

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

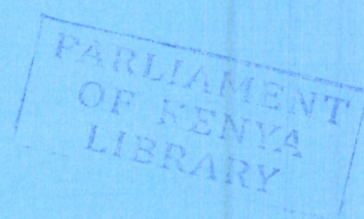
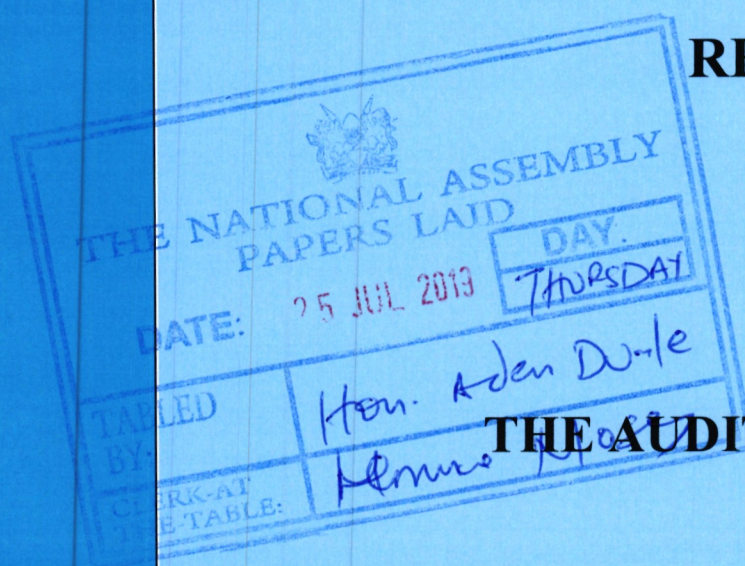
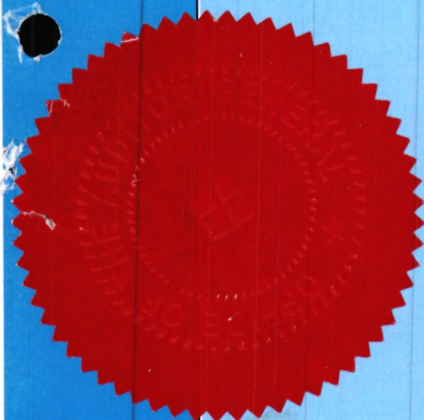
OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA BROADCASTING CORPORATION

FOR THE YEAR
ENDED 30 JUNE 2018





KENYA BROADCASTING CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE, 2018

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

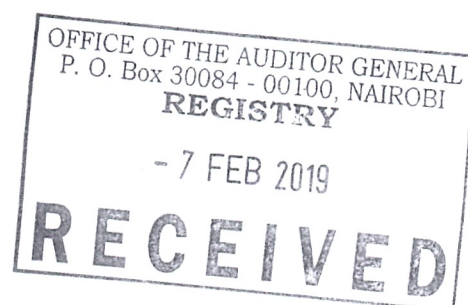


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KEY ENTITY INFORMATION AND MANAGEMENT

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 30th June 2018 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. MANAGER 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
Website: 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



Mr. KENNEDY A. MBWAYA
Ag. Chairman

Ken is an experienced entrepreneur having set up and eventually sold a successful ICT business in Kenya. An Electrical and Electronics engineer by training, Ken is a Strathmore Business School/EISE Business School Alumni, respected ICT engineer, sales manager and corporate leader. He is the founding chairman of Laikipia University and the former MD of HP East Africa.

Aside from this, he is passionate about entrepreneurship and serves on the boards of Junior Achievement Kenya and Global Entrepreneurship Network Kenya. He also has interests in various SMEs in Kenya some of which he serves on the boards of and others in executive capacity.



MR. LAWRENCE GIKARU

Lawrence who is the founder of Apex Porter Novelli (originally, Apex Communications) brings over 20 years of strategic communication experience to bear for APN clients. In just under a decade has helped build the agency to deliver work for clients that measure to world class standards. He has build this experience providing leadership in the design and implementation of strategic communication campaigns across the private, service, corporate, social, health, consumer and public sector. He has worked in Kenya, Eastern & Southern Africa and the US market. Under his stewardship APN has built a diverse portfolio of clients and delivered campaigns that have not only delivered real business results for clients but have received the highest industry recognition in the world. The awards include a Global Sabre from the Holmes Report, several Golden World Awards from the International Public Relations Association and the coveted Grand Award from the United Nations in New York.

He is Chairman, Association of Public Relations and Communication Management Firms (APReCoM); Council Member & Chair of Kenya Chapter, International Public Relations Association; Member, Public Relations Society of Kenya and African Council on Communication Education.



MS. CECILIA A. NGITI

BACHELOR OF SCIENCE IN COMMUNICATION AND
PUBLIC RELATIONS - MOI UNIVERSITY-ELDORET

She worked as Director/Operations Manager in
Shabaa Civil Engineering & Construction Limited in
2011, as Managing Director of Ceamo Prestige Lodge
Ltd from 2014 and Board Director at Turkana
Pastoralists Development Organization (TUPADO),
in 2015 she was appointed as Board Director at Kenya
Broadcasting Corporation to date.



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.



PS, 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, and 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.



Mrs. Alakie Rosemary Mboya

She holds a Master's Degree in Communications (Electronic Media) from Day Star University (2005) and a BA in Development Communication and Theatre from Miami University, Ohio, U.S.A.

Alakie is a Producer/Director/Scriptwriter/TV/Radio/Film and Cameralady). As an Electronic Media specialist, she formulates and implements innovative marketing, fundraising, media campaigns, and Communication Strategies. She has over ten years' experience in senior management. Due to this vast experience she was appointed to Kenya Broadcasting Corporation in 2015.



Managing Director
Mr. Waithaka Waihenya

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



Mr. Paul Jilani
Corporation Secretary

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 up to 2010, Corporation Secretary, KBC
(currently)

MANAGEMENT TEAM



Managing Director
Mr. Waithaka Waihenya

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



Mr. Paul Jilani
Corporation Secretary

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 up to 2010 Corporation Secretary, KBC (currently)



Mr. H.M Isinta
Finance and Administration Manager

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



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



Ms. Florence Migunde
Marketing Manager

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.



- Bachelor of Commerce Degree (Accounting) from the University of Nairobi and
- CPA (K).
- Currently pursuing MBA from U.O.N.

Mr. Samuel Njeru Principal Internal Auditor	• MA (Project planning and Management) University of Nairobi • BA (HONS) Economics. University of Punjab, India. • Dip Marketing Management • Certificate in Radio and TV production. • Certificate in Broadcast Journalism. • Certificate in Management Skills • Certificate in managing the training and development functions
 Mr. Jonah Kusero Ag. Radio Programmes Manager	• Bachelor of Arts in Government and Public Administration • Post graduate Diploma in Human Resource Management
 Mr. Daniel Okoth Human Resource Manager	Her experience in the broadcast media spans over 25 years where she has worked on local and international mega projects in equal measures. She holds a Master's in Communication studies from the University of Nairobi and also studied New Media and Conflict Transformation at Philip Merrill School of Journalism, University of Maryland under the prestigious Hubert Humphrey fellowship. She is passionate about gender equality and women empowerment, hence her leading role on building evidence through research and online training for women leaders in Kenya.

CHAIRMAN'S STATEMENT

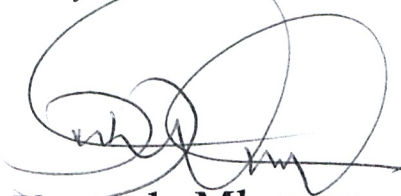
The financial year 2017/2018 marks twenty eight years of existence of Kenya Broadcasting Corporation. Since the liberalization of media industry in Kenya in the 1990s, Kenya Broadcasting Corporation has consistently worked hard to be relevant in the competitive business environment. To date, the Corporation's rich portfolio of brands comprises of two TV channels and fifteen radio services.

The total revenue realized decreased by 9.2% from Kshs 2.17 billion last year to Kshs 1.97 billion this year. This is attributed to a drop in dividends from Multichoice Kenya Ltd where KBC is a 40% shareholder where by KBC did not receive any dividend within the financial year.

