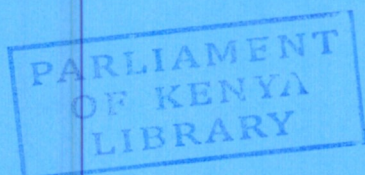


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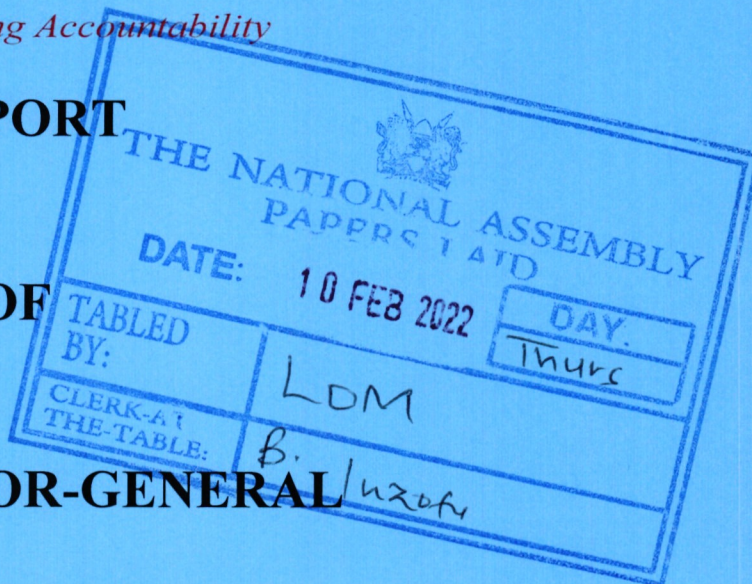


Enhancing Accountability

REPORT



OF



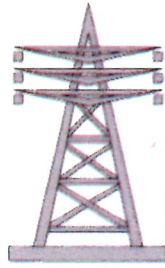
THE AUDITOR-GENERAL

ON

**MULTINATIONAL - KENYA SECTION
OF INTERCONNECTION PROJECT OF
ELECTRICITY GRIDS OF NILE
EQUATORIAL LAKES COUNTRIES
(ADF LOAN NO.2100150022643)**

**FOR THE YEAR ENDED
30 JUNE, 2021**

**KENYA ELECTRICITY TRANSMISSION
COMPANY LIMITED**



KETRACO



**MULTINATIONAL –KENYAN SECTION OF INTERCONNECTION PROJECT OF
ELECTRIC GRIDS OF NILE EQUATORIAL LAKES COUNTRIES**

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED (KETRACO)

CREDIT NUMBER: ADF 2100150022643

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
30 JUNE 2021**

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

Kenya Electricity Transmission Company Limited
Multinational –Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries
Report and Financial Statements
For the Financial Year Ended 30 June 2021

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: The project's official name is Multinational – Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries.

Objective: The key objective of the project is to improve the rate of access to electrical power for the people of the member countries and to foster regional power trade.

Address: The project headquarters offices are in Nairobi, Nairobi County, Kenya. The address of its registered office is:

Multinational – Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries.
 Block B, Kawi House
 Off Red Cross Road, South C
 P. O. Box 34942 – 00100 Nairobi

Contacts: The following are the project contacts:

Telephone: (+254) 20 – 4956000,
 E-mail: info@ketraco.co.ke
 Website: www.ketraco.co.ke

1.2 Project Information

Project Start Date:	The project start date was 20 September 2010.
Project End Date:	The project end date was expected to be 31 December 2017. The new project end date is yet to be determined.
Project Manager:	The project manager is Engineer Daisy Karimi Muthamia.
Project Sponsor:	The project sponsor are Government of Kenya and African Development Fund.

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the Kenya Electricity Transmission Company Limited, a state corporation under the State Department of Energy.
Project number	P-ZI-FAO-032; 2100150022643
Strategic goals of the project	The strategic goal of the project is to improve the rate of access to electrical power for the people of the member countries and to foster regional power trade.

Kenya Electricity Transmission Company Limited
 Multinational –Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries
 Report and Financial Statements
 For the Financial Year Ended 30 June 2021

1. PROJECT INFORMATION AND OVERALL PERFORMANCE(Continued)

1.3 Project Overview (continued)

Achievement of strategic goals	<p>The project management aims to achieve the goals through the following means:</p> <ul style="list-style-type: none"> (i) The construction approximately 132km of 400kV double circuit transmission line from Lessos substation, in Kenya, to the Kenya – Uganda border near Tororo substation in Uganda; including two 90 MVA transformers, line shunt reactors with new bays; two (2) shunt capacitors, two (2) shunt reactors, associated switch gear, and four (4) 220kV line bays; (ii) Building of the operating and maintenance technical capacity of the network; (iii) Implementation of Resettlement Action Plan (RAP) for the acquisition of the way leaves and Right of Way (ROW) corridors of the transmission line components.
Other important background information on the project	<p>The project is implemented by Kenya Electricity Transmission Company Limited (KETRACO) which was incorporated on 2 December 2008 and registered under the Companies Act, Cap 486 pursuant to Sessional Paper No. 4 of 2004 on Energy. The Company was established to develop new high voltage electricity transmission infrastructure that will form the backbone of the National Transmission Grid, in line with Kenya Vision 2030. Its core business is to plan, design, build and maintain new electricity transmission lines and associated substations. These new lines will include 132kV, 220kV, 400kV and 500kV High Voltage Direct Current (HVDC). In carrying out this mandate, the Company is expected to develop a new and robust grid system in order to:</p> <ul style="list-style-type: none"> (i) Improve quality and reliability of electricity supply throughout the country; (ii) Transmit electricity to areas that are currently not supplied from the national grid; (iii) Evacuate power from planned generation plants; and (iv) Provide a link with the neighboring countries in order to facilitate power exchange and develop electricity trade in the region. <p>The project is being financed by African Development Fund (ADF) and the Government of Kenya through the Ministry of Energy and Petroleum and The National Treasury. As the owner of the project, KETRACO provides the organizational set up for the activities, qualified staff and basic office infrastructure for efficient execution of the project. The Nile Equatorial Lake Countries prioritized the interconnection of their electrical networks to improve the rate of access to electrical power for the people of the member countries and to foster regional power trade. KETRACO is implementing 132km of 400kV double circuit transmission line from Lessos substation, in Kenya, to the Kenya – Uganda border near Tororo substation in Uganda under the NELSAP programme. The project consists of the construction and upgrading of interconnection lines of the grids of Nile Equatorial Lakes Countries to increase their cross-border exchange and trade energy and to improve the transient stability of the systems, safety and affordability of supply, as well as flexibility in the operation of the interconnected networks of these five Nile Basin Initiative Countries: The Republic of Kenya, the Republic of Uganda, the Republic of Rwanda, the Republic of Burundi and the Democratic Republic of Congo.</p>
Current situation that the project	<p>Low rate of access to electrical power for the people of the member countries and low level of regional power trade.</p>
Project duration	<p>The project started on 20 September 2010 and was expected to run until 31 December 2017. However, the new completion date is yet to be determined.</p>

