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**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE
ACCOUNTS OF ELECTRICITY REGULATORY BOARD FOR THE YEAR
ENDED 30 JUNE 2001.**

ELECTRICITY REGULATORY BOARD

BOARD MEMBERS REPORT

FOR THE YEAR ENDED 30TH JUNE, 2001.



The Board Members have pleasure in presenting the annual report together with the financial statements for the year ended 30th June 2001 in accordance with section 122 of the Electric Power Act 1997 and section 14 of the State Corporations Act (Chapter 446 of the Laws of Kenya).

Principal Activities

The Principal activity of the Board continues to be the regulation of generation, transmission and distribution of electric power in Kenya.

Results

The Board made a Deficit of Kshs 12,065,812 during the year compared to a surplus of Kshs 45,512,587 for the year ended 30th June 2000.

The deficit is attributable to the fact that the Board contracted Consultancies to assist with the drafting of the rules and regulations under the Electric Power Act 1997, Training of staff in Information Technology Packages and developing modern IT Platform for the Board.

Board Members

The Board Members who held office during the year under review were as follows:

Mr. Moses M. Wetangula (Chairman)	Retired on 5 th May 2001
Hon. Joseph J. Mugalla	"
Professor F.J. Gichaga	"
Mr. K. Arap Korir-Bett	"
Mr. Dalmas A. Otieno	"
Mr. Chris D. Groom	"
Ambassador Mwanyangella Ngali (PS, MoE)	Retired in March 2001
Mr. Ali Abbas (Alternate to the PS, MoE)	Retired on 13 th March 2001
Prof. Wilfred Mwangi (PS, MoE),	Appointed in March 2001
Mr. Michael Kigen (Alternate to the PS, MoE)	Appointed on 27 th April 2001

Note: PS, MoE = Permanent Secretary, Ministry of Energy

The Board Members who took over office after the retirement of the above were:

Mr. George M. Mitine	(Chairman)	Appointed on 6 th May 2001
Mrs. Phyllis Kandie		"
Mr. Wilfred Murungi		"
Gen. (Rtd) M.J.S. Chhatwal		"
Mr. Ernest C.A. Saina		"
Prof. Wilfred Mwangi	(PS, MoE),	
Mr. Michael Kigen	(Alternate to the PS, MoE)	

The Board Members who were in Office as at the date of this report are as follows.

Mr. Jeremia K. Murithi	(Chairman)	Appointed on 5 th July 2001
Mrs. Phyllis Kandie		
Mr. Wilfred Murungi		
Gen. (Rtd) M.J.S. Chhatwal		
Mr. Ernest C.A. Saina		
Prof. Wilfred Mwangi	(PS, MoE,)	

Mrs. Christine Mwangi (Alternate to the PS, MoE) Appointed on 8th August 2002

Auditors

The Auditor General Corporation continues to be in office in accordance with Section 14(3) of the State Corporations Act(Chapter 446 of the Laws of Kenya) and Section 29(1) of the Exchequer and Audit Act(Chapter 412 of the Laws of Kenya).

Approval of Financial Statements

The financial statements were approved at a meeting of the ERB Board held on 26th September, 2002.

By Order of the Board



Catherine A. Kola (Mrs.)

Board Secretary

Nairobi, Kenya

26th September, 2002

**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE
ACCOUNTS OF ELECTRICITY REGULATORY BOARD FOR THE YEAR
ENDED 30 JUNE 2001.**

I have examined the Accounts of Electricity Regulatory Board for the year ended 30 June 2001 in accordance with the provisions of Section 29 of the Exchequer and Audit Act (Cap 412). I have obtained all the information and explanations required for the purpose of the Audit. Proper books of account have been kept and the Accounts are in agreement therewith and comply with the Electric Power Act, No.11 of 1997.

