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

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Kenya Broadcasting Corporation set out on pages 1 to 40, which comprise the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.
I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Late submission of financial statements

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

Consequently, the Corporation was in breach of the Law.

2. Accuracy of the Financial Statements

The Statement of financial position reflects a receivables balance of Kshs.1,830,558,000 as at 30 June 2018 and a comparative figure of Kshs.997,867,000. However, the supporting note 11 of the financial statement has the comparative figure casting to Kshs.1,745,299,000. The resulting difference of Kshs747,432,000 has not been explained. Further, the financial statement submitted on 5 October 2018 were amended and revised on 7 February 2019. However, the movement between some of the accounts in the first set and the revised set of the financial statements have not been supported by any journals or explained in any way. These unexplained movements are as shown below:-

Unsupported Balances in the Financial Statement

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

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

3. Property, Plant and Equipment

3.1 Unsupported Valuation of Assets

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

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

3.2 Generators

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

3.3 Unclear Transfer of Corporation Land

As previously reported, the property, plant and equipment balance of Kshs.16,501,858,412 as at 30 June 2018 included land LR No.209/10370 designated as Norfolk Car Park measuring 2.19 acres valued at Kshs.1,431,000,000 which was transferred to Kenya Cultural

Centre vide letter Ref: No. KBC/MD/14/6/C VOL.VII dated 11 October 2016. It is not clear and management has not explained the circumstances under which the Corporation's land was transferred to Kenya Cultural Centre contrary to the requirements of Chapter five, Article 62 Section 4 of the Constitution which states that public land shall not be disposed of or otherwise used except in terms of an Act of Parliament specifying the nature and terms of that disposal or use.

Further, the said Parcel of Land had two allotment letters reflecting different sizes as follows; allotment letter dated 12 August 1994 indicated the size of the land as 0.8861 hectares while allotment letter dated 8 March 2004 indicated the size as 0.8737 hectares. In addition the survey plan indicated the size of the same parcel of land as 0.21 hectares which differs with the acreage indicated in the two (2) allotment letters.
Consequently, it has not been possible to confirm the size and ownership status of the parcel of land and that the property, plant and equipment balance of Kshs.16,501,858,412 as at 30 June 2018 is fairly stated.

3.4 Land and Buildings

As previously reported, the property, plant and equipment balance of Kshs.16,501,858,412 as at 30 June 2018 included land and buildings balance of Kshs.12,857,874,001 and Kshs.874,389,410 respectively totalling Kshs.13,732,263,411. The balance of Kshs.13,732,263,411 also included land and building valued at Kshs.5,712,992,000 with letters of allotment and Kshs.903,767,000 in respect of un-surveyed and un-adjudicated land all totalling Kshs.6,616,759,000 whose ownership documents were not availed for audit review. The balance also excluded the unvalued land LR No 75893/111/66A situated at Voi Township measuring 3.7 acres which the valuer could not locate during the time of valuation of assets in November 2014. In addition, the Corporation's land LR No75893/111/64A measuring 0.7413 acres located at Voi Township and valued at Kshs.1,600,000 had been taken over by the Ministry of Mining and on which a newly erected building stands. Further, a parcel of land No LR.No.11773 - Ngong TX station located at Kajiado County differed in size as the letter of allotment indicated that the land is measuring 33.419 acres (13.53 hectares) while information available indicated that the actual size on the ground is 124.79055 acres valued at Kshs.2,700,000,000.

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

and Physical Planning to have outstanding issues resolved, no meaningful progress appears to have been achieved as at March 2019.
In view of the foregoing, it has not been possible to confirm the ownership status of the Corporation land and that the property plant and equipment balance of Kshs.16,741,594,137 as at 30 June 2017 and the balance of Kshs.16,501,858,412 as at 30 June 2018 is fairly stated.