1. PROJECT INFORMATION AND OVERALL PERFORMANCE(Continued)

1.4 Bankers

The following are the bankers for the current year:

- (i) KCB Bank Limited
 Moi Avenue Branch
 P. O. Box 30081 - 00100
 Nairobi.
- (ii) Co-operative Bank of Kenya Limited
 Upper Hill Branch
 P. O. Box 48281 - 00100
 Nairobi.

1.5 Auditors

Delegated Auditor: Deloitte & Touche LLP
 Deloitte Place, Waiyaki Way, Muthangari
 P O Box 40092 – 00100 GPO
 Nairobi

Principal Auditor: Auditor General
 Office of the Auditor-General Anniversary
 Towers, University Way
 P. O. Box 30084
 Nairobi.

1.6 Roles and Responsibilities

Below is a list of the different people involved with the project:

Names	Title designation	Key qualification	Responsibilities
Engineer Daisy Karimi Muthamia	Project Manager	Bachelor of science, Electrical and Electronics Engineering. Master of Science, Energy Management Engineers Board of Kenya - Professional Engineer, Corporate member of IEK	Project Coordinator, Project Engineer, Substation Engineer, Transmission Engineer, Civil Engineer
Johnson Muthoka	Senior Manager Wayleaves	Bachelor of Arts Land Econ (Hons), Master of Arts (Urban and Regional Planning, full member of Institute of Surveyors of Kenya, registered and licensed land economist	Wayleaves Acquisition (Land Economists, Land surveyors, Social Economists, Environmental Experts)
Mildred Mwihaki	Project Accountant	Master of Business Administration, Bachelor of Commerce (Finance), Certified Public Accountant(Kenya)	Preparation of project financial reports

1. PROJECT INFORMATION AND OVERALL PERFORMANCE(Continued)
1.7 Funding Summary

The Project financing was for a duration of 8 years from 2010 to 2017 with an approved budget of UAC-39,770,000 equivalent to KShs 6,181,601,387 (1 UA: KShs 155.43– June 2021), the Government of Kenya counterpart funding as at 30 June 2021 was KShs 2,393,618,283 while KETRACO funding was KShs 12,128,517 as highlighted in the table below:

Below is the funding summary:

A. Source of Funds

Source of funds	Donor Commitment-		Amount received as at: – (30 June 2021)		Undrawn balance as at: (30 June 2021)	
	Donor currency(UAC) (A)	KShs Equivalent (A')	Donor currency (B)	KShs Equivalent (B')	Donor currency (A)-(B)	KShs Equivalent (A')-(B')
(i) Grant/Loan						
African Development Bank	39,770,000	6,181,601,387	21,416,407	2,855,684,873	18,353,593	3,325,916,514
(ii) Counterpart funds						
Government of Kenya	-	2,393,618,283	-	2,393,618,283	-	-
KETRACO	-	12,128,517	-	12,128,517	-	-
Total	39,770,000	8,587,348,186	21,416,407	5,261,431,672	18,353,593	3,325,916,514

B. Application of Funds

Application of funds	Amount received as at: 30 June 2021		Cumulative amount paid to date: 30 June 2021		Unutilised balance to date:30 June 2021	
	Donor currency(UAC) (A)	KShs Equivalent (A')	Donor currency (B)	KShs Equivalent (B')	Donor currency (A)-(B)	KShs Equivalent (A')-(B')
(i) Grant/Loan						
African Development Bank	21,416,407	2,855,684,873	21,416,407	2,855,684,873	-	-
(ii) Counterpart funds						
Government of Kenya	-	2,393,618,283	-	2,140,340,995	-	253,277,288
KETRACO		12,128,517		12,128,517		-
Total	21,416,407	5,261,431,672	21,416,407	5,008,154,385	-	253,277,288

1. PROJECT INFORMATION AND OVERALL PERFORMANCE(Continued)

1.8 Summary of Overall Project Performance:

1.8.1 Budget Performance Against Actual Amounts

During the year under review, the project received KShs 41,801,621 against a final budget of KShs 500,000,000. Similarly, the project incurred total expenditure of KShs 76,469,760 during the year, against a final budget of KShs. 500,000,000. The project's cumulative receipts and payments to-date amounts to KShs. 5,320,146,505 and KShs. 5,008,154,385 respectively

1.8.2 Physical Progress Based on Outputs,Outcomes and Impacts

The project construction progress for Lessos Tororo TL and the extension of Lessos substation was expected to be completed by December 2016, however this completion date was extended to 31 December 2017. However, the Contracts with the main contractor Instalaciones Inabensa S.A of Spain were terminated in April 2016 hence the new completion date is yet to be agreed on. KETRACO and the contractor went through arbitration process. On 30th July 2019 the arbitration tribunal issued their award in favour of the contractor INABENSA S.A. KETRACO challenged the Arbitral Tribunal's decision. KETRACO sought to set aside the arbitral award on basis of breach of Public Policy in the High Court. The High Court delivered their ruling in February 2021 upholding the arbitral award. KETRACO has since appealed the case in the Court of Appeal which outcome is yet to be determined

In the meantime, the Company is in the process of preparing the bidding documents for the engagement of a new contractor. The implementation status by the time of termination were as follows:

	LOT A: Transmission Line	LOT B: Substation
Design	98%	67%
Procurement	98%	81%
Construction	9%	31%
Overall	50%	61%

1.8.3 Value for Money Achievements

Once the project is completed it will facilitate power exchange and develop electricity trade with the neighboring countries

1.8.4 Absorption Rate per Year for the Project

Financial Year	Absorption Rate per Year
2010/2011	4%
2011/2012	12%
2012/2013	51%
2013/2014	130%
2014/2015	143%
2015/2016	71%
2016/2017	47%
2017/2018	120%
2018/2019	46%
2019/2020	48%
2020/2021	15%

1. PROJECT INFORMATION AND OVERALL PERFORMANCE(Continued)

1.8 Summary of Overall Project Performance: (continued)

1.8.5 Implementation Challenges and Way Forward

- The project financing agreement with African Development Bank was cancelled in December 2017 hence KETRACO is yet to acquire new financing for project completion. Currently KETRACO has engaged The National Treasury through the Ministry of Energy for financing of the project.
- Unfavorable arbitral award in favour of the Contractor. The case is pending hearing and determination at the Court of Appeal. In the meantime KETRACO is in the process of preparing the bid documents for the engagement of a new contractor

1.9 Summary of Project Compliance:

The project reporting has complied with the applicable laws and regulations, and essential external financing agreements/covenants.

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 objectives of the project’s are to:

- a) Enhance electricity access, availability and reliability of the completed transmission lines and substations and complete construction of key transmission infrastructure.
- b) Increase electricity supply by completing transmission lines for evacuating generated power.
- c) Provide a link with the neighbouring countries in order to facilitate power exchange and develop electricity trade in the region
- d) Acquisition of the way leaves and Right of Way (ROW) corridors of the construction of the transmission line.

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-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement. Below we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
Multinational – Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries Project	a) Provide a link with the neighbouring countries in order to facilitate power exchange and develop electricity trade in the region	- Construction of approximately 132km of 400kV double circuit transmission line from Lessos substation in Kenya to Uganda border near Tororo substation	- Length (kilometres) of transmission lines complete	In FY 20/21 we compensated 84 people affected by the project for acquisition of right of way.
	b) Acquisition of the way leaves and Right of Way (ROW) corridors of the construction of the transmission line	- Acquisition of the right way for transmission line construction.	- Number of people compensated during acquisition of right of way.	

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Kenya Electricity Transmission Company Limited (KETRACO) has the obligation to plan, design, construct, own, operate and maintain the country's high voltage electricity grid and regional power interconnectors. This primary objective must, however, be twinned with positive impacts to societies that such businesses operate in. These positive impacts include creation of employment opportunities, provision of goods and services, contribution to the economy by paying taxes, contributing towards development of infrastructure and improvement of quality of life for the people.

KETRACO, being an obliging and proactive company, has mainstreamed corporate social responsibility (CSR) in its operations. Beyond grid matters, the company has expanded its jurisdiction to improve the well-being of humanity and impact society to be better.

This deliberate move is necessary because it is the society that gives us a "license to operate" and their goodwill is necessary for continued security and room to operate long after our transmission projects construction is over.

Our approach

KETRACO's approach towards CSR is focused on identifying and formulating projects guided by its CSR policy and in response to specific needs that go towards solving a problem that members of the concerned community assess as a priority. To this end, the Company consulted widely internally and beyond on best practices in order to make corporate social responsibility an integral part of its undertakings. During the financial year under review, social, economic and environmental issues were addressed

Below is a brief highlight of our achievements in each pillar

1. Sustainability strategy and profile

KETRACO ensured that its operations were carried out professionally and in humane manner, considering that construction of transmission projects involves acquisition of land for substations and wayleaves access for the lines. This necessitates compensation and at times resettlement of the Projects Affected Persons (PAPs) hence the need to expedite the process harmoniously. In addition, KETRACO actively participated in several engagements with various stakeholders towards improving their quality of life which translates into creating a better society. This was evident in key areas such as education, health and environmental conservation.

In addition, KETRACO offered youth internship opportunities to fresh graduates and industrial attachments to ongoing University students for the purpose of transferring skills and future career preparation.

2. Environmental performance

KETRACO's environmental and social impact assessment plans are anchored on environmental laws, regulations, standards and best practices. The Company ensures compliance with all relevant national and international environmental and other statutory regulatory provisions that apply to its projects to ensure sound environmental management practice. The Company undertakes annual environmental audits and has valid permits and licenses for its operations. The Company is guided by the following environmental and social management laws and regulations in its execution of its projects:

The Environmental Management and Coordination Act, Cap 387; The Environmental Impact (Assessment and Auditing) Regulations, 2003; Environmental Management and Coordination (Environmental Impact Assessment and Audit) Regulations, 2003; Environmental Management and Coordination (Water Quality) Regulations of 2006; Environmental Management and Coordination (Waste Management) Regulations of 2006; Environmental Management and Co-ordination (Controlled Substances) Regulations, 2007; The Environmental Management and Co-ordination (Conservation of biological diversity and resources, and access to genetic resources and benefits sharing) Regulations, 2006; The Environmental Management and Coordination (Wetlands, Riverbanks, Lakeshores and seashores management) Regulations,

**3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING
(Continued)**

2. Environmental performance (continued)

2009; Environmental Management and Coordination (Noise and Excessive Vibration Pollution Control) Regulations, 2009; Environmental Management and Coordination (Air Quality) Regulations, 2008; Occupational Safety and Health Act (OSHA 2007); Wildlife Management and Conservation Act, 2013; Forest Act 2015; Public Health Act (Cap. 242) 36; The Environment and Land Court Act, 2011; Water Act, 2002.

3. Employee welfare

Competence Management:

KETRACO has developed many policies that guide recruitment among them being the Gender policy which is in line with a third rule enshrined in the constitution. The skills gap analysis report was received from the consultant and training priority areas picked for discussion during HRAC meeting as intervention for skills gaps identified. The company also developed reward and performance system policy that help in recognizing performance and sanctions. A committee to handle staff appraisals was formed during the year (Performance management review committee), an ad-hoc committee answerable to HRAC.

