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REPORT

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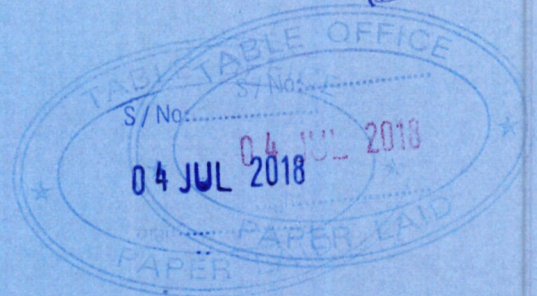
THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA BROADCASTING CORPORATION

FOR THE YEAR
ENDED 30 JUNE 2017

PAPER LAID BY
THE DEPUTY LEADER
OF THE MAJORITY
PARTY ON 4/7/18
IBM





Kenya



YOUR NATIONAL BROADCASTER

KENYA BROADCASTING CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE, 2017

**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 2017 and who had direct fiduciary responsibility were:

NO.	DESIGNATION	NAME
1	MANAGING DIRECTOR	WAIHAKA 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

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.

 <p>MS. CECILIA A. NGITITI</p>	<p>BACHELOR OF SCIENCE IN COMMUNICATION AND PUBLIC RELATIONS - MOI UNIVERSITY-ELDORET</p> <p>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.</p>
 <p>Mr. Mohammed Jabane</p>	<p>Master of Arts (International Relations) Nairobi University</p> <p>Advanced Public Administration (K.I.A)</p> <p>Bachelor of Arts, Political Science-Nairobi University</p> <p>Currently head of secretariat, Cabinet nominees</p> <p>Policy formulation and review on State Corporations.</p>
 <p>PS, Mr. Samuel Itemere</p>	<p>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.</p> <p>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.</p> <p>Prior to joining Government, Mr. Itemere was the</p>

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, holds 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






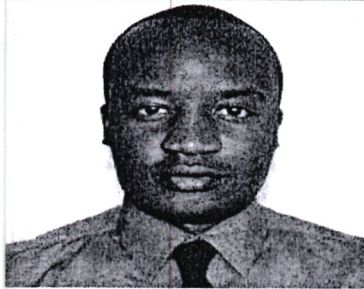
Mr. Paul Jilani
Corporation Secretary

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

 <p>Managing Director Mr. Waithaka Waihenya</p>	<p>Bachelors degree from Kenyatta University</p> <p>Masters in Communication from Leicester University</p> <p>Previously Editor in Chief KBC, 3 and a half years associate Editor standard newspapers, in charge of day to day running of KBC as Managing Director</p>
 <p>Mr. Paul Jilani Corporation Secretary</p>	<p>Bachelors of Law (LLB) and Masters in Business Administration (MBA), 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)</p>
 <p>Mr. H.M Isinta Finance and Administration Manager</p>	<ul style="list-style-type: none"> • MBA (Finance) • Bachelor of Commerce (Accounting) • CPA(K)

 <p>Mr. Robert Wekesa Procurement Manager</p>	<ul style="list-style-type: none"> • 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.
 <p>Mr. Samwel Otieno Manager Corporate planning, Research and Development</p>	<ul style="list-style-type: none"> • Bsc. in Electrical Engineering (Light Current Option) • Registered Graduate Engineer with ERB • Registered Graduate Member with IEK • Member of IEEE
 <p>Ms. Everlyn Mwakina Corporate Affairs Manager</p>	<p>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.</p>



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. Carolyne 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.



Mr. Samuel Njeru
Principal Internal Auditor

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



Mr. Jonah Kusero
Ag. Radio Programmes Manager

- 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. Daniel Okoth
Human Resource Manager

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



Rachael Nakitare
Ag. Televisions Programs 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 2016/2017 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 6.07% from Kshs 2.1 billion last year to Kshs 2.0 billion this year. This is attributed to a drop in dividends from Multichoice Kenya Ltd where KBC is a 40% shareholder by kshs156 million as well as a reduction in Government grant by Kshs 312.9 million.

The total expenditure increased by 18% from Kshs 10.1 billion last year to Kshs9.2 billion this year. The reduction in expenditure is explained by lower interest that the Government charged KBC on account of repaying Japanese loan this year and a drop in electricity expenditure as a result of installing new FM radio transmitters and switching off medium wave radio transmitters that consume a lot of electricity. Loss after tax decreased by 8.3% from Kshs 8.4 billion to Kshs 7.7 billion due to reduced expenses.

