

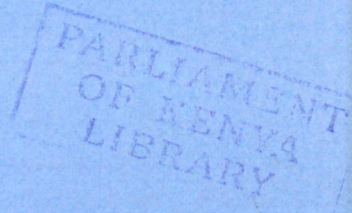
REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT



OF

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 19 FEB 2019	DAY: TUESDAY
TABLED BY: MAJORITY LEADER	
CLERK AT THE TABLE:	

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF  
KENYA BROADCASTING CORPORATION  
DIGITAL TERRESTRIAL TELEVISION  
(DVB-T2 PLATFORM) COVERAGE ROLL  
OUT PROJECT**

**FOR THE YEAR ENDED  
30 JUNE 2018**





OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
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**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB -T2 PLATFORM  
PROJECT**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
30 JUNE 2018**

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

**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB-T2  
PLATFORM PROJECT  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018.**

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**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB -T2  
PLATFORM PROJECT  
REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018.**

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## 1. PROJECT INFORMATION AND OVERALL PERFORMANCE

### Name and registered office

**Name:** DIGITAL TERRESTRIAL DVB TX COVERAGE ROLL OUT PROJECT

**Objective:** Digital TV terrestrial coverage rolls out in 10 sites,

**Physical Address:** The project headquarters offices are Nairobi (city), Nairobi County, Kenya. Hurry Thuku Road

### Project address:

Kenya Broadcasting Corporation-Headquarters.  
P.O.BOX 30456-00100

### Nairobi-kenya

Telephone: (254)-020-4920000

E-mail: mdkbc.co.ke

Website: www.go.ke

### Project Information

Project Start Date:	11/11/2013
Project End Date:	31/03/2017
Project Manager:	The project manager is Mr. David Elly Ndwigah
Project Sponsor:	GOK/ KINGDOM OF SPAIN

### Project Overview

Line Ministry/State Department of the project	Ministry of Information, Communication and Technology.
Project number	
Strategic goals of the project	The strategic goals of the project are as follows: I. Enhance availability of free to air digital tv and radio in all parts of the counties



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	II. Local programming content which reflects the nation's cultural diversity becoming an integral part of the national broadcasting
Achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Create awareness at national and country levels on the importance of information through broadcast as a means of personal and community development
Other important background information of the project	Support towards universal availability of tv services and the widest access to private TV commercial channel.
Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: (i) Improve TV signal reach on the nationwide coverage. (ii) Provide TV signal to areas where there was no signal coverage.
Project duration	The project started on 1st July 2013 and is expected to run until 31 march 2017

**ENTITY BANKERS**

CITI BANK N.A

CITI BANK HOUSE –UPPER HILL ROAD

P.O BOX 30711-0100

NAIROBI, KENYA.

**AUDITORS:-**

AUDITOR - GENERAL

OFFICE OF AUDITOR-GENERAL

ANNIVERSARY TOWERS

P.O.BOX 30084-00100

NAIROBI.

**Kenya**



**YOUR NATIONAL BROADCASTER**

**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB-T2  
PLATFORM PROJECT  
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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018.**

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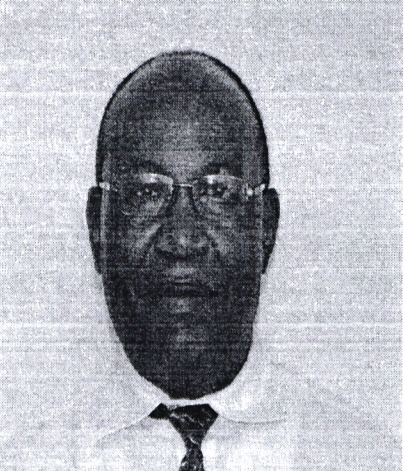
**PRINCIPAL LEGAL ADVISOR:-**

THE ATTORNEY GENERAL  
STATE LAW OFFICE  
HARAMBEE AVENUE  
P.O BOX 40112-00200  
NAIROBI KENYA




**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB -T2  
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**Roles and Responsibilities**