The total expenditure increased by 8.73% from Kshs 9.3 billion last year to Kshs 10.6 billion this year. This is explained by increase in interest that the Government charged KBC on account of repaying Japanese loan this year. There was a decrease in some expenses like in electricity expenditure 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 increased by 13% from Kshs 7.6 billion to Kshs 8.67 billion.

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 10% basic salary increment to staff in July 2017.


Kennedy Mbwana
Director

REPORT OF THE MANAGING DIRECTOR

The year 2017/2018 was quite eventful and fruitful for us as KBC family and the entire Kenyan citizens. I therefore take this opportunity to thank all the staff for giving their best in ensuring successful transmission of results during the general elections on the august 2017 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 three years. We have been able to comply with the necessary requirements and KBC was ISO certified in August 2014.

Management worked towards saving costs, 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 10% 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 2017.

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. Paul Jilani
Ag. 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 2017/2018, 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.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 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, 2018 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 Finance 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, 2018. This responsibility includes:

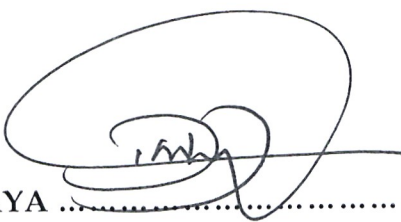
- i. Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- ii. Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of Kenya Broadcasting;
- iii. Designing, 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.

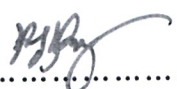
The Directors accept responsibility for the Kenya Broadcasting Corporation financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards, and in the manner 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, 2018, 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.


for KENNEDY MBWAYA
DIRECTOR OF THE BOARD


MR. PAUL JILANI
AG.MANAGING DIRECTOR

REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF KENYA BROADCASTING CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Kenya Broadcasting Corporation set out on pages 1 to 40, which comprise the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity, 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Late Submission of Financial Statements

Public Finance Management Act, 2012 section 164. (3) (4) provides that within three months after the end of each financial year, the accounting officer for an entity shall submit the entity's financial statements to the Auditor-General on or before 30 September of each year. However, the financial statement for Kenya Broadcasting Corporation was submitted on 5 October 2018 to the office of Auditor-General. No explanation was given as to why the financial statements were not submitted on time.

Consequently, the Corporation was in breach of the Law.

2. Accuracy of the Financial Statements

The Statement of financial position reflects a receivables balance of Kshs.1,830,558,000 as at 30 June 2018 and a comparative figure of Kshs.997,867,000. However, the supporting note 11 of the financial statement has the comparative figure casting to Kshs.1,745,299,000. The resulting difference of Kshs.747,432,000 has not been explained. Further, the financial statement submitted on 5 October 2018 were amended and revised on 7 February 2019. However, the movement between some of the accounts in the first set and the revised set of the financial statements have not been supported by any journals or explained in any way. These unexplained movements are as shown below: -

Unsupported Balances in the Financial Statement

Accounts Name	Balances as at 30th June 2018 Financial Statement Presented on 5 October 2018 Kshs.000	Balances as at 30th June 2018 Financial Statement Presented on 7 February 2019 Kshs.000	Unexplained Variance Kshs.000
Sales	1,128,263.00	1,129,332.00	(1,069.00)
Other Income	4,900.00	3,832.00	1,068.00
Property, Plants and Equipment	16,470,833.00	16,501,858.00	(31,025.00)
Cash and Bank Balances	61,133.00	67,288.00	(6,155.00)
Ordinary Share Capital	928,488.00	928,448.00	40.00
Trade and Payables	1,002,606.00	1,039,787.00	(37,181.00)

Under the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June 2018 cannot be confirmed

3. Property, Plant and Equipment

3.1 Unsupported Valuation of Assets

As previously reported, the statement of changes in equity for the year ended 30 June 2018 reflected a revaluation reserve balance of Kshs.11,616,174,000 (2016/2017 Kshs.11,616,174,000) whose supporting valuation report/analysis was not made available for audit review. Further, and as previously reported, the opening balance cost of plant and machinery of Kshs.1,974,532,856 includes a figure of Kshs.180,992,954 in respect of APD Project whose supporting schedules/analysis have never been provided for audit review.

In the circumstances, it has not been possible to confirm the existence, accuracy, validity of property, plant and equipment balance of Kshs.16,741,594,137 as at 30 June 2017 and the balance of Kshs.16,501,858,412 as at 30 June 2018.

3.2 Generators

As reported in the previous years, the Corporation made an arrangement with Kenya Electricity Generating Company Ltd (KenGen) in July 2000 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 still part of the Corporation's portfolio of assets. However, and as observed in the previous years, no compensation for use of the generators appears to have been paid to the Corporation and no explanation has been provided for the anomaly.

3.3 Unclear Transfer of Corporation Land

As previously reported, the property, plant and equipment balance of Kshs.16,501,858,412 as at 30 June 2018 included 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 had two allotment letters reflecting different sizes as follows; allotment letter dated 12 August 1994 indicated the size of the land as 0.8861 hectares while allotment letter dated 8 March 2004 indicated the size as 0.8737 hectares. In addition, the survey plan indicated 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.16,501,858,412 as at 30 June 2018 is fairly stated.

3.4 Land and Buildings

As previously reported, the property, plant and equipment balance of Kshs.16,501,858,412 as at 30 June 2018 included land and buildings balance of Kshs.12,857,874,001 and Kshs.874,389,410 respectively totalling Kshs.13,732,263,411. The balance of Kshs.13,732,263,411 also included 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 excluded 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 on which a newly erected building stands. Further, a parcel of land No LR.No.11773 - Ngong TX station located at Kajiado County differed in size as the letter of allotment indicated that the land is measuring 33.419 acres (13.53 hectares) while information available indicated 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. 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 Mombasa office, has a pending court case and part of its land was grabbed by Housing Finance Company of Kenya (HFCK) while, the Corporation's 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 Corporations has made attempts at the Ministry of Lands,

and Physical Planning to have outstanding issues resolved, no meaningful progress appears to have been achieved as at March 2019.

In view of the foregoing, it has not been possible to confirm the ownership status of the Corporation land and that the property plant and equipment balance of Kshs.16,741,594,137 as at 30 June 2017 and the balance of Kshs.16,501,858,412 as at 30 June 2018 is fairly stated.

3.5 Land Without Title Deeds

As previously reported, available information indicated that the Corporation owned twenty five (25) parcels of land (listed on the table below) valued at Kshs.6,102,849,000 that were 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, the balance of land of kshs.12,857,874,001 excluded unvalued and unidentified 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.

List of land without title deeds

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

NO.	Description	Ownership Document	Location	Purchase Date	Book Value Kshs
17	Nyamninia, Siaya District	No documents	Siaya	30th November 2014	30,250,000
18	Unsurveyed Plot, Nyeri District	No documents	Nyeri	30th November 2014	4,100,000
19	Unsurveyed Plot, Timboroa, Koibatek District	No documents	Uasin Gishu	30th November 2014	1,120,000
20	Unsurveyed Land, Wajir TX Station	No documents	Wajir	30th November 2014	1,700,000
21	Unuadjudicated Land, Voi TX Station	No documents	Taita Taveta	30th November 2014	4,200,000
22	Voi Township, Plan NO: 75893/III/64A	No documents	Taita Taveta	30th November 2014	1,600,000
23	Voi Township, Plan NO: 75893/III/65A	No documents	Taita Taveta	30th November 2014	2,800,000
24	Unsurveyed Plot, Nyambene Hills, Meru	No documents	Meru	30th November 2014	850,000
25	Lamu Unserved	No documents	Lamu	30th November 2014	300,000
	TOTAL				6,102,849,000

Consequently, it has not been possible to confirm ownership status and existence of the twenty five (25) parcels of land valued Kshs.6,102,849,000 as at 30 June 2018.

3.6 Land With Disputes

Further, and as reported in the previous year available information at the Corporation indicated 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. A review of the matter in March 2019 revealed an unchanged position.

Land With Disputes

No.	LR No.	Location	Size in Acres	Value Kshs	Ownership Status
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
			211.22185	7,597,582,000	

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 2017.