Safety and Security Measures:

During the year ended 30 June 2021, the Company achieved the following;

1. Championed the roll out of ISO 45001: 2018 – Occupational health and safety management system certification journey in the company through staff awareness trainings, development of safety procedures and carrying out internal audits. The Section also developed a Safety and Health policy being a management tool for OSH in the organization.
2. Participated in the development of the Energy (Incident and Accident Reporting) Regulations as well being incorporated in the Ministerial OSH Committee.
3. Promotional of safe work through effective incident and accident investigations, OSH inspections /audits, robust risk assessment and monitoring implementations of corrective actions for both operational sites and sites under construction.
4. Sensitized/trained staff and contracted personnel on workplace safety and health measures in the offices and substations. As well as dissemination of vital Osh information to employees.
5. Participated in the management of COVID-19 pandemic through development of guidelines, protocols, and purchase of protective equipment.
6. Enhanced public safety by listening to safety and health concerns of employees and other stakeholders and guiding appropriately.
7. Developed guidelines on statutory occupational safety and health training requirements for the company.
8. The Section played a key role in ensuring safety and health during the completion and commissioning of Olkaria-Lessos-Kisumu transmission line and associated substations.
9. Participated in the development of the Energy (Incident and Accident Reporting) Regulations.

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (Continued)

4. Market place practices

KETRACO continues to comply with the Treasury Circular No. 09/2015 on creation of the Government Advertising Agency (GAA) to coordinate public sector advertising; and Office of the President Circular No. OP/CAB.58/4A on establishment of MyGov publication. In addition, we are guided by the company's core values and endeavour to responsibly update our stakeholders on our mandate through various Information, Education and Communication (IEC) materials published in print, broadcast and / or electronic media.

On matters procurement, we complied with 30% of access to government procurement opportunities (AGPO) requirement by ensuring that youth, women and persons with disabilities supplied goods and services. Further, KETRACO complied with 40% Government requirement on local content procurement where goods and services were procured locally by the company. These procurement opportunities have created diverse financial benefits for the special groups as well as enhancing the KETRACO corporate image and reputation.

During this Financial Year the company revised its integrity and ethics instruments namely: Corruption and Fraud Prevention Policies, Whistle Blowing Policy and the Gifts and Benefit policy. A sensitization exercise was conducted via Microsoft teams to all staff to enlighten them on the need to promote an ethical culture within and outside the organisation. The policies were also uploaded to the company's SharePoint for ease of reference on any matter of interest. These policies shall also be uploaded to the company's website for public viewing and reference.

As part of the signed performance contract on corruption prevention the company updated the Corruption Risk Assessment and mitigation plan which is shared with the Ethics and Anti-Corruption Commission (EACC). On a quarterly basis the corruption prevention committee held update meetings and reported on implementation status with supporting documents to EACC.

On a continuous basis the corruption reporting channels remain operational for use by all. They include a dedicated email address and phone number all uploaded in the company website. The company has also installed corruption reporting boxes on each floor at its headquarters in KAWI House.

The Company continued implementing corruption prevention measures as identified in the corruption risk assessment and mitigation plan. In addition, Integrity Committee quarterly meetings were held and quarterly reports of the corruption risk assessment reports and the implementation of the mitigation plans were prepared and submitted to EACC.

5. Community Engagements

KETRACO has remained committed to engaging with local communities in project affected areas, the general public, sector partners and other stakeholders aiming at cultivating their goodwill, cooperation and amicable association. In this regard, KETRACO ensured that all corporate social responsibility projects were implemented through a consultative process with stakeholders' right from the initial project planning through to commissioning.

In addition the host communities in the areas where the projects traverses have benefited from employment opportunities by KETRACO and its contractors. This has boosted the living standards of the communities in the project areas.

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Chief Executive Officer of KETRACO and the Project Coordinator for the Multinational – Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries 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 ended on 30 June 2021. 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 statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the Project; selecting and applying appropriate accounting policies; and (v) Making accounting estimates that are reasonable in the circumstances.


The Chief Executive Officer of KETRACO and the Project Coordinator for the Multinational – Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries 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 the Cash Basis of Accounting Method under the International Public Sector Accounting Standards.

The Chief Executive Officer of KETRACO and the Project Coordinator for the Multinational – Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries are of the opinion that the Project’s financial statements give a true and fair view of the state of the Project’s transactions during the financial year ended 30 June 2021, and of the Project’s financial position as at that date. Chief Executive Officer of KETRACO and the Project Coordinator for the Multinational – Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

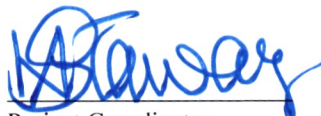
The Chief Executive Officer of KETRACO and the Project Coordinator for the Multinational – Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year 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 Chief Executive Officer of KETRACO and the Project Coordinator for the Multinational – Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries on 30/11/2021 and signed by them.



Chief Executive Officer
FCPA Fernandes Barasa, OGW



Project Coordinator
Antony Wamukota



General Manager - Finance
CPA Tom Imbo
ICPAK Member Number: 7039

5. REPORT OF THE INDEPENDENT AUDITORS ON MULTINATIONAL – KENYAN SECTION OF INTERCONNECTION PROJECT OF ELECTRIC GRIDS OF NILE EQUATORIAL LAKES COUNTRIES

To the Auditor General

Opinion

We have audited the accompanying financial statements of the Multinational – Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries set out on pages 15 to 32 which comprise the statement of financial assets as at 30 June 2021, and the statement of receipts and payments, statement of cash flows, and statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position of Multinational – Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries as at 30 June 2021, and of its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS) financial reporting framework under the cash basis of accounting.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Project in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Chief Executive Officer of KETRACO and the Project Coordinator are responsible for the other information. The other information comprises the information included in the financial statements but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

5. REPORT OF THE INDEPENDENT AUDITORS ON MULTINATIONAL – KENYAN SECTION OF INTERCONNECTION PROJECT OF ELECTRIC GRIDS OF NILE EQUATORIAL LAKES COUNTRIES (Continued)

Responsibility of the Project Management for the financial statements

The Chief Executive Officer of KETRACO and the Project Coordinator are responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPSAS) financial reporting framework under the cash basis of accounting and for such internal control as the management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer of KETRACO and the Project Coordinator are responsible for assessing the Project's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the Chief Executive Officer of KETRACO and the Project coordinator either intend to terminate the Project, or have no realistic alternative but to do so.

