REPUBLIC OF KENYA

OAG

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

LAST MILE CONNECTIVITY PROJECT II LOAN NO.2000200000152

FOR THE YEAR ENDED 30 JUNE, 2023

THE KENYA POWER AND LIGHTING COMPANY PLC

Kenya Power

LAST MILE CONNECTIVITY PROJECT II

THE KENYA POWER AND LIGHTING COMPANY PLC

ADF LOAN NO: 2000200000152

PROJECT ID No: P-KE-FAO-013

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
30 JUNE 2023

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

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i. ACRONYMS AND GLOSSARY OF TERMS

ADB	African Development Bank
ADF	African Development Fund
AFD	French Development Agency
CBK	Central Bank of Kenya
Comparative FY	Financial year preceding the current financial year.
EMCA	Environmental Management and Coordination Act
EPRA	Energy and Petroleum Regulatory Authority
ICPAK	Institute of Certified Public Accountants of Kenya
IDA	International Development Agency
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
JICA	Japan International Corporation Agencies
KENGEN	Kenya Electricity Generation Company
KFS	Kenya Forestry Service
LMCP	Last mile Connectivity Project
LV	Low Voltage
MOE	Ministry of Energy
NEMA	National Environment Management Authority
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
REREC	Rural Electrification and Renewable Energy Corporation
UA	Unit of Account
WB	World Bank

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: Last Mile Connectivity Project II

Objective: The key objective of the project is to support the Government's initiative of ensuring increased Electricity access to Kenyans, particularly the poor.

Executing Agency: Ministry of Energy

Implementing Agency: The Kenya Power and Lighting Company PLC (Kenya Power)

Address: The Implementing Agency headquarters offices are in Nairobi City, Nairobi County, Kenya
The address of its registered office is:

Stima Plaza
Kolobot Road, Parklands
P. O. Box 30099 - 00100
Nairobi, Kenya.

Contacts: The following are the projects contacts:

Kenya Power and Lighting Company PLC
Telephone: +254-02-3201000
Website: www.kplc.co.ke

1.2 Project Information

Project Start Date:	The project start date is 17 October 2016.
Project End Date:	The project end date 31 December 2022.
Project Coordinator:	The project Coordinator is George Tarus.
Project Sponsor:	The project sponsors are Government of Kenya and African Development Bank.

1.3 Project Overview

Line Ministry/State Department of the project	The Kenyan Ministry of Energy is the Executing Agency of the project while Kenya Power and Lighting Company PLC is the Implementing Agency.
Project number	P-KE-FAO-013- Loan No: 2000200000152
Strategic goals of the project	The strategic goal of the project is to support the Government's initiative of ensuring increased Electricity access to Kenyans, particularly the poor.
Achievement of strategic goals	The project management aims to achieve the goals through the following means: • Expansion of the power distribution system to be within reach and thus enable more Kenyans to connect to the grid at affordable cost; and • Reduction of Connection cost paid by the customer.

1.3 Project Overview (continued)

Other important background information of the project	The Government of the Republic of Kenya (the "Government") and the African Development Bank (the "Bank") entered into a Loan Agreement for the Last Mile Connectivity Project II (Project ID. No.: P-KE-FAO-013 and Loan No.: 2000200000152) (the "Project") on 17 October 2016 (the "Loan Agreement"). As per the Loan Agreement, the Fund agreed to extend a loan not exceeding USD 134,640,000 to the Government of Kenya. The Loan Agreement was subject to conclusion of a Subsidiary Grant Agreement between the Government and the Kenya Power and Lighting Company PLC for on-granting of the loan. The Subsidiary Grant Agreement was signed on 4 April 2017. The objective of the Project is to support the Government's initiative of ensuring increased electricity access to Kenyans, particularly the poor. The scope of the Project is the extension of the low voltage network on existing and new distribution transformers to reach households within the transformer protection distance in areas with a low penetration rate throughout the country. The Project has been divided into 22 lots. 15 lots are for supply, design and installation; 6 lots for supply of meters and metering accessories; and 1 for the supervision and management Consultant. The Project was to include the construction of 27,589 kilometres of low voltage distribution lines, and installation of equipment for the connection of 293,446 customers. The financing provides also for the Capacity Building and Public Relation & Communication specialist.
Current situation that the project was formed to intervene	Low Electricity access rate especially in the rural areas across all the 47 Counties of Kenya.
Project duration	The Project started on 17 October 2016 and completed on 31 December 2022.

1.4 Bankers

Standard Chartered Bank Kenya Ltd.
Harambee Avenue
P. O. Box 20063-00200
Nairobi, Kenya.

1.5 Auditors

Principal Auditors

The Auditor General
Kenya National Audit Office
Anniversary Towers
P. O. Box 30084 -00100
Nairobi, Kenya.

1.6 ROLES AND RESPONSIBILITIES

Name	Title Designation	Key Qualifications	Responsibilities
Dr. Eng. Joseph Siror	Managing Director and Chief Executive Officer Appointed on 2nd May 2023	PhD. Engineering, MBA, BSc. Electrical Engineering	Accounting officer
Eng. Geoffrey Muli	Ag. Managing Director and Chief Executive Officer, appointed on 17th May 2022 and acted upto 1st May 2023.	MBA, BSc. Electrical Engineering	Accounting officer
Eng. Aggrey Machasio	General Manager, Infrastructure Development	BSc. Electrical Eng.& Technology	Head Infrastructure Development
Eng. Kennedy Owino	Manager, Connectivity & Turnkey Projects	MSc. CBIS, BSc. Electrical Eng. & Electronic Engineering	Supervision and Management of all Projects.
George Tarus	Project Leader, LMCP II	BSc. Electrical and Communication Engineering.	Project Coordination, Supervision and Management.
Ambrose Lamaon	Chief Accountant, Donor Funded Projects, KPLC	MBA(Finance), B. Com Accounting, CPA(K)	Project Financial Management.
Stella Mucheke	Chief Supply Chain Officer, Donor Funded Project	MBA (Operations Management), BA –Economics, Maths and Sociology, CIPS Level 6.	Project Procurement and Contract Management
Simon Tirop	Project Accountant	B.Com Accounting, CPA(K).PMD Pro Level 1.	Project Financial Management.
Allan Otieno	Procurement Specialist	MBA-Procurement & Supply Chain; B.A Anthropology; CIPS Level 4	Project Procurement and Contract Management
Wilfred Koech	SHE Specialist	M. Philosophy (Environ Sc.), BSc. (Environ. Sc.), Dip. (Environ Mgt)	Coordination and Management of Social, Safety and Environmental aspects of the project