3.7 Unclear Transfer of KBC Land to Staff Pension Fund

As previously reported, the Corporation transferred four (4) parcels of land valued at Kshs.1,126,250,000 to Kenya Broadcasting Corporation staff pension fund to cover for unremitted outstanding pension arrears totalling Kshs.208,774,000 as at 30 June 2017. Though the land was presumably transferred, the unremitted pension liability in the Corporation's books was not extinguished and stands at Kshs.213,617,000 as at 30 June 2018. The transfer has been done in contravention of 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 half of 1,234.26 (617.13) acres (with title deed) valued at Kshs.910,000,000
- 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 with net book value of Kshs.1,126,250,000 is being exchanged with a pension debt of Kshs.208,774,000 resulting in a possible loss of Corporation land valued at Kshs.917,476,000. In addition, the cost of the transferred land has not been removed from the total cost of land owned by the Corporation as at 30 June 2018. Further, physical verification of land LR No1/9218 Donyo Sabuk/Komorock measuring 1,234.26 acres indicated that more than 2/3 of the land had been encroached by squatters and there were physical structures on the land. In the circumstances, it has not been possible to confirm if the transfer of four (4) Corporation parcels of land valued Kshs.1,126,250,000 to the KBC Pension Fund was in the best interest of the stakeholders and whether, the extension of the swap of the liabilities with the parcels of land will be achieved. The Corporation was therefore in breach of chapter five (5), Article 62, Section 4 of the Constitution of Kenya and the management have deliberately and unjustifiably occasioned the Corporation a possible loss of land worth Kshs.917,476,000 as at 30 June 2018.

In the circumstances, it has not been possible to confirm the existence, accuracy, completeness, valuation, validity and utilization of property, plant and equipment balance of Kshs.16,741,594,137 as at 30 June 2017 and the balance of Kshs.16,501,858,412 as at 30 June 2018.

4. Trade and Other Receivables

4.1 Long Outstanding Trade Receivables

The statement of financial position reflected a balance of Kshs.1,830,558,000 in respect of trade and other receivable as at 30 June 2018. Included in this figure is cross trade

receivables amounting to Kshs.1,563,106,000 as shown at note 11c of the financial statements. Out of the balance of Kshs.1,563,106,000, an amount of Kshs.1,399,465 has been outstanding for over 120 days and the bulk of it having been incurred more than ten (10) years ago. Management did not demonstrate efforts undertaken to collect these debts as no demand letters have been issued to the long overdue debtors and defaulters. No documentation has been provided to show the adequacy of provision of Kshs.504,988,000 that has been made in the financial statements against the trade receivables to recognize the high probability of not recovering the debts.

4.2 Amount Paid by the National Treasury on behalf of the Corporation

Included in trade and other receivables of Kshs.1,830,558,000 is Kshs.738,585,000 which was paid by the National Treasury on behalf of the Corporation increasing the G.O.K. loan principal from 12,191,471,996 to Kshs.12,930,056,586. This amount of Kshs.738,585,000 has however been included in the figure of trade and other receivables. In addition, a balance of Kshs.747,432,000 in respect of 2016/2017 has been introduced in the note. Management has not explained why this amount was recognized under receivables.

4.3 Outstanding Imprest – Staff Receivables

The outstanding imprest as at 30 June 2018 was Kshs.14,854,930 as indicated under note 11(a) to the financial statements. It was apparent that there is laxity in surrendering imprest held. Further analysis indicated that some employees were issued with additional imprest while still holding the previous ones and also some of the imprests issued were not adequately supported. Thus it was not possible to establish the purpose of these imprests. Consequently, the propriety of these expenditures could not be confirmed.

4.4 Irregular Use of Imprest to Procure Goods and Services

During the year under review, imprest totaling Kshs.5,099,180 was issued to officers to procure goods and services such as purchase of TV sets and decoders, hire of conference facilities, purchase of modem and purchase of diesel to satellite stations all of which exceeded the stations cash purchase limit of Kshs.30,000. The proper procurement procedures and guidelines as provided in the Public Procurement and Asset Disposal Act, 2015 have not been complied with and the propriety of this expenditure cannot be confirmed.

In consequence, the accuracy, validity, completeness and full recoverability of the trade and other receivables balance of Kshs.1,830,558,000 as at 30 June 2018 could not be ascertained.

5. Cash and Bank Balance

The statement of financial position reflected a balance of Kshs.67,288,000 as cash and bank balance as at 30 June 2018. Included in this amount is Kshs.4,193,000 as cash at hand as at 30 June 2018 as indicated in note 12 to the financial statements. However, the cash survey form indicated a cash at hand balance of Kshs.27,630 as the actual cash as at the same date. The difference of Kshs.4,165,370 has not explained or reconciled. Further, bank certificates for Kenya commercial bank account numbers 1107167418 and 1102656488 were not provided for audit.

In addition, the cash and bank balances of Kshs.62,288,000 includes balances amounting to Kshs.63,095,568 held in nineteen (19) bank accounts across the country whose cash books, bank certificates and bank reconciliation statements were not provided for audit verification.

Consequently, the accuracy and completeness of the cash and bank balance of Kshs.67,288,000 as at 30 June 2018 could not be confirmed.

6. Trade and Other Payables

As previously reported the statement of financial position as at 30 June 2018 reflected trade and other payables balance of Kshs.1,039,787,000 (2016/2017-Kshs.746,744,000) which included an amount of Kshs.714,728,000 (2016/2017-Kshs.545,049,000) in respect of statutory and other deductions which had not been remitted to the respective institutions as at 30 June 2018 as detailed below:-

Particulars	2017 Amount (Kshs)	2018 Amount (Kshs)
Pension	213,617,000	208,744,000
Statutory Deduction	155,634,000	24,869,000
Medical Fund	158,246,000	127,723,000
co-operative Deductions	16,899,000	13,339,000
Insurance	1,715,000	2,371,000
SAYE	84,000	42,000
Other Deductions	10,797,000	8,827,000
Value added Tax (VAT)	152,005,000	145,797,000
NHIF	5,731,000	4,510,000
Total	714,728,000	545,049,000

Further, the balance of Kshs.1,039,787,000 (2016/2017- Kshs.746,744,000) included trade creditors totalling Kshs.325,059,000 as trade creditors. However, the documents provided for audit revealed that trade creditors amounting to Kshs.6,298,073.00 were not included in the list of trade payables. It is not clear and management has not explained if and when the amount of Kshs.714,728,000 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 in future. The Corporation has also not made provision for possible penalties in the financial statements.

As a result, it has not been possible to confirm the accuracy, validity and completeness of trade and other payable balance of Kshs.746,744,000 as at 30 June 2017 and the balance of Kshs.1,039,787,000 as at 30 June 2018 .

7. Government of Kenya Loan

7.1 Japanese Loan

As previously reported, the Corporation's statement of financial position as at 30 June 2018 reflected a loan from Overseas Economic Cooperation Fund (OECF) of Japan as disclosed in note 16(a) and 16(b) of the financial statement. 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 2018 the loan balance was Kshs.12,930,057,000 (2016/2017-Kshs.12,191,472,000) and interest thereof was Kshs.58,372,672,000 (2016/2017-Kshs.50,116,823,000). Although, the Parliamentary Investment Committee discussed the issue concerning the loan when the Corporation appeared before the committee in 2016 and the Corporation has continued to reflect the loan and interest balance in its financial statements. In addition, and as previously reported, the management has indicated that there are on-going negotiations with the Government to convert Government of Kenya Loan into equity, but it is not certain when the process will be completed if at all. The Corporation has not been servicing the loan which had been guaranteed by the National Treasury and had accumulated to Kshs.71,302,729,000 as at 30 June 2018.

7.2 Recognition of Principal Loan

The Corporation undertook a radio MW modernization project under the Japanese loan guaranteed by the Government of Kenya amounting to Kshs.15,441,716,710 on 28 June 1989.

The following anomalies were noted: -

- i. The loan agreement was not provided for audit review.
- ii. The Japanese loan has not been reflected in the statement of financial position to indicate that the Corporation received the funds.
- iii. The amount paid as at 30 June 2018 was Kshs.12,930,057,000. This is the figure reflected in the financial statement as G.O.K. loan (Principal) whereas the payment by National Treasury to JICA includes principal and interest.
- iv. The loan reflected on the financial statements relates to the portion that has been repaid by National Treasury on behalf of the Corporation but it is not clear how much of the principal amount and interest the Corporation still owed the Japanese Government or whether the National Treasury has taken over the loan obligations. Notably, in the year under review, Kshs.738,585,000 was paid by the National Treasury on behalf of the Corporation increasing the G.O.K. loan principal from 12,191,471,996 to Kshs.12,930,056,586. The amount of Kshs.738,585,000 has however been included in the figure of trade and other receivables a treatment that appears inappropriate and has not explained.
- v. The obligations of the Corporation appear to be increasing while the corresponding benefits that should be accruing cannot be traced or matured on this investment.