Auditor's Responsibilities for the audit of the Project financial statements

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Chief Executive Officer of KETRACO and the Project Coordinator's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue sustaining its services. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's 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.

5. REPORT OF THE INDEPENDENT AUDITORS ON MULTINATIONAL – KENYAN SECTION OF INTERCONNECTION PROJECT OF ELECTRIC GRIDS OF NILE EQUATORIAL LAKES COUNTRIES (Continued)

We communicate with the Chief Executive Officer of KETRACO and the Project Coordinator regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner responsible for the audit resulting in this independent auditor's report is **CPA Fred Aloo, Practicing certificate No. 1537.**

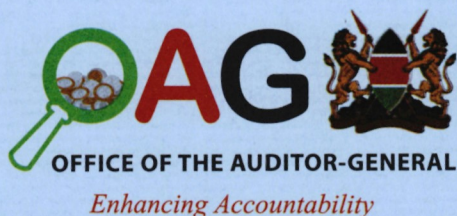


**For and on behalf of Deloitte & Touche LLP
Certified Public Accountants (Kenya)
Nairobi**

2 December 2021

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON MULTINATIONAL - KENYA SECTION OF INTERCONNECTION PROJECT OF ELECTRICITY GRIDS OF NILE EQUATORIAL LAKES COUNTRIES (ADF LOAN NO.2100150022643) FOR THE YEAR ENDED 30 JUNE, 2021 - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

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, gazetted 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 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 control, 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

The accompanying financial statements of Multinational - Kenya Section of Interconnection Project of Electricity Grids of Nile Equatorial Lakes Countries (ADF Loan No.2100150022643) Project set out on pages 15 to 32, which comprise the statement of financial assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte and Touche, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Multinational - Kenya Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries Project as at 30 June, 2021, 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 Financing Agreement No.2100150022643 dated 20 September, 2010 between the Republic of Kenya and African Development Fund (AFD) and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Project 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.

Emphasis of Matter

1. Expiry of the Loan Agreement

As reported in the previous years, the loan agreement between the Republic of Kenya and African Development Bank expired in 31 December, 2017. However, the project stalled at 61% level of completion after the company terminated the services of the main contractor for non-performance in April, 2016. Further, no funds have been received from the Bank since 2016. Analysis of the project cash and pending bills records as at 30 June, 2021 revealed a funding shortfall of Kshs.423,530,240. There was no evidence that the Loan Agreement had been renewed or other sources of funds had been identified. Therefore, it has not been possible to confirm whether or when the project will be completed.

2. Outstanding Arbitration on Terminated Contract

As reported in the previous years, an arbitration case was filed on 1 April 2016 between the contractor and the Kenya Electricity Transmission Company Limited in relation to termination of contract for works which had not been finalized. On 20 July, 2020, the tribunal, which was the arbitrator on the matter, issued an award in favour of the contractor for Euro 37,365,690 equivalent Kshs.4.5 billion. However, Management is of the opinion that the decision made by the arbitrator is against public policy and made an appeal to have the award set aside in the High Court. The High court upheld the tribunal award. The Company has since appealed to the Court of Appeal.

It is therefore not possible to confirm when the matter will be resolved and how the cost in terms of legal fees that the Company will incur will be reflected in the financial statements.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflect actual receipt of Kshs.18,750,000 against the budgeted amount of Kshs.500,000,000 resulting to a shortfall of Kshs.481,250,000 or 96% of the budget. Similarly, the statement reflects final payments budget of Kshs.500,000,000 against the actual expenditure of Kshs.76,469,760 resulting to under expenditure of Kshs.423,530,240 or 85% of the budget.

The under expenditure affects the planned activities and may impact negatively on service delivery to the beneficiaries.

2. Pending Bills - Goods and Services

As reported in the previous year, the project management contracted works and services amounting to Kshs.4,196,353,894 as disclosed in Annex 2A. The amount certified as payable totalled to Kshs.3,453,000,803 out of which Kshs.3,006,460,944 was paid during the year leaving a balance of Kshs.446,539,858 as pending bills. The unpaid bills are likely to attract interest and penalties and or litigation and related legal expenses which will lead to wasteful expenditure.

3. Long outstanding Wayleave Compensation

As reported in the previous year, the expected and certified compensation to landowners for wayleaves acquired since inception of the project amounted to Kshs.1,723,576,364 as disclosed in Annex 2B to the financial statements with an amount of Kshs.7,467,753 having been added in the year under review. Management paid Kshs.1,388,308,698 leaving an unpaid amount of Kshs.335,267,667. Management has attributed failure to pay the amount to lack of budgetary allocation from The National Treasury and lengthy land valuation negotiations due to absentee land owners coupled with various court injunctions on disputed cases.

Other Information

“The Project Management are responsible for the other information, which comprises the statement of corporate governance, management discussions and responsibilities, statement of corporate social responsibility and the statement of management’s responsibilities.” The other information does not include the financial statements and my auditor’s report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

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, 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.

Legal Costs on Termination of Contract and Loan Interest Costs

The Project stalled upon the termination of the main contractor in April, 2016. Since then, the project has accumulated legal costs amounting to Kshs.293,840,788 on a court case in which the Management lost at the Arbitration and High Court level with the two courts granting compensation to the contractor amounting to Euros 37,365,690. The Management has moved to the Court of Appeal to challenge the judgement. Further, the loan already disbursed to the project continues to attract unquantified amount of interest even though the asset that was to be acquired out of the loan and possibly enable repayments remains incomplete and unused.

Under the circumstances, there is potential loss in excess of Kshs.4.5b if the judgement is upheld at the next level and it is not possible to confirm that there is value for money obtained from the project.

Basis for Conclusion

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, except for the effects of the matter described in the basis for conclusion on effectiveness of internal controls risk management and governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Automation of the Financial Reporting Process

Review of the financial reporting process revealed significant manual interventions. Although the subledgers and ledgers are extracted from the Intelligence Business reporting module of the SAP system, the processing of the trial balance and financial statements is done manually on excel worksheet.