Except for the matters set out herebelow, in my opinion the Accounts, when read together with the Notes thereon, present fairly the Board's financial state of affairs as at 30 June 2001 and of its deficit and cashflows for the year then ended

1. FINANCIAL PERFORMANCE

During the year ended 30 June 2001 the Board recorded a deficit of Kshs.12,065,812 compared to a surplus of of Kshs.45,512,587 in the previous year, thus reducing the General Fund balance from Kshs.100,018,797 to Kshs.87,952,985 as at 30 June 2001. Apparently contributing to the deficit are the reduced total income during the year which fell from Kshs.118,858,667 to Kshs.94,057,866 and additional expenditure on Staff Salaries, Benefits and Consultancy services all totalling Kshs.19,892,121.

**2. IRREGULAR PAYMENT OF SALARY AND ALLOWANCES TO THE
BOARD CHAIRMAN.**

As in the previous year, the Board irregularly paid its non-Executive Chairman salary and other allowances totalling Kshs.4,859,580 instead of the recommended honorarium of Kshs.40,000 per month or Kshs.480,000 per annum as communicated to the Board by the parent ministry in a letter dated 14 March 2001. No justification has been provided for ignoring the Ministerial authority.

3. IRREGULAR PAYMENTS TO OTHER BOARD MEMBERS

As was previously reported the members of the Board other than the Chairman were each paid directors' fees at the rate of Kshs.50,000 per month, all amounting to Kshs.3,500,000 net of tax. The tax totalling Kshs.1,041,089 for the year which ought to have been deducted from each board members' monthly and other taxable allowances was not so deducted, but was instead directly borne and paid by the Board. The Board has not explained why Board members were not paid at the rates approved by Government or why tax deductions were not made. The Board also paid Kshs.103,807 for an insurance cover of its Board members during the year. There was no evidence to show that the insurance cover is provided for in the terms and conditions of appointment of the Board members. Consequently and in view of the above it has not been possible to confirm the propriety of

the total expenditure of Kshs.4,644,896 incurred on board member's Allowances.

4. OVERPAYMENT OF STAFF SALARIES AND ALLOWANCES

During the year the Board overpaid its staff, salaries and allowances amounting to Kshs.4,050,146 in disregard of a directive issued by office of the President in March 2001, and contrary to section 5 (3) of the State Corporations Act (Cap 446). In the absence of the justification for the overpayments the propriety of the expenditure of Kshs.4,050,146 could not be ascertained.

5. CONSULTANCY FEES

During the year ended 30 June 2001 the Board incurred expenditure on Consultancy amounting to Kshs.22,566,285. Out of this figure an amount of Kshs.15,841,975 was paid to a Consortium of Consultants to assist the Board in drafting rules, regulations, procedures, licensing and operational procedures. However, there was no evidence to show how the consultants were identified or how the consultancy fees paid were determined. Consequently, it has not been possible to confirm the propriety of the total expenditure of Kshs.15,841,975 paid to the Consortium.

6. PROCUREMENT OF SERVICES

The Board procured insurance and advertisement services at a cost of Kshs.1,938,811 and Kshs.78,074 respectively without competitive bidding contrary to the laid down procurement procedures. Consequently it was not possible to confirm how the Insurance firm and the promotions company were identified. Information available however, indicates that two members of the Board have ownership interests in the companies. In the circumstances the propriety of the total expenditure of Kshs.2,016,885 could not be confirmed.

7. ENERGY SECTOR REFORM AND POWER DEVELOPMENT PROJECT - INTERNATIONAL TRAINING ON UTILITY REGULATION.

The Board incurred over-expenditure of Kshs.1,578,534.80 under IDA Credit No.2966-KE to train staff on utility regulation under the Energy Sector Reform and Power Development project. When the parent Ministry declined to refund the over expenditure the amount was written off without approval of Board of Directors