3.5 Land without Title Deeds

As previously reported, available information indicated that the Corporation owned twenty five (25) parcels of land (listed on the table below) valued at Kshs.6,102,849,000 that were un-surveyed, un-adjudicated and whose ownership documents such as title deeds and certificates of lease were not availed for audit review. Although, the management is aware of the above anomaly, no evidence of any action being taken by the management to obtain ownership documents of these parcels of land was availed for audit verification. In addition, and as previously reported, the balance of land of kshs.12,857,874,001 excluded unvalued and unidentified land LR.No.75893/111/66A situated at Voi Township measuring 3.7 acres which the valuer could not locate during the time of valuation of assets in November 2014. The management has not provided satisfactory explanations for the above anomalies.
List of land without title deeds

NO.	Description	Ownership Document	Location	Purchase Date	Book Value Kshs
1	L.R. NO: 209/10370-Norfolk Car Park	Letter of allotment	Nairobi	30th November 2014	1,431,000,000
2	216/KLF/2/97-Mambrui , Malindi	Letter of allotment	Malindi	30th November 2014	482,000
3	Kisumu/Mun/Block 10/97-Kisumu	Letter of allotment	Kisumu	30th November 2014	204,460,000
4	L.R. NO: L96/16, Karen	Letter of allotment	Nairobi	30th November 2014	13,000,000
5	LR.NO.12679 Jamhuri HQ	Letter of allotment	Nairobi	30th November 2014	1,300,000,000
6	LR.No: 11773 Ngong TX Station	Letter of allotment	Kajiado	30th November 2014	2,700,000,000
7	L.R. NO: 191,Marsabit	No documents	Marsabit	30th November 2014	5,600,000
8	55/KLF/2/89-Malindi	No documents	Malindi	30th November 2014	4,400,000

NO.	Description	Ownership Document	Location	Purchase Date	Book Value Kshs
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	Mombas a	30th November 2014	313,250,000
12	Samburu/Lodekejek/37,Marala l ,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

NO.	Description	Ownership Document	Location	Purchase Date	Book Value Kshs
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**

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

3.6 Land with Disputes

Further, and as reported in the previous year available information at the Corporation indicated that the following (10) parcels of land measuring 211.58785 acres and valued at Kshs.7,597,582,000 are under disputes that has been on for a long period of time. A review of the matter in March 2019 revealed an unchanged position.

Land with Disputes

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

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

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

3.7 Unclear Transfer of KBC land to Staff Pension Fund

As previously reported, the Corporation transferred four (4) parcels of land valued at Kshs.1,126,250,000 to Kenya Broadcasting Corporation staff pension fund to cover for unremitted outstanding pension arrears totalling Kshs.208,774,000 as at 30 June 2017. Though the land was presumably transferred, the unremitted pension liability in the Corporation's books was not extinguished and stands at Kshs.213,617,000 as at 30 June 2018. The transfer has been done in contravention of chapter five (5), Article 62, Section 4 of the Constitution of Kenya which may lead to loss of Corporation land as detailed below :-

- LR.No.1/9218 Donyo Sabuk/Komarock half of 1,234.26 (617.13) acres (with 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 at 30 June 2018. Further, physical verification of land LR No1/9218 Donyo Sabuk/Komorock measuring 1,234.26 acres indicated that more than 2/3 of the land had been encroached by squatters and there were physical structures on the land. In the circumstances, it has not been possible to confirm if the transfer of four (4) Corporation parcels of land valued Kshs.1,126,250,000 to the KBC Pension Fund was in the best interest of the stakeholders and whether, the extension of the swap of the liabilities with the parcels of land will be achieved. The Corporation was therefore in breach of chapter five (5), Article 62, Section 4 of the Constitution of Kenya and the management have deliberately and unjustifiably occasioned the Corporation a possible loss of land worth Kshs.917,476,000 as at 30 June 2018.

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

4. Trade and Other Receivables

4.1 Long outstanding Trade Receivables

The statement of financial position reflected a balance of Kshs1,830,558,000 in respect of trade and other receivable as at 30 June 2018. Included in this figure is cross trade receivables amounting to Kshs.1,563,106,000 as shown at note 11© of the financial statements. Out of the balance of Kshs.1,563,106,000, an amount of Kshs.1,399,465 has been outstanding for over 120 days and the bulk of it having been incurred more than ten (10) years ago. Management did not demonstrate efforts undertaken to collect these debts as no demand letters have been issued to the long overdue debtors and defaulters.
No documentation has been provided to show the adequacy of provision of Kshs.504,988,000 that has been made in the financial statements against the trade receivables to recognize the high probability of not recovering the debts.

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

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

4.3 Outstanding Imprest –Staff Receivables

The outstanding imprest as at 30 June 2018 was Kshs14,854,930 as indicated under note 11 (a) to the financial statements. It was apparent that there is laxity in surrendering imprest held. Further analysis indicated that some employees were issued with additional imprest while still holding the previous ones and also some of the imprests issued were not adequately supported. Thus it was not possible to establish the purpose of these imprests. Consequently, the propriety of these expenditures could not be confirmed.

