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REPORT



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OF: 18 FEB 2021 DAY: THURSDAY
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Hon. Wangwe
Anne Musandu

THE AUDITOR-GENERAL

Anne Musandu

ON

**EASTERN ELECTRICITY HIGHWAY
PROJECT
(IDA CREDIT NO. 5148-KE; AFD LOAN
NO: CKE 1030 01B AND ADF LOAN
NO: 2100150027845)**

**FOR THE YEAR ENDED
30 JUNE, 2020**

**KENYA ELECTRICITY TRANSMISSION
COMPANY LIMITED**





EASTERN ELECTRICITY HIGHWAY PROJECT

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED (KETRACO)


**CREDIT NUMBER : IDA CREDIT NO. 5148-KE; AFD LOAN NO: CKE 1030 01B; ADF LOAN
NO: 2100150027845**

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30 JUNE 2020

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

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 18 FEB 2021	DAY: THURSDAY
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CLERK AT THE TABLE:	Anne Musandu

ABBREVIATIONS

AfD	Agence Francaise de Developpement
AfDB	African Development Bank
GOK	Government of Kenya
HVDC	High Voltage Direct Current
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
IDA	International Development Association
KETRACO	Kenya Electricity Transmission Company
KV	Kilovolts
PFSs	Project Financial Statements
RAP	Resettlement Action Plan
UA	Units of Account
USD	United States Dollar
PFM	Public Financial Management Act 2012
PSAB	Public Sector Accounting Standards Board

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and Registered Office

Name: The project's official name is Eastern Electricity Highway Project.

Objective: The key objective of the project is

1. To help integrate the power system of East African power pool member countries including Ethiopia, Kenya, Tanzania, Rwanda and Uganda. The integration will accelerate the development of regional energy sources to meet increasing electricity demand and reduce cost of electricity.
2. To strengthen the infrastructure platform for a major future expansion of the East African Power Market by providing an opportunity to tap into diverse energy sources available for generation. This will enhance security of supply and will reduce costs.

Address: The project headquarters offices are in Nairobi, Nairobi County, Kenya.

The address of its registered office is:

Eastern Electricity Highway Project
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 is 5 December 2012
Project End Date:	The project end date is 30 June 2022
Project Manager:	The project manager is Eng. Justin Muna
Project Sponsors:	The project sponsor are the Government of Kenya through the National Treasury and Ministry of Energy, International Development Association, African Development Fund and Agence Francaise de Development

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 numbers	5148-KE; CKE 1030 01B; 2100150027845
Strategic goals of the project	To increase the volume and reduce the cost of electricity supply in Kenya and to support a program aimed at integrating the East African power pool transformation towards full access to electricity by individual Eastern African Power pool countries through regional power interconnection.
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) Construction of 612km of 500KV from Ethiopia to Suswa in Kenya. (ii) Construction and commissioning of one converter substation. (iii) Carrying out the environmental and social management plan and the resettlement action plan. (iv) System reinforcement of the substations and Project Management. (v) Capacity Building
Other important background information of the project	<p>Kenya Electricity Transmission Company Limited (KETRACO) was incorporated on 2 December 2008 and registered under the Companies Act, Cap 486 pursuant to Sessional Paper No. 4 of 2004 on Energy.</p> <p>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 and the big four Agenda</p> <p>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).</p> <p>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 neighbouring countries in order to facilitate power exchange and develop electricity trade in the region. (v) Facilitate power trade. <p>The Eastern Electricity Highway Project is financed by the following partners:</p> <ul style="list-style-type: none"> ▪ World Bank – Credit no- 5148-KE ▪ African Development Bank (AfDB) - Loan/Grant Number - 2100150027845 ▪ Agence Francaise de Development (AFD) –Credit No.- CKE 1030 01B

	<ul style="list-style-type: none"> ▪ Government of Kenya through the Ministry of Energy and the National Treasury. <p>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.</p> <p>Key contractual data</p> <p><i>Scope:</i> Project Supervision and Management of Subcomponent A4-System Reinforcement <i>Consultant:</i> Lahmeyer International GmbH <i>Loan No:</i> IDA Credit No. 5148-KE <i>Contract Signed On:</i> 21 January 2015 <i>Contract Price:</i> The quoted price is in two currencies Euro 1,768,815.24 and ksh 90,428,000 <i>Contract Completion:</i> 30 September 2020.</p> <p><i>Scope:</i> Subcomponent A4-System Reinforcement; Construction of 400/220kv Isinya, Athi river and Nairobi North Substations Extensions. <i>Consultant:</i> National Contracting Company <i>Loan No:</i> IDA Credit No. 5148-KE <i>Contract Signed On:</i> 30 April 2015 <i>Contract Price:</i> The quoted price is in four currencies Euro 4,258,823, USD 26,898,688, CHF 80,497 and KSH 508,430,442 <i>Contract Completion:</i> 30 September 2020.</p> <p><i>Scope:</i> Construction of Eastern Electricity Highway Project. Lot 4: LOG LOGO - ETHIOPIA BORDER <i>Contract No.</i> KETRACO/PT/0112016-LOT 4 <i>Contractor:</i> KEC International Limited <i>Loan No:</i> 2100150027845 <i>Contract Signed On:</i> 30 June 2016 <i>Contract Price:</i> The quoted price is in two currencies Euro 32,675,204.83 and KSH 1,212,729,003.50 <i>Contract Completion:</i> 31 December 2018.</p> <p><i>Scope:</i> Construction of Eastern Electricity Highway Project. Lot 5: KINAMBA – LOG LOGO <i>Contract No.</i> KETRACO/PT/0112016-LOT 5 <i>Contractor:</i> Larsen & Toubro Limited <i>Loan No:</i> CKE 1030 01B <i>Contract Signed On:</i> 30 June 2016 <i>Contract Price:</i> The quoted price is in two currencies Euro 37,968,115 and KSH 1,228,371,755 <i>Contract Completion:</i> 30.6.2019</p> <p><i>Scope:</i> Construction of Eastern Electricity Highway Project. Lot 6: SUSWA - KINAMBA <i>Contract No.</i> KETRACO/PT/0112016-LOT 6 <i>Contractor:</i> Kalpataru Power Transmission Limited</p>
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Kenya Electricity Transmission Company Limited (KETRACO)
 Eastern Electricity Highway Project
 Reports and Financial Statements
 For the Financial Year Ended 30 June 2020