D. G. NJOROGE
CONTROLLER AND AUDITOR GENERAL

NAIROBI

28 July 2003

ELECTRICITY REGULATORY BOARD
INCOME & EXPENDITURE
FOR THE YEAR ENDED 30TH JUNE 2001

	Note	2000/2001	1999/2000
INCOME			
		KSHS	KSHS
ERB LEVY		90,084,062	114,704,561
INTEREST	2	3,461,804	3,654,106
LICENSE FEES		500,000	500,000
MISCELLANEOUS INCOME		12,000	-
TOTAL INCOME		<u>94,057,866</u>	<u>118,858,667</u>
EXPENDITURE			
BOARD MEMBER'S EXPENSES	3	19,004,256	20,795,048
STAFF SALARIES, BENEFITS & TRAINING	4	38,607,357	28,498,360
OFFICE SUPPLIES & EXPENSES	5	1,594,929	1,701,235
TRANSPORT & TRAVEL EXPENSES	6	4,014,895	2,975,545
PUBLIC RELATIONS/CONSUMER SERVICES	7	3,618,770	3,673,333
UTILITIES	8	1,521,640	1,077,958
OFFICE RENT & OFFICE SERVICES	9	5,840,835	5,492,546
CONSULTANCY & OTHER SERVICES	10	22,783,600	424,703
DEPRECIATION CHARGES	11	9,137,398	8,707,353
TOTAL EXPENDITURE		<u>106,123,679</u>	<u>73,346,080</u>
SURPLUS/(DEFICIT) FOR THE YEAR		<u>(12,065,812)</u>	<u>45,512,587</u>

ELECTRICITY REGULATORY BOARD

BALANCE SHEET

AS AT 30TH JUNE 2001

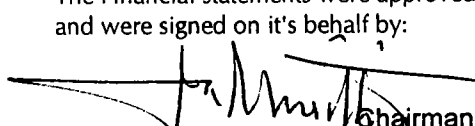
	Notes	2001 KSHS	2000 KSHS
NET FIXED ASSETS	1(c) & 11	27,370,555	36,419,588
CURRENT ASSETS			
Debtors	12	-	10,486,220
Sundry Debtors and Deposits	13	693,276	688,980
Short Term Deposits	14	50,000,000	40,000,000
Bank Balances	15	11,910,196	15,387,149
Cash at hand		50,000	50,000
		62,653,471	66,612,349
CURRENT LIABILITIES			
Creditors	16	-	-
Accruals	17	2,071,041	3,013,140
		2,071,041	3,013,140
NET CURRENT ASSETS		60,582,430	63,599,209
NET ASSETS		87,952,985	100,018,797

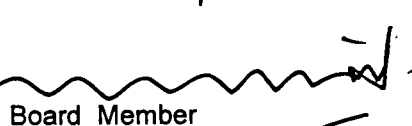
FINANCED BY:-

GENERAL FUND:

SURPLUS / (DEFICIT) FOR THE YEAR	(12,065,812)	45,512,587
BALANCE B/F	100,018,797	54,506,210
	87,952,985	100,018,797

The notes on page 6 to 10 form an integral part of this financial statements.
The Financial statements were approved for use by the Board on Date 26 September 2002
and were signed on it's behalf by:


Mr. J.K. Murithi
Chairman


Board Member
Gen(Rtd) M.J.S. Chhatwal

ELECTRICITY REGULATORY BOARD**CASHFLOW STATEMENT****FOR THE PERIOD ENDED 30TH JUNE 2001**

	Note	2001	2000
		KSHS	KSHS
Cashflow From Operating Activities:			
Net Surplus / (Deficit) from Operations		(12,065,812.2)	45,512,587
Adjustments:			
Depreciation		9,137,398	8,707,353
Operating Surplus / (Deficit) Before working capital changes		<u>(2,928,414)</u>	<u>54,219,940</u>
Increase/(Decrease) in Debtors		10,486,216	(7,845,224)
Increase/(Decrease) in Sundry Debtors		(4,295)	(74,210)
Increase/(Decrease) in Creditors		0	(30,000,000)
Increase/(Decrease) in Accruals		(942,099)	534,488
Cash generated from Operations		<u>6,611,407</u>	<u>16,834,994</u>
Investing Activities:			
Purchase of Fixed Assets	11	(88,360)	(3,603,537)
Net Cash Outflow from Investing Activities		<u>(88,360)</u>	<u>(3,603,537)</u>
Net Increase in Cash & Cash equivalents		6,523,047	13,231,458
Cash & Cash Equivalents at the beginning of the Period		55,437,149	42,205,691
Cash & Cash Equivalents at the end of the Period	17	<u>61,960,196</u>	<u>55,437,149</u>

The notes on page 6 to 10 form an integral part of this financial statements.