The Corporation hired a new team of news presenters that brought in fresh outlook and passion in news reading. We installed nine new FM radio transmitters at various sites in the country that has expanded radio coverage and improved signal quality. New studio lighting equipment 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 in July 2016.

Kennedy Mbwaya


Director

REPORT OF THE MANAGING DIRECTOR

The year 2016/2017 was quite eventful and fruitful for us as KBC family and the entire Kenya citizenry. I therefore take this opportunity to thank all the staff for giving their best in ensuring successful transmission of party primaries during the preparation of the 2017 general elections 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 2016.

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 2016/2017, KBC Board approved the Corporate Communication and Corporate Social Responsibility (CSR) Policy to guide and enhance partnerships with our stakeholders through the delivery of services that are mutually beneficial to the Corporation and the society at large. While conducting our business in line with the expectations of diverse clientele, KBC also sees Corporate Social Responsibility as a discipline that helps to manage emerging and often unprecedented risks presented to us in a changing world.

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

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



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

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

Finally, the Corporation participated in the Kenya Communication Sports Annual Event (KECOSO) in August 2016 at Nakuru



REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 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, 2017 are set out on pages 1 to 4

Auditors

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the Kenya Broadcasting Corporation's financial statements, which give true and fair view of the state of affairs of Kenya Broadcasting Corporation for and as at the end of financial year ended on June 30, 2017. 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, 2017, and of the Kenya Broadcasting Corporation financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for Kenya Broadcasting Corporation, which have been relied upon in the preparation of Kenya Broadcasting Corporation financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that Kenya Broadcasting Corporation will not remain a going concern for at least the next twelve months from the date of this statement.


KENNEDY MBWAYA
DIRECTOR OF THE BOARD


MR. PAUL JILANI
AG.MANAGING DIRECTOR

REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA BROADCASTING CORPORATION FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Broadcasting Corporation set out on pages 1 to 39, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Kenya Broadcasting Corporation as at 30 June 2017 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with the Kenya Broadcasting Act, Cap. 221 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1.0 Property, Plant and Equipment

1.1 Unsupported Valuation of Assets

As previously reported, the statement of changes in equity for the year ended 30 June 2017 reflects a revaluation reserve balance of Kshs.11,616,174,000 whose supporting valuation report/analysis was not availed for audit review.

In addition, and as previously reported, the financial statements also reflects addition figure of Kshs.180,992,954 under plant and machinery for APD Project whose supporting schedules/analysis was not availed for audit review. In the circumstances, it has not been possible to confirm the existence, accuracy and validity of property, plant and equipment balance of Kshs.16,741,594,137 as at 30 June 2017.

Report of the Auditor-General on the Financial Statements of Kenya Broadcasting Corporation for the year ended 30 June 2017

1.2 Generators

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

1.3 Unclear Transfer of Corporation Land

As previously reported, the property, plant and equipment balance of Kshs.16,741,594,137 as at 30 June 2017 includes land LR No.209/10370 designated as Norfolk Car Park measuring 2.19 acres valued at Kshs.1,431,000,000 which was transferred to Kenya Cultural Centre vide letter Ref: No. KBC/MD/14/6/C VOL.VII dated 11 October 2016. It is not clear and management has not explained the circumstances under which the Corporation's land was transferred to Kenya Cultural Centre contrary to the requirements of Chapter five, Article 62 Section 4 of the Constitution which states that public land shall not be disposed of or otherwise used except in terms of an Act of Parliament specifying the nature and terms of that disposal or use.

Further, the said Parcel of Land has two allotment letters reflecting different sizes as follows; allotment letter dated 12 August 1994 indicates the size of the land as 0.8861 hectares while allotment letter dated 8 March 2004 indicate 0.8737 hectares. In addition the survey plan indicates the size of the same parcel of land as 0.21 hectares which differs with the acreage indicated in the two (2) allotment letters.

Consequently, it has not been possible to confirm the size and ownership status of the parcel of land and that the property, plant and equipment balance of Kshs.16,741,594,137 as at 30 June 2017 is fairly stated.