1.7 Funding summary

The Project duration is six years from 2016 to 2022 with an estimated project Cost of USD 198.48 Million, equivalent to KShs 20.979 Billion as highlighted in the table below. Additionally, the project has accumulated miscellaneous receipts of KShs 1.46 Million. Below is the funding summary:

a) Sources of Funds

	Donor Commitment		Amount received as at 30.06.2023		Undrawn balance as at 30.06.2023	
	USD	**KShs'000'**	**USD**	**KShs'000'**	**USD**	**KShs,000**
	(A)	**(A')**	**(B)**	**(B')**	**(A)-(B)**	**(A')-(B')**
(i) Loan						
African Development Bank Financing	134,640,000	14,384,526	134,559,249	14,373,179	80,751	11,347
(ii) Counterpart funds						
Government of Kenya Contribution	63,841,089	6,593,297	49,801,776	5,143,377	14,039,313	1,449,920
Miscellaneous receipts	-	1,463	-	1,463	-	-
Total	**198,481,089**	**20,979,286**	**184,361,025**	**19,518,019**	**14,120,064**	**1,461,267**

b) Application of Funds

	Amount received as at 30.06.2023		Cumulative Amount Paid as at 30.06.2023		Unutilised Balance as at 30.06.2023	
	USD	**KShs'000'**	**USD**	**KShs'000'**	**USD**	**KShs'000'**
	(A)	**(A')**	**(B)**	**(B')**	**(A)-(B)**	**(A')-(B')**
(i) Loan						
African Development Bank Financing	134,559,249	14,373,179	134,559,249	14,373,179	-	-
(ii) Counterpart Funding						
Government of Kenya	49,801,776	5,143,377	49,801,776	5,143,377	-	-
Miscellaneous receipts	-	1,463	-	1,463	-	-
Total	**184,361,025**	**19,518,019**	**184,361,025**	**19,518,019**	**-**	**-**

1.8 Summary of Overall Project Performance:

a) Budget Performance against Actual Amounts

As at end of the year under review, the Project has utilised Kshs 19.5 Billion, which is 93 % of the project cost.

b) Physical Progress and Achievement of the Project

The project is successfully completed. As at 30 June 2023, a total of 322,279 (109%) customers were connected under the project out of the targeted 293,446 customers as per the actual designs. During the period, a total of 11,340 customers were connected.

During the year under review, the Project absorbed 78% of the budget, 80% in the FY 2021/22 and 111% in the FY 2020/21.

c) Implementation Challenges and way forward

Despite the successful completion of the Project, Implementation of the project has faced several challenges, which have affected the timely execution and delivery of key project milestones. Some of the challenges include customer registration and on-boarded issues and Budgetary Constraints. The effects of Covid-19 Pandemic also slowed down the progress of installation works and supply of goods.

To mitigate the effects of the various challenges, the Project Implementation Team enhanced supervision of works by increase of site supervisors, fast tracked payments to contractors and closely liaising with Government for adequate funding. In addition, the Team embraced the use of local administration for stakeholder sensitization to facilitate document collection and data gathering.

1.9 Summary of Project Compliance:

KPLC is entrusted with responsibility of implementing the Last Mile Connectivity Project II.

a) Compliance with applicable environmental laws and regulations

KPLC strives to comply with all the national and international environmental statutory and regulatory provisions that apply to its operational activities. The key national laws are; the Water Act of 2002 and the Environmental Management and Coordination Act (EMCA) of 1999 and the associated regulations. While key International Best practices include the IFC Performance Standards. Therefore, all KPLC's projects promote sound healthy environment and opportunities for environmental conservation with local communities in all project areas.

b) Non-compliance attracts consequences

KPLC takes the utmost precautions in its operations in ensuring all associated impacts are negligible on health and the environment. The Company has not suffered any consequences because of non-compliance due to its commitment towards environmental regulatory compliance.

c) Mitigation measures are taken to alleviate the adverse effects of actual or potential consequences of non-compliance

KPLC has a sound environmental policy that reflects commitment to continually improve in the field of environmental management and monitoring. It serves as a guide to the company, contractors and suppliers and forms the basis for good collaboration with stakeholders.

The Company continues to streamline its environmental and social management/monitoring plans to be in total compliance with International Environmental Best Practices and Standards. Dissemination of knowledge on environmental conservation, management and awareness has been a key component through the social afforestation program.

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVES

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The key development objective of the project's 2018-2023 plan is to support the Government's initiative of ensuring increased electricity access to Kenyans, particularly the low-income earners.

Progress on attainment of Strategic development objectives

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bund (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement. The Project status deliverables as at year-end is as follows.

SN	Item Description	Unit	Quantity	Status of Execution	% Achieved
1	LV route length	km	18,153	17,761	98%
2	Customer	PC	296,574	322,279	109%

The project as proposed targets connecting customers in areas with low access to electricity as per the government policy. The electrification of rural areas has immediate effect on economic activities in those regions thus creating employment and increase in business opportunities, better education services, improved health facilities and overall quality of life for the citizens. Below we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
Last Mile Connectivity Project II	To accelerate Electricity Access	Increased Electricity access rate	No. of New customer Connected in the project	In FY 22/23, 11,340 Customers were connected

3. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

Kenya Power recognizes its responsibility to conduct its business practices in a manner that does not deplete or exploit resources, both human and natural, and allows for sustainable economic activity in the future. The concept of sustainability has evolved to encompass efforts that ensure current business practices, aimed at achieving economic goals that do not compromise the well-being of future generations from an Environmental, Social and Governance (ESG) perspectives. Therefore, the Company is aligning its sustainability strategies and operations with the United Nations Sustainable Development Goals (SDGs) launched in 2015, Kenya's commitments on sustainability and Paris Agreement with a goal of limiting global warming to well below 2°C above pre-industrial temperatures by the turn of this century.

Climate change is undeniably one of the dominant challenges of our time. It is one of the main threats impending the delicate balance between the Earth's ecosystems and the well-being of our future generations. While remarkable strides have been made towards addressing climate change on the global front through commitments and on the ground through policies and required actions, much more needs to be done collectively and as individual countries. These global efforts, once adopted, can have significant impact and may affect how the Company carries out its business operations to remain competitive in the long term.