Notes to the Accounts

1. Significant Accounting Policies

(a) Basis of Accounting

The accounting statements are prepared with and comply with International Accounting Standards.

The Accounts have been prepared under the historical cost convention.

(b) Income Recognition

Income is recognised when received.

(c) Fixed Assets and Depreciation

Fixed Assets are stated at Cost less Accumulated Depreciation.

Depreciation is calculated on the cost of the fixed assets on a straight line basis at annual rates estimated to write off the cost of the asset over its estimated useful life.

The Depreciation rates used are as follows.

Motor Vehicle	25%
Furniture	12.5%
Computer Equipment	30%
Equipment	12.5%

(d) Taxation

No provision has been made for Income Tax.

An application for exemption from taxation has already been made under section 31 of the Income Tax Act (CAP 470).

The exemption is expected to be granted.

(e) Retirement Benefits

The Board operates a defined contribution pension scheme for all its employees. The scheme is administered and is funded from contributions from both the Board and employees.

The Board also contributes to a statutory defined contribution plan, National Social Security Fund. The contributions are determined by local statute and were limited to Kshs 80 per employee per month.

(f) Cash and cash equivalents.

For the purposes of the cashflow statements, cash and cash equivalents comprise cash on hand and deposits held at call.

(g) Comparatives

Where necessary figures have been adjusted to conform to changes in presentation in the current year.

	2000/2001.	1999/2000.
	Kshs	Kshs
2. Interest Income		
Interest on short term deposits	3,378,207	3,634,182
Current Account	<u>83,597</u>	<u>19,924</u>
	<u>3,461,804</u>	<u>3,654,106</u>
3. Board Expenses		
Fees	8,367,645	7,777,800
Allowances	4,145,000	4,410,000
Travel & Accomodation	4,021,896	5,322,275
Others	<u>2,469,715</u>	<u>3,284,973</u>
	<u>19,004,256</u>	<u>20,795,048</u>
4. Staff Salaries & Benefits		
Salaries	26,225,776	16,327,220
Pension Contribution	1,297,768	622,203
Medical	3,529,290	1,637,638
Insurance –Group Life & Personal Accident	1,021,332	383,215
Training & Capacity Building	6,419,443	9,376,792
Other	<u>113,748</u>	<u>151,292</u>
	<u>38,607,357</u>	<u>28,498,360</u>
5. Office Supplies & Expenses		
Stationery ,Postage & Supplies	552,402	475,485
Office tea & expenses	633,643	941,123
Newspapers, Books & Periodicals	<u>408,884</u>	<u>284,627</u>
	<u>1,594,929</u>	<u>1,701,235</u>
6. Transport & Travel Expenses		
Travel-Local	446,336	264,093
Travel-International	1,036,910	366,142
Fuel	663,989	807,113
Vehicle Repair & Service	940,518	344,956
Vehicle Insurance & Licenses	<u>927,142</u>	<u>1,193,241</u>
	<u>4,014,895</u>	<u>2,975,545</u>

2000/2001. 1999/2000.

	Kshs	Kshs
7. Public Relations & Consumer Services		
Advertising	1,805,525	2,547,454
Seminars /Workshops	1,621,765	58,834
Media Announcement	<u>191,480</u>	<u>1,067,044</u>
	<u>3,618,770</u>	<u>3,673,332</u>

8. Utilities

Telephone & E-mail	1,521,640	1,077,958
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9. Office Rent & Office Services

Rent	5,067,780	4,581,720
Security	-	120,000
Office Cleaning	594,720	595,658
Repair & Service-Office Equipment	134,085	137,010
Other	<u>44,250</u>	<u>57,948</u>
	<u>5,840,835</u>	<u>5,492,536</u>

