463</u>
<b>TOTAL</b>	<b><u>11,444,040</u></b>

**16.(b) G.O.K LOAN INTEREST**

Treasury has charged interest of Kshs.42,742,091 over the years on the loan repaid by GOK on behalf of K.B.C. This interest has been charged per Year as follow

<u>Year</u>	<u>Interest Charge</u> <u>Kshs '000'</u>
1993/1994	57,110
1994/1995	127,337
1995/1996	179,085
1996/1997	173,435
1997/1998	150,220
1998/1999	172,753
1999/2000	225,227
2000/2001	329,832
2001/2002	499,058
2002/2003	624,239
2003/2004	876,480
2004/2005	494,746
2005/2006	1,186,470
2006/2007	1,182,516
2007/2008	1,346,256
2008/2009	1,851,137
2009/2010	2,120,966
2010/2011	2,513,676
2011/2012	4,374,748
2012/2013	4,567,434
2013/2014	5,517,948
2014/2015	5,944,051
2015/2016	<u>8,227,365</u>
<b>TOTALS</b>	<b><u>42,742,091</u></b>

**16(c).DISCLOSURE OF JAPANESE LOAN BALANCE**

The National Treasury forwarded to us a schedule of Japanese loan balance on on 3<sup>rd</sup> March 2017 amounting to Ksh. 11,444,039,594.96, however at the preparation of KBC financial statements the schedule which was given to us on 11<sup>th</sup> July 2016 from Treasury showed that we had cleared the loan. Therefore the schedule from Treasury dated 3<sup>rd</sup> March 2017 shows a loan balance of ksh. 3,997,677,115.04 but considering the progress of the audit process it was not included in the statement of financial position.

**17. BANK OVERDRAFT**

	2015/2016	2014/2015
	Kshs '000'	Kshs '000'
Citibank (Main)	6,993	46,097
Citibank medical	657	
KCB Nairobi	488	4,047
CBA KSH	5,505	
KCB MERU	0.7	0.8
KCB Nyeri	0.9	
KCB KISII	<u>0.2</u>	<u>0.2</u>
<b>Total</b>	<b><u>13,644</u></b>	<b><u>50,144</u></b>

**18(a) RELATED PARTY DISCLOSURES**

The Kenya Broadcasting Corporation is fully owned by the Government of Kenya through the Ministry of Information and Technology

(a) The Corporation had no individually significant transactions with The Government of Kenya carried out of non-market terms

(b) Other transactions that are collectively significant are detailed as follows:-

(i) Fees for services of directors

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015/2016 Kshs '000'	2014/2015 Kshs '000'
Directors emolument	8,625	10,671
Total	<u>8,625</u>	<u>10,671</u>
<b>(b) Staff</b>		
Gross staff loans and advances	20,502	27,713
Provision for impairment loss	<u>(366)</u>	<u>(366)</u>
	<b>20,136</b>	<b>27,347</b>
Less amount due within one year	<u>(10,034)</u>	<u>(11,964)</u>
Amount due after one year	<u>10,102</u>	<u>15,383</u>

**(C) OECF Loan (Japan)**

Kenya Broadcasting Corporation Modernization Project was mooted out of study by the government in 1987. A request was sent to various donors for funding and the Japanese Government agreed to fund it at Japanese Yen 15.441 billion (8,287,588,398). The terms are as follows:-

10 Years      Grace Period      (1989-June 1999)

20 Years      Repayment Period (1999-2019)

**19 CONTINGENT LIABILITIES**

**REPORT ON PENDING HIGH VALUE LITIGATING CASES**

The following are high value court cases pending in court for or against the Corporation:

UNIT	NATURE OF THE MATTER	SUBSTANTIVE ISSUES INVOLVED	RELIEF SOUGHT	STATUS UPDATE ON THE MATTER	WAY FORWARD
1	HCCC 323 of 2010 KBC v Municipal Council of Mombasa	The Corporation sued the defendants after learning that they were claiming ownership of KBC land	Temporary injunction to restrain defendants from interfering with the property.	Pending for hearing. In the meantime court has allowed KBC to continue construction of a perimeter wall.	Allow court to determine the matter.
2	HCCC No. 734 of 2013 KBC v Komarock Ranching and Farming Cooperative Society Limited and Komarock Ranching Company Limited	The Corporation sued the defendants upon learning that they were encroaching on KBC land at Komarock	Temporary injunction to restrain the defendants from interfering with the suit property	Pending for hearing.	Allow court to determine the matter
3	Civil Suit No. 398 of 2012 KBC v City Council of Nairobi (KBC BH)	The Corporation moved to court to seek protection against the City Council of Nairobi against interfering with its daily operations	kshs.254,949,913	Pending for hearing.KBC has submitted to the County a proposal payment plan	Parties in negotiations to amicably resolve the matter. KBC to pay the principal amount and seek waiver on interest.

4	City Court Civil Suit No. 110 of 2003 City Council of Nairobi v KBC(Norfolk Plot)	The Council sued the Corporation for non payment of land rates	Kshs.227,936,759	Pending for hearing.KBC has submitted to the County a proposal payment plan	Waiting for the way forward.
5	HCCC No. 27 of 2006 Housing Finance Company of Kenya V KBC	The company sued the Corporation claiming ownership of the suit property. The Corporation filed a Counter Claim over the ownership as it has a valid title.	Injunction to restrain the defendant from trespassing into the Plaintiff's property	Pending for hearing. Plaintiff has given evidence in court .the matter came up for hearing on 15 <sup>th</sup> September 2016 and parties directed to take fresh hearing date in the registry.	Court to determine the case.
6	LONDON- in the matter of arbitration under the Arbitration Act 1996 and the Arbitration Rules of the London Court of International Arbitration between Channel 2 Group Corporation and Kenya Broadcasting Corporation	The suit revolves upon a termination of contract between KBC and Channel 2 Group Corporation	\$2.4 billion dollar claim	Matter pending arbitration hearing in London.KBC has prepared witness statements from 8 witnesses. Three experts requested for hearing.PWC appointed financial experts. M/S L.S Telkom awarded	To go ahead with arbitration in London

				contract as technical expert, Infotrak limited has been appointed as advertising experts.	
7	HCCC No. 686 of 2009 Optima Sports Management International (UK) Limited Versus KBC and HCCC No. 687- Optima Sports Management International (Nigeria) Limited versus Kenya Broadcasting Corporation.	The Corporation entered into an agreement in 2008 with the parties to acquire exclusive rights in certain football matches to be played in the Primera Division La Liga and the Copa Del Ray during the 2008/2009 Spanish football season	120,000 Euros claim	Pending for hearing in court	Parties are in the process of settling the matter out of court. We have requested the Plaintiffs to forward to us their proposals on an out of court settlement for our appropriate consideration .
8	HCC No.322 of 2015 performers Rights Society Of Kenya (PRISK) and Kenya Association of Music producers (kamp) versus Kenya Broadcasting Corporation.	The plaintiffs claim is premised on allegations that the corporation has been and still commercially broadcasting sound recordings and audio visual works of right holders without paying the requisite fee	Kshs 67,392,000	Pending for hearing incourt	Court to determine the case.