7.3 Loan Interest

Note 16(b) to the financial statements shows that the cumulative interest charged amounted to Kshs.58,372,672,000 as at 30 June 2018. It was however noted that the National Treasury charged the interest at market rates based on the amount of loan repaid on behalf of the Corporation. It is not clear why interest is charged at market rates.

During the year under review, Kshs.8,258,565,000 was charged in respect of interest and reflected under administration costs in note 4(a). This figure forms 80% of the administration costs total of Kshs.10,229,944,000 to the Corporation and 77% of the total operating expenses of Kshs.10,647,065,000 reflected in the statement of comprehensive income.

Further, the total figure of the cumulative interest charged as at 30 June 2018 of Kshs.58,372,672,215 is more than four times the payment of Kshs.12,930,057,000 made on behalf of the Corporation by the National Treasury.

The management has not demonstrated when and how they intend to repay the colossal amount held and be able to stay as a going concern.

Under the circumstances, the accuracy and validity of the loan and interest balance of Kshs.12,930,057,000 and Kshs.58,372,672,000 respectively as at 30 June 2018 could not be confirmed.

8. Administration Costs-Unsupported Expenditure

8.1 Communication Services and Supplies

The statement of comprehensive income reflects an expenditure of Kshs.10,229,994,000 in respect of administration cost for the year ended 30 June 2018. Included in this figure is an expenditure on Communication services and supplies at note 4(a) amounting to Kshs.13,041,000 for which no supporting documents was produced for audit review.

8.2 Transport, Travelling and Subsistence

Transport, travelling and subsistence expenditure at the close of the financial year of Kshs.68,900,000 as indicated at note 4 (a) to the financial statements was not supported with relevant documents such as, LPOs, memos and minutes of authority to pay.

8.3 Rent Expenses

Also included in the administration expenditure is rent expenses amounting to Kshs.208,000 as indicated at note 4(a) to the financial statements. However, out of the Kshs.208,000, payment vouchers for rent expenses amounting to Kshs.160,000 for leased property at Kabarnet by were not availed for audit verification.

8.4 Program Telephone

The expenditure on program telephone lines as indicated at note 4 (a) to the financial statements was Kshs.189,662,000. However, out of this figure no supporting documents for expenditure amounting to Kshs.131,716,500 were availed for audit verification.

8.5 Other Operating Expenses

Other operating expenses as indicated at note 4(a) amounted to Kshs.9,222,000 out of which only four (4) payment vouchers totaling Kshs.1,082,550 were availed for audit. Hence an amount of Kshs.8,139,906 could not be verified.

8.6 Electricity and Water

Expenditure on electricity and water amounted to Kshs.141,994,000 as indicated at note 4 (a) to the financial statements. All the supporting documents for the expenses in the sample size given in the electricity ledger were not availed for audit.

8.7 Program Production Expenses

Expenditure on program production was Kshs.41,032,000 as indicated at note 4 (a) to the financial statements. These payments would appear irregular as the payment vouchers produced had no details of expenditure and there were no supporting documents such as; - LPOs, memos and minutes of authority to pay, among others thus making it impossible to ascertain the nature and authenticity of the payments.

Under the circumstances, the accuracy, validity and propriety of Administrative expenditure of Kshs.10,299,944,000 could not be ascertained.

In view of the foregoing, the accuracy, validity and propriety of the expenditure of Kshs.10,229,994,000 under the administration costs as at 30 June 2018.

9. Revenue

9.1 Differences in the Figures in the Ledger and the Financial Statements

The statement of comprehensive income reflects gross sales of services amounting to Kshs.1,129,332,000 for the year ended 30 June 2018. However the ledger availed for audit indicated an amount of Kshs.1,223,012,903 which comprised nets sales of Kshs.1,068,970,621 and tax of Kshs.154,042,282. The difference of Kshs.60,361,379 between the two set of records has not been explained or reconciled.

Further it was noted that there were differences in the amount of value added tax values recorded in the ledger for various product items, corresponding entries in the VAT account and the computed expected VAT. The noted difference was Kshs.16,655,901. Further, there were no supporting documents availed for audit verification of these entries.

Other Income-Wrongly Classified Accounts

Analysis of the income general ledger reflects imprest surrendered of Kshs.1,160,500 declared as income and unutilized board balance during the year under review of Kshs.636,750 also been declared as income. This contravenes the principles of revenue recognition as per IFRS 15. Consequently, the figure of other income in the statement of comprehensive income is overstated.

9.2 Negative Income Balance Mayienga Radio Adverts

The statement of comprehensive income reflect sales revenue of Kshs.1,129,332,000. However, detailed information provided for audit indicated that one of the revenue streams, Mayienga radio adverts resulted in a net debit of Kshs.4,208,470 inclusive of tax. The origin and reasons for the negative income has not been explained.

Under the circumstances, the accuracy and validity of total revenue of Kshs.1,975,664,000 could not be ascertained.

10. Electricity Expenses and Cut-Off Procedures

The Corporation did not observe cut-off procedures during the year 2017/2018. Electricity expenditure records revealed that expenses on electricity for the months of April, May and June 2018 amounting to Kshs.26,885,494 were not included in the ledger for the year under review. Further, electricity expense for the month of June 2017 was included in the ledger

for 2018/2019 hence in the wrong cut-off period. Some expenditure amounts on electricity paid to KPLC were recorded at actual cost without VAT while some of the amounts of electricity bills were paid to KPLC with VAT. There was no uniformity in recording of the expense in the ledger. Further it was noted that various expenses amounting to Kshs.271,600 were wrongly classified in the ledger as electricity and therefore misstating the expenditure in the electricity ledger.

Consequently, the accuracy of the expenses on electricity for the year ended 30 June 2018 could not be confirmed.

11. Director's Emoluments

The statement of comprehensive income reflected Kshs.4,706,000 as Director's emoluments. Examination of this item revealed the following anomalies: -

- i. This amount included Kshs.130,000 irregularly paid to staff of the Corporation as allowances for attending board meetings.
- ii. The Curriculum vitae of board members was not availed to determine whether the directors had the necessary skills and expertise to be members of the various committees as required by law.
- iii. Appointment letters for board members were not availed to determine their terms of engagement.
- iv. The board's calendar or work plan was also not availed for audit review.
- v. There was no Board Charter which defines the role responsibilities and functions of the board in governance of the organization.

The Corporation was therefore in breach of the requirements of good Corporate Governance.

12. Inventories

The audit revealed that the Corporation held obsolete Engineering stock amounting to Kshs.57,497,000 in form of bolts and spares for the analogue transmitters which were not included as part of assets. These stores are obsolete and can only be sold as scrap since they cannot be used on digital transmitters in the Corporation. The management has not made a provision for obsolete stocks in these financial statements. Further, an inspection of inventories records revealed that there were variances between the amounts in the system generated report and the amount captured in the physical count. A net off of Kshs.217,382.72 was also not accounted for. No explanation was given for the variances.

Consequently, the accuracy of the inventories balance of Kshs.57,497,000 as at 30 June 2018 could not be confirmed.

13. Budget and Budgetary Controls

During the year under review, expenditure was not incurred according to the item allocations in the budget. There were several funds reallocated to purposes for which they were not

budgeted for while authority to reallocate was not availed for audit review. For instance, budgeted expenditure for communication services and supplies were reallocated and used in payment of casual workers amounting to Kshs.94,348,000 and travelling expenses. Further, budgeted expenditure for transport, travelling and subsistence were reallocated and used in payment of calling cards, staff allowances and imprest facilitation. Consequently, the Corporation did not adhere to the requirements of the Public Finance Management Act Regulation 51(2) which requires that expenditure commitments for goods and services shall be controlled against spending and procurement plans approved by the responsible Accounting Officers based on allocations and allotments from approved budgets.