The following are some of the key initiatives that the Company is driving in the sustainability agenda:

PROMOTING A PRODUCTIVE, SAFE AND INCLUSIVE WORK ENVIRONMENT (SDG 8)

Improving Employee Productivity
Fostering employee well-being, engagement, and productivity is a cornerstone of our corporate strategy. The Company aims to ensure that every staff member is optimally engaged for increased productivity, and sustained business growth by nurturing a positive work environment.

To bolster both employee equity and productivity, our Board of Directors endorsed the translation of terms of 1,373 employees from short-term contracts to renewable 5-year contracts in two phases. The terms of these new contracts are tailored to align closely with those of our permanent and pensionable staff members. We onboarded an additional 389 new employees comprising technicians and craftsmen to reinforce our field operations.

During the year we introduced practical and affordable training initiatives, concentrating on technical, professional, and leadership skills as a commitment to employee development. This is to equip our staff with tools and knowledge to adjust to changing business needs and meet the company's goals. As a result, 62% of employees participated in these training sessions, translating to an average of 3.5 training days per employee. This effort highlights our continuous drive to support employees' professional growth.

As a result of the various initiatives undertaken on employee engagement, productivity, and satisfaction levels, there was an improvement in the employee satisfaction survey which yielded a mean score of 60.3% a marked improvement from the prior year's 50%.

Promoting gender equality
Kenya Power is keen on achieving gender equality, and indeed overall diversity and inclusion. Guided by our Gender Mainstreaming Policy, the Company is working towards enhancing our structure to further promote equitable recruitment, career development, placement, and deployment of qualified personnel. Currently the ratio of male to female staff is 3.5 out of a total number of 10,018 employees.

The Company is establishing more gender responsive office facilities and equipment for staff use including lactating facilities. Other initiatives include training and sensitizing all staff on gender equality; promoting enrolment of females and males in science, technology, engineering and mathematics in private and public

universities; and retain and establish new partnerships and services of a gender expert in order to support and maintain the gender mainstreaming momentum and processes. In the period under review, we undertook mentorship programmes at Starehe Girls Centre, University of Nairobi in partnership with the Women in Engineering Association as well as Masinde Muliro University of Science and Technology.

In addition, the Company continued to support students from disadvantaged backgrounds in both Starehe Girls and Boys Centre under its Endowment Fund mainly through offering mentorship.

Promoting a safety culture

Electricity has inherent dangers and risks if not handled properly. As such the Company fosters a culture of safety among employees, contractors and members of the public to protect life and property. We strive to uphold high standards of compliance with relevant safety and health-related legal and regulatory requirements.

During the year, we amplified our safety awareness campaigns through 187 public engagements leveraging on platforms such as local administration meetings (barazas), the Agricultural Society of Kenya (ASK) trade fairs, schools' sensitization forums, media campaigns, and sustained collaborations with the National Government Administration Officers (NGAO). We undertook comprehensive competence assessments for 465 employees and contractors, particularly those involved in grid operations. We also carried out Occupational Safety and Health (OSH) training sessions encompassing fire safety and first aid procedures.

DECARBONIZING THE GRID- SDG7/SDG13

Recognizing the urgent need to reduce global greenhouse gas emissions, it is imperative for every sector in Kenya to urgently mainstream climate change in both planning and operation, with clear and robust mitigation and adaptation strategies. Kenya is committed to abate greenhouse gas emissions by 32% by the year 2030 compared to the business-as-usual emissions scenario, according to the updated Nationally Determined Contribution (NDC). To make this a reality, Kenya's energy sector will continue to lead in advocating for clean energy use and accelerating investments in renewable energy to facilitate a sustainable energy transition.

Kenya Power being a major player in the energy sector is committed to driving the greening agenda through maintaining a climate positive generation mix. In the past five years, the Company has increased renewable capacity by an additional 1,140 MW composed of 410MW wind, 300MW geothermal, 211MW solar, 20MW Hydro and 200MW hydro import from Ethiopia. Over the same period, we have retired 205MW of fossil thermal capacity. This has increased the share of renewable energy in the generation mix to 90 percent over the period. During the year, the Company initiated a hybridization project of four existing off-grid thermal stations in the Northern Eastern region with renewable energy sources, specifically solar photovoltaic (PV) systems. This endeavor is driven by the dual objectives of reducing fuel costs and minimizing carbon emissions. The four sites to be retrofitted with PV systems are Eldas, Elwak, Merti, and Habaswein. These off-grid stations have been relying on fossil fuel with a combined average consumption of two million litres annually. Upon completion of this project, it is anticipated that fuel consumption at these sites shall decrease by 60%, lowering the carbon footprint. The project is financed by the French Development Agency (AFD) at a total cost of KShs. 1.7 billion. This project is a significant step towards our commitment to providing sustainable energy solutions.

The Company is further engaged in the implementation of the World Bank funded Kenya Off-grid Solar Access Project (KOSAP) targeting underserved counties as part of our green initiatives. The primary goal of this project is to establish 89 Solar PV Mini-Grids targeting community facilities, enterprises, and households, effectively advancing electrification in areas currently lacking grid connectivity. Notably, this initiative marks a significant departure from past investments reliant on diesel generators, aligning squarely with the Company's sustainability vision.

ENABLING THE ELECTRIC-MOBILITY AGENDA (SDG 13)

The global electro mobility (e-mobility) conversation is shaping policies in developing and transitional countries towards the shift from fossil fuel-based to electric mobility. The world's leading automotive markets including the Unites States of America, Europe and China have committed to fully transition to electric vehicles by the year 2035.

In Kenya, the dialogue on electric vehicles (EVs) is being accelerated by investments in the required infrastructure including charging and battery swapping stations. It is envisaged that the rapid adoption of e-mobility in the country's transport sector will be a major boost to the Company's quest to grow electricity sales. The transition to e-mobility will also support the climate change agenda on reduction of air pollution and mitigating against global warming.

Adoption of electric vehicles is gaining momentum in the country as demonstrated by a remarkable 108% increase in EV sales in the year 2022-2023 according to data from the National Transport and Safety Authority, translating to 8.3% market share in new vehicle sales. Inspite of the growth, the adoption of EVs in Kenya still remains underexplored, with local data indicating that presently, there are over 2,000 EVs in the country.