4.4 Irregular Use of Imprest to Procure Goods and Services

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

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

5. Cash and Bank Balance

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

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

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

6. Trade and Other Payables

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

Particulars	**2017 Amount (Kshs)**	**2018 Amount (Kshs)**
Pension	213,617,000	208,744,000
Statutory Deduction	155,634,000	24,869,000
Medical Fund	158,246,000	127,723,000
co-operative Deductions	16,899,000	13,339,000
Insurance	1,715,000	2,371,000
SAYE	84,000	42,000
Other Deductions	10,797000	8,827,000
Value added Tax (VAT)	152,005,000	145,797,000
NHIF	5,731,000	4,510,000
Total	**714,728,000**	**545,049,000**

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

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

7. Government of Kenya Loan

7.1 Japanese loan

As previously reported, the Corporation's statement of financial position as at 30 June 2018 reflected a loan from Overseas Economic Cooperation Fund (OECF) of Japan as disclosed in note 16(a) and 16(b) of the financial statement. The OECF loan which was guaranteed by the Government in 1989 funded the Corporation's modernization programme, a project mooted out of a study by the government in February 1988. The Corporation contracted a Japanese firm to undertake the modernisation project at a sum of Japanese Yen.11,904,566,500 with a Kenya Currency portion of Kshs.98,507,000. The loan was interest bearing and as at 30 June 2018 the loan balance was Kshs.12,930,057,000 (2016/2017-Kshs.12,191,472,000) and interest thereof was Kshs.58,372,672,000 (2016/2017-Kshs.50,116,823,000). Although, the Parliamentary Investment Committee discussed the issue concerning the loan when the Corporation appeared before the committee in 2016 and the Corporation has continued to reflect the loan and interest balance in its financial statements. In addition, and as previously reported, the management has indicated that there are on-going negotiations with the Government to convert Government of Kenya Loan into equity, but it is not certain when the process will be completed if at all. The Corporation has not been servicing the loan which had been guaranteed by the National Treasury and had accumulated to Kshs.71,302,729,000 as at 30 June 2018.

7.2 Recognition of Principal Loan

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

i. The loan agreement was not provided for audit review.

ii. The Japanese loan has not been reflected in the statement of financial position to indicate that the Corporation received the funds.

iii. The amount paid as at 30 June 2018 was Kshs.12,930,057,000. This is the figure reflected in the financial statement as G.O.K. loan (Principal) whereas the payment by National Treasury to JICA includes principal and interest.

iv. The loan reflected on the financial statements relates to the portion that has been repaid by National Treasury on behalf of the Corporation but it is not clear how much of the principal amount and interest the Corporation still owed the Japanese Government or whether the National Treasury has taken over the loan obligations. Notably, in the year under review, Kshs.738,585,000 was paid by the National Treasury on behalf of the Corporation increasing the G.O.K. loan principal from 12,191,471,996 to Kshs.12,930,056,586. The amount of Kshs.738,585,000 has however been included in the figure of trade and other receivables a treatment that appears inappropriate and has not explained.

v. The obligations of the Corporation appear to be increasing while the corresponding benefits that should be accruing cannot be traced or matured on this investment.

7.3 Loan Interest

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

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

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

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

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

8. Administration Costs-Unsupported Expenditure

8.1 Communication Services and Supplies

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

8.2 Transport, travelling and subsistence

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

8.3 Rent expenses

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

8.4 Program telephone

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

8.5 Other operating expenses

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

8.6 Electricity and Water

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

8.7 Program production expenses

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

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

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

9. Revenue

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

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

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

Other income- Wrongly Classified Accounts

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

9.2 Negative Income Balance Mayienga Radio Adverts

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

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

10. Electricity Expenses and Cut-off procedures

The Corporation did not observe cut-off procedures during the year 2017/2018. Electricity expenditure records revealed that expenses on electricity for the months of April, May and June 2018 amounting to Kshs.26,885,494 were not included in the ledger for the year under review. Further, electricity expense for the month of June 2017 was included in the ledger for 2018/2019 hence in the wrong cut-off period. Some expenditure amounts on electricity paid to KPLC were recorded at actual cost without VAT while some of the amounts of electricity bills were paid to KPLC with VAT. There was no uniformity in recording of the expense in the ledger. Further it was noted that various expenses amounting to Kshs.271,600 were wrongly classified in the ledger as electricity and therefore misstating the expenditure in the electricity ledger.