Names	Key qualification	Responsibilities
<p>Mr. Waithaka Waihenya</p> 	<p>Bachelor's degree from Kenyatta University Masters in Communication from Leicester University Previously Editor in Chief KBC, 3 and a half years associate Editor standard newspapers in charge of day to day running of KBC as Managing Director</p>	<p>IMPLEMENTER</p>
<p>Mr H.M. Isinta</p> 	<ul style="list-style-type: none"> <li>• MBA (Finance)</li> <li>• Bachelor of Commerce(Accounting)</li> <li>• CPA(K)</li> </ul>	<p>PROJECT ACCONTANT</p>
<p>Mr Elly Ndwigah</p> 	<p>Diploma in Telecommunication (Advanced telecommunication Advanced certificate in High frequency transmitters from Germany and Digital broadcasting techniques from KIMC.</p> <p>35 years in maintenance, operation and management of Broadcasting systems/equipment.</p>	<p>PROJECT MANAGER</p>

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<p>Mr.Amos Omondi Ogutu</p>		<p>Thirty Three Years (33) experience in Management, Maintenance and Operation of TV Broadcast Equipment. Principal Technical Officer (DVB T-SIGNET) Diploma in Telecommunication Engineering (Telecommunication Technician Course Part III ) KNEC. Advanced Certificate – TV Broadcasting Measurement Techniques - KIMC Certificate in Planning and Development of Modern Television Stations (DW TV TRAINING CENTRE -GERMANY.</p>	<p>ASS.PROJECT MANAGER</p>
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**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB -T2  
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**Funding summary**

The Project is for duration of 4 years from 2013 to 2017 with an approved budget of euros 822,164 (use donor currency) equivalent to a total of Kshs 997,078,179

Below is the funding summary:

Source of funds	Donor Commitment-		Amount received to date – (31.06. 2018)		Undrawn balance to date (31. 06. 2017)	
	Donor currency	Kshs	Donor currency	Kshs	Donor currency	Kshs
	(A)	(A')	(B)	(B')	(A)- (B)	(A')- (B')
<b>(i) Loan</b>						
Spanish Belgium government	EURO 822,164	89,615,876	EURO 822,164	89,615,876	-	-
<b>(ii) Counterpart funds</b>						
Kenya broadcasting corporation	-	14,473,372	-	14,473,372	-	-
		18,081,255		18,081,255		
		48,489,592		48,489,492		
<b>(iii) Goods received</b>						
<b>Total</b>	<b>822,164</b>	<b>170,660,095</b>	<b>822,164</b>	<b>170,660,095</b>	<b>-</b>	<b>-</b>



**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB -T2  
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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018.**

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**Summary of Overall Project Performance:**

- Physical progress based on outputs, outcomes and impacts since project commencement,  
Site acquisition and preparations for installations on going .Currently all transmitters are delivered. Approval given by KCAA on following sites Siaya, Maralal, Nyandundo, Wajir
- Comment on value-for-money achievements,  
Digital broadcasting has better picture and sound quality compared to previously used analogue broadcasting. In addition, digital broadcasting has broader spectrum efficiency ,i.e., one frequency in digital broadcasting can be used to carry more than 10 services/programs compared to analogue broadcasting which can only carry one program per frequency. Benefits of digital transition to the public include;
  - more channels available – spectrum efficiency. Previously only 14 free to air channels were licensed in Kenya due to limitations on analogue spectrum. Currently there are 65 free to air channels with more expected to be licensed.
  - More content is delivered to public
  - Diverse content in broadcast e.g. agriculture health etc
  - More targeted content e.g. youth religious etc
  - Regional broadcasting in local languages
  - Better picture and sound quality
  - Increased employment opportunities.
  - Increased business streams for entrepreneurs society
  - Access via various devices e.g. smart phones
  - Anytime anywhere availability of content

**Summary of Project Compliance:**

- Include significant cases of non-compliance with applicable laws and regulations, and essential external financing agreements/covenants,
- Include consequences suffered on account of non-compliance or likely to be suffered
- Indicate mitigation measures taken or planned to be taken to alleviate the adverse effects of actual or potential consequences of non-compliance

**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB -T2  
PLATFORM PROJECT  
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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018.**

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**2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES**

The Managing Director of Kenya Broadcasting Corporation (KBC) and the Project Manager for the project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on 30 June 2018. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Managing Director of KBC and the Project Manager for the project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International financial reporting Standards.