Consequently, the manual interventions may result in errors in the financial statements.

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 Fund, 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 to sustain 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 to 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 financial reporting process, reviewing the effectiveness of how the entity 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 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 Project 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 to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit

report. However, future events or conditions may cause the Project to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the 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 December, 2021


Kenya Electricity Transmission Company Limited
Multinational –Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries
 Report and Financial Statements
 For the Financial Year Ended 30 June 2021


6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2021

	Note	2020/2021		2019/2020		Cumulative to-date KShs
		Receipts and payments controlled by the entity KShs	Payments made by third parties KShs	Receipts and payment controlled by the entity KShs	Payments made by third parties KShs	
RECEIPTS						
Transfer from Government entities	11.1	18,750,000	-	573,250,000	-	2,393,618,283
Loans from External Development Partners	11.2	-	-	-	-	2,855,684,873
Miscellaneous receipts	11.3	10,923,104	-	3,977,841	-	58,714,832
Transfers from KETRACO	11.4	12,128,517	-	-	-	12,128,517
TOTAL RECEIPTS		41,801,621	-	577,227,841	-	5,320,146,505
PAYMENTS						
Purchase of goods and services	11.5	50,489,945	-	244,760,038	-	598,805,674
Acquisition of non-financial assets	11.6	25,979,815	-	25,651,146	-	4,409,348,711
TOTAL PAYMENTS		76,469,760	-	270,411,184	-	5,008,154,385
(DEFICIT)/SURPLUS		(34,668,139)	-	306,816,657	-	311,992,120

The accounting policies and explanatory notes to these project financial statements form an integral part of the project financial statements. The project financial statements were approved on 29/11/2021 and signed by:


 Chief Executive Officer
 FCPA Fernandes Barasa, OGW


 Project Coordinator
 Antony Wamukota



 General Manager-Finance
 CPA Tom Imbo
 ICPAK Member No. 7039


Kenya Electricity Transmission Company Limited
 Multinational –Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries
 Report and Financial Statements
 For the Financial Year Ended 30 June 2021

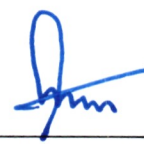
7. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2021

	NOTE	2020/2021 KShs	2019/2020 KShs
Cash and cash equivalents			
Bank Balances	11.7	311,992,120	346,660,259
TOTAL FINANCIAL ASSETS		<u>311,992,120</u>	<u>346,660,259</u>
Represented by			
Fund Balance b/fwd		346,660,259	39,843,602
(Deficit) /surplus for the year		(34,668,139)	306,816,657
NET FINANCIAL POSITION		<u>311,992,120</u>	<u>346,660,259</u>

The accounting policies and explanatory notes to these project financial statements form an integral part of the project financial statements. The project financial statements were approved on 30/11 2021 and signed by:


 Chief Executive Officer
 FCPA Fernandes Barasa, OGW


 Project Coordinator
 Antony Wamukota



 General Manager-Finance
 CPA Tom Imbo
 ICPAK Member No. 7039


Kenya Electricity Transmission Company Limited
 Multinational –Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries
 Report and Financial Statements
 For the Financial Year Ended 30 June 2021


8. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	NOTES	KShs 2020/2021	KShs 2019/2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts for operating income			
Transfers from Government entities	11.1	18,750,000	573,250,000
Transfers from KETRACO	11.4	12,128,517	-
Miscellaneous receipts	11.3	10,923,104	3,977,841
Payments for operating expenses			
Purchase of goods and services	11.5	(50,489,945)	(244,760,038)
Net cash flows (used in)/generated from operating activities		(8,688,324)	332,467,803
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of non-financial assets	11.6	(25,979,815)	(25,651,146)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(34,668,139)	306,816,657
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		346,660,259	39,843,602
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		311,992,120	346,660,259

The accounting policies and explanatory notes to these project financial statements form an integral part of the project financial statements. The project financial statements were approved on 30 June 2021 and signed by:


 Chief Executive Officer
 FCPA Fernandes Barasa, OGW


 Project Coordinator
 Antony Wamukota


 General Manager-Finance
 CPA Tom Imbo
 ICPAK Member No. 7039

Kenya Electricity Transmission Company Limited
 Multinational – Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries
 Report and Financial Statements
 For the Financial Year Ended 30 June 2021

9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Original Budget	Adjustments	Final Budget	Actual on Comparable basis	Budget Utilization difference	% of Utilization
	a	b	e=a+b	d	e=c-d	f=d/c%
	KShs	KShs	KShs	KShs	KShs	
Receipts						
Transfers from Government entities	-	500,000,000	500,000,000	18,750,000	481,250,000	4%
Miscellaneous receipts	-	-	-	10,923,104	(10,923,104)	-
Transfers from KETRACO	-	-	-	12,128,517	(12,128,517)	-
Total receipts	-	500,000,000	500,000,000	41,801,621	458,198,379	8%
Payments						
Purchase of goods and services	-	50,489,945	50,489,945	50,489,945	-	100%
Acquisition of non-financial assets	-	449,510,055	449,510,055	25,979,815	423,530,240	6%
Total payments	-	500,000,000	500,000,000	76,469,760	423,530,240	15%

Note: The significant budget utilisation/ performance differences in the last column are explained in Annex 1 to these financial statements. The Project had not been allocated funds but was reviewed upwards to KShs 500 million. This was done during supplementary Budget 1, by the National Treasury.



Chief Executive Officer
 FCPA Fernandes Barasa, OGW



Project Coordinator
 Antony Wamukota



General Manager-Finance
 CPA Tom Imbo
 ICPAK Member No. 7039

10. SIGNIFICANT ACCOUNTING POLICIES

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

10.1 Basis of Preparation

10.2 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with IPSAS financial reporting under the cash basis of Accounting, as prescribed by the 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.

10.3 Reporting entity

The financial statements are for the Multinational – Kenyan Section of Interconnection Project of Electric Grids of Nile Equatorial Lakes Countries under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012.

10.3.1 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 Kenya Shilling.

10.4 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.