	<p><i>Loan No:</i> CKE 1030 01B and 2100150027845 <i>Contract Signed On:</i> 30 June 2016 <i>Contract Price:</i> The quoted price is in two currencies Euro 30,101,856.48 and KSH 1,342,264,921.37 <i>Contract Completion:</i> 30.9.2020</p> <p><i>Scope: Construction of Eastern Electricity Highway Project</i> <i>Lot1: Suswa Substation</i> <i>Contract No:</i> KETRACO/PT/17/2015 <i>Contractor:</i> Siemens AG <i>Loan No:</i> IDA 5148 <i>Contract Signed:</i> 28 October 2015 <i>Contract price:</i> The quoted price in four currencies USD 86,341,305.5, EUR 123,560,813.50, CHF 3,015,753 and KSH 125,125,459 <i>Contract completion:</i> 30 December 2022</p>
Current situation that the project was formed to intervene	Low rate of access to electrical power for the people in the member countries and low level of regional power trade.
Project duration	The project started on 5 December 2012 and is expected to run until 31 December 2022

1.4 Bankers

The following are the bankers for the current year:

- (i) KCB Bank Limited
 Moi Avenue
 P. O. Box 30081 – 00100
 Nairobi.
- (ii) NIC Bank
 P. O. Box 44599 – 00100
 Nairobi.
- (iii) Standard Chartered Bank Ltd
 P. O. Box 30001-00100
 Nairobi.

1.5 Auditors

Delegated Auditor: Deloitte & Touche
 Certified Public Accountants (Kenya)
 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
Eng. Justin Muna	Project Manager	MSc Electrical Engineering	Project coordinator
Johnson Muthoka	Senior Manager Wayleaves	BA Land Econ (Hons), MA (urban and regional planning (UON), Full member of ISK, registered and Licensed land economist	Wayleaves Acquisition (Land Economists, Land surveyors, Social Economists, Environmental Experts)
Bill Silingi Otieno	Project Accountant	Bachelor of Business Management (Finance & Banking), CPA(K)	Preparation of project financial reports

1.7 Funding summary

The Project financing is for duration of 10 years from 2012 to 2022 with an approved budget of USD.441,000,000, UA.75,000,000 and EUR.91,000,000 (EUR 13.5 million reallocated to Nairobi Ring) and counterpart funding of KShs.8,585,000,000 as highlighted in the table below.

Source of funds	Donor Commitment		Amount received to date: – (30.06.2020)		Undrawn balance as at 30.06.2020		
	<i>Donor currency</i>	<i>KShs</i>	<i>Donor currency</i>	<i>KShs</i>	<i>Donor currency</i>	<i>KShs</i>	
	<i>(A)</i>	<i>(A')</i>	<i>(B)</i>	<i>(B')</i>	<i>(A)-(B)</i>	<i>(A')-(B')</i>	
(i) Loans							
International Development Association	USD	441,000,000	46,976,378,400	215,125,721	21,824,271,364	225,874,279	25,152,107,036
African Development Fund	UA	75,000,000	10,930,800,000	54,708,004	7,853,559,538	20,291,996	3,077,051,094
Agence Francaise de Development	EUR	77,500,000	9,310,850,000	57,419,841	6,645,879,408	18,697,315	2,664,970,592
(ii) Counterpart funds							
Government of Kenya		-	8,585,000,000		3,820,214,567	-	4,764,785,433
Total			75,803,028,400		40,143,924,877		35,658,914,156

1.8 Summary of Overall Project Performance:

1.8.1 Budget Performance Against Actual Amounts

During the year under review, the project received KShs 11,142,839,574 against a final budget of KShs 11,810,750,000. Similarly, the project incurred total expenditure of KShs 11,115,043,519 during the year, against a final budget of KShs 11,810,750,000 representing 94% budget utilization. The project's cumulative receipts and payments to-date amounts to KShs 40,149,919,761 and KShs 39,857,501,802 respectively.