The electricity sub-sector is a critical enabler in the e-mobility transition. With expanding grid capacity and favorable energy mix which is 90% green, the country has a vantage position to take the lead in the adoption of e-mobility. More supportive policies and frameworks are required to nurture growth by enabling widespread expansion of EV infrastructure including charging points across the country.

As a key player in the electricity sub-sector, the Company constituted an e-mobility management steering committee which spearheaded the development of the e-mobility electricity tariff and a framework for fast-tracking e-mobility electricity connection applications among other initiatives. The e-mobility tariff is applicable to customers consuming up to a maximum of 15,000 kWh with an off-peak rate introduced to encourage the utilization of renewable energy during times of low power demand. The Company is in the process of transitioning all customers with a charging infrastructure account to the electric mobility tariff.

Currently, there are two public transport companies operating 21 electric buses within Nairobi with four charging depots with a combined capacity of 1 MVA. Additionally, there are seven other firms offering four-wheelers and another 17 offering two and three-wheeler electric propelled vehicles supported by both in-house and public charging infrastructure.

The Company currently has 13 electric motorcycles, three electric forklifts and 10 electric pallet stackers in its transport fleet. The Company is purchasing an additional four electric vehicles and seven chargers expected in the first half of the current year. In addition, the Company has commenced procurement of seven electric vehicles, 25 electric motorcycles and seven chargers. We are also building capacity for repairs and maintenance of electric vehicles through training of fleet maintenance staff.

Kenya Power will continue to take a leading role in driving engagement among stakeholders in the electric mobility value chain, with the aim to develop deep understanding of the nascent industry and lay the foundation for its sustainable development. Towards this, the Company organized with support from the German Agency for International Cooperation GIZ the Country's inaugural E-Mobility Stakeholders Conference in February 2023. The Conference provided a platform for stakeholders to share knowledge and experience on electric mobility and to develop a roadmap for its implementation in Kenya.

ADVANCING THE ELECTRIC-COOKING AGENDA (SDG 7 AND 13)

Universal clean cooking is a key target under Sustainable Development Goal (SDG) 7 and 13 with cross cutting impact on other SDGs such as good health, gender equality and climate. According to the World Health Organization, 2.4 billion people globally lack access to clean cooking with the majority being from Sub-Saharan

Africa. Recognizing that only 17 percent of Kenyans have access to clean cooking, the Government has set a goal for universal clean cooking access by 2028.

Grid electricity is one of the clean sources of energy. However, only three percent of the 7.5 million grid connected domestic customers in the country own an electric cooking appliance and less than 1 percent use electricity as their primary cooking fuel, (KNBS 2022). This implies that there is an enormous untapped potential for electric cooking. E-cooking offers the potential to stimulate demand for electricity and increase sales, whilst simultaneously offering an innovative new solution to the clean cooking challenge.

The Company is championing the clean cooking agenda through our Pika na Power program. Through this program, we raise awareness through our demonstration centre based in electricity house Nairobi, where our customers are shown how to use efficient electric appliances and the benefits through live demos. As part of the program we will commission three other demonstration centres in Kisumu, Nakuru, Mombasa and other major towns to promote the E-cooking agenda across the country.

Our immediate goal is to increase the uptake of electric cooking from one percent (90,000 customers) currently to five percent (about 500,000) in the short-term and to 10 percent in the medium term. This will be achieved through strategic partnerships to drive the uptake of e-cooking across the country. Current partners include the Modern Energy Cooking Services (MECS), the African Centre for Technology Studies (ACTS), and the Clean Cooking Association of Kenya (CCAK) who we are working with to champion e-cooking in Makueni, Kitui, Nakuru, Kakamega, and Kisumu counties.

REGIONAL PARTNERSHIPS FOR POWER TRADING (SDG 17)

Engaging in collaborative partnerships with international organizations, governments, and private sector to achieve the country's energy related goals is a priority. To this end, the Country has been pursuing regional power integration with neighboring countries. This is to facilitate bilateral power trade and establishment of regional power market in Eastern Africa and further trade with the Southern Africa Power Pool. Interconnections will enhance power grid stability and penetration of variable renewable energy technologies. Kenya can attest to the benefits of regional integration having been interconnected with Uganda for the last 68 years.

As the national power off-taker, Kenya Power is well positioned to trade surplus energy through the regional interconnection corridors. The recently completed Ethiopia-Kenya 500kV High Voltage Direct Current (HVDC) is enabling power trade between the two countries with agreement between the Company and the Ethiopian Electric Power (EEP). Kenya has thereby enhanced its power supply capacity by an initial 200MW and reduced reliance on fossil fuels for power generation thus mitigating greenhouse gas emissions. The regional interconnector line will eventually facilitate the linking of the Eastern Africa Power Pool and the Southern Africa Power Pool through Tanzania via Kenya-Tanzania 400kV interconnector line, opening up the two regions for more business. In addition, the Company is working on enhancing interconnection capacity between Kenya and Uganda through the Lessos-Tororo 400kV line that is under implementation by KETRACO.

EMBEDDING AN INNOVATION CULTURE (SDG 9)

Embracing an innovation culture is not optional but crucial for sustainability of utilities such as Kenya Power in a dynamic business environment. As the global energy landscape evolves, commitment to innovation determines the ability of utilities to address emerging challenges, meet customer needs, and ensure a resilient national grid.

Taking cognizance of this, the Company has detailed out an elaborate plan in its corporate strategy to nurture and promote an innovation culture among employees in providing solutions to improve service delivery. It is against this backdrop that the Company organized a grid conference during the year, intended to provide a platform through which employees can share ideas on how to innovatively secure business sustainability. The conference, themed 'Innovating for Sustainable and Quality Grid Service', attracted a diverse group of

participants from the Energy sector, Engineers Board of Kenya, the Institution of Engineers of Kenya and the Kenya Bureau of Standards.

Some of the innovative ideas presented during the conference included ways of improving supply quality and reliability, ensuring efficient management of new customer connections and harnessing data analytics to improve network operations. Additionally, proposals for sustainable energy transition increase in power imports, Kenya Power sim card technology in our equipment, integration of a secure multi-platform communication system and technical loss reduction solutions were presented.