1.4 Land Building

As previously reported, the property, plant and equipment balance of Kshs.16,741,594,137 as at 30 June 2017 includes land and buildings balance of Kshs.12,857,874,001 and Kshs.892,234,092 respectively totalling Kshs.13,750,108,093. The balance of Kshs.13,750,108,093 also includes land and building valued at Kshs.5,712,992,000 with letters of allotment and Kshs.903,767,000 in respect of un-surveyed and un-adjudicated land all totalling Kshs.6,616,759,000 whose ownership documents were not availed for audit review. The balance also excludes the unvalued land LR No 75893/111/66A situated at Voi Township measuring 3.7 acres which the valuer could not locate during the time of valuation of assets in November 2014. In addition, the Corporation's land LR No75893/111/64A measuring 0.7413 acres located at Voi Township and valued at Kshs.1,600,000 had been taken over by the Ministry of Mining and 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

indicates that the land is measuring 33.419 acres (13.53 hectares) while information available indicates that the actual size on the ground is 124.79055 acres valued at Kshs.2,700,000,000.

Further, the Corporation's Jamhuri Park land LR. No 15090 measuring 100 acres was allegedly grabbed, out of which 60 acres was recovered by Kenya Anti-Corruption Commission and was allocated/reverted to Kenya Forest service while the Corporation was reallocated 29 acres leaving land measuring 11 acres which has not been accounted for as at the date of this report. It is not clear and management has not explained why part of the recovered land was given to Kenya Forest Service. Available information also reveals that the Corporation's Sauti house in Mombasa which houses Mombasa office, has a pending court case and part of its land was grabbed by Housing Finance Company of Kenya (HFCK) while, the Corporation land in Nyali TX L.R.No 1476/1 measuring approximately 22.8 hectares was encroached into by squatters and a stone fence erected at a cost of Kshs.3,512,700 was demolished. It was further noted that most of the Corporation's land had unresolved cases pending in court. Although indications are that the Corporation has made attempts at the Ministry of Lands, and Physical Planning to have outstanding issues resolved, no meaningful progress appears to have been achieved as at April 2018.

In the circumstances, 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 is fairly stated.

1.5 Land without Title Deeds

As previously reported, available information indicates that the Corporation owns twenty five (25) parcels of land (listed on the table below) valued at Kshs.6,102,849,000 that are un-surveyed, un-adjudicated and whose ownership documents such as title deeds and certificates of lease were not availed for audit review. Although, the management is aware of the above anomaly, no evidence of any action being taken by the management to obtain ownership documents of these parcels of land was availed for audit verification as at the time of audit in February 2018. In addition, and as previously reported, the balance of land excludes unvalued land LR.No.75893/111/66A situated at Voi Township measuring 3.7 acres which the valuer could not locate during the time of valuation of assets in November 2014. The management has not provided satisfactory explanations for the above anomalies.

List of land without title deeds

NO.	Description	Ownership Document	Location	Purchase Date	Book Value
1	L.R. NO: 209/10370-Norfolk Car Park	Letter of allotment	Nairobi	30th 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
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	Unadjudicated 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 Unsurveyed	No documents	Lamu	30th November 2014	300,000
	TOTAL				6,102,849,000.00

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 2017.

1.6 Land with Disputes

Further, available information at the Corporation indicate 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 2018 revealed unchanged position.

Land with Disputes

No.	LR No.	Location	Size in Acre	Value	Ownership
1	LR No. 1/9218	Donyo Sabuk Komarock	1.234	1,820,000,000	With title
2	M1/XX/522	Sauti House Mombasa Island	1.253	313,250,000	No title
3	No LR No	Lamu - Unsurveyed	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 Kajjado	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.

1.7 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 for unremitted outstanding pension arrears totalling Kshs.208,774,000 as at 30 June 2017, contrary to chapter five (5), Article 62, Section 4 of the Constitution of Kenya which may lead to loss of Corporation land as detailed below :-

- LR.No.1/9218 Donyo Sabuk/Komarock 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 2017. Further, physical verification of land LR No1/9218 Donyo Sabuk/Komorock measuring 1,234.26 acres indicated that more 2/3 of the land has been encroached by squatters and there are physical structure within 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 is 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 propriety of land worth Kshs.917,476,000 as at 30 June 2017 could not be confirmed.