1.8.2 Physical Progress and Achievements of the Project

LOT 1 (KEN) – Milestones

- The contract was signed on 28 October 2016
- The Kick off meeting held on 8 and 9 December 2016
- Advance payment to contractor paid on 18 March 2016
- Contract effective date set as 30 March 2016 and completion date as 31 December 2022
- Handover of Electrode Site done on 31 May 2016

LOT 1 (KEN) – Procurement of Helicopter

- Specific procurement notice done on 23 October 2015
- Bid opening done on 5 April 2016
- Evaluation of the bid documents completed, and report forwarded to financiers for no objection
- Contract awarded to Finmeccanica Helicopter Division in September 2016
- Delivered in December 2018.

	Milestones	Percentage
LOT 1	Civil works	100%
	Autotransformers	98.89
	Converter transformers	98.12%
	AC switchyard	100%
	Control building	100%

LOT 4 (From Loglogo to Kenya - Ethiopia Border)

- Contractor is KEC International Ltd
- Lot completed in September 2018

	Milestones	Percentage
LOT 4	Excavations	100%
	Foundations	100%
	Tower erection	100%
	OPGW stringing (km)	100%
	Cond.stringing (km)	100%

1.8.2 Physical Progress and Achievements of the Project (Continued)

LOT 5 (From Oldonyiro to Loglogo)

- Contractor is Larsen & Toubro Ltd
- Lot completed on 25th February 2020

	Milestones	Percentage
LOT 5	Excavations	100 %
	Foundations	100 %
	Tower erection	100 %
	OPGW stringing (km)	100 %
	Cond.stringing (km)	100 %

LOT 6 (From Suswa Substation to Oldonyiro)

- Contractor is Kalpataru Power Transmission Ltd
- Site storage yard established in Gilgil, establishment of site offices and accommodation in Nyahururu complete

	Milestones	Percentage
LOT 6	Excavations	100 %
	Foundations	99.4 %
	Tower erection	97.5 %
	OPGW stringing (km)	98 %
	Cond.stringing (km)	98 %

The project has achieved value for money evidenced with completion of lot 4 and 5 within the contract period and savings arising from competitive tendering.

1.8.3 Implementation Challenges and Way Forward

- Encroachment of the way leave trace by the local communities in Samburu hence rerouting
- Stoppages by Local communities at Laisamis and Loglogo
- Delay in acquisition of way leave in Lot 6 (Nakuru and Nyandarua Counties) due to absentee landlords, court cases and delayed land negotiations by PAPs.

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

This project aims to provide reliable and affordable energy from a regional resource base, allowing access to considerable clean regional energy resources, reducing pollution and vulnerability to climate change, thus strengthening environmental resilience. The principal objectives of this project are to:

- (i) Contribute to the integration of the electricity markets of the East African Power Pool through the interconnection of the two countries power systems.
- (ii) Increase the supply and reduce the cost of electricity in Kenya.
- (iii) Provide revenues to Ethiopia through the export of electricity from Ethiopia to Kenya and other neighbouring countries.

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	Objectives	Outcome	Indicator	Performance
The EEH Project	(i) Contribute to the integration of the electricity markets of the East African Power Pool through the interconnection of the two countries power systems. (ii) Increase the supply and reduce the cost of electricity in Kenya. (iii) Provide revenues to Ethiopia through the export of electricity from Ethiopia to Kenya and other neighbouring countries.	Project yet to become operational	Lot 4 and 5 of the transmission line complete	Project status at 98% complete

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT / SUSTAINABILITY REPORTING

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. Social 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:

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

2. Environmental performance (Continued)

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, 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

During the year ended 30 June 2020, the Company procured Strathmore University to undertake Skill Gap Analysis among staff, in order to develop a plan that can improve employee performance. The Company also paid professional fees to professional bodies and facilitated trainings and conferences for staff members. Further, Knowledge Management Gap Analysis conducted by Kenyatta University and staff performance appraisal was undertaken. This has been of great importance in improvement of KETRACO project's work execution.

Safety and Security Measures

During the year ended 30 June 2020, the Company organized for safety and security awareness sensitization sessions for craftsmen and technicians deployed at various projects and substations across the country. In addition, the company procured services of security providers and deployed them at all KETRACO project substations to ensure safety of company's infrastructure projects. Further, Internal audit of the Information Security Management System (ISMS) and backups for the data centre were also undertaken in the period.

4. Market place practices

During the year KETRACO 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.

In addition, contractors/suppliers were sensitised on SAP Ariba Sourcing Strategy & Access to e-government procurement opportunities. Through the SAP Ariba Developer portal procurement processes have been eased.

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

4. Market place practices (Continued)

The Company continued implementing corruption prevention measures as identified in the corruption risk assessment and mitigation plan. The Integrity Committee quarterly meetings were held. 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 CSR projects were implemented through a consultative process with stakeholders' right from the initial project planning through to commissioning.

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.