10. Consultancy & Other Services

Consultancy	22,566,285	197,836
Bank Charges	97,315	113,376
Audit Fees	110,000	90,000
Audit Expenses	<u>10,000</u>	<u>23,490</u>
	<u>22,783,600</u>	<u>424,702</u>

11. Fixed Assets

	Motor Vehicles	Computer Equipment & Software	Furniture & Equipment & Fittings	Equipment	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Cost:					
As at 1 st July,2000	15,217,576	4,671,969	29,031,848	2,074,743	51,273,573
Additions During The Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,360</u>	<u>88,360</u>
As at 30 th June 2001	<u>15,217,576</u>	<u>4,671,969</u>	<u>29,309,285</u>	<u>2,074,743</u>	<u>51,361,933</u>
Depreciation:					
As at 1 st July,2000	6,657,990	1,464,009	6,378,522	353,759	14,853,980
Charge for the	<u>3,804,394</u>	<u>1,401,591</u>	<u>3,63,661</u>	<u>267,752</u>	<u>9,137,398</u>
As at 30 th June 2001	<u>10,462,084</u>	<u>2,865,600</u>	<u>10,042,183</u>	<u>621,511</u>	<u>23,991,378</u>
Net Book Value:					
As at 30 th June 2001	4,755,492	1,806,368	19,267,102	1,541,592	27,376,307
As at 30 th June 2000	12,364,281	1,481,584	26,310,112	1,367,428	41,523,404

	2000/2001.	1999/2000.
	Kshs	Kshs
12. Debtors		
World Bank	-	9,986,221
K.P.L.C	-	-
Ministry of Energy	-	-
ERB Sacco Society	<u>-</u>	<u>500,000</u>
	<u>-</u>	<u>10,486,221</u>
13. Sundry Debtors & deposits		
Hospital Deposits	450,000	550,000
Telephone Deposits	-	20,000
Staff Imprests / Advances	<u>243,276</u>	<u>118,980</u>
	<u>693,276</u>	<u>688,980</u>
14. Short Term Deposits		
Short term deposits are held with the following Banks:		
National Bank	20,000,000	30,000,000
Kenya Commercial Bank	<u>30,000,000</u>	<u>10,000,000</u>
	<u>50,000,000</u>	<u>40,000,000</u>
15. Bank Balances		
National Bank	9,841,412	2,898,285
Kenya Commercial Bank	913,102	563,093
Commercial Bank of Africa	<u>1,155,682</u>	<u>11,925,772</u>
	<u>11,910,196</u>	<u>15,387,149</u>
16. Accruals		
Audit Fees	210,000	90,000
Telephone Bills	212,520	64,434
Hospital Bills	510,092	60,089
Suppliers Invoices	715,751	2,571,404
ERB Sacco Society	-	-
Stale Cheques	147,678	-
Other	<u>275,000</u>	<u>227,213</u>
	<u>2,071,041</u>	<u>3,013,140</u>
17. Cash & Cash Equivalents		
Petty cash	50,000	50,000
Bank Balances	11,910,196	15,387,149
Short Term deposits	<u>50,000,000</u>	<u>40,000,000</u>
	<u>61,960,196</u>	<u>55,437,149</u>
18. Contractual Obligations		

The Board has the following commitments on account of services that have been authorised, contracted and partly paid.

	2000/2001.	1999/2000.
	Kshs	Kshs
Consultancy to assist with drafting rules and regulation Under the Electric Power Act, 1997.	10,564,800	-
Information Technology Training	<u>684,587</u>	<u>-</u>
	<u>11,249,387</u>	<u>-</u>

19. Retirement Benefit Obligations

All permanent employees of the Board are members of a contributory pension scheme. The Scheme is currently administered by an Insurance Company.

The Board makes a monthly contribution of 10% of each employee's basic salary and the employee makes a monthly contribution of 5% of his basic salary.

20. Related Party Transactions

During the year the Board received services worth Kshs594,720 (2000-Kshs 585,480) from related parties.

21. Incorporation

The Board is a state corporation established under The Electric Power Act of 1997.

22. Currency

The accounts are presented in Kenya Shillings (Kshs)