2.0 Trade and Other Payables

The statement of financial position as at 30 June 2017 reflects trade and other payables balance of Kshs.746,744,000 which includes an amount of Kshs.545,049,000 in respect of statutory and other deductions which had not been remitted to the respective institutions as at 30 June 2017 as detailed below:-

Particulars	Amount (Kshs)
Pension	208,744,000
Statutory Deduction	24,869,000
Medical Fund	127,723,000
co-operative Deductions	13,339,000
Insurance	2,371,000
SAYE	42,000
Other Deductions	8,827,000
Value added Tax (VAT)	145,797,000
NHIF	4,510,000
Total	545,049,000

In addition the balance of Kshs.746,744,000 includes trade creditors totalling Kshs.168,478,000 whose supporting documents were not availed for audit review. It is not clear and management has not explained if and when the amount of Kshs.545,049,000 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. In the circumstances, 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.

3.0 Japanese loan

As previously reported, the Corporation's statement of financial position as at 30 June 2017 reflects 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 2017 the loan balance was Kshs.12,191,472,000 and interest thereof 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. Although and as previously reported, the management has explained that there are on-going negotiations with the Government to convert Government of Kenya Loan into equity, it is not certain when the process will be completed. The management has not been servicing the loan which had been guaranteed by the National Treasury and has accumulated to Kshs.62,308,295,000 as at 30 June 2017.

4.0 Going Concern

During the year under review, 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 reflects current liabilities balance of Kshs.63,056,937,000 which exceeds 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 is therefore technically insolvent and its continued existence as a going concern is dependent upon the financial support of the Government, bankers and its creditors.

5.0 Legal Fees

5.1 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 is an amount of Kshs.1,119,033,000 in respect to staff cost. The amount of Kshs.1,119,033,000 also includes 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.

5.2 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 is 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 are 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.

5.3 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 is an amount Kshs.56,349,000 in respect of legal fees. The figure of Kshs.56,349,000 also includes an amount of Kshs.40,242,181 paid to a law firm being 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 indicates 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 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 this audit. 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.

6.0 Trade Receivables

As disclosed in Note 11 to the financial statements trade and other receivables net figure of Kshs.997,867,000 includes 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 forms 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 includes staff debtors and other receivables figure of Kshs.26,997,000 which includes 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 under review 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 has 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.

7.0 Inventory

As disclosed in Note 10 to the financial statements, the inventory figure of Kshs.70,164,000 includes 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 indicate 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.

8.0 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 reflects 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 has not been possible to confirm if the Corporation obtained value of its money from Investment in Multichoice Kenya Limited.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Emphasis of Matter

Contingent liability

As disclosed in Note 19 to the financial statements, the Corporation has contingent liability totalling Kshs.252,756,349,383 against twenty four (24) cases pending in court for or against the Corporation some dating back to 2006. However, if the cases are determined against the Corporation there is likelihood that the corporation will suffer financial losses to the tune of Kshs.252,756,349,383.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters discussed in

the Basis for Adverse Opinion and Other Matter sections of my report. I confirm that there were no Key Audit Matters to communicate in my report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

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

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

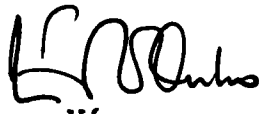
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Institute's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Institute to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Institute to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

14 May 2018

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2017

	NOTES	2016/2017 Kshs'000'	2015/2016 Kshs'000'
REVENUES			
Sales	1	1,508,737	1,005,694
Grants from National Government	2	579,000	891,997
Other income	3	<u>82,534</u>	<u>245,195</u>
TOTAL REVENUES		<u>2,170,271</u>	<u>2,142,886</u>
EXPENSES			
Administration costs	4(a)	9,298,885	10,099,345
Directors emoluments	4(c)	7,858	8,625
Selling and distribution costs	5	183,709	145,976
Depreciation of property plant and equipment	6	<u>291,605</u>	<u>291,756</u>
TOTAL OPERATING EXPENSES		<u>9,782,056</u>	<u>10,545,702</u>
OPERATING (LOSS)		<u>(7,611,785)</u>	<u>(8,402,816)</u>
Finance Income/cost	7		(1,340)
OPERATING (LOSS)		<u>(7,611,785)</u>	<u>(8,404,156)</u>