During the year, KETRACO developed a customer relationship management system on Integrated Location Intelligence System (ILIS) platform, which is aimed at enhancing handling of customer complaints and access to information by various stakeholders especially in wayleave acquisition grievance recording and resolution.

In Lot 4, only one PAP was affected which is the County Government of Marsabit. This is a community land and legally entrusted with the county government. To ensure proper use for the community, we had Consultations with the community and county government officials and helped community come up with projects that would benefit the community. This was done and monitored, projects are in different stages being monitored by KETRACO. A total of KShs. 117 Million has been disbursed to the various communities in Marsabit and Isiolo counties as per the memorandum of understanding with the communities

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Chief Executive Officer of KETRACO and the Project Coordinator for the Eastern Electricity Highway Project 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 2020. This responsibility includes maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; 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; safeguarding the assets of the Project; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.


The Chief Executive Officer of KETRACO and the Project Coordinator for the Eastern Electricity Highway Project 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.

The Chief Executive Officer of KETRACO and the Project Coordinator for the Eastern Electricity Highway Project are 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 2020, and of the Project's financial position as at that date. The Principal Secretary for the Ministry of Energy and Petroleum and the Project Coordinator for the Eastern Electricity Highway Project 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.

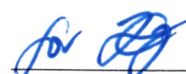
The Chief Executive Officer of KETRACO and the Project Coordinator for the Eastern Electricity Highway Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under 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 The Chief Executive Officer of KETRACO and the Project Coordinator for the Eastern Electricity Highway Project on 6th January 2021 signed by them.



Chief Executive Officer
FCPA Fernandes Barasa, OGW



Project Coordinator
Antony Wamukota:



Ag. General Manager - Finance
CPA Tom Imbo
ICPAK Member Number 7039

5. REPORT OF THE INDEPENDENT AUDITORS ON THE EASTERN ELECTRICITY HIGHWAY PROJECT

To the Auditor General

Opinion

We have audited the accompanying financial statements of the Eastern Electricity Highway Project set out on pages 16 to 34 which comprise the statement of financial assets as at 30 June 2020, 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 the Eastern Electricity Highway Project as at 30 June 2020, 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 THE EASTERN ELECTRICITY HIGHWAY PROJECT (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.

5. **REPORT OF THE INDEPENDENT AUDITORS ON THE EASTERN ELECTRICITY HIGHWAY PROJECT (Continued)**

- 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.

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.

Del. He ✓ Touche

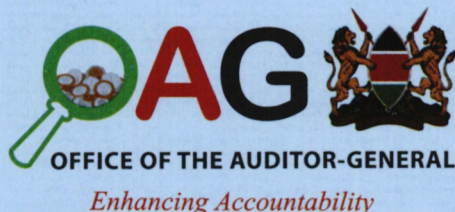
**Certified Public Accountants (Kenya)
Nairobi**

7 January 2021

CPA Fred Aloo, Practicing certificate No. 1537
Signing partner responsible for the independent audit

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON EASTERN ELECTRICITY HIGHWAY PROJECT (IDA CREDIT NO. 5148-KE; AFD LOAN NO: CKE 1030 01B AND ADF LOAN NO: 2100150027845) FOR THE YEAR ENDED 30 JUNE, 2020 - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Eastern Electricity Highway Project set out on pages 16 to 29, which comprise the statement of financial assets as at 30 June, 2020, statement of receipts and payments, statement of cash flows and the statement of comparative 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 the Eastern Electricity Highway Project as at 30 June, 2020, 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 respective Financing Agreements No. 5148-KE of 5 December, 2012; Loan No. CKE 1030 01B of 16 December, 2013 and Loan No. 2100150027845 of 6 December, 2012, between the Republic of Kenya and the International Development Association (IDA), Agence Francaise De Development (AFD) and African Development Fund (AFD), and the Public Finance Management Act, 2012.

In addition, the special account statements present fairly the special accounts transaction 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 Eastern Electricity Highway Project 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

Report of the Auditor-General on Eastern Electricity Highway Project (IDA Credit No. 5148-KE; AFD Loan No: CKE 1030 01B and ADF Loan No: 2100150027845) for the year ended 30 June, 2020 - Kenya Electricity Transmission Company Limited

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 that, in my professional judgment, are 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. Pending Bills

According to Note 11.1 and 11.2 to the financial statements, the Project had pending accounts payables totalling Kshs.2,640,343,389 (2019: Kshs.8,869,107,397) as at 30 June, 2020. During the year under review, the Project Management made payments totalling Kshs.10,805,039,832 while accumulating bills totalling Kshs.4,576,275,824. Management has not explained why the bills were not settled during the year they occurred. The Project is at risk of incurring significant interest costs and penalties with their continued delay in payment.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

2. Long Outstanding Wayleave Compensation

The expected compensation to landowners for wayleaves acquired since inception of the Project amounts to Kshs.2,365,517,091 out of which Kshs.2,387,141,878 was certified payable. The Project Management has so far paid Kshs.2,320,939,248 leaving an unpaid balance of Kshs.66,202,630. The 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 and various court injunctions on disputed cases.