The Managing Director of KBC and the Project Manager of the project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended 30 June 2018, and of the Project's financial position as at that date. The Managing Director for KBC and the Project Manager for the project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The managing director of KBC and the Project Manager for the project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

**Approval of the Project financial statements**

The Project financial statements were approved by the Managing Director of KBC and the Project Manager for the project on \_\_\_\_\_ 2018 and signed by them.



\_\_\_\_\_  
THE MANAGING DIRECTOR



\_\_\_\_\_  
PROJECT MANAGER

**Kenya**



*YOUR NATIONAL BROADCASTER*

**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB -T2  
PLATFORM PROJECT**

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018.**

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**3. REPORT OF THE INDEPENDENT AUDITORS ON THE PROJECT**

**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB-T2  
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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA BROADCASTING CORPORATION DIGITAL TERRESTRIAL TELEVISION (DVB-T2 PLATFORM) COVERAGE ROLL OUT PROJECT FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Disclaimer of Opinion

I have audited the accompanying financial statements of Digital Terrestrial Television (DVB-T2 Platform) Coverage Roll Out on the Project set out on pages 2 to 10, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments 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 and the Financing Agreements between the Instituto de credito official of the Kingdom of Spain and the Republic of Kenya – National Treasury dated 19 November 2014.

I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion Section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### Basis for Qualified Opinion

##### 1. Non Existence of Accounting Records

Digital Terrestrial Television (DVB-T2 Platform) Coverage Roll Out Project does not maintain accounting records. There were no general ledgers, trial balance, subsidiary ledgers, no cash books and bank accounts and as a result the basis for the preparation of financial statements could not be determined or supported.

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

##### 2. Late Submission of Financial Statements

The financial statements for Kenya Broadcasting Corporation-Digital Terrestrial Television Coverage Roll-Out Project was to be submitted to the Office of the Auditor –General on or before 30<sup>th</sup> September 2018 as required by the PFM Act, 2012. However, the financial

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*Report of the Auditor-General on the Financial Statements of Kenya Broadcasting Corporation Digital Terrestrial Television (DVB-T2 Platform) Coverage Roll Out Project for the year ended 30 June 2018*

statements were received on 5<sup>th</sup> October 2018. No explanation was provided for the late submission of the financial statements.

### **3. Presentation and Disclosure of financial Statements**

The financial statements had the following anomalies:

- (i) The names of the officers who signed the financial statements have not been disclosed as required by the approved reporting framework and IPSAS 1.
- (ii) The date of approval of the financial statements has not been indicated.
- (iii) The cash and cash equivalents at the end of the year as per the statement of cash flow amounting to negative Kshs.14,473,372 does not agree with cash and cash equivalents balance of negative Kshs.48,489,592 as per the statement of assets and liabilities as at 30 June 2018.
- (iv) The financial statements do not contain the statement of comparison of budget verses actual amounts as required by IPSAS 24.
- (v) The receipts as reflected on the statement of receipts and payments of Kshs.48,489,592 does not agree with the nil balance as disclosed under note 1.1 of the financial statements.
- (vi) The financial statements do not have the statement of progress on follow up actions on previous years' auditor's recommendations.

In view of the foregoing, the presentation and disclosure of the financial statements do not conform to IPSAS 1 and the reporting template issued by the Public Sector Accounting Standards Board and the National Treasury.

### **4. Unsupported Acquisition of Non-Financial Assets**

The statement of receipts and payments and note 1.5 of the financial statements reflect an amount of Kshs.38,039,961 in respect of acquisition of non-financial assets. The figure includes an amount of Kshs.660,300 in respect of imprest issued to staff during the year for project related exercises. No explanation was provided as to why imprest was classified under acquisition of non-financial assets.

In addition, the acquisition of non-financial asset figure of Kshs.38,039,961 includes payments totaling Kshs.29,427,154 to conveyor company for which no supporting documents were provided for audit verification. The detailed analysis of the assets items paid for using Kshs.38,039,961 was also not provided for audit verification.

In consequence, the validity and propriety of the non-financial assets of Kshs.38,039,961 could not be ascertained.