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

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

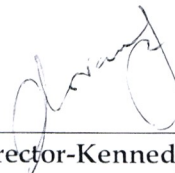
	NOTES	2016/2017 Kshs '000'	2015/2016 Kshs '000'
NON CURRENT ASSETS			
Property, Plant and Equipment	8	16,741,594	16,911,900
Investments	9	400	400
Total Non-current Assets		<u>16,741,994</u>	<u>16,912,300</u>
CURRENT ASSETS			
Inventories	10	70,164	75,938
Trade and other Receivables	11	997,867	1,056,593
Cash and bank balances	12	40,519	5,815
TOTAL CURRENT ASSETS		<u>1,108,550</u>	<u>1,138,346</u>
TOTAL ASSETS		<u>17,850,544</u>	<u>18,050,646</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary Share capital	13	928,488	928,488
Revaluation reserve	14	11,616,174	11,616,174
Accumulated surplus / losses		(57,751,055)	(50,139,270)
Total Capital and Reserves		<u>(45,206,393)</u>	<u>(37,594,608)</u>
CURRENT LIABILITIES			
Trade and other Payables	15	746,744	1,445,479
GOK Loan (principal)	16(a)	12,191,472	11,444,040
GOK (Loan interest)	16(b)	50,116,823	42,742,091
Bank Overdraft	17	1,898	13,644
TOTAL CURRENT LIABILITIES		<u>63,056,937</u>	<u>55,645,254</u>
TOTAL EQUITY AND LIABILITIES		<u>17,850,544</u>	<u>18,050,646</u>

Signed:



Ag. Managing Director

Date _____



Director-Kennedy Mbwya

Date _____

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	Ordinary Share Capital	Revaluation Reserve Kshs '000'	Accumulated surplus/Losses Kshs '000'	Totals Kshs "000"
30/06/2014	<u>928,488</u>	<u>1,729,692</u>	<u>(36,754,572)</u>	<u>(34,096,392)</u>
1/7/2014	<u>928,488</u>	<u>1,729,692</u>	<u>(36,754,572)</u>	<u>(34,096,392)</u>
Acc depreciation (building) as at 1/7/2014		(366,892)	366,892	-
Loss for the year			(5,347,434)	(5,347,434)
Revaluation reserve 16(b)		10,253,374	-	10,253,374
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			(7,611,785)	(7,611,785)
30/06/2017	928,488	11,616,174	(57,751,055)	(45,206,393)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

		2016/2017	2015/2016
		Kshs	Kshs '000'
Receipt			
Grant from national government	2	579,000	891,997
Sales of goods	1	1,508,737	1,005,694
Other income	3	<u>82,534</u>	<u>245,195</u>
		<u>2,170,271</u>	<u>2,142,886</u>
Payments			
Compensation of employees		720,400	702,365
Payments of goods and services		<u>1,346,122</u>	<u>1,360,263</u>
		<u>2,066,522</u>	<u>2,062,628</u>
Net cash flow from operating activities		<u>103,749</u>	<u>80,258</u>
Cash flows from investing activities			
Purchase of property plant and equipment		(121,299)	(291,430)
Dividends		64,000	220,000
Exchange gain			<u>1,340</u>
Net Cash flow used in investing activities		<u>(57,299)</u>	<u>72,770</u>
Cash flow from financing activities			
Proceeds from borrowings		747,432	753,254
Repayment of borrowings		(747,432)	(753,254)
Net increase /decrease in cash and cash equivalent		46,450	7,488
Cash and cash equivalent as at 1 st July 2016		(7,829)	(15,317)
Cash and cash equivalent as at 30 June 2016		38,621	(7,829)

20. Statement of comparison of budget and actual amounts.

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

Kenya Broadcasting Corporation

Statement of comparison of budget and actual amounts

	ORIGINAL BUDGET	ADJUSTMENTS	FINAL BUDGET	ACTUAL	ACTUAL	PERFORMANCE DIFFERENCE
	2016/2017	2016/2017	2016/2017	2016/2017	2015/2016	2016/2017
	KSH(000)	KSH(000)	KSH(000)	KSH(000)	KSH(000)	KSH(000)
SALES						
Advertising radio	906,000	0	906,000	378,292	378,292	(527,708)
Advertising Television	521,000	0	521,000	185,767	185,767	(335,233)
Casual and funeral	4,503	0	4,503	3,651	3,740	(852)
Technical services	420,000	0	420,000	583,722	437,861	163,722
Other income	12,000	0	12,000	25,195	25,195	13,195
Greeting cards	195	0	195	1,427	1,427	1,232
	1,863,698		1,863,698	1,178,054	1,032,282	(685,644)
OTHER INCOME						
Dividend income	240,000	0	240,000	64,000	220,000	(176,000)
Interest on deposits					1,000	
GRANT FROM NATIONAL GOVERNMENT						
Current grants	1,364,400	0	1,364,400	375,000	427,717	(989,400)
Capital grants	569,383	0	569,383	204,000	467,279	(365,383)