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

11. Director’s Emoluments

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

i. This amount included Kshs.130,000 irregularly paid to staff of the Corporation as allowances for attending board meetings.

ii. The Curriculum vitae of board members was not availed to determine whether the directors had the necessary skills and expertise to be members of the various committees as required by law.

iii. Appointment letters for board members were not availed to determine their terms of engagement.

iv. The board’s calendar or work plan was also not availed for audit review.

v. There was no Board Charter which defines the role responsibilities and functions of the board in governance of the organization.

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

12. Inventories

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

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

13. Budget and Budgetary Controls

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

14. Going Concern

During the year under review the Corporation recorded a loss of Kshs.8,671,965,000 (2017 Loss Kshs7,611,785,000) and thereby increasing cumulative losses to Kshs.66,423,020,000. Further analysis on the statement of financial position reflects current liabilities of Kshs.72,343,193,000 which exceeded current assets of Kshs.1,962,576,000 resulting in a negative working capital of Kshs.70,380,617,000. The Corporation was therefore technically insolvent and its continued existence as a going concern is dependent upon the financial support of the Government, bankers and its creditors.

15. Bank Overdraft

The statement of financial position reflects a bank overdraft of Kshs.676,000. However, no cash book, bank certificates and bank reconciliations were provided in support of these balances.
Consequently the validity and accuracy of bank overdraft balance of Kshs.676,000 and the accuracy of transactions processed through the respective accounts forming the balance could not be ascertained. Further, no authority for operation of the overdraft was provided for audit verification.

16. Contingent Liabilities

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

17. Prior Year Audit Issues

18.1 Going Concern

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

18.2 Legal Fees

18.2.1 Case between the Corporation and Mombasa Governor

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

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

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

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

18.2.3 Pending Legal Cases – Channel 2 Group Corporation

As disclosed in Note 4(a) to the financial statements included in administration cost figure of Kshs.9,298,885,000 was an amount Kshs.56,349,000 in respect of legal fees. The figure of Kshs.56,349,000 also included an amount of Kshs.40,242,181 paid to a law firm in respect of legal and consultancy fees for a case filed against the Corporation on 10 May 2006 for breach of contract where Kenya Broadcasting Corporation (KBC) entered into a Joint Venture agreement with Channel 2 Group Corporation. Available information indicated that Channel 2 had the right to operate and create broadcasting movies and other programs on KBC's stations formerly known as Metro Television. On 16 March 2009 the Corporation terminated the Joint Venture agreement and Channel 2 Group initiated a court process by filing a suit HCCC.NO.60 OF 2010 for appointment of an arbitrator. Channel 2 group thereafter lodged a claim of approximately USD.2.4 Billion equivalent to Kshs.206 billion against the Corporation for losses and damages they incurred from the termination of the contract. On 24 September 2010 the court directed that the issues of losses and damages could be heard before an arbitrator in London as per the terminated agreement between Channel 2 Group and the Corporation. The Corporation has been represented in the arbitration case by the London Law firms and a local firm who had been paid a total amount of Kshs.1,290,976,849 as at the time of the audit for 2017. No documents to show how the Law firms were identified and awarded the services and signed contracts between the two parties was availed for audit review. This is contrary to Section 91(1) of the Public Procurement and Assets Disposal Act, 2015 which requires that open tendering shall be the preferred procurement method for procurement of goods, works and services. Further, section 135(2) requires that, an accounting officer of a procuring entity shall enter into a written contract with the person submitting the successful tender based on the tender documents and any clarifications that emanate from the procurement proceedings. No evidence to show that the management sought advice from the Attorney General for use of both law firms to represent the Corporation in the case was availed for audit review.

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

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

18.3 Trade Receivables

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

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

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

18.4 Inventory

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

18.5 Unexplained Decrease of Dividends

As disclosed in Note 3 to the financial statements, other income figure of Kshs.82,534,000 includes dividend income of Kshs.64,000,000 (2016:-Kshs.220,000,0000) 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 reflected net income of Kshs.295,602,000 of which 40% transacts into Kshs.118,240,000. The management has not explained the decrease in dividend of Kshs.54,240,000 for the year ended 30 June 2017. In the circumstances, it was not possible to confirm if the Corporation obtained value of its money from Investment in Multichoice Kenya Limited.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

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

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

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

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

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public

Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Disclaimer of

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

In addition, my responsibility is to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.
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I am independent of Kenya Broadcasting Corporation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.

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

Nairobi

06 May 2019