3. Undrawn Balances

As reported previously, the Project had an approved budget of USD 441,000,000, UA 75,000,000, EUR 77,500,000 and counterpart funding by Government of Kenya of Kshs.8,585,000,000, all equivalent to Kshs.75,803,028,400. The Project was envisaged to be completed by 30 September, 2020. However, as at 30 June, 2020, there was an undrawn balance of Kshs.35,658,914,156 or approximately 47% of the Project funding with total pending bills of Kshs.2,640,343,389. It is likely that the funding might not be fully absorbed, by the time of expiry of the funding period.

The Management attributes the slow absorption of funds to the anticipated costs derived from the Project appraisal document and the savings realized after the tendering process and awards to various contractors, while wayleave financing is based on actual valuations which is currently lower than the estimates.

Report of the Auditor-General on Eastern Electricity Highway Project (IDA Credit No. 5148-KE; AFD Loan No: CKE 1030 01B and ADF Loan No: 2100150027845) for the year ended 30 June, 2020 - Kenya Electricity Transmission Company Limited

Consequently, the significant unutilized funding balance may result in funds being locked in the current Project, whereas these funds could have been utilized on other Projects which could have delivered services to the Kenyan citizens.

4. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2020 reflects actual receipts of Kshs.11,142,839,573 against final receipts budget of Kshs.11,810,750,000 resulting in a shortfall of Kshs.667,910,427. Further, actual expenditure for the year amounted to Kshs.11,115,045,519 against final expenditure budget of Kshs.11,810,750,000 resulting to under absorption of Kshs.695,706481. Management has not provided explanation regarding the under absorption.

Consequently, the underfunding and low expenditure may affect the planned activities and impact negatively on service delivery to the public.

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 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

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 on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities which 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 OVERALL GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter(s) described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Automation of the Financial Reporting Process

Review of the financial reporting process for the Project revealed significant manual interventions. Although the sub-ledgers are extracted from the SAP system through the Business Intelligence Reporting Module, the processing of the trial balance and financial statements is done manually on excel worksheets.

Consequently, the manual interventions may result to errors in the Project financial statements

The audit was conducted in accordance to ISSAI 2315 and 2330. The standards require that I plan and perform the audit to obtain assurance on 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.

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 which are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of the internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain its services, disclosing as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the 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.

Board of Directors is responsible for overseeing the Project's financial reporting process, reviewing the effectiveness of how the 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 overall 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 which 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 which 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 which 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 which 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 which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement

Report of the Auditor-General on Eastern Electricity Highway Project (IDA Credit No. 5148-KE; AFD Loan No: CKE 1030 01B and ADF Loan No: 2100150027845) for the year ended 30 June, 2020 - Kenya Electricity Transmission Company Limited

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 which 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 which 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 which are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters which may reasonably be thought to bear on my independence, and where applicable, related safeguards.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi


31 December, 2020


Report of the Auditor-General on Eastern Electricity Highway Project (IDA Credit No. 5148-KE; AFD Loan No: CKE 1030 01B and ADF Loan No: 2100150027845) for the year ended 30 June, 2020 - Kenya Electricity Transmission Company Limited


6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2020

	Notes	FY 2019/20			FY 2018/19			Cumulative-to-date
		Receipts and payments controlled by the entity	Payments made by third parties	Totals	Receipts and payment controlled by the entity	Payments made by third parties	Totals	
		KShs	KShs		KShs	KShs		KShs
Receipts								
Transfer from Government entities	10.3	510,250,000	-	510,250,000	972,500,000	-	972,500,000	3,820,214,567
Loan from external development partners	10.4	97,490,028	10,534,718,501	10,632,208,529	-	5,081,731,834	5,081,731,834	36,323,710,310
Miscellaneous receipts	10.5	381,044	-	381,044	998,809	-	998,809	5,994,884
Total Receipts		608,121,072	10,534,718,501	11,142,839,573	973,498,809	5,081,731,834	6,055,230,643	40,149,919,761
Payments								
Purchase of goods and services	10.6	310,003,687	-	310,003,687	144,633,031	-	144,633,031	1,187,739,372
Acquisition of non-financial assets	10.7	270,321,331	10,534,718,501	10,805,039,832	653,979,072	5,048,676,375	5,702,655,447	38,669,762,430
Total Payments		580,325,018	10,534,718,501	11,115,043,519	798,612,103	5,048,676,375	5,847,288,478	39,857,501,802
Deficit/ Surplus		27,796,054	-	27,796,054	174,886,706	33,055,459	207,942,165	292,417,959

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 6th January 2021 and signed by:


 Chief Executive Officer
 FCPA Fernandes Barasa, OGW



 Project Coordinator
 Antony Wamukota

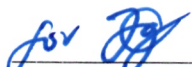

 Ag. General Manager – Finance
 CPA Tom Imbo
 ICPAK Member Number:7039


7. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2020

	Notes	FY 2019/20 KShs	FY 2018/19 KShs
Financial Assets			
Cash and cash equivalents			
Bank balances	10.8	292,417,959	264,621,905
Total Financial Assets		292,417,959	264,621,905
Represented By			
Fund balance b/fwd	10.9	264,621,905	56,679,740
Surplus for the year		27,796,054	207,942,165
Net Financial Position		292,417,959	264,621,905