## **5. Unsupported and Misclassified Domestic Travel and Subsistence Expenditure**

The statement of receipts and payments and note 1.3 to the financial statements reflects purchase of services amounting to Kshs.10,449,631 all of which relate to domestic travel and subsistence. The amount however includes payments totaling Kshs.3,190,961 paid to contractors for construction of perimeter wall and access roads and a further Kshs.120,000 payment for cargo transportation leading to overstatement of domestic travel and subsistence expenditure. In addition, the purchase of service amount of Kshs.10,449,631 included payments amounting Kshs.8,052,950 which were not supported.

Under the circumstances, accuracy, validity and propriety of the domestic travel and subsistence expenditure of Kshs.10,449,631 could not be ascertained.

## **6. Unrecorded Project Expenditure**

Payment vouchers amounting to Kshs.8,713,668 in the project file and whose documentation clearly indicate they were paying for project related activities were not captured in the financial statements. Further, payments in respect of security services at four (4) APD transmitting stations amounting to Kshs.256,130.25 per station thus totaling Kshs.1,024,52 were not captured in the schedule for payments and the financial statements for the year ended 30 June 2018.

As a result, the completeness and accuracy of the project expenditure could not be confirmed.

## **7. Domestic Funds Receipts**

The statement of receipts and payments reflects an amount of Kshs.48,489,592 as domestic funds. However, the financing agreement indicated that the project was scheduled to end on 31 March 2017 with an approved budget of euros 822,164 an equivalent amount of Kshs.89,615,876 which had been received and utilized as at 30 June 2017. There was no evidence of project extension to cover the financial year ending 30 June 2018. No documentation was made available to support the receipt amounting to Kshs.48,489,592 counterpart funds. Further, no approved budget or approved annual work plans were provided in support of activities undertaken using the receipts of Kshs.48,489,592.

Under the circumstances, the accuracy, completeness, legality and validity of the receipts of Kshs.48,489,592 could not be confirmed.

## **8. Construction of Perimeter Fence in Kilifi County**

The project constructed a perimeter fence at Chonyi Galanema/25 in Kilifi County at a contract sum of Kshs.4,961,980 in November 2017. During the year under review, payments totaling Kshs.1,812,000 were paid in respect of the contract. However, the payments had the following anomalies:

- (i) Payment for Kshs.1,212,000 was not included in the financial statements as a payment for acquisition of non-financial asset and the mandatory retention of 10% was not deducted from the payment.
- (ii) A further payment of Kshs.600,000 had no retention of 10% deducted as required by the law.
- (iii) The works inspection committee meeting that authorized the payment of Kshs.1,212,000 had three persons present two of them being from the contractor's side and the other one being the estates officer from Kenya Broadcasting Corporation. The composition of the committee was therefore inappropriate and even approved a retention level to be 5% instead of the statutory 10% as per law.
- (iv) The payment of Kshs.600,000 did not have site inspection report even though the certificate was signed by the estates officer for Kenya Broadcasting Corporation.

Consequently, the accuracy, completeness and validity of the expenditure could not be confirmed.

#### **9. Construction of Access Roads**

The statement of receipts and payments includes payments totaling Kshs.10,449,631 in respect of domestic travel and subsistence which include payments of Kshs.3,190,961 in respect of construction of two site access roads under two contracts. The contract sum for the two contracts was Kshs.3,647,836. However, the payments were made without deducting the 10% of the certified amounts as certified by the supervising engineers. In addition, although the amount paid indicate that 6% withholding VAT had been deducted, no evidence was produced to show that the withheld VAT amounting to Kshs.165,053 had been remitted to the relevant authority.

Consequently, the financial statements do not reflect the complete expenditure on construction of access roads and the withheld VAT amount has not been remitted to Kenya Revenue Authority.

#### **10. Acquisition of Land**

During the year under review, the corporation acquired land as detailed in the table below:-

<b>Date paid</b>	<b>Payment voucher number</b>	<b>Payee</b>	<b>Description</b>	<b>Amount paid</b> <b>Kshs</b>
24/10/2017	599	Kinyenze Ngala	Payment for Kitui Digital TV Transmission Site Land Sale Agreement	600,000
13/10/17	563	John Muye Gambo	Payment of land at Kilifi Digital TV Transmission Site Land Sale Agreement	500,000
<b>Total</b>				<b>1,100,000</b>

The following anomalies were noted :-

- i. These was not captured in the ledger or properly categorized in the financial statement.
- ii. The fixed assets register was not availed.
- iii. Since there was no cash book it was not possible to determine the actual value/price paid for these parcels of land acquired.
- iv. The title deeds were also not availed to confirm the actual size of the parcels and ownership status.
- v. The procurement process used in acquiring the parcels was not availed to confirm adherence to the Public Procurement and Assets Disposal Act, 2015 and Regulations.