14. Going Concern

During the year under review the Corporation recorded a loss of Kshs.8,671,965,000 (2017 Loss Kshs.7,611,785,000) and thereby increasing cumulative losses to Kshs.66,423,020,000. Further analysis on the statement of financial position reflects current liabilities of Kshs.72,343,193,000 which exceeded current assets of Kshs.1,962,576,000 resulting in a negative working capital of Kshs.70,380,617,000. The Corporation was therefore technically insolvent and its continued existence as a going concern is dependent upon the financial support of the Government, bankers and its creditors.

15. Bank Overdraft

The statement of financial position reflects a bank overdraft of Kshs.676,000. However, no cash book, bank certificates and bank reconciliations were provided in support of these balances.

Consequently the validity and accuracy of bank overdraft balance of Kshs.676,000 and the accuracy of transactions processed through the respective accounts forming the balance could not be ascertained. Further, no authority for operation of the overdraft was provided for audit verification.

16. Contingent Liabilities

As disclosed in note 19 to the financial statement, the Corporation had contingent liabilities totaling to Kshs.252,756,349,383.75 against twenty four (24) high value court cases pending in court. The outcome of these could dis-orient the financial position of the Corporation.

17. Prior Year Audit Issues

18.1 Going Concern

During the year 2017, the Corporation recorded a loss of Kshs.7,611,785,000 (2016 Loss: Kshs.8,404,156,000) thereby increasing the cumulative losses to Kshs.57,751,055,000 as at 30 June 2017. Further, the statement of financial position reflected current liabilities balance of Kshs.63,056,937,000 which exceeded current assets balance of Kshs.1,108,550,000 resulting in a negative working capital of Kshs.61,948,387,000 as at 30 June 2017. The Corporation was therefore technically insolvent and its continued existence as a going concern is dependent upon the financial support of the Government, bankers and its creditors.

18.2 Legal Fees

18.2.1 Case Between the Corporation and Mombasa Governor

Included in the administration cost balance of Kshs.9,298,885,000 under Note 4(a) to the financial statements was an amount of Kshs.1,119,033,000 in respect to staff cost. The amount of Kshs.1,119,033,000 also included an amount Kshs.2,514,431 paid to a law firm for the preparation of an application under certificate of urgency for contempt of court proceedings instituted against the Mombasa Governor and other officials of Mombasa county who were involved in the illegal and irregular demolition of Nyali plot fence erected on the Corporation land reference LR. No 1476 or original LR.No 464/60 on 30 September 2016 at a cost of Kshs.3,512,700.

18.2.2 Case Between the Corporation and Komorock Housing & Co-operative Society

Further, on 20 April 2017 the Corporation paid an additional amount of Kshs.5,800,000 to another law firm in respect of Machokos H.C case Petition No.15 of 2015 between Komarock housing & Co-operative Society VS KBC & 18 others. Whereas the legal counsel for Kenya Broadcasting Corporation was the Attorney General of the Republic of Kenya, no documentary evidence was provided to show that the two law firms were cleared to represent the Corporation in the two legal cases by the Attorney General.

No supporting documents indicating how the two law firms were identified and awarded the contracts was availed for audit review contrary to Section 91(1) and 135(2) of the Public Procurement and assets Disposal Act 2015 which states that open tendering shall be the preferred procurement method for procurement of goods, works and services. Further, Section 135(2) states that, an accounting officer of a procuring entity shall enter into a written contract with the person submitting the successful tender based on the tender documents and any clarifications that emanate from the procurement proceedings. A review of the matter in April 2018 revealed that the two (2) cases were still pending in a court of law while the Komarock ranch Land has been encroached and subdivided by squatters who have erected permanent structures. Although the management is aware of the above analysis no evidence of any positive steps being taken to safeguard the public resource was seen or availed for audit review. In the circumstances, it has not been possible to confirm the propriety of legal expenditure totalling Kshs.8,314,431, ownership status and that the Corporation received value for money. The Corporation is also in breach of procurement laws.

18.2.3 Pending Legal Cases – Channel 2 Group Corporation

As disclosed in Note 4(a) to the financial statements included in administration cost figure of Kshs.9,298,885,000 was an amount Kshs.56,349,000 in respect of legal fees. The figure of Kshs.56,349,000 also included an amount of Kshs.40,242,181 paid to a law firm in respect of legal and consultancy fees for a case filed against the Corporation on 10 May 2006 for breach of contract where Kenya Broadcasting Corporation (KBC) entered into a Joint Venture agreement with Channel 2 Group Corporation. Available information indicated that Channel 2 had the right to operate and create broadcasting movies and other programs on KBC's stations formerly known as Metro Television. On 16 March 2009 the Corporation terminated the Joint Venture agreement and Channel 2 Group initiated a court process by filing a suit

HCCC.NO.60 OF 2010 for appointment of an arbitrator. Channel 2 group thereafter lodged a claim of approximately USD.2.4 Billion equivalent to Kshs.206 billion against the Corporation for losses and damages they incurred from the termination of the contract. On 24 September 2010 the court directed that the issues of losses and damages could be heard before an arbitrator in London as per the terminated agreement between Channel 2 Group and the Corporation. The Corporation has been represented in the arbitration case by the London Law firms and a local firm who had been paid a total amount of Kshs.1,290,976,849 as at the time of the audit for 2017. No documents to show how the Law firms were identified and awarded the services and signed contracts between the two parties was availed for audit review. This is contrary to Section 91(1) of the Public Procurement and Assets Disposal Act, 2015 which requires that open tendering shall be the preferred procurement method for procurement of goods, works and services. Further, section 135(2) requires that, an accounting officer of a procuring entity shall enter into a written contract with the person submitting the successful tender based on the tender documents and any clarifications that emanate from the procurement proceedings. No evidence to show that the management sought advice from the Attorney General for use of both law firms to represent the Corporation in the case was availed for audit review.

In addition, the Corporation procured the services of three other firms to provide consultancy services on transmission matters at a cost of Kshs.9,500,000, provide consultancy services on accounting issues at Kshs.8,432,040 and consultancy services on marketing issues at a cost of Kshs.15,785,000 all totalling Kshs.33,717,040. It was not clear and management has not explained the reason for engaging the three firms considering that the arbitration process had failed. Further, the hiring of the three firms increased the total cost on the arbitration process to a total of Kshs.1,324,693,889 as at 30 June 2017. No satisfactory explanations have been provided for these anomalies.

In the circumstances, the propriety of expenditure of Kshs.1,324,693,889 incurred over the years on the legal process could not be confirmed and the Corporation was in breach of the law.

18.3 Trade Receivables

As disclosed in Note 11 to the financial statements trade and other receivables net figure of Kshs.997,867,000 included trade receivables of Kshs.1,146,932,140 which has been outstanding for a long period of time some of which dates back to 1989. These debts form 80% of the total outstanding debts. The recoverability of these debts is doubtful due to lack of supporting documents. No evidence of any positive measures being taken to recover the outstanding debts was availed for audit review.

In addition, the balance of Kshs.997,867,000 included staff debtors and other receivables figure of Kshs.26,997,000 which included outstanding temporary Imprest totalling Kshs.2,748,401 some of which date back to year 2012 and had not been surrendered as at 30 June 2017. This is contrary to Section 92(5) of the Public Finance Management regulations 2015 which provides that a holder of temporary imprest shall account or surrendered the imprest within 7 working days after returning to duty station or performing duty which was assigned. Further, available information revealed that the Corporation used cash imprest totalling Kshs.2,199,800 during the year 2017 to purchase capital items and renovations contrary to Section 63(1) of the Public Procurement and Disposal regulation 2006 which states that for the purposes of section 90(2) of the Act, a procuring entity may use a low value

procurement procedure only if the estimated cost of the goods, works or services being procured per item is less than or equal to the prescribed maximum value as set out in the regulation.

In the circumstances, it was not been possible to confirm the accuracy, validity and completeness of the trade and other receivables balance of Kshs.997,867,000 as at 30 June 2017 and the Corporation was in breach of the law.