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 6th January 2021 and signed by:


 Chief Executive Officer
 FCPA Fernandes Barasa, OGW



 Project Coordinator
 Antony Wamukota



 Ag. General Manager - Finance
 CPA Tom Imbo
 ICPAK Member Number 7039


8. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Notes	FY 2019/20 KShs	FY 2018/19 KShs
Cash Flows from Operating Activities			
Receipts for operating income			
Transfers from Government entities	10.3	510,250,000	972,500,000
Miscellaneous receipts	10.5	381,044	998,809
Payments from operating expenses			
Purchase of goods and services	10.6	(310,003,687)	(144,633,031)
Net cash flows from operating activities		200,627,357	828,865,778
Cash Flows from Investing Activities			
Acquisition of non-financial assets	10.7	(10,805,039,832)	(5,702,655,447)
Cash Flows from Borrowing Activities			
Loans from external development partners	10.4	10,632,208,529	5,081,731,834
Net Decrease in Cash and Cash Equivalents		27,796,054	207,942,165
Cash and Cash Equivalent at Beginning of the Year		264,621,905	56,679,740
Cash and Cash Equivalent at End of the Year	10.8	292,417,959	264,621,905

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 6th January 2021 and signed by:


 Chief Executive Officer
 FCPA Fernandes Barasa, OGW


 Project Coordinator
 Antony Wamukota



 Ag. General Manager – Finance
 CPA Tom Imbo
 ICPAK Member Number 7039

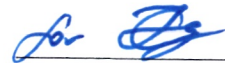
9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

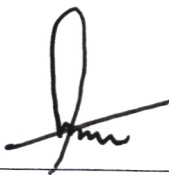
Receipts/Payment Item	Original Budget	Adjustments	Final Budget	Actual Comparable basis	Variance	% of variance
	a	b	c	d	e=c-d	f=d/c%
Receipts						
Transfer from Government entities	437,000,000	(109,250,000)	327,750,000	510,250,000	(182,500,000)	156%
Proceed from domestic and foreign grants	21,250,000,000	(9,767,000,000)	11,483,000,000	10,632,208,529	850,791,471	93%
Miscellaneous receipts	-	-	-	381,044	(381,044)	
Total receipts	<u>21,687,000,000</u>	<u>(9,876,250,000)</u>	<u>11,810,750,000</u>	<u>11,142,839,573</u>	<u>667,910,427</u>	
Payments						
Purchase of goods and services	(128,175,037)	32,043,759	(96,131,278)	(310,003,687)	213,872,409	322%
Acquisition of non-financial assets	(21,558,824,963)	9,844,206,241	(11,714,618,722)	(10,805,039,832)	(909,578,890)	92%
	<u>(21,687,000,000)</u>	<u>9,876,250,000</u>	<u>(11,810,750,000)</u>	<u>(11,115,043,519)</u>	<u>(695,706,481)</u>	

Note: The significant budget utilisation/performance differences in the last column are explained in **Annex 1** to these financial statements.

The entity financial statements were approved on 6th January 2021 and signed by:


 Chief Executive Officer
 FCPA Fernandes Barasa, OGW


 Project Coordinator
 Antony Wamukota


 Ag. General Manager Finance
 CPA Tom Imbo
 ICPAK Member Number 7039

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 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 Eastern Electricity Highway Project under National Government of Kenya. 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 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 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 and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

10.2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Recognition of receipts (Continued)

- **External Assistance (Continued)**

- **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.

- **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.

10.2 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 Authority to incur expenditure 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.

g) 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.

10.2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) 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 recognized 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.

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 recognized 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 2020.

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.

10.3 RECEIPTS FROM GOVERNMENT OF KENYA

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

	FY 2019/20	FY 2018/19	Cumulative to-date
	KShs	KShs	KShs
Counterpart funding through State Department of Energy			
Counterpart funds Quarter 1	182,500,000	357,500,000	1,128,892,983
Counterpart funds Quarter 2	218,500,000	357,500,000	1,145,421,900
Counterpart funds Quarter 3	109,250,000	257,500,000	1,012,339,797
Counterpart funds Quarter 4*	-	-	533,559,887
Total	510,250,000	972,500,000	3,820,214,567

* Quarter 4 transfer from Government for FY 2019/20 amounting to KShs 109,250,000 was received in July 2020 (FY 2020/21) and therefore have not been included in this report.