#### **11. Voidable Storage Expenditure**

The acquisition of non-financial assets payments totaling Kshs.38,039,961 includes amounts paid in respect of storage facilities totaling Kshs.29,427,254 for storage of unidentified goods. No justification was provided for these payments all of which had no supporting documentation and were wrongly classified.

As a result, the storage expenditure is voidable and need to be recovered.

## **12. Unresolved Prior Year Issues**

The following issues from the Auditor-General's Report for financial year ending 30 June 2017 have never been addressed:

### **(i) Late Submission of Financial Statements**

The financial statements for Kenya Broadcasting Corporation - Digital Terrestrial Television Coverage Roll-out Project which were supposed to be submitted to the Office of the Auditor-General on or before 30 September 2017, were received six (6) months later on 29 March 2018. No explanation was given as to why the financial statements were not submitted on time. In the circumstances, the Corporation was in breach of the Constitution of Kenya, the Public Finance Management Act 2012 and Section 47(1) of the Public Audit Act of 2015.

### **(ii) Irregular and Unbudgeted Expenditure**

As disclosed in Note 1.3 to the financial statements, the project management incurred expenditure of Kshs.3,202,139 on domestic travel and subsistence Kshs.9,934,616 on demurrage services and Kshs.2,412,500 on NEMA all totalling Kshs.15,549,255 without budgetary provision. This is contrary to Section 31 of the Public Finance Management Act and Regulation of 2015 which states that the Accounting Officer shall ensure that the draft estimates relating to her or his department are prepared in conformity with the Constitution, the Act and these Regulation. The demurrage charges of Kshs.9,934,616 was incurred on the project transmission equipment valued at Kshs.892,988,931 received from the Spanish Government on 28 January 2016 for installation in the designated project sites. Although the equipment were received two years ago, the same were not cleared from the warehouse on time but continued to incur demurrage charges totalling to Kshs.9,934,616. No explanation was provided as to why the project management did not clear and transport the equipment to the designated sites in good time. In addition, the sites which had been identified were later changed resulting in other unbudgeted expenditures of Kshs.2,532,000. Further, available information indicate that the financing Agreement between the Instituto de credito oficial of the Kingdom of Spain and The National Treasury of the Republic of Kenya dated 19 November 2014 provides that the loan facility shall be tied and equivalent to 100% of the Spanish official financing allocated to finance the Development of the Digital Terrestrial Television Network in the Republic of Kenya. It was however observed that the Project Management had spent internal funds totalling to Kshs.18,081,255 on the project without budgetary provision during the year under review.

In the circumstances, it has not been possible to confirm the propriety of the unbudgeted expenditure totalling Kshs.18,081,255 for the year ended 30 June 2017.

### **(iii) Failure to Remit Value Added Tax**

The project management failed to remit VAT amounting to Kshs.6,696,341 to Kenya Revenue Authority as disclosed in Note 1.7 to the financial statements. This is contrary to

VAT Act Cap 476 which gives guidelines on ways in which VAT is charged on goods of Kshs.15,549,255 and Kshs.2,532,000 all totaling Kshs.18,081,255. Failure to remit VAT may attracts heavy penalties and fines. No explanation was given for non-remittances of the VAT. The Project management was therefore in breach of law.

**(iv) Fixed Assets Register**

Available information revealed that the Project management did not maintain a fixed assets register to record details of the project assets, such as cost, date of purchase, rate of depreciation, net book value and other necessary information contrary to Section 68(2)(e) of the Public Finance Management Act 2012 which states that the accounting officer should ensure that all applicable accounting and financial controls, systems, standards, laws and procedures are followed when procuring or disposing of goods and services and that, in the case of goods, adequate arrangements are made for their custody, safeguarding and maintenance of the assets. In addition, project equipment worth Kshs.892,988,931 equivalent to Euros 8,192,559 shipped from Spain were not physically verified. In the circumstances, it has not been possible to confirm the existence and ownership status of the project assets worth Kshs.892,988,931 as at 30 June 2017 and that the project management was in breach of the law.

