

REPORT OF THE AUDITOR-GENERAL ON KENYA FILM CLASSIFICATION BOARD FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Film Classification Board set out on pages 42 to 70, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Film Classification Board as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Film and Stage Plays Act, Chapter 222 of the laws of Kenya.

Further, and as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Outstanding Trade and Other Payables

statement of financial position reflects trade and other payables balance of Kshs.15,862,618 as at 30 June 2017 out of which an amount of Kshs.1,177,077 has been outstanding since 2015/2016 financial year.

No reasons have been given for failure to settle the long outstanding payables.

2. Bulk Purchase of Classification Stickers

As previously reported, six million classification stickers were between 30 November 2010 and January 2012 procured at a total cost of Kshs.47,500,000. However, 4,014,559 stickers worth Kshs.32,807,737 had not been used or issued to the regional offices across the country in the last six years an indication that the stickers were slow moving. No justification has been provided for purchase of stickers in bulk without proper planning and consideration of emerging technology which is likely to turn the stickers into dead stock.

In view of the foregoing, it has not been possible to confirm that value for money was obtained from the bulk purchase of stickers worth Kshs.47,500,000 as at 30 June 2017

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Film Classification Board 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 qualified opinion.

Key Audit Matters

Key audit matters are those that, in my professional judgment, were of most significance in the audit of the financial statements of the current year. Except for the matters described in the Basis for Qualified Opinion section of my report, I have determined that there are no key audit matters to communicate in my report.

Other Matters

Budget and Budgetary Performance

1.1 Revenue

The Kenya Film Classification Board had budgeted for receipts totalling Kshs.452,754,600 which included balances brought forward of Kshs.31,000,000, Government grants of Kshs.388,254,600 and revenue from other sources of Kshs.33,826,790 as tabulated below:

Description	Budget Kshs.	Actual Kshs.	Excess/(Shortfall) Kshs.	Excess/(Shortfall) %
B/F 2015/16	31,000,000	31,000,000	0	0
GOK Grants	388,254,600	388,254,600	0	0
Classification Stickers/Labels	6,065,000	5,379,500	(685,500)	(11)
Sale of Tenders	35,000	20,000	(15,000)	(43)
Classification Fees	3,500,000	2,897,010	(602,990)	(17)
Film Agent Fees & Registration	4,000,000	1,296,000	(2,704,000)	(68)
Licensing-Feature Films, Doc & Series etc.	2,000,000	1,565,600	(434,400)	(22)
Boarded Items	0	17,000	17,000	100
Miscellaneous	0	28,000	28,000	100
Film Fees & Extensions	2,500,000	2,661,100	161,100	6

Licensing	15,400,000	16,809,000	1,409,000	9
TOTAL	452,754,600	418,927,810	(33,826,790)	7

However, out of the budgeted revenue of Kshs.452,754,600 only Kshs.418,927,810 was realised resulting to a shortfall of Kshs.33,826,790 or 7%.

1.2 Expenditure

Actual expenditure amounted to Kshs.492,066,644 against the approved budget of Kshs.452,754,600 resulting to an over expenditure of Kshs.39,312,044 or 7% as tabulated below:

Description	Budget Kshs.	Actual Kshs.	(Over)/Under Kshs.	Over/Under %
Compensation of Employees	61,900,588	57,450,050	4,450,538	7
Goods & services	262,747,507	237,195,140	25,552,367	9
Rent & Rates	18,006,505	21,584,525	(3,578,020)	20
Other payments	101,500,000	122,826,817	(21,326,817)	21
Transfer to MOSCA	8,600,000	8,600,000	0	0
Depreciation	0	44,410,112	(44,410,112)	100
Total	452,754,600	492,066,644	(39,312,044)	7

The over expenditure mainly occurred under depreciation of Kshs.44,410,112 or 100% which had not been provisioned. No explanation has been provided for treating depreciation as an actual expenditure when it's a non-cash item.

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 Public Sector Accounting Standards (Accrual Basis) 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 Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to cease operations of the Board, 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 Board'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 of Kenya. 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 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 Board'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 Board's ability to continue offering 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 Board to cease to continue offering 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 Board 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

16 February 2018