10.4 LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2020 we received grants from donors as detailed in the table below:

Name of Donor	Date received	Amount received in donor currency	Loans received as cash	Loans received as direct payment	Total amount	
					FY 2019/20	FY 2018/19
			KShs	KShs	KShs	KShs
Loans Received from Multilateral Donors						
International Development Association (IDA)	2019-2020	USD 95,099,623	97,490,028	9,619,216,815	9,716,706,843	3,522,130,429
African Development Fund (ADF)	2019-2020	UA 5,102,246	-	561,206,341	561,206,341	811,365,511
Agence Francaise de Development (AFD)	2019-2020	EUR 3,143,187	-	354,295,345	354,295,345	748,235,854
Total			97,490,028	10,534,718,501	10,632,208,529	5,081,731,834

10.5 MISCELLANEOUS RECEIPTS

	FY 2019/20			FY 2018/19	Cumulative to- date
	Receipts controlled by the entity in cash	Receipts controlled by third parties	Total receipts		
	KShs	KShs	KShs		
Interest income	381,044	-	381,044	998,809	5,994,884
Total	381,044	-	381,044	998,809	5,994,884

10.6 PURCHASE OF GOODS AND SERVICES

	FY 2019/20			FY 2018/19	Cumulative to- date
	Payments made by the entity in cash	Payments made by third parties	Total payments		
	KShs	KShs	KShs		
Legal / consultancy	124,751,357	-	124,751,357	40,112,464	269,987,862
Audit fees	-	-	-	-	2,037,975
Other project costs	40,661,248	-	40,661,248	50,878,635	472,833,712
Site travel expense and accommodation	34,671,019	-	34,671,019	53,641,932	332,959,760
Training	109,920,063	-	109,920,063	-	109,920,063
Total	310,003,687	-	310,003,687	144,633,031	1,187,739,372

10.7 ACQUISITION OF NON-FINANCIAL ASSETS

	FY 2019/20			FY 2018/19	Cumulative to- date
	Payments made by the entity in cash	Payments made by third parties	Total payments		
	KShs	KShs	KShs		
Consultancy fees	-	-	-	-	633,373,692
Motor vehicles	-	-	-	-	308,644
Powerline (transmission equipment)	-	10,534,718,501	10,534,718,501	5,048,676,375	35,715,140,846
Wayleaves	270,321,331	-	270,321,331	653,979,072	2,320,939,248
Total	270,321,331	10,534,718,501	10,805,039,832	5,702,655,447	38,669,762,430

10.8 CASH AND CASH EQUIVALENTS

	FY 2019/20	FY 2018/19
	KShs	KShs
Bank accounts balances (Note 8.8A)	292,417,959	264,621,905
Total	292,417,959	264,621,905

The project has 5 project accounts spread within the project implementation area managed by KETRACO as listed below:

10.8A Bank Accounts

	FY 2019/20	FY 2018/19
	KShs	KShs
<u>Foreign Currency Accounts</u>		
Standard Chartered Bank [A/c No. 9304026386600]	190,042	200,725
Standard Chartered Bank [A/c No. 8704026386600]	473,421	486,225
Total foreign currency balances	663,463	686,950
<u>Local Currency Accounts</u>		
National Industrial Credit Bank [A/c No 1001309443]	1,207,384	63,744,571
Standard Chartered Bank [A/c No.0104026386600]	46,687	61,647
KCB Bank Kenya Limited [A/c No 1206560752]	290,498,425	200,128,737
Total local currency balances	291,754,496	263,934,955
Total bank account balances	292,417,959	264,621,905

10.8B Special Deposit Account

The balances in the Project's Special Deposit Account as at 30 June 2020 are not included in the statement of the Financial Assets since they are yet to be drawn into the exchequer Account as voted provision.

Below is the Special Deposit Account movement schedule which shows the flow of funds that were voted in the year. These funds have been reported as loans/grants received in the year under the statement of Receipts and Payments.

10.8 CASH AND CASH EQUIVALENTS (Continued)

10.8B Special Deposit Account (Continued)

	FY 2019/20	FY 2018/19
	KShs	KShs
Foreign currency bank Account No.1000214279		
Opening balance	18	33,176,956
Total amount deposited in the account	97,660,577	-
Total amount withdrawn (as per Statement of Receipts & Payments)	(97,490,027)	(33,055,459)
Less: forex loss	9,091	(121,479)
Closing balance (as per SDA bank account reconciliation attached)	179,659	18

The Special Deposit Account(s) reconciliation statements(s) has been attached as Annex 4 to support these closing balances.

10.9 FUND BALANCE B/FWD

	FY 2019/20	FY 2018/19
	KShs	KShs
Bank balances	264,621,905	56,679,740
Total	264,621,905	56,679,740

11. OTHER IMPORTANT DISCLOSURES

11.1 PENDING BILLS (Annex 2A)

Description	Balance b/f FY 2019/20	Additions for the period	Paid during the year	Balance c/d FY 2020/21
	KShs	KShs	KShs	KShs
Supply of Goods	8,376,225,930	4,426,924,231	(10,282,156,335)	2,520,993,826
Supply of services	195,335,109	110,373,990	(252,562,166)	53,146,933
Total	8,571,561,039	4,537,298,221	(10,534,718,501)	2,574,140,759


11.2 OTHER PENDING PAYABLES (Annex 2B)

Description	Balance b/f FY 2019/2020	Additions for the period	Paid during the year	Balance c/f FY 2020/2021
	KShs	KShs	KShs	KShs
Project affected persons	297,546,358	38,977,603	(270,321,331)	66,202,630
Total	297,546,358	38,977,603	(270,321,331)	66,202,630