**(v) Procurement of Standby Auto Controlled Silenced Generators**

As previously reported, the Corporation signed a contract agreement on 8 December 2015 for supply of twelve (12) standby auto controlled generators with a supplier at a contract sum of Kshs.35,913,700 with a duration of six (6) weeks from the date of the Local Purchase Order (LPO) of 11 December 2015. On 5 February 2016, the supplier was paid advance payment of Kshs.10,774,110 or 30% of the contract sum. Available information indicate that only three (3) out of the twelve (12) generators were delivered to Langata station which was not part of the initial stations identified for the project. A review of the matter in February 2018 revealed that the balance of nine (9) generators have not been delivered to the designated project sites. It is not clear and management has not explained if and when the nine (9) generators will be supplied and when the stakeholders will get the value for the public resources.

**(vi) Perimeter Walls**

In addition, and as previously reported, the Project management advertised and awarded the tenders to ten (10) firms to construct perimeter walls, concrete bases, civil works and other works in the following ten (10) Project stations: Hola, Lamu, Kitui, Maralal, Marsabit, Wajir, Nyandundo, Siaya, Kwale and Lowdar at a total contract sum of Kshs.33,310,312. Although available records indicate that Local Purchase Orders (LPOs) were processed and issued to the ten (10) firms on 1 March 2016, no signed contract agreements between the suppliers and the Corporation were availed for audit review. It has not been clear and management has not explained the above anomaly. A review of the matter in April 2018 revealed that two (2) years after the date of issuing LPOs, works in three (3) stations were

still incomplete. No satisfactory explanations were provided for failure to execute these contracts. Further, the Project Management did not maintain individual project files for each contract as required by Section 34(3) of the Public Procurement and Disposal Regulations 2016 which states that 'a procuring entity shall maintain an individual file for each procurement requirement containing all information; documents and communications relating to that procurement and such file shall be marked with relevant procurement reference number. In the circumstances, it has not been possible to confirm the propriety of expenditure of Kshs.33,310,312 as at 30 June 2017 and if and when the stakeholder will get value for money.

**(vii) Failure to Maintain a Separate Cash Book and Open a Bank Account**

As previously reported, the Corporation did not maintain a separate bank account for the Project contrary to Section 28(1) of the Public Finance Management Act 2012, which requires that state corporations open and operate bank accounts with prior approval of the National Treasury. A review of the matter in March 2018 revealed that the project management had not opened a separate bank account for the Project. The management did not also maintain a Project cash book and therefore no bank reconciliation statements were availed for audit review. In the circumstances, the Corporation was in breach of the Law and it has not been possible to confirm that the project funds were properly utilized.

**(viii) Incomplete Digital Terrestrial Television Coverage Sites**

As previously reported, examination of the project contract agreement indicate that six (6) out of the initial ten (10) sites identified in the year 2015 for project implementation were disqualified in March 2016 by the Kenya Civil Aviation Authority because they were either near to the existing or planned Airports/Airstrips. As a result the sites were re-located to Kwale, Kitui and Kilifi according to the status report. According to the contract agreement, Kenya Broadcasting Corporation project management was required to implement the following Primary infrastructure on the (10) identified sites at a total cost of Kshs.89,615,876 equivalent to Euros 822,144. The primary infrastructure included:

- i. Acquisition of land.
- ii. Construction of access roads.
- iii. Design and construction of standby power generator shelters on the sites.
- iv. Design and Installation of electrical power supply on the sites.
- v. Acquisition and Installation of standby power generators on the sites.
- vi. Design, construction and equipping of amenities.
- vii. Landscaping of the sites.
- viii. Remodeling and Improvement of existing structures on the sites to suit DVB-T2 system installation requirements.
- ix. Design and Construction of warehouses on the ten (10) sites.
- x. Hiring of security services for the ten sites.

A review of the extent of project implementation in March 2018 indicates that the primary infrastructure works on three (3) sites was still incomplete. In the circumstances, it has not been possible to confirm the propriety of expenditure totalling Kshs.89,615,876 on the primary infrastructure for the year ended 30 June 2017.

