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.

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 Corporations has made attempts at the Ministry of Lands, and Physical Planning to have outstanding issues resolved, no meaningful progress appears to have been achieved as at 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 I I I /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	Unuadjudicated Land, Voi TX Station	No documents	Taita Taveta	30th November 2014	4,200,000
22	Voi Township, Plan NO: 75893/III/64A	No documents	Taita Taveta	30th November 2014	1,600,000
23	Voi Township, Plan NO: 75893/III/65A	No documents	Taita Taveta	30th November 2014	2,800,000
24	Unsurveyed Plot, Nyambene Hills, Meru	No documents	Meru	30th November 2014	850,000
25	Lamu 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 Kajiado	124.79055	2,700,000,000	With letter of allotment
9	LR No 12676	Jamhuri Headquarters	29	1,300,000,000	With letter of allotment
10	LR No 1476/1	Nyali	22.85	1,000,000,000	With title deed
			211.22185	7,597,582,000	

Consequently, it has not been possible to confirm the existence and ownership status of the ten (10) parcels of land valued Kshs.7,597,582,000 as at 30 June 2017.

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 tittle deed) valued at Kshs.910,000,000.

- LR. No. Ntirimiti settlement scheme/153, Marania Meru District 238.45 acres (with tittle deed) valued at Kshs.130,000,000.

- LR. No.1932/4 Kitale Municipality 200 acres (With tittle 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 at30 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 incudes 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.220,000,0000) 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