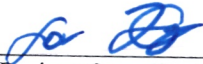
12. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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 Point person to resolve the issue (Name and designation)	Status:	Timeframe:
n/a	Pending bills KShs. 8,571,561,039	All pending bills were as a result of inadequate budget from Treasury. They were settled in October 2019.	Tom Imbo Ag. GM/Finance & Strategy	Resolved	June 2020
n/a	Undrawn balances KShs. 45,296,338,652	Resulted from PAD and savings realized after tendering process, wayleaves financing based on actual valuations.	Tom Imbo Ag. GM/Finance & Strategy	Resolved	June 2020
n/a	Long outstanding wayleave payments	The budget is adequate, delays in wayleave payments occasioned by: <ul style="list-style-type: none"> • Legal suits • Policy changes • Absentee landlords. • Long land negotiations procedures by PAPs 	GM Technical services	Resolved	N/A


 Chief Executive Officer
 FCPA Fernandes Barasa, OGW

6/1/2021
 Date


 Project Coordinator
 Antony Wamukota

06/01/2021
 Date

ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payment Item	Final Budget	Actual Comparable basis	Variance	% of variance	Comment on Variance
	c	d	e=c-d	f=d/c%	
Receipts					
Transfer from Government entities	327,750,000	510,250,000	(182,500,000)	156%	(i)
Proceed from domestic and foreign grants	11,483,000,000	10,632,208,529	850,791,471	93%	
Miscellaneous receipts	-	381,044	(381,044)		
Total receipts	11,810,750,000	11,142,839,573	667,910,427		
Payments					
Purchase of goods and services	(96,131,278)	(310,003,687)	213,872,409	322%	(ii)
Acquisition of non-financial assets	(11,714,618,722)	(10,805,039,832)	(909,578,890)	92%	
Total payments	(11,810,750,000)	(11,115,043,519)	(695,706,481)		

Explanations for all variance below 90% and above 100%

- i) Includes Government receipts of KShs. 182,500,000 received in the July 2019 relating to the FY 2018/19 budget
- ii) Includes expenditure of KShs. 160,000,000 for training and consultancy funded by IDA and classified as purchase of goods and services.

ANNEX 2A - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Currency	Revised Amount (as per latest addendum)	Date Contracted	Amount for Certified Work To-Date	Amount Paid To-Date	Outstanding Balance 2020	Outstanding Balance 2019
		KShs		KShs	KShs	KShs	KShs
Supply of goods		a	b	c	d	e=c-d	
Kalpataru Power Transmission	KShs	5,494,115,077	2015	4,360,281,713	4,335,766,036	24,515,677	328,587,107
National Contracting Company	KShs	4,423,532,437	2015	3,908,473,278	3,908,473,278		89,804,650
KEC International	KShs	4,754,148,098	2015	4,463,372,518	4,463,372,518	-	194,370,242
Siemens Isolux	KShs	26,173,956,159	2015	19,459,124,274	16,962,646,125	2,496,478,149	7,354,380,918
Larsen & Toubro	KShs	5,343,333,300	2015	4,582,942,988	4,582,942,988	-	327,635,026
Leonardo Helicopters	KShs	810,268,719	2016	805,611,613	805,611,613	-	81,447,987
Sub-Total		46,999,353,789		37,579,806,385	35,058,812,559	2,520,993,826	8,376,225,930
Supply of services							
Lahmeyer International	KShs	1,568,792,970	2013	1,206,586,027	1,153,439,094	53,146,933	195,335,109
Sub-Total	KShs	1,568,792,970		1,206,586,027	1,153,439,094	53,146,933	195,335,109
Grand Total	KShs	48,568,146,759		38,786,392,411	36,212,251,653	2,574,140,759	8,571,561,039

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 2020	Outstanding Balance 2019
		Kshs		Kshs	Kshs	Kshs	Kshs
		a	b	c	d	e=c-d	
Amounts due to Third Parties							
Project Affected Persons	Wayleaves	2,387,141,878	2014-2020	2,387,141,878	2,320,939,248	66,202,630	297,546,358
Grand Total		2,365,517,091		2,387,141,878	2,320,939,248	66,202,630	297,546,358

ANNEX 3 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Opening Cost	*Purchases/Additions in the Year	**Disposals in the Year	Closing Cost
	(KShs)	(KShs)	(KShs)	(KShs)
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Motor vehicles****	308,644	-	-	308,644
Powerline (Transmission Equipment)	27,864,413,954	10,805,039,832	-	38,669,453,786
Total	27,864,722,598	10,805,039,832	-	38,669,762,430

Notes

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

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

***This relates to capitalized motor vehicle repair costs

ANNEX 4 – SPECIAL DEPOSIT ACCOUNT NO. 1000214279 RECONCILIATION STATEMENT

		FY 2019/20	FY 2018/19
		KShs	KShs
Central Bank of Kenya			
Balance at 1 July		18	33,176,956
Add	Disbursement received during the year	97,660,577	-
Less	Disbursement to the Project Account	(97,490,028)	(33,055,459)
	Forex gain/(loss)	9,091	(121,479)
Balance at 30 June		179,659	18