Total Income	1,933,783	0	1,933,783	579,000	891,996	(1,354,783)
ADMINISTRATION COSTS						
Directors emoluments	12,000	0	12,000	6,322	8,625	(5,678)
Electricity and water	218,000	0	218,000	170,630	173,267	(47,370)
Communication services and supplies	14,800	0	14,800	13,350	13,350	(1,450)
Transport, travelling and subsistence	59,000	0	59,000	58,302	40,514	(69,818)
printing, stationery and photocopying	6,300	0	6,300	6,297	6,321	(21)
Rent expenses	54,000	0	54,000	2,567	52,442	(51,435)
Staff training expenses	10,000	0	10,000	1,318	11,287	(8,685)
Insurance costs	16,500	0	16,500	16,290	2,121	(210)
Bank charges and commissions	3,500	0	3,500	3,152	3,461	(348)
Office and general supplies and services	14,440	0	14,440	14,075	14,374	(369)
Auditors remuneration	580	0	580	580	580	
Legal fees	80,000	0	80,000	56,928	54,609	(23,072)
Consultancy fees	0	0	0	0	7,695	
Repairs and maintenance	85,000	0	85,000	83,926	100,365	(1,665)
Provision for bad and doubtful debts	30,000	0	30,000	30,133	30,133	133
Program telephone lines	150,528	0	150,528	143,800	135,754	(6,728)
Program production expenses	280,000	0	280,000	194,500	190,961	(85,500)
Other operating expenses (official ent)	8,500	0	8,500	8,364	5,495	(136)
Salaries and allowances of permanent employees	910,700	0	910,700	848,983	848,983	(61,717)

Wages of temporary employees	88,000	0	88,000	86,432	86,432	(1,568)
Pension contributions	85,000	0	85,000	85,090	85,090	90
Staff welfare	10,000	0	10,000	9,195	9,195	(805)
Marketing and promotional expenses	127,000	0	127,000	70,421	86,050	(56,579)
Sales commission	130,000	0	130,000	92,864	53,059	(37,136)
Other selling and distribution costs(news prdn)	13,000	0	13,000	4,823	6,867	(8,177)
Depreciation	310,000	0	310,000	291,605	291,756	(18,395)

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 IAS16 '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 period s 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)

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 2017
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 2016.

xiii. Financial risk management

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

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

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2017
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 2017
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 30/06/2017	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

As at 30/06/2016	Current	30days	90days	Over 90 days	Total
Trade and other receivables	92,383,888.23	58,096,615.35	29,559,375.54	1,236,855,830.35	1,466,228,429.57

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 2017
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

(b) Liquidity risk

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

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

Management of liquidity risk

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

(c) Market risk

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

(i) Currency risk

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

(ii) Commodity or price risk

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

Management of commodity risk

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

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2017
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

(iii) Interest rate risk

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

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

Management of interest rate risk

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

NOTES TO THE FINANCIAL STATEMENTS

	2016/2017	2015/2016
1. SALES	Kshs'000'	Kshs'000'
Gross sales of services	1,508,737	1,005,694
2. GRANTS FROM NATIONAL GOVERNMENT		
Current grants received	375,000	424,717
Capital	<u>204,000</u>	<u>467,279</u>
	<u>579,000</u>	<u>891,997</u>
3. Other income		
Dividend income	64,000	220,000
Miscellaneous income	10,794	8,824
Parking fees	7,740	15,371
Interest income		<u>1,000</u>
Total	<u><u>82,534</u></u>	<u><u>245,195</u></u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016/2017	2015/2016
4(a) ADMINISTRATION COSTS	Kshs '000'	Kshs '000'
Staff Cost (note 4,b)	1,119,033	1,029,700
Electricity and water	170,631	173,267
Communication services and supplies	20,000	13,350
Transport, travelling and subsistence	58,303	40,514
printing, stationery and photocopying	6,297	6,321
Rent expenses	2,567	52,442
Staff training expenses	1,318	11,287
Insurance costs	16,290	2,121
Bank charges and interest	7,377,884	8,230,377
Office and general supplies and services	14,075	14,374
Auditors remuneration	580	580
Legal fees	56,349	54,609
Consultancy fees		7,695
Repairs and maintenance	85,074	100,365
Provision for doubtful debts	29,839	30,133
Program telephone lines	143,800	135,754
Program production expenses	194,500	190,961
Other operating expenses	<u>2,734</u>	<u>5,495</u>
	<u>9,298,885</u>	<u>10,107,970</u>