ENVIRONMENTAL CONSERVATION (SDG 13 AND 15)

Recognizing the significant impact our operations have on the environment, our Company is dedicated to reducing this influence by actively embracing sustainable and environmentally friendly practices. To achieve this goal, we persistently promote programmes that foster environmental stewardship, aiming to counteract the inevitable environmental degradation that contributes to global warming.

In the year, we conducted rigorous environmental audits across Company installations, and carried out environmental monitoring in 40 active projects. We also undertook Environmental Impact Assessments for 10 upcoming projects.

During the period, the Government launched the National Tree Growing and Restoration Campaign with a target of planting 15 billion trees by 2032. The campaign aims to reduce greenhouse emissions, stop deforestation, and restore degraded landscapes. In support of the campaign, the Company donated Shs.5 million and participated in various tree-planting exercises across the country including Roysambu and Umoja in Nairobi County; Kitengela and Ngong in Kajiado County; Nakuru and Kakamega Counties. In total, the Company planted over 400,000 tree saplings during the year under review. We also participated in the World Environment Day, where we contributed to the clean-up of Nakuru.

PROMOTING SOCIAL WELLNESS AND HEALTH (SDG 3)

A thriving society is built on good health and all-round wellness. We are cognizant of the enormous impact that access to high-quality healthcare has on individuals and the society. The Company strives to be a driving force for positive change by collaborating with healthcare providers, community organizations, and public health advocates. This is to ensure that all individuals have the opportunity to live healthier and more satisfying lives. In support of this, the Company participated and sponsored the Heart-to-Heart Foundation Run at to raise funds for children's open-heart surgeries and other associated heart disease treatment. The Company, in partnership with health providers also participated in mental health awareness for its staff.

Promoting social wellness

Sports provide an impeccable opportunity to discover and promote healthy living, talent and mentorship amongst young people, source of income for the abled differently groups, strengthening team spirit and a source of livelihoods and pride for our country in general. As a Company, we attach enormous value to good health and overall well-being.

During the year, we sponsored the Embu Sevens 2023 Edition, a national 3-day tournament that brought together rugby clubs from across the country. The tournament sought to nurture the rugby talent across the country. In addition, we supported the Para volley Intercountry Championship, a team of persons abled differently, who play volleyball while sitting. The Para volley organization seeks to nurture volleyball amongst persons living with disability as well as create an enabling environment for training. Empowering the disadvantaged groups is one of the priority support areas under the Company's Social Investment programmes.

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

KPLC, through the KPLC Project Implementation are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year (period) ended on 30 June 2023.

This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The KPLC Project Implementation Team accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS).

The KPLC Project Implementation Team is of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended 30 June 2023, and of the Project's financial position as at 30 June 2023 in accordance with the Cash Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS). The KPLC Project Implementation Team further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project's financial statements as well as the adequacy of the systems of internal financial control.

The KPLC Project Implementation Team confirms that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial years under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by Kenya Power and Lighting Company PLC Project Implementation Team on ______________________ 2023 and signed on their behalf by:

Managing Director & CEO	Project Coordinator	Project Accountant:
Name: Dr. Eng. Joseph Siror	Name: George Tarus	Name: Simon Tirop
		ICPAK Member No.: 9665

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON LAST MILE CONNECTIVITY PROJECT II LOAN NO.2000200000152 FOR THE YEAR ENDED 30 JUNE, 2023 – THE KENYA POWER AND LIGHTING COMPANY PLC

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Last Mile Connectivity Project II Loan No.2000200000152 set out on pages 14 to 27, which comprise of the statement of financial assets as at 30 June, 2023, the statement of receipts and payments, the statement of cash flows and the 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, the financial statements present fairly, in all material respects, the financial position of the Last Mile Connectivity Project II as at 30 June, 2023 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the Financing Agreement ADF Loan No: 2000200000152 dated 17 October, 2016 between the African Development Bank (AfDB) and the Government of the Republic of Kenya.

In addition, the special account statement presents fairly the special accounts transactions, and the closing balance has been reconciled with the books of account.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Last Mile Connectivity Project II Management in accordance with ISSAI 130 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 opinion.

Key Audit Matters

Key audit matters are those matters which, in my professional judgment, were of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a receipts budget of Kshs.1,907,327,000 and actual on comparative basis of Kshs.1,482,088,000 resulting in underfunding of Kshs.425,239,000 or 22%. Similarly, the project spent Kshs.1,482,088,000 against an approved budget of Kshs.1,907,327,000 resulting in an under absorption of Kshs.425,239,000 or 22% of the approved budget.

The underfunding and under expenditure affected the planned activities which may have impacted negatively on service delivery to the public.

2. Project Implementation and Performance

Paragraph 1.7 of the project information and overall performance in respect of Project's funding summary statement indicates that the donor and the Government of Kenya had made funding commitments of USD.134,640,000 (Approximately Kshs.14,384,526,000) and USD.63,841,089,000(Approximately Kshs.6,593,526,000) totalling to USD.198,481,089 (Approximately Kshs.20,977,823,000) in loan and counterpart funding respectively. However, as at 30 June, 2023, the Project had utilized a total of Kshs.19,517,931,000 or 93% with the Project closure on 31 December, 2022.

In the circumstances, the Project failed to realize and utilize the remaining funding commitments of Kshs.1,461,267,000 which may have negatively impacted on service delivery to citizens.

3. Pending Bills

Note 11.1 to the financial statements reflects pending accounts payables balance of Kshs.174,151,000 as at 30 June, 2023. According to the Management, the bills relate to outstanding invoices with respect to retention which were in various stages of payment as at the end of the financial year but could not be processed due to unavailability of United States Dollars (USD) in the market. However, the project risked incurring significant interest costs and penalties with the continued delay in payment. Further, failure to settle bills during the year to which they relate adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Unsupported Government of Kenya Counterpart Funds

Review of the Project's funding summary revealed that the Government of Kenya (GOK) counterpart funding amounted to USD.63,841,089 or Kshs.6,593,297,000. However, the Loan agreement provides that the GOK will provide counterpart funding of USD.19,200,000 or Kshs.1,982,912,640 for settlement of Project's local costs and implementation of the Environmental and Social Management Plan. As at 30 June, 2023, the project received a total amount of USD.49,801,776 or Kshs.5,143,377,000 against the GOK counterpart funding commitment of USD.19,200,000 or Kshs.1,982,912,640 provided for in the Loan Agreement. Although Management provided a request letter to the Ministry of Energy for additional counterpart funding, no corresponding approval from

The National Treasury was provided for review. In addition, no amendment to the Financing Agreement was provided to indicate an increase in the GOK counterpart funding and change of scope of the project to include low voltage electricity systems and connection of three hundred thousand (300,000) new customers.