18.4 Inventory

As disclosed in Note 10 to the financial statements, the inventory figure of Kshs.70,164,000 included obsolete engineering stores worth Kshs.57,718,890 in form of bolts and spares for the analogue transmitters. The stocks are shown at cost instead of lower of cost or net realizable value as required by the International Accounting Standard (IAS2). Physical verification of the inventory at the Karen/Langata TX station indicated that the bulk of the inventory in the stores were for the analogue system which was discarded in 2014 and other items which were delivered for the shortwave radio transmission. The management has not made a provision for obsolete stock in these financial statements. In the circumstances, it has not been possible to confirm validity, accuracy and completeness of the inventory balance of Kshs.70,164,000 as at 30 June 2017.

18.5 Unexplained Decrease of Dividends

As disclosed in Note 3 to the financial statements, other income figure of Kshs.82,534,000 includes dividend income of Kshs.64,000,000 (2016:-Kshs.220,000,000) from investment in Multichoice Kenya Ltd where the Corporation owns 40% of the Holding Company against the approved budget figure of Kshs.240,000,000. However, examination of the audited financial statement of Multichoice Kenya Ltd for the year ended 31 March 2017 reflected net income of Kshs.295,602,000 of which 40% transacts into Kshs.118,240,000. The management has not explained the decrease in dividend of Kshs.54,240,000 for the year ended 30 June 2017. In the circumstances, it was not possible to confirm if the Corporation obtained value of its money from Investment in Multichoice Kenya Limited.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit 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 governance.

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

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 financial reporting process, reviewing the effectiveness of how the Corporation 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

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of

Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk

management and governance 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. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of Kenya Broadcasting Corporation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.



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

Nairobi

17 May 2019

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2018

	NOTES	2017/2018 Kshs'000'	2016/2017 Kshs'000'
REVENUES			
Sales	1	1,129,332	1,508,737
Grants from National Government	2	842,500	579,000
Other income	3	<u>3,832</u>	<u>82,534</u>
TOTAL REVENUES		<u>1,975,664</u>	<u>2,170,271</u>
EXPENSES			
Administration costs	4(a)	10,229,944	9,298,885
Directors emoluments	4(c)	4,706	7,858
Selling and distribution costs	5	142,217	183,709
Depreciation of property plant and equipment	6	<u>270,761</u>	<u>291,605</u>
TOTAL OPERATING EXPENSES		<u>10,647,065</u>	<u>9,782,056</u>
OPERATING (LOSS)		<u>(8,671,965)</u>	<u>(7,611,785)</u>

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

ASSETS

NON CURRENT ASSETS

Property, Plant and Equipment

Investments

Total Non-current Assets

CURRENT ASSETS

Inventories

Trade and other Receivables

Cash and bank balances

TOTAL CURRENT ASSETS

TOTAL ASSETS

EQUITY AND LIABILITIES

Capital and Reserves

Ordinary Share capital

Revaluation reserve

Accumulated surplus /losses

Total Capital and Reserves

CURRENT LIABILITIES

Trade and other Payables

GOK Loan (principal)

GOK (Loan interest)

Bank Overdraft

TOTAL CURRENT LIABILITIES

TOTAL EQUITY AND LIABILITIES

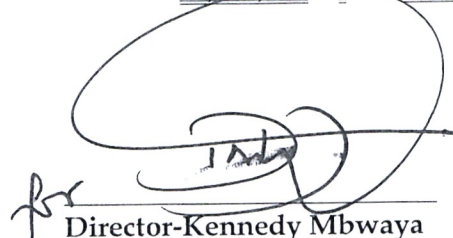
NOTES	2017/2018 Kshs '000'	2016/2017 Kshs '000'
8	16,501,858	16,741,594
9	400	400
	<u>16,502,258</u>	<u>16,741,994</u>
10	64,730	70,164
11	1,830,558	997,867
12	67,288	40,519
	<u>1,962,576</u>	<u>1,108,550</u>
	<u>18,464,834</u>	<u>17,850,544</u>
13	928,488	928,488
14	11,616,174	11,616,174
	(66,423,020)	(57,751,055)
	<u>(53,878,358)</u>	<u>(45,206,393)</u>
15	1,039,787	746,744
16(a)	12,930,057	12,191,472
16(b)	58,372,672	50,116,823
17	676	1,898
	<u>72,343,193</u>	<u>63,056,937</u>
	<u>18,464,835</u>	<u>17,850,544</u>

Signed:



Ag. Managing Director

Date _____



Director-Kennedy Mbwaya

Date _____

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Ordinary Share Capital	Revaluation Reserve Kshs '000'	Accumulated surplus/Losses Kshs '000'	Totals Kshs "000"
30/06/2015	928,488	11,616,174	(41,735,114)	(29,190,452)
Loss for the year			<u>(8,404,156)</u>	<u>(8,404,156)</u>
30/06/2016	928,488	11,616,174	(50,139,270)	(37,594,608)
Loss for the year			(7,611,78)	(7,611,785)
30/06/2017	928,488	11,616,174	(57,751,055)	(45,206,393)
Loss for the year			(8,671,965)	(8,671,965)
30/06/2018	928,488	11,616,174	(66,423,020)	(53,878,358)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30JUNE 2018

		2017/2018 Kshs	2016/2017 Kshs '000'
Receipt			
Grant from national government	2	842,500	579,000
Sales of goods	1	1,129,332	1,508,737
Other income	3	<u>3,832</u>	<u>82,534</u>
		<u>1,975,664</u>	<u>2,170,271</u>
Payments			
Compensation of employees		940,317	720,400
Payments of goods and services		<u>976,330</u>	<u>1,346,122</u>
		<u>1,916,647</u>	<u>2,066,522</u>
Net cash flow from operating activities		<u>59,017</u>	<u>103,749</u>
Cash flows from investing activities			
Purchase of property plant and equipment		(31,026)	(121,299)
Dividends		0	64,000
Exchange gain			
Net Cash flow used in investing activities		<u>31,026</u>	<u>(57,299)</u>
Cash flow from financing activities			
Proceeds from borrowings		738,585	747,432
Repayment of borrowings		(738,585)	(747,432)
Net increase /decrease in cash and cash equivalent		27,991	46,450
Cash and cash equivalent as at 1 st July 2017		38,621	(7,829)
Cash and cash equivalent as at 30 June 2018		66,612	38,621

20. Statement of comparison of budget and actual amounts.

The following is the statement of comparison of budget and actual amounts:

	ORIGINAL BUDGET	ADJUSTMENTS	FINAL BUDGET	ACTUALS	PERFORMANCE DIFFERENCE
	2017/2018	2017/2018	2017/2018	2017/2018	2017/2018
	KSH(000)	KSH(000)	KSH(000)	KSH(000)	KSH(000)
<u>SALES</u>					
Advertising radio	740,328	0	740,328	339,719	(399,049)
Advertising Television	424,000	0	424,000	273,968	(152,304)
Casual and funeral	4,503	0	4,503	2,563	(1,940)
Technical services	317,000	0	317,000	517,014	200,882
Other income	10,774	0	10,774	3,832	(5,875)
	1,496,605		1,496,605	1,133,163	(358,286)
OTHER INCOME					
Dividend income	220,000	0	220,000	-	(220,000)
GRANT FROM NATIONAL GOVERNMENT					

Current grants	1,364,400	0	1,364,400	574,000	(790,400)
Capital grants	1,559,900	0	1,559,900	268,500	(1,291,400)
Total Income	2,924,300	0	2,924,300	842,500	(2,081,800)

ADMINISTRATION COSTS

Directors emoluments	15,000	0	15,000	4,706.00	(10,294)
Electricity and water	200,000	0	200,000	141,993.00	(58,007)
Communication services and supplies	14,500	0	14,500	13,063.00	(1,437)
Transport, travelling and subsistence	81,452	0	81,452	68,899.00	(12,553)
printing, stationery and photocopying	7,000	0	7,000	7,575.00	575
Rent expenses	70,000	0	70,000	208.00	(69,792)
Staff training expenses	10,000	0	10,000	2,464	(7,536)
Insurance costs	16,500	0	16,500	6,821	(9,679)