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016/2017	2015/2016
	Kshs '000'	Kshs '000'
4 (b) STAFF COST		
Salaries and allowances of permanent employees	819,655	848,838
Salaries of long term contracted staff	35,498	
Wages of temporary employees	96,140	86,432
Pension contributions	85,304	
Gratuity	1,500	145
Staff welfare	2,480	9,195
Staff medical insurance	<u>78,456</u>	
TOTAL	<u>1,119,033</u>	<u>1,029,700</u>
4 (c.) Directors Emolument		
Sitting allowance	3,200	4,250
Transport	1,562	1,500
Accommodation	1,441	930
Honorarium	497	745
Others	<u>1,158</u>	<u>1,200</u>
Total	<u>7,858</u>	<u>8,625</u>
5. SELLING AND DISTRIBUTION COSTS		
Marketing and promotional expenses	70,421	86,050
Sales commission	108,465	53,059
Other selling and distribution costs(news prdn)	<u>4,823</u>	<u>6,867</u>
	<u>183,709</u>	<u>145,976</u>
6. DEPRECIATION(8)	291,605	291,756
7. FINANCE LOSS		(1,340)

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. PROPERTY, PLANT AND EQUIPMENT

CO-VALUATION	LAND Kshs	BUILDINGS Kshs	PLANT & MACHINERY Kshs	TRANSMITTER EQUIPMENT Kshs	STUDIO EQUIPMENT Kshs	OB EQUIPMENT Kshs	PORTABLE EQUIPMENT Kshs	PROGRAM LINKS Kshs	FURNITURE & FITTINGS Kshs	MOTOR VEHICLES Kshs	OFFICE EQUIPMENT Kshs	COMPUTER EQUIPMENT Kshs	TOTALS Kshs
At July1,2015	12,857,874,001	927,967,700	1,793,539,902	692,346,356	69,784,572	24,801,138	3,782,528	41,609,550	22,398,243	170,404,000	11,317,444	20,809,288	16,636,634,723
Additions		15,746,672	180,992,954	648,207,063	45,738,390	111,360	516,880		1,899,031		2,411,990	14,264,935	909,889,275
As at June 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
Depreciation													
As at July 2015		18,275,340	116,580,094	44,407,628	6,978,457	2,480,114	378,253	2,496,573	2,799,780	140,814,000	1,414,681	6,242,787	342,867,705
Charge for the year		18,508,781	109,002,388	129,614,579	10,854,451	2,243,238	392,115	2,346,779	2,687,187	5,918,000	1,539,344	8,649,431	291,756,293
At June 30, 2016		36,784,121	225,582,481	174,022,207	17,832,908	4,723,352	770,368	4,843,352	5,486,967	146,732,000	2,954,025	14,892,218	634,623,998
Net book value at June30,2016	12,857,874,001	906,930,251	1,748,950,375	1,166,531,213	97,690,055	20,189,145	3,529,039	36,766,198	18,810,307	23,672,000	10,775,409	20,182,006	16,911,900,000
At July1,2016	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 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
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 at June30 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
Net book value at June30,2016	12,857,874,001	906,930,251	1,748,950,375	1,166,531,213	97,690,055	20,189,145	3,529,039	36,766,198	18,810,307	23,672,000	10,775,409	20,182,006	16,911,900,000

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

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	2016/2017	2015/2016
	Kshs'000'	Kshs'000'
Engineering Stores	57,719	64,520
Fuel, Oil, And Lubricants	5,813	6,299
Stationery And General Stores	<u>6,632</u>	<u>5,119</u>
	<u>70,164</u>	<u>75,938</u>
11(a) TRADE AND OTHER RECEIVABLES		
Trade Receivables	1,442,824	1,466,228
Provision for Bad and Doubtful Debts	<u>(471,954)</u>	<u>(442,115)</u>
Net receivables	970,870	1,024,113
Staff Receivables	21,065	22,826
Other Receivables	<u>5,932</u>	<u>9,654</u>
Net Trade and Other Receivables	<u>997,867</u>	<u>1,056,593</u>
11(b) Provision for doubtful debts		
Opening balance	442,115	411,982
provision for the year	<u>29,839</u>	<u>30,133</u>
	<u>471,954</u>	<u>442,115</u>