In the circumstances, the completeness of the Government of Kenya (GOK) counterpart funding of USD.63,841,089 or Kshs.6,593,297,000 and the legality of the amount utilized to date of USD.49,801,776 or Kshs.5,143,377,000 could not be confirmed.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the African Development Bank (AfDB), I report based on my audit that: -

i. 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;

ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,

iii. The Project's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash

Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Project or cease operations.

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 Project's financial reporting process, reviewing how Management 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

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.

In addition to the audit of the financial statements, a compliance audit is planned and performed 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems 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. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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.

- 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 applicable 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 Project's ability to continue sustaining 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 Project to cease sustaining 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 Project 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.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

15 November, 2023

6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2023

	Notes	FY 2022/2023			FY 2021/2022			Cumulative
		Receipts and payments controlled by the entity	Payment made by third parties	Total	Receipts and payment controlled by the entity	Payments made by third parties	Total	to-date (From inception)
		KShs'000'	KShs'000'	KShs'000'	KShs'000'	KShs'000'	KShs'000'	KShs'000'
Receipts								
GoK Counterparty Funding	10.3	907,327	-	907,327	2,016,710	-	2,016,710	5,140,623
Loan from African Development Bank	10.4	-	574,761	574,761	-	570,599	570,599	14,352,630
Advance Receipts from African Development Bank	10.8	101	-	101	114	-	114	20,549
Miscellaneous Receipts	10.5	-	-	-	-	-	-	1,463
Total Receipts		**907,428**	**574,761**	**1,482,189**	**2,016,824**	**570,599**	**2,587,423**	**19,515,265**
Payments								
Acquisition of Non-Financial Assets	10.7	904,573	574,761	1,479,334	2,016,710	570,599	2,587,309	19,490,499
Purchase of Goods and Services	10.6	2,767	-	2,767	13	-	13	24,678
Total Payments		**907,340**	**574,761**	**1,482,101**	**2,016,723**	**570,599**	**2,587,322**	**19,515,177**
Surplus		**88**	**-**	**88**	**101**	**-**	**101**	**88**

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements. The project's financial statements were approved on ________________ 2023 and signed by:

Managing Director & CEO
Name: Dr. Eng. Joseph Siror

Project Coordinator
Name: George Tarus

Project Accountant
Name: Simon Tirop
ICPAK Member No.: 9665

7. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2023

	Notes	FY 2022/2023 Kshs'000'	FY 2021/2022 Kshs'000'
Financial Assets			
Cash and Cash Equivalents			
Bank Balances	10.9	88	101
Total Cash and Cash Equivalents		88	101
Total Financial Assets		88	101
Represented By:			
Fund balance B/F	10.10	88	101
Net Financial Position		88	101

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements. The project's financial statements were approved on ________________ 2023 and signed by:

Managing Director & CEO
Name: Dr. Eng. Joseph Siror

Project Coordinator
Name: George Tarus

Project Accountant
Name: Simon Tirop
ICPAK Member No.: 9665

8. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

	Notes	FY 2022/2023	FY 2021/2022
		KShs'000'	KShs'000'
Receipts from operating activities			
GOK Contribution	10.3	907,327	2,016,710
Payment from Operating Activities			
Bank Charges	10.6	(13)	(13)
Net cash flows from operating activities		907,314	2,016,697
Net cash flows from investing activities			
Audit Fees	10.6	(2,754)	-
Construction of Distribution Lines	10.7	(1,479,334)	(2,587,309)
Net cash flows from investing activities		(1,482,088)	(2,587,309)
Cash Flows from Borrowing Activities			
Loan from African Development Bank	10.4	574,761	570,599
Net cash flows from Borrowing activities		574,761	570,599
Net Decrease in Cash and Cash Equivalent		(13)	(13)
Cash and cash equivalent at beginning of the year		101	114
Cash and cash equivalent at end of the year	10.9	**88**	**101**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The project's financial statements were approved on ___________________ 2023 and signed by:

Managing Director & CEO
Name:Dr. Eng. Joseph Siror

Project Coordinator
Name: George Tarus

Project Accountant
Name: Simon Tirop
ICPAK Member No.: 9665

9. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	A	B	C = A + B	D	E = C- D	F=D/C %
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	
Receipts						
Transfer from Government of Kenya	907,327	0	907,327	907,327	0	100%
Loan from African Development Fund	1,912,000	-912,000	1,000,000	574,761	425,239	57%
Miscellaneous Receipts	-	-	-	-	-	-
Total receipts	**2,819,327**	**-912,000**	**1,907,327**	**1,482,088**	**425,239**	**78%**
Payments						
Construction of Distribution Lines , Audit Fees	**2,819,327**	-912,000	**1,907,327**	1,482,088	425,239	78%
Total payments	**2,819,327**	**-912,000**	**1,907,327**	**1,482,088**	**425,239**	**78%**

NB: Budget Utilization differences are explained in Annex 1 of the financial statements.

Managing Director & CEO
Name: Dr. Eng. Joseph Siror

Project Coordinator
Name: George Tarus

Project Accountant
Name: Simon Tirop
ICPAK Member No.: 9665

10. NOTES TO THE FINANCIAL STATEMENTS

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

10.1 Basis of Preparation

10.1.1 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the Public Sector Accounting standards Board (PSASB) and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

10.1.2 Reporting entity

The financial statements are for the Last Mile Connectivity Project II Implemented by KPLC. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012.

10.1.3 Reporting currency

The financial statements are presented in Kenya Shillings (KShs), which is the functional and reporting currency of the Project and all values are rounded to the nearest a thousand Kenya Shilling.

10.2 Significant Accounting Policies

a) Recognition of receipts

The Project recognises all receipts from the various sources when the event occurs, and the related cash has actually been received by the Government.

- **Transfers from the Exchequer**

  Transfer from Exchequer is recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

- **External Assistance**

  External assistance is received through grants and loans from multilateral and bilateral development partners.

- **Donations and grants**

Grants and donations is recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

10.2 Significant Accounting Policies (Continued)

a) Recognition of receipts

Proceeds from borrowing

Borrowing includes Treasury bill, treasury bonds, corporate bonds, sovereign bonds and external loans acquired by the Project or any other debt the Project may take on will be treated on cash basis and recognized as a receipt during the year they were received.

Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary

- **Other receipts**

  These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognised in the financial statements the time associated cash is received.

b) Recognition of payments

The Project recognises all payments when the event occurs, and the related cash has actually been paid out by the Project.

- **Compensation of employees**
  Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

- **Use of goods and services**
  Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

- **Interest on borrowing**
  Borrowing costs that include interest are recognized as payment in the period in which they are incurred and paid for.

- **Repayment of borrowing (principal amount)**
  The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the financial statements.

- **Acquisition of fixed assets**
  The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

  A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the financial statements.

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

10.2 Significant Accounting Policies (Continued)

c) In-kind donations

In-kind contributions are donations that are made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

Restriction on cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits.

e) Accounts receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

f) Contingent Liabilities

A contingent liability is:

a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
b) A present obligation that arises from past events but is not recognised because:
   (i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
   (ii) The amount of the obligation cannot be measured with sufficient reliability.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships, The Entity does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. There were no contingent liabilities in the year.

Section 89 (2) (i) of the PFM Act requires the National Government to report on the payments made, or losses incurred, by the county government to meet contingent liabilities as a result of loans during the financial year, including payments made in respect of loan write-offs or waiver of interest on loans

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

10.2 Significant Accounting Policies (Continued)

g) Contingent Assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

h) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Project at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

i) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

j) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments.

During the year there were no loan disbursements that were received in form of direct payments from third parties.

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

10.2 Significant Accounting Policies (Continued)

k) Exchange rate differences

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

l) Comparative figures

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

m) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended 30 June 2023.

n) Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i.)Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii.) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

10. NOTES TO THE FINANCIAL STATEMENTS (Continued)

10.3 RECEIPTS FROM GOVERNMENT OF KENYA

These represent counterpart funding and other receipts from government as follows:

	FY 2022/2023	FY 2021/2022	Cumulative to-date (from inception)
	KShs'000	KShs'000	KShs'000
Counterpart Funding	907,327	2,016,710	5,140,623
Other transfers from government entities	-	-	-
Appropriation in Aid	-	-	-
Total	**907,327**	**2,016,710**	**5,140,623**

NB: KPLC receive funds through Ministry of Energy in lump sum for all the programmes. The entire funds are managed centrally with other Government funds and allocated on a need basis.

10.4 LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the year ended 30 June 2023 the entity received funding from development partners in form of loans negotiated by the National Treasury as detailed in the table below:

Name of Donor	Amount in loan currency	Loans received in cash	Loans received as direct payment	Total amount in KShs'000	
	USD	KShs	KShs'000	FY 2022/2023	FY 2021/2022
African Development Bank	4,598,821	-	574,761	574,761	570,599
Total	**4,598,821**	**-**	**574,761**	**574,761**	**570,599**

10.5 MISCELLANEOUS RECEIPTS

	FY 2022/2023			FY 2021/2022	Cumulative to date
	Receipts controlled by the entity in Cash	Receipts controlled by third parties	Total Receipts		
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Interest Income	-	-	-	-	1,463
Total	-	-	-	**-**	**1,463**

10. NOTES TO THE FINANCIAL STATEMENTS (Continued)

10.6 PURCHASE OF GOODS AND SERVICES

	FY 2022/2023			FY 2021/2022	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments	Total Payments	Total Payments
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Capacity Building	-	-	-	-	21,885
Bank Charges	13	-	13	13	39
Audit fees	2,754	-	2,754	-	2,754
Total	**2,767**	**-**	**2,767**	**13**	24,678

10.7 ACQUISTION OF NON FINANCIAL ASSETS

	FY 2022/2023			FY 2021/2022			Cumulative to-date
	Payments controlled by the entity	Payment made by third parties	Total Payments	Payments controlled by the entity	Payment made by third parties	Total Payments	Total Payments
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Construction of Distribution Lines	904,573	574,761	1,479,334	2,016,710	570,599	2,587,309	19,490,499
Total	904,573	**574,761**	**1,479,334**	**2,016,710**	**570,599**	**2,587,309**	**19,490,499**

10.8 ADVANCE RECEIPTS FROM AFRICAN DEVELOPMENT BANK

AFDB advanced an amount of USD 200,000 (KShs 20.549 Million) to the project on 26/7/2017 for project implementation. The unutilised funds at the end of the year is as presented below:

	FY 2022/2023	FY 2021/2022
	KShs'000	KShs'000
Advance Receipts from African Development Bank	88	101
Total	**88**	**101**

10. NOTES TO THE FINANCIAL STATEMENTS (Continued)

10.9 CASH AND CASH EQUIVALENTS CARRIED FORWARD

	FY 2022/2023	FY 2021/2022
	KShs'000	KShs'000
Local Currency Accounts		
Standard Chartered Bank Kenya Ltd - [A/c No 104074121624]	88	101
Total bank account balances	**88**	**101**

10.10 FUND BALANCE CARRIED FORWARD

	FY 2022/2023	FY 2021/2022
	KShs'000	KShs'000
Bank accounts	88	101
Total bank account balances	**88**	**101**

11 OTHER IMPORTANT DISCLOSURES

11.1 PENDING ACCOUNTS PAYABLE

Description	Balance b/f FY 2021/2022 KShs'000	Additions for the period KShs'000	Paid during the year KShs'000	Balance c/f FY 2022/2023 KShs'000
Supply of Good and Services	263,219	1,393,033	1,482,101	174,151
Total	**263,219**	**1,393,033**	**1,482,101**	**174,151**

12 PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Observation from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status	Timeframe
OTHER MATTER	**Pending Bills** Financial statement reflected pending bills of Kshs 263,218,000 as at 30 June 2022. The management had not provided explanations for non-payment of the bills. The project is at risk of incurring significant interest costs and penalties with the continued delay in payment. Further, failure to settle bills during the year to which they relate adversely affects the budgetary provisions for the subsequent year as they form a first charge.	The pending bills represent certified invoices at various stages of payment processing as at end year. The invoices are current and within the terms of payment limits thus might not attract much penalties and interest..	The project management team.	Partially Resolved	FY2023/2024
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES	**Meter Tampering and illegally bypassed connections.** During the year under review, field visits to Kirinyaga and Kisii Counties revealed at least eleven (11) instances of meter tampering .The tampering ranged from direct connection from last mile connectivity project poles to changing of live and neutral wires to distort the flow of electricity. In addition, meter tempering and illegal connections lead to loss of revenue to the company and contributed to supply inefficiency.	The company continuously undertakes system and meter inspection as part of O&M operations. For cases found to have violation appropriate action is taken. Consequently, the company lobbied for change of legislation during review of the energy act 2019 for stringent penalties for those found violating the law.	The project management team.	Resolved	FY2022/2023