**(ix) Status of Project Secondary Infrastructure**

Further examination of the project status report in March 2018 revealed that only six (6) out of the initial ten (10) sites had secondary infrastructure installation complete and site acceptance test done as detailed below:-

**Secondary Infrastructure System Works Status 23/04/2018**

Item	Site Name	Status
1	Hola	Installations complete, Site Acceptance Test (SAT) done . TV Transmission is on air
2	Kilifi	Installation is 95% complete, SAT to be undertaken on 3/5/18 and Transmissio to commence immediately
3	Kitui	Installation is 50% complete, SAT to be undertaken on 25/5/18 and Transmissio to commence immediately
4	Kwale	Installation is 50% complete, SAT to be undertaken on 20/5/18 and Transmissio to commence immediately
5	Lamu	Installations complete, Site Acceptance Test (SAT) done . TV Transmission is on air
6	Webuye	Installation is 10% complete, SAT to be undertaken on 10/6/18 and Transmissio to commence immediately
7	Maralal	Installations complete, Site Acceptance Test (SAT) done . TV Transmission is on air.
8	Nyadundo	Installations complete, Site Acceptance Test (SAT) done . TV Transmission is on air.
9	Siaya	Installations complete, Site Acceptance Test (SAT) done . TV Transmission is on air.
10	Wajir	Installations complete, Site Acceptance Test (SAT) done . TV Transmission is on air.

In addition, the report includes six (6) station namely Hola, Lamu, Mararal Kilifi, Kitui, and Kwale that did not have power supply though it is indicated that three (3) of these sites Television transmissions are in air. In the circumstances, it has not been possible to confirm that the stakeholders have obtained the value for money from the Project resources.

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

### **Conclusion**

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

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

### **Conclusion**

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control. In preparing the financial statements, management is responsible for assessing the ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Project 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.

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

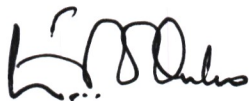
Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities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

### **Auditor-General's Responsibilities for the Audit**

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

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



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

**Nairobi**

**28 December 2018**






**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB -T2  
PLATFORM PROJECT  
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**STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE  
2018**

	Note	2018 kshs	2017 kshs
<b>RECEIPTS</b>			
Domestic Funds	1.1	48,489,592	18,081,255
Proceeds of Goods received	1.2		
<b>Total receipts</b>			
<b>PAYMENTS</b>			
Payment of services	1.3	10,449,631	15,549,255
Purchase of Goods received	1.4		2,532,000
Acquisition of non-financial assets	1.5	<u>38,039,961</u>	
<b>TOTAL PAYMENTS</b>		<u>48,489,592</u>	<u>18,081,255</u>
<b>SURPLUS/DEFICIT FOR THE YEAR</b>		<u>0</u>	<u>0</u>

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.

  
\_\_\_\_\_  
THE MANAGING DIRECTOR

  
\_\_\_\_\_  
PROJECT MANAGER

\_\_\_\_\_  
Date

5/10/2018  
\_\_\_\_\_  
Date

**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB -T2  
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**4. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30 JUNE 2018**

	Note	2018 KSHS	2017 Kshs.
<b>FINANCIAL ASSETS</b>			
Cash and Cash Equivalent	1.6	(48,489,592)	(14,473,372)
<b>TOTAL FINANCIAL ASSETS</b>		<b>(48,489,592)</b>	<b>(14,473,372)</b>
<b>REPRESENTED BY</b>			
Cash and cash equivalent b/f		(48,489,592)	(14,473,372)
Surplus/Deficit for the Year		0	0
<b>NET FINANCIAL POSITION</b>		<b><u>48,489,592</u></b>	<b><u>(14,473,372)</u></b>

  
THE MANAGING DIRECTOR

\_\_\_\_\_  
Date

f.   
PROJECT MANAGER

5/10/2018  
Date



DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB -T2  
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6. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30 JUNE 2018

	2018 Kshs	2017 Kshs
<b>Receipts for operating income</b>		
Proceeds from domestic and foreign grants	48,489,592	18,081,255
	<u>48,489,592</u>	<u>18,081,255</u>
<b>Payments for operating expenses</b>		
Purchase of goods and services	10,449,631	15,549,255
Net cash flow from operating activities	(10,449,631)	(15,549,255)
Net cash flow before investing activities	38,039,961	<u>2,532,000</u>
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>		
Acquisition of Assets	(38,039,961)	(2,532,000)
Net cash flows from Investing Activities	<u>(38,039,961)</u>	<u>(2,532,000)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>		
	0	0
Cash and cash equivalent at Beginning of the year	(14,473,372)	(14,473,372)
Cash and cash equivalent at END of the year	<u>(14,473,372)</u>	<u>(14,473,372)</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on \_\_\_\_\_ 2018 and signed by:

  
.....  
THE MANAGING DIRECTOR

  
.....  
f. PROJECT MANAGER

**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB -T2  
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## **7. NOTES TO THE FINANCIAL STATEMENTS**

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

### **8. Statement of compliance and basis of preparation**

The financial statements have been prepared in accordance with and comply with International financial reporting Standards (IFRS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting. The financial statements comply with and conform to the form of presentation prescribed by the Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Project and all values are rounded to the nearest one Shilling. The accounting policies adopted have been consistently applied to all of the years presented.

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts. The cash basis of accounting recognises transactions and events only when a payment is made or received by the Project.

#### **i. Recognition of revenue and expenses**

The Project recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the Project. In addition, the Project recognises all expenses when the event occurs and the related cash has actually been paid out by the Project.

#### **ii. In-kind donations**

In-kind donations are contributions made to the Project 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 of in-kind donations can be reliably determined, the Project includes such value in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts; otherwise, the donation is not recorded.



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

iii. **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 imp rests and advances to authorised public officers and/or institutions which had not been surrendered or accounted for at the end of the financial year.

iv. **Pending bills**

Pending bills consist of unpaid liabilities at the end of the financial year/period arising from contracted goods or services during the year/period or in past years/periods. As pending bills do not involve the payment of cash in the reporting period, they are simply disclosed as an Annex to the financial statements. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

v. **Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

vi. **Comparative figures**

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



**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB -T2  
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**NOTES TO THE FINANCIAL STATEMENTS (Continued).....**

**1.1 PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS**

During the 12 months to 30 June 2018 we received grants from donors as detailed in the table below:

Name of Donor	Date received	Amount received in donor currency	Grants received in cash	Grants received as direct payment*	Grants received in kind	Total amount in Kshs		
						FY 2017/18	FY 2014/15	
			Kshs	Kshs	Kshs	Kshs	Kshs	
<b>Grants Received from Bilateral Donors (Foreign Governments)</b>								
KBC								
SPANISH government								-
<b>Total</b>								-

\*. The direct payment grants represent payments for goods and services done directly by the donor on behalf of the project. Projects should ensure that the adequate documents and support document is requested from the donors to support this grant.

**1.2 PROCEEDS OF GOODS AND SERVICES**

	2017/2018 kshs	2016/2017 Kshs
Grants Received from Bilateral Donors (Foreign Governments)	0	0



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

**1.3 PURCHASE OF SERVICES**

	2017/2018 Kshs	2016/2017 Kshs
Domestic travel and subsistence	10,449,631	3,202,139
Demurrage services		9,934,616
Nema		2,412,500
	<u>10,449,631</u>	<u>15,549,255</u>

**1.4 PURCHASE OF GOODS**

Purchase of goods		
Goods received		2,532,000

**1.5 ACQUISITION OF NON-FINANCIAL ASSETS**

	2017/2018 Kshs	2016/2017 kshs
Purchase of specialised plant, equipment, machinery and services		15,549,255
Acquisition of land and primary infrastructure	<u>38,039,961</u>	<u>2,532,000</u>
<b>TOTAL</b>	<u><u>38,039,961</u></u>	<u><u>18,081,255</u></u>

**1.6 FINANCIAL ASSETS**

Cash and Cash Equivalent	18,081,255
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# Kenya



YOUR NATIONAL BROADCASTER

**DIGITAL TERRESTRIAL TELEVISION COVERAGE ROLL OUT ON THE DVB -T2  
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## 1.7 OTHER PENDING PAYABLES

	2017/2018 kshs	2016/2017 Kshs
Amount due to third parties		
Unremitted VAT-Ocean flight		4,696,398
-Enostel international co ltd		1,486,084
-Conventional cargo		<u>513,859</u>
		<u><b>6,696,341</b></u>



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**8. PROGRESS ON FOLLOW UP AUDITOR RECOMMENDATIONS**

There were no audit recommendations as this is the first financial statements for this project.

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