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2017
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

11(c) **AGEING ANALYSIS**

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

Kshs'000'Kshs'000'	2016/2017	2015/2016
Less than 30 days	180,190	150,480
Between 30 and 60 days	28,544	49,333
Between 61 and 90 days	16,402	29,559
Between 91 and 120 days	3,769	27,632
Over 120 days	<u>1,213,920</u>	<u>1,209,224</u>
	<u>1,442,824</u>	<u>1,466,228</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. BANK AND CASH BALANCES

	2016/2017 Kshs'000'	2015/2016 Kshs'000'
Citibank (Main) - 0300079001	31,024	
Citibank medical -300079019	122	
KCB Nairobi - 1107167418	2,836	
Citibank car loan - 300079027	392	363
CBA dollar - 6626480024	4	4,464
KCB Bungoma - 1106224418	5	1
KCB Eldoret - 1102542407	18	12
KCB Garissa - 1108088538	1	
KCB Kakamega - 1101936878	4	2
KCB Kisumu - 1104026481	1,092	2
KCB Kitale - 1105198405	2	2
KCB Malindi - 1108002897	1	2
KCB Maralal - 1104413671	1	
KCB Marsabit - 1102656488	217	5
KCB Mombasa - 1101516593	77	3
KCB Voi - 110815844		
KCB Wajir - 1105246949	2	
KCB Kisii - 1101878681	1	
KCB Meru - 1103310380		
KCB Nyeri - 1108497993	2	
Cash at Hand	4,718	959
TOTAL	<u>40,519</u>	<u>5,815</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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. TRADE AND OTHER PAYABLES	2016/2017	2015/2016
	Kshs'000'	Kshs'000'
Trade creditors	210,522	508,155
Vat	145,797	446,148
Statutory Deduction	24,869	21,968
Medical	127,723	197,512
Insurance	2,371	3,269
Pension	208,744	225,111
Coop liabilities	13,339	31,354
S.A.Y.E	42	14
NHIF	4,510	3,578
Other deductions	<u>8,827</u>	<u>8,370</u>
	<u>746,744</u>	<u>1,445,479</u>

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	<u>747,432</u>
TOTAL	<u>12,191,472</u>

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

Treasury has charged interest of Kshs.50, 116,823 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	<u>7,374,732</u>
TOTALS	<u>50,116,823</u>

17.BANK OVERDRAFT

	2016/2017	2015/2016
	Kshs'000'	Kshs '000'
Citibank (Main)		6,993
Citibank medical		657
KCB Nairobi		488
CBA KSH	1,898	5,505
KCB MERU		0.7
KCB Nyeri		0.9
KCB KISII		<u>0.2</u>
Total	<u>1,898</u>	<u>13,644</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

ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2017
NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016/2017 Kshs'000'	2015/2016 Kshs '000'
Directors emolument	7,858	8,625
Total	<u>7,858</u>	<u>8,625</u>
(b) Staff		
Gross staff loans and advances	26,786	20,502
Provision for impairment loss	(366)	(366)
	26,420	20,136
Less amount due within one year	<u>21,064</u>	<u>(10,034)</u>
Amount due after one year	<u>5,536</u>	<u>10,102</u>

(C) OECF Loan (Japan)

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

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

19 CONTINGENT LIABILITIES
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 of arbitration under the Arbitration Act 1996 and the Arbitration Rules of the London Court of International Arbitration between Channel 2 Group Corporation and Kenya Broadcasting Corporation	The suit revolves upon a termination of contract between KBC and Channel 2 Group Corporation	\$2.4 billion dollar claim which is equivalent to (2.4*103.75)Kshs.249 billion	Matter pending 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	Land matters	Kshs.5,600,000	Pending for hearing

	Broadcasting Corporation And &Others			
15.	Cause No.733 Of 2015 TirasWaiyakiThuku Versus Kenya Broadcasting Corporation	Dismissal from service	Kshs.3,466,280	pending
16.	Industrial Cause No. 1255 Of 2013 PraxedesAdhiamboOtieno 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 2007 Halkano Molu Versus Kenya Broadcasting Corporation	Dismissal	Kshs 7,000,000	pending
24.	Hccc No. 119 Of 2015 Joseph KarisaMwarandu Versus Kenya Broadcasting Corporation	Defamation	KSHS 7,000,000	Pending