Bank charges and commissions	3,500	0	2,503	8,258,565	5,755,063
Office and general supplies and services	14,900	0	14,900	14,939.00	39
Auditors remuneration	580	0	580	580.00	-
Legal fees	100,000	0	100,000	53,283	(46,717)
Consultancy fees	0	0	0	-	-
Repairs and maintenance	90,000	0	90,000	54,126.00	(35,874)
Provision for bad and doubtful debts	30,000	0	30,000	33,034	(3,034)
Program telephone lines	200,000	0	200,000	189,661	(10,339)
Program production expenses	320,000	0	320,000	133,983	(186,017)
Other operating expenses (officials and employees)	10,000	0	10,000	9,222.00	(778)
Salaries and allowances of permanent	1,150,270	0	1,153,270	1,039,468.00	(113,802)
Wages of temporary employees	88,000	0	110,000	102,838	(7,162)

Pension contributions	85,000	0	75,000	95,518.00	20,518
Staff welfare	10,000	0	5,000	1,067.00	(3,933)
Marketing and promotional expenses	153,000	0	153,000	53,470.00	(99,530)
Sales commission	110,000	0	110,000	82,257.00	(27,743)
Other selling and distribution	20,000	0	20,000	6,488.00	(13,512)
Depreciation	310,000	0	310,000	270,761.00	(39,239)

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

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 for 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 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-evaluation 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-evaluation 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 1st 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 equipment's 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 equipment's	10%
5) Ob equipment's	10%
6) Portable equipment's	10%
7) Program links	6.0%
8) Furniture and fittings	12.5%
9) Motor vehicles	20.0%
10) Office equipment's	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.

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2018
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 30th 2018.

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.

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2018
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 2018
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:

As at 30/06/2018	Current	30days	90days	Over 90 days	Total
Trade and other payables	11,054,076	23,282,816.56	25,312,871.73	265,409,399.76	325,059,164.05

As at 30/06/2018	Current	30days	90days	Over 90 days	Total
Trade and other receivables	129,728,659 .34	50,461,008.11	44,945,726.91	1,217,688,987,.93	1,442,824,382.29

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 2018
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.

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2018
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2018
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.

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

NOTES TO THE FINANCIAL STATEMENTS

	2017/2018	2016/2017
1. SALES	Kshs'000'	Kshs'000'
Gross sales of services	1,129,332	1,508,737
2. GRANTS FROM NATIONAL GOVERNMENT		
Current grants received	574,000	375,000
Capital	<u>268,500</u>	<u>204,000</u>
	<u>842,500</u>	<u>579,000</u>
3. Other income		
Dividend income		64,000
Miscellaneous income	3,607	10,794
Parking fees	225	7,740
Interest income		
Total	<u>3,832</u>	<u>82,534</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017/2018	2016/2017
	Kshs '000'	Kshs '000'
4(a) ADMINISTRATION COSTS		
Staff Cost (note 4,b)	1,334,475	1,119,033
Electricity and water	141,994	170,631
Communication services and supplies	13,041	20,000
Transport, travelling and subsistence	68,900	58,303
printing, stationery and photocopying	7,575	6,297
Rent expenses	208	2,567
Staff training expenses	2,464	1,318
Insurance costs	6,821	16,290
Bank charges and interest	8,258,565	7,377,884
Office and general supplies and services	14,962	14,075
Auditors remuneration	580	580
Legal fees	53,283	56,349
Repairs and maintenance	54,126	85,074
Provision for doubtful debts	33,034	29,839
Program telephone lines	189,662	143,800
Program production expenses	41,032	194,500
Other operating expenses	9,222	2,734
	<u>10,229,944</u>	<u>9,298,885</u>

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017/2018	2016/2017
	Kshs '000'	Kshs '000'
4 (b)STAFF COST		
Salaries and allowances of permanent employees	940,317	819,655
Salaries of long term contracted staff	102,838	35,498
Wages of temporary employees	92,952	96,140
Pension contributions	95,518	85,304
Gratuity	16,513	1,500
Staff welfare	3,698	2,480
Staff medical insurance	82,639	78,456
TOTAL	<u>1,334,475</u>	<u>1,119,033</u>
4 (c,)Directors Emolument		
Sitting allowance	2,046	3,200
Transport	1,070	1,562
Accommodation	920	1,441
Honorarium	450	497
Others	220	1,158
Total	<u>4,706</u>	<u>7,858</u>
5. SELLING AND DISTRIBUTION COSTS		
Marketing and promotional expenses	53,471	70,421
Sales commission	82,257	108,465
Other selling and distribution costs(news prdn)	6,489	4,823
	<u>142,217</u>	<u>183,709</u>
6. DEPRECIATION(8)		
	270,761	291,605

KENYA BROADCASTING CORPORATION

PROPERTY PLANT AND EQUIPMENT SCHEDULE FOR THE YEAR 2017/2018

COST/VALUATION	LAND	BUILDING	PLANT & EQUIPMENT	TRANSMITTER	STUDIO EQUIPMENT	OB EQUIPMENT	PORTABLE	PROGRAM LINKS	FURNITURE	MOTOR VEHICLES	OFFICE EQUIPMENT	COMPUTER	TOTAL
At July 1, 2016	12,857,874,001	943,714,372	1,974,532,856	1,340,553,419	115,522,962	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
ADDITIONS		3,512,700		16,776,560	78,652,226	4,870,790			3,763,172		2,230,720	11,492,758	121,298,926
As at 30 June 2017	12,857,874,001	947,227,072	1,974,532,856	1,357,329,979	194,175,189	29,783,288	4,299,408	41,609,550	28,060,446	170,404,000	15,960,154	46,566,981	17,667,822,923
DEPRECIATION													
as at 1 July 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
charge for the year	-	18,208,859	113,681,774	118,330,777	17,634,228	2,505,994	352,904	2,205,972	2,821,685	4,734,400	1,625,766	9,502,429	291,604,788
as at June 30 2017	-	54,992,980	339,264,255	292,352,984	35,467,136	7,229,346	1,123,272	7,049,324	8,308,652	151,466,400	4,579,791	24,394,647	926,228,786
Net Book Value As At June 30, 2017	12,857,874,001	892,234,092	1,635,268,601	1,064,976,995	158,708,052	22,553,942	3,176,136	34,560,226	19,751,794	18,937,600	11,380,363	22,172,334	16,741,594,137
At July 1, 2017	12,857,874,001	947,227,072	1,974,532,856	1,357,329,979	194,175,189	29,783,288	4,299,408	41,609,550	28,060,446	170,404,000	15,960,154	46,566,981	17,667,822,923
ADDITIONS				18,600,000	757,310						1,182,399	10,485,960	31,025,669
As at 30 June 2018	12,857,874,001	947,227,072	1,974,532,856	1,375,929,980	194,932,499	29,783,288	4,299,408	41,609,550	28,060,446	170,404,000	17,142,553	57,052,942	17,698,848,593
	12,857,874,001	892,234,092	1,635,268,601	1,083,576,995	159,465,362	22,553,942	3,176,136	34,560,226	19,751,794	18,937,600	12,562,762	32,658,295	16,772,619,806
DEPRECIATION													
as at 1 July 2017	-	54,992,980	339,264,255	292,352,984	35,467,136	7,229,346	1,123,272	7,049,324	8,308,652	151,466,400	4,579,791	24,394,647	926,228,786
charge for the year	-	17,844,682	106,292,459	108,357,700	16,114,717	2,255,394	317,614	2,073,614	2,468,974	3,787,520	1,451,233	9,797,488	270,761,394
as at June 30 2018	-	72,837,662	445,556,714	400,710,684	51,581,853	9,484,740	1,440,885	9,122,937	10,777,626	155,253,920	6,031,024	34,192,136	1,196,990,181
Net Book Value As At June 30, 2018	12,857,874,001	874,389,410	1,528,976,142	975,219,296	143,350,645	20,298,548	2,858,522	32,486,613	17,282,820	15,150,080	11,111,529	22,860,806	16,501,858,412
Net Book Value As At June 30, 2017	12,857,874,001	892,234,092	1,635,268,601	1,064,976,995	158,708,052	22,553,942	3,176,136	34,560,226	19,751,794	18,937,600	11,380,363	22,172,334	16,741,594,137

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

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

	2017/2018	2016/2017
	Kshs'000'	Kshs'000'
Engineering Stores	57,497	57,719
Fuel, Oil, And Lubricants	4,186	5,813
Stationery And General Stores	<u>3,047</u>	<u>6,632</u>
	<u>64,730</u>	<u>70,164</u>