10. SIGNIFICANT ACCOUNTING POLICIES (Continued)

10.4 Significant Accounting Policies (Continued)

a) Recognition of receipts (continued)

- **External Assistance (continued)**

Donations and grants

Grants and donations shall be 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.

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 authorized in the financial statements the time associated cash is received.

b) Recognition of payments

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

- **Purchase 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.

- **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 consolidated financial statements.

10. SIGNIFICANT ACCOUNTING POLICIES (Continued)

10.4 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 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 authorized 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) 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 are 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.

11. SIGNIFICANT ACCOUNTING POLICIES (Continued)

10.4 Significant Accounting Policies (Continued)

g) 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 under review has been included in an annex to these financial statements.

h) 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 no amount of loan disbursements were received in form of direct payments from third parties.

i) 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.

j) 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.

k) 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 2021.

l) 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.

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11. NOTES TO THE FINANCIAL STATEMENTS

11.1 RECEIPTS FROM GOVERNMENT OF KENYA

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

	2020/2021	2019/2020	Cumulative to-date
	KShs	KShs	KShs
Counterpart funding through State Department of Energy			
Counterpart funds Quarter 1	18,750,000	25,000,000	624,132,207
Counterpart funds Quarter 2	-	365,500,000	688,703,629
Counterpart funds Quarter 3	-	182,750,000	833,619,467
Counterpart funds Quarter 4	-	-	247,162,980
Total	18,750,000	573,250,000	2,393,618,283

11.2 LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2021 the funds were as detailed in the table below:

Name of Donor	Cumulative Amount Received as at 30 June 2021	Amount in Loan currency	Loans received in cash	Loans received as direct payment	Total amount	
					2020/2021	2019/2020
	KShs	UAC	KShs	KShs	KShs	KShs
Loans received from multilateral donors (International Organisations)						
African Development Fund	2,855,684,873	21,416,407	11,631,471	2,844,053,402	-	-
Total	2,855,684,873	21,416,407	11,631,471	2,844,053,402	-	-

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11. NOTES TO THE FINANCIAL STATEMENTS(Continued)

11.3 MISCELLANEOUS RECEIPTS

	2020/2021			2019/2020	Cumulative to- date
	Receipts controlled by the entity in cash	Receipts controlled by third parties	Total receipts		
	KShs	KShs	KShs	KShs	KShs
Interest income	10,923,104	-	10,923,104	3,977,841	58,714,832
Total	10,923,104	-	10,923,104	3,977,841	58,714,832

The movements in miscellaneous receipts relates to the interest income from the bank balance held in financial institution (bank account maintained at Cooperative Bank of Kenya)

11.4 TRANSFER FROM KETRACO

	2020/2021		2019/2020	Cumulative to- date
	Transfer from KETRACO	Total		
	KShs	KShs	KShs	KShs
Funding	12,128,517	12,128,517	-	12,128,517
Total	12,128,517	12,128,517	-	12,128,517

This relates to funding from KETRACO to cater for urgent project commitments awaiting the disbursement of 4th quarter government of Kenya funding.

11.5 PURCHASE OF GOODS AND SERVICES

	2020/2021			2019/2020	Cumulative to- date
	Payments made by the entity in cash	Payments made by third parties	Total payments		
	KShs	KShs	KShs	KShs	KShs
Legal fees	48,637,500	-	48,637,500	173,673,652	293,840,788
Bank charges	18,480	-	18,480	195,358	1,000,375
Other operating costs	1,833,965	-	1,833,965	70,891,028	303,964,511
Total	50,489,945	-	50,489,945	244,760,038	598,805,674

The amount under other operating costs relate to site travel expenses paid out in 2020/2021

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11. NOTES TO THE FINANCIAL STATEMENTS(Continued)

11.6 ACQUISITION OF NON-FINANCIAL ASSETS

	2020/2021			2019/2020	Cumulative to-date
	Payments made by the entity in cash	Payments made by third parties	Total payments		
	KShs	KShs	KShs	KShs	KShs
Consultancy fees	1,411,820	-	1,411,820	567,086	331,006,989
Powerlines	-	-	-	-	2,690,033,025
Wayleaves	24,567,995	-	24,567,995	25,084,060	1,388,308,698
Total	25,979,815	-	25,979,815	25,651,146	4,409,348,711

11.7 CASH AND CASH EQUIVALENTS

	2020/2021	2019/2020
	KShs	KShs
Bank accounts	311,992,120	346,660,259
Total Amount	311,992,120	346,660,259

The project has two project accounts spread within the project implementation area managed by KETRACO as listed below:

	2020/2021	2019/2020
	KShs	KShs
Local Currency Accounts		
Co-operative Bank of Kenya [A/c No:01136160914100]	311,992,120	329,155,491
Kenya Commercial Bank[A/c No:1111251622]	-	17,504,768
Total bank account balances	311,992,120	346,660,259

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12. OTHER IMPORTANT DISCLOSURES

12.1 PENDING BILLS (Annex 2A)

Description	Balance b/f	Adjustment	Additions for the year	Paid during	Balance c/f
	2020/2021			the year	2020/2021
	KShs	KShs	KShs	KShs	KShs
Supply of goods	416,993,484		-	-	416,993,484
Supply of services	29,546,374		-	-	29,546,374
Total	446,539,858	-	-	-	446,539,858

The balance for the supply of goods above is owed to Instalaciones Inabensa S.A of Spain (“Inabensa”), the project’s main contractor. The contract with Inabensa was terminated in April 2016. KETRACO and Inabensa thereafter engaged an arbitration tribunal which awarded Inabensa the sum of 37,365,690 Euros (approximately KShs. 4.5 billion). KETRACO made an application to the High Court of Kenya seeking to set aside award on basis of breach of Public Policy. The High Court upheld the tribunal’s decision. KETRACO has since appealed to The Court of Appeal which case is yet to be determined.