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE	**Delay in Payment Processing.** The terms of payments in the signed contracts with suppliers requires that payments be processed within sixty (60) days after receiving contractors' invoices. However, review of the pending bills as at 30th June 2022, revealed significant delays in processing of payments. As a result , payment due to forty eight (48) suppliers and contractors remained outstanding for more than sixty (60)days, with some outstanding more than six(6) months. The delay was attributed to a long payment process involving several stages outside KPLC Control such as management consultant, Project implementation team, Ministry of energy and the Donor.	The payment process is long and involves several stages outside KPLC Control. The process includes the Management consultant, PIT, Ministry of Energy and the National Treasury and the Donor. Other challenges include: •Delays in budget release and opening of IFMIS system at the beginning of the FY. •Incomplete or invalid support documentation. •Change of the Payment processes re-engineering to pay the Withholding Tax before submission of payments to MOE. •Budget cuts due to budget constraint at the National Treasury that affect payment processing especially from GOK Contribution. We continuously strive to expedite	The project management team.	Partially Resolved	FY2023/2024

Managing Director & CEO
Name: Dr.Eng. Joseph Siror

Project Coordinator
Name: George Tarus

Project Accountant
Name: Simon Tirop
ICPAK Member No.: 9665

13 ANNEXES

ANNEX 1: VARIANCE EXPLANATIONS: COMPARATIVE BUDGET AND ACTUALS

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments
	A	B	C = A + B	D	E = C- D	F=D/C %	
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000		
Receipts							
Transfer from Government of Kenya	907,327	0	907,327	907,327	0	100%	
Loan from African Development Fund	1,912,000	-912,000	1,000,000	574,761	425,239	57%	(i)
Miscellaneous Receipts	-	-	-	-	-	-	
Total receipts	**2,819,327**	**-912,000**	**1,907,327**	**1,482,088**	**425,239**	**78%**	
Payments							
Construction of Distribution Lines and Audit Fees	**2,819,327**	**-912,000**	**1,907,327**	**1,482,088**	**425,239**	**78%**	(ii)
Total payments	**2,819,327**	**-912,000**	**1,907,327**	**1,482,088**	**425,239**	**78%**	

(i) The budget for the project was decreased during the supplementary budget review by the National Treasury.
(ii) This is attributable to slow implementation progress in some contracts facing various challenges.

ANNEX 2: ANALYSIS OF PENDING BILLS

Name	Original Amount	Amount Approved for payments	Amount Paid To-Date	Outstanding Balance as at 30 June 2023	Outstanding Balance as at 30 June 2022
	KShs	KShs	KShs	KShs	KShs
	a	b	c	d=b-c	
Giza Cable Industries	880,881,203	880,881,203	880,881,203	0	46,667,385
Giza Cable Industries	1,176,039,469	1,116,466,985	1,116,466,985	0	60,565,550
Bajaj Electricals Ltd/ Wayne Homes Kenya Ltd	1,597,203,479	1,530,860,977	1,530,860,977	0	-
Transrail Lighting Ltd	1,883,586,272	1,727,153,184	1,727,153,184	0	54,062,671
Sinotec Company Ltd	1,655,628,925	1,604,213,670	1,604,213,670	0	21,950,132
Esiko Kenya Enterprises / NARI Group Corporation	1,610,916,630	1,632,316,916	1,620,850,067	11,466,848	39,758,736
K.B.Sangani & Sons Colpitt Ltd	1,487,509,735	1,454,951,147	1,454,951,147	0	-
CP Power E.A Ltd/Gateway Clean Energy Africa Ltd	1,430,283,925	1,176,584,897	1,1746,584,897	0	-
CCC International Engineering Nigeria Ltd	1,181,302,133	1,157,075,054	1,157,075,054	0	-
Camusat Kenya Ltd/Philafe Engineering Ltd/Clear Water Industries Ltd JV	390,962,769	421,904,211	386,955,646	34,948,565	-
Meru Woods I/Elegant/Hitecs JV	946,668,643	811,473,084	811,473,084	0	-
Nirav Agencies Ltd/Annihi Creations Enterprises Ltd JV	1,423,825,428	1,475,441,775	1,423,825,428	51,616,346	34,898,614
Burhani Engineers	777,924,899	747,787,685	747,787,685	0	-
Steg International Services	1,073,343,412	1,073,343,412	1,073,343,412	0	-
Global Access Networks Ltd/CPF Financial Services Ltd JV	507,475,959	456,820,965	456,820,965	0	-
Shenzhen Clou Electronic Co. Ltd	524,785,703	525,752,742	449,633,079	76,119,663	5,315,855
Wings Enterprises Ltd	109,900,249	109,900,249	109,900,249	0	-
Nirav Agencies Ltd	213,656,000	140,131,680	140,131,680	0	-
Rousant International Ltd	228,270,389	228,270,389	228,270,389	0	-
Quingdao	176,321,589	0	0	0	-
Shenzhen Clou Electronic Co. Ltd	1,089,640,385	1,089,640,385	1,089,640,385	0	-
Aberdare Engineering Ltd	447,915,054	292,789,759	292,789,759	0	-
PWC	2,505,000	2,505,000	2,505,000	0	-
Ernst & Young	13,890,964	13,890,964	13,890,964	0	-
Total	**20,830,438,214**	**19,670,156,333**	**19,496,004,909**	**174,151,422**	**263,218,943**

ANNEX 3: SUMMARY OF FIXED ASSETS REGISTER

Asset class	Opening Cost as at 01.07.2022	Acquisition in the Year	Disposals in the Year	Transfers in/(out)	Closing Cost as 30.06.2023
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
	(a)	(b)	(c)	(d)	(e)=(a)+(b)-(c)+(-)d
Distribution Lines	18,011,165	1,479,334	-	-	19,490,499
Total	**18,011,165**	**1,479,334**	**-**	**-**	**19,490,499**