11(a) TRADE AND OTHER RECEIVABLES

Trade Receivables	1,563,106	1,442,824
Provision for Bad and Doubtful Debts	<u>(504,988)</u>	<u>(471,954)</u>
Net receivables	1,058,118	970,870
Staff Receivables	14,855	21,065
Other Receivables	19,000	<u>5,932</u>
Treasury borrowing	<u>738,585</u>	<u>747,432</u>

Net Trade and Other Receivables	<u>1,830,558</u>	<u>997,867</u>
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11(b) Provision for doubtful debts

Opening balance	471,954	442,115
provision for the year	<u>33,034</u>	<u>29,839</u>
	<u>504,988</u>	<u>471,954</u>

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11(c) AGEING ANALYSIS

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

	2017/2018 Kshs'000'	2016/2017 Kshs'000'
Less than 30 days	107,595	180,190
Between 30 and 60 days	30,507	28,544
Between 61 and 90 days	14,986	16,402
Between 91 and 120 days	10,552	3,769
Over 120 days	1,399,465	<u>1,213,920</u>
	<u>1,563,106</u>	<u>1,466,228</u>

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30JUNE 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. BANK AND CASH BALANCES

	2017/2018 Kshs'000'	2016/2017 Kshs'000'
Citibank (Main) - 0300079001	52,481	31,024
Citibank medical -300079019	3,614	122
KCB Nairobi - 1107167418	5,966	2,836
Citibank car loan - 300079027	933	392
CBA dollar - 6626480024	0	4
KCB Bungoma - 1106224418	10	5
KCB Eldoret - 1102542407	34	18
KCB Garissa - 1108088538	1	1
KCB Kakamega - 1101936878	0	4
KCB Kisumu - 1104026481	2	1,092
KCB Kitale - 1105198405	1	2
KCB Malindi - 1108002897	2	1
KCB Maralal - 1104413671	1	1
KCB Marsabit - 1102656488	43	217
KCB Mombasa - 1101516593	1	77
KCB Voi - 1108158544	2	
KCB Wajir - 1105246949	2	2
KCB Kisii - 1101878681	0	1
KCB Meru - 1103310380	0	
KCB Nyeri - 1108497993	0	
Cash at Hand	0	2
TOTAL	<u>4,193</u>	<u>4,718</u>
	<u>67,288</u>	<u>40,519</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 of Kshs.11,616,174,000 relates to the re-evaluation 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

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. TRADE AND OTHER PAYABLES	2017/2018	2016/2017
	Kshs'000'	Kshs'000'
Trade creditors	325,059	210,522
Vat	152,005	145,797
Statutory Deduction	155,634	24,869
Medical	158,246	127,723
Insurance	1,715	2,371
Pension	213,617	208,744
Coop liabilities	16,899	13,339
S.A.Y.E	84	42
NHIF	5,731	4,510
Other deductions	<u>10,797</u>	<u>8,827</u>
	<u>1,039,787</u>	<u>746,744</u>

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

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 loan.

YEAR	<u>AMOUNT PAID</u> KSHS '000'
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	753,463
2016/2017	747,432
2017/2018	<u>738,585</u>
TOTAL	<u>12,930,057</u>

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Treasury has charged interest of Kshs.58,372,672,215.08 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	8,227,365
2016/2017	7,374,732
2017/2018	<u>8,255,849</u>
TOTALS	<u>58,372,672</u>

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17.BANK OVERDRAFT

	2017/2018	2016/2017
	Kshs'000'	Kshs '000'
CBA Ksh		1,898
Citibank medical	1	
CBA Dollar	675	
Total	<u>676</u>	<u>1,898</u>

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

Directors emolument	4,706	7,858
Total	<u>4,706</u>	<u>7,858</u>

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2018
NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017/2018 Kshs'000'	2016/2017 Kshs '000'
(b) Staff		
Gross staff loans and advances	32,640	26,786
Provision for impairment loss	(366)	<u>(366)</u>
	32,274	26,420
Less amount due within one year	21,064	<u>21,064</u>
Amount due after one year	5,536	<u>5,536</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 The terms are as follows:-

10 Years	Grace Period	(1989-June 1999)
20 Years	Repayment Period	(1999-2019)

19 CONTINGENT LIABILITIES

CONTINGENT LIABILITY IN RESPECT OF KBC HIGH VALUE COURT

The following are high value court cases pending in court for or against the Corporation with at Ksh 252,756,349,383.75

UNIT	NATURE OF THE MATTER	SUBSTANTIVE ISSUES INVOLVED	CONTINGENT LIABILITY	STATUS UPDATE ON THE MATTER
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	Kshs.1,000,000,000	Pending for hearing
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	kshs1,820,000,000	Pending for hearing.
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.
4.	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.	Kshs.313,250,000	Pending for hearing.
5.	LONDON- in the matter	The suit revolves	\$2.4 billion dollar	Matter pending

	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	upon a termination of contract between KBC and Channel 2 Group Corporation	claim which is equivalent to (2.4*103.75)Kshs.249 billion	arbitration hearing in London.
6.	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 which is equivalent to (120,000*118.31) Kshs14,197,200	Pending for hearing in court
7.	Hccc No.210 Of 2014 Hon.JosephKahangara Versus Kenya Broadcasting Corporation	Defamation	Ksh.7,000,000.00	Pending for hearing
8.	Rev.BenedictKiambiGitonga Versus Kenya Broadcasting Corporation	defamation	Kshs 7,000,000.00	Pending for hearing
9.	Cause No.2521 Of 2016 Julius KimathiMwangi Versus Kenya Broadcasting Corporation	dismissal	Kshs.15,165,249.00	Pending for hearing
10.	Civil Appeal Number 114 Of 2016 Al Hajj Omar Masumbuko Versus Kenya Broadcasting Corporation	defamation	Kshs.7,000,000.00	Pending for hearing
11.	Cause No. 103 Of 2011 Lempaa Vincent Suyianka Versus Kenya Broadcasting Corporation	The Plaintiff was dismissed from service	Kshs.1,877,264.50	Pending for hearing
12.	Cmcc No .4473 Of 2013 William Kimutayi B. Keitany Versus Kbc And 3 Others	defamation	Kshs,7,000,000	pending

13.	Hccc No.322 Of 2015 Performers Rights Society And Another Versus Kenya Broadcasting Corporation	Collection and payment of royalties	Kshs.52,272,000	pending
14.	Hccc No.73 Of 2015 Ilmisiyoi Group Ranch Versus Kenya Broadcasting Corporation And &Others	Land matters	Kshs.5,600,000	Pending for hearing
15.	Cause No.733 Of 2015 TirasWaiyakiThuku Versus Kenyabroadcasting Corporation	Dismissal from service	Kshs.3,466,280	pending
16.	Industrial Cause No. 1255 Of 2013 PraxedesAdhiamboOtieno o Versus Kenya Broadcasting Corporation	Early retirement	Kshs.3,351,770.65	pending
17.	Hccc No 63 of 2008 Martha Wambui versus Kenya broadcasting corporation	Defamation	Kshs 7,000,000	Pending
18.	Nairobi Hccc No. 819 Of 2007 Joseph Kigunda Versus Kenya Broadcasting Corporation	Defamation	Kshs 7,000,000	pending
19.	Hccc Number 87 Of 2011 Hon MusikariKombo Versus Kenya Broadcasting Corporation	defamation	Kshs 7,000,000	pending
20.	Hccc Number 86 Of 2011 Dorcas Florence Kombo Versus Kenya Broadcasting Corporation	Defamation	Kshs 7,000,000	pending
21.	Nairobi Hccc No 719 Of 2006 Charles Kasisi And 10 Others Versus Kenya Broadcasting Corporation	Dismissal	Kshs 128,500,000	pending
22.	Nairobi Hccc No. 1018 Of 2006 John Ng'ang'a Kuria Versus Kenya Broadcasting Corporation	dismissal	Kshs.73,719,706.60	Pending appeal
23.	Nairobi Hccc No. 833 Of	Dismissal	Kshs 7,000,000	pending

	2007 Halkano Molu Versus Kenya Broadcasting Corporation			
24.	Hccc No. 119 Of 2015 Joseph KarisaMwarandu Versus Kenya Broadcasting Corporation	Defamation	KSHS 7,000,000	Pending