12.2 OTHER PENDING PAYABLES (Annex 2B)

Description	Balance b/f 2020/2021	Adjustment	Additions for the period	Paid during the year	Balance c/f 2020/2021
	KShs	KShs	KShs	KShs	KShs
Project affected persons	352,367,909	-	7,467,753	24,567,995	335,267,667
Total	352,367,909	-	7,467,753	24,567,995	335,267,667


13. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS


The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal person to resolve the issue	Status	Timeframe
	Pending Bills – Goods and Services As disclosed in Annex 2A, the outstanding pending bill were Kshs.446,539,858. The unpaid bills are likely to lead to penalties or litigation with the consequent risk of wasteful expenditure	The outstanding amount at the end of the period 30th June 2020 was KShs 446,539,858, out of which KShs 416,993,484 was due to the main contractor Inabensa and KShs 29,546,374 was due to AECOM, the consultants for the Line. The invoice for the amount have not been settled yet, due to ongoing Cases at court of Appeal and the High court respectively, both cases are yet to be determined.	Tom Imbo General Manager, Finance	Not Resolved	June 2022
	Emphasis of Matter: Outstanding Arbitration on Terminated Contract	The contracts with the main contractor (Inabensa) for the project were terminated in April 2016. An arbitration tribunal was instituted in 2019. The arbitration case was delivered in July 2019 in favour of the contractor. KETRACO appealed to the High Court for setting aside of the arbitral award to Inabensa. The High Court delivered their ruling in February 2021 upholding the arbitral award. KETRACO was of the opinion that the decision made by the Arbitrator was against public policy and requested to appeal the ruling. The Attorney General office has given KETRACO go ahead to appeal the case in the Court of Appeal which outcome is yet to be determined.	Eng. Antony Wamukota General Manager, Design & Construction	Not resolved	June 2022
	Expiry of loan agreement	The Company is the process of preparing the bid documents for the engagement of a new contractor. The Company has also engaged The National Treasury through Ministry of Energy for alternative financing to complete the project.			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal person to resolve the issue	Point to resolve	Status	Timeframe
	Long Outstanding Way/leave Compensation	The project was adequately funded in the FY 2020/2021 however the slow way/leave compensation is occasioned by insufficient documentation from certified landowners for the grant easement registration in acquiring the right of way.	Eng. John Mativo General Manager, Project Development Services		Not Resolved	June 2022


 Chief Executive Officer
 FCPA Fernandes Barasa, OGW


 Project Coordinator
 Antony Wamukota

Date: 03/12/2021

Date: 02/12/2021

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14. 14. ANNEXES

ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget a	Actual on Comparable Basis b	Budget Utilization Difference c=a-b	% of Utilization d=b/a %	Comments on Variance
RECEIPTS	KShs	KShs	KShs		
Government of Kenya	500,000,000	18,750,000	481,250,000	4%	(i)
KETRACO	-	12,128,517	(12,128,517)	-	(ii)
Miscellaneous receipts	-	10,923,104	(10,923,104)	-	(iii)
Total receipts	500,000,000	41,801,621	458,198,379	8%	
PAYMENTS					
Purchase of goods and services	50,489,945	50,489,945	-	100%	
Acquisition of non-financial assets	449,510,055	25,979,815	423,530,240	6%	(iv)
Total payments	500,000,000	76,469,760	423,530,240	15%	

Explanations for variances (% of utilization) below 90% and above 100%

Explanations: -

- (i) The 4th quarter receipts from GOK amounting to KShs 500,000,000 for financial year 2020/2021 were received in July 2021.
- (ii) This relate to receipts from KETRACO to cater for urgent project commitments awaiting the disbursement of 4th quarter GOK funding.
- (iii) The movements in miscellaneous receipts relates to the interest income from the bank balance held in financial institutions.
- (iv) The low absorption of funds was due to slow wayleaves compensation occasioned by insufficient documentation from certified landowners and the effect of project termination

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ANNEX 2A - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount	Date Contracted	Amount for Certified Work To-Date	Amount Paid To-Date	Outstanding Balance 2020/2021	Outstanding Balance 2019/2020	Comments
	KShs		KShs	KShs	KShs	KShs	
Supply of goods							
Instalaciones Inabensa S. (Lot A:400kV Lessos-Tororo Transmission Line)	2,389,588,945	16.04.2013	2,311,102,648	1,894,109,164	416,993,484	416,993,484	Contract terminated Court case ongoing
Instalaciones Inabensa S. (Lot B: Extension of Lessos 220/132kV Substation)	1,379,861,850	16.04.2013	880,810,758	880,810,758	-	-	
Sub-Total	3,769,450,795		3,191,913,406	2,774,919,922	416,993,484	416,993,484	
Supply of services							
AECOM Consultants Inc.	426,903,099	29.06.2011	261,087,396	231,541,022	29,546,374	29,546,374	Court Case Ongoing
Sub-Total	426,903,099		261,087,396	231,541,022	29,546,374	29,546,374	
Grand Total	4,196,353,894		3,453,000,803	3,006,460,944	446,539,858	446,539,858	

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ANNEX 2B - ANALYSIS OF OTHER PENDING PAYABLES

Name	Brief Transaction Description	Original Amount	Date Payable Contracted	Amount of Certified Work To-Date	Amount Paid To-Date	Outstanding Balance		Comments
						2020/2021	2019/2020	
		a	b	c	d	e=c-d		
Amounts due to Third Parties		KShs		KShs	KShs	KShs	KShs	
Project Affected Persons	Wayleaves compensation	1,723,576,364	2012-2019	1,723,576,364	1,388,308,698	335,267,667	352,367,909	Amount outstanding due to insufficient documentation from certified landowners to facilitate payment.
Grand Total		1,723,576,364		1,723,576,364	1,388,308,698	335,267,667	352,367,909	

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ANNEX 3 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Opening Cost		* Purchases/Additions in the Year		** Disposals in the Year		Closing Cost	
	KShs	2020/2021	KShs	2020/2021	KShs	2020/2021	KShs	2020/2021
	(a)	(b)	(c)	(d) = (a)+ (b)-(c)				
Powerline (Transmission Equipment)	4,383,368,896	25,979,815	-		4,409,348,711			
Total	4,383,368,896	25,979,815	-	-	4,409,348,711			

Notes

* Purchases/Additions in the year reconciled to the amount in Statement of Receipts and Payments

** The disposal amount disclosed in this register is the cost that the asset was acquired at and not the price at which it has been sold.