

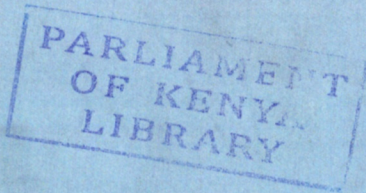
REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

*paper laid by  
Leader of Majority  
on 13/09/2017  
@hmk.*



OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
RURAL ELECTRIFICATION AUTHORITY

FOR THE YEAR  
ENDED 30 JUNE 2016



Rural Electrification Authority

Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016

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**RURAL ELECTRIFICATION AUTHORITY**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2016**

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

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
13 JUN 2017  
**RECEIVED**

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

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**KEY AUTHORITY INFORMATION AND MANAGEMENT**

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**a) Background Information**

The Rural Electrification Authority (REA) is a State Corporation established under section 67 of the Energy Act, No.12 of 2006. It falls under the Ministry Of Energy and Petroleum (MOEP)

**VISION & MISSION**

**Vision:** “To be the leading provider of quality and affordable energy to all in the rural areas”

**Mission:** “To efficiently provide high quality and affordable energy service in all rural areas and achieve high standards of customer service through advancing community participation to ensure long term sustainability and social-economic development.”

**CORE VALUES**

- Customer Drive
- Integrity
- Professional Excellence
- Team Work
- Passion
- Commitment to staff welfare
- Respect for Environment

**b) Principal Activities**

- (i) Management of the Rural Electrification Programme Fund
- (ii) Development and updating of the rural electrification programme master plan.
- (iii) Implementing and sourcing of funds for the rural electrification programme.
- (iv) Promotion of use of renewable energy sources including but not limited to small hydros, wind, solar, biomass, geothermal, hybrid systems and oil fired components taking into account specific needs of certain areas including the potential for using electricity for irrigation and in support of off-farm income generating activities.

## Rural Electrification Authority Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016

- (v) Management of the delineation, tendering and award of contracts for licenses and permits for rural electrification.

### c) Shareholders

The Authority is full owned by the Government of Kenya

### d) Key stakeholders

The Authority key stakeholders include the Government of Kenya, International Donors and the Constituency Development Funds and Counties, who provide the funding of the projects being undertaken, Suppliers for materials and services, Contractors and Surveyors who provide the services during project implementation, Bankers who provide the banking services in addition to the banking facilities and staff who manages the operations of the Authority on day to day basis

### e) Key Management

The day to day management of the Authority is under the following;

- i. Chief Executive Officer
- ii. Chief Managers
- iii. Managers.

### f) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2015 and who had direct fiduciary responsibility were;

No.	Designation	Name
1	Chief Executive Officer	Ng'ang'a Munyu
2	Manager Finance	Peter Mbugua
3	Ag. Chief Accountant	Margaret Gichana

### g) Fiduciary Oversight Arrangements

The oversight for financial management is vested in the three Board Committees as discussed below;

#### Audit Committee

The Audit Committee is basically the watchdog for the Authority. It ensures that all the systems in the Authority are functioning properly. The main terms of reference as provided for in the Board manual are as follows;

- (i) Support the Board of Directors in reviewing the effectiveness of the Authority's processes of Corporate Governance;
- (ii) Review the annual financial statements and consider whether they are complete, consistent and reflect appropriate accounting principles and make appropriate recommendations for necessary action;

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

- (iii) Recommending financial statements to the Board for approval before submission to the Controller and Auditor General for audit;
- (iv) Review the result of the audit on the financial statements by the External Auditor or any other inspector or investigator engaged by REA;
- (v) Consider the effectiveness of the REA internal control systems established by management to ensure compliance with policies, laws and regulations;
- (vi) Review the risk management framework and assess policies and controls developed by Management for risk assessment and risk management;
- (vii) Review and approve the internal audit plan, charter and manual.
- (viii) Review the activities, organizational structure and qualifications of the internal auditors;
- (ix) Assess managements' action on significant findings and audit recommendations and ensure that action taken is adequate to maintain the integrity of the financial systems.

In addition to the Terms of Reference, the committee also has an Audit committee Charter that defines how they are supposed to execute their responsibilities.

**Finance Committee**

The committee is responsible for Financial Management and proper resource allocation in the Authority. The Terms of reference of the committee are as follows;

- (i) Develop and recommend to the Board the Authority's Annual Budget;
- (ii) Develop, review and approve major changes in the Authority's accounting policies;
- (iii) Oversee the preparation of year-end financial statements of the Authority;
- (iv) Develop strategies aimed at achieving financial sustainability for the Authority;
- (v) Consider and recommend to the Board Banking facilities and Authority levels;
- (vi) Ensure proper financial management systems are in place;
- (vii) Develop a financial monitoring system for the Organization

**Procurement Oversight Committee**

The overall responsibility of the committee is to ensure that the annual procurements undertaken by Management are able to support the annual business plans for the Authority. The Terms of Reference are provided for in the Board manual and are summarized as follows;

- (i) Discuss and propose to the Board the Authority's annual procurement plan for approval
- (ii) Review of the annual procurement plan when need arises.
- (iii) Ensure adherence to the procurement plan
- (iv) Ensure that the Authority's procurement plan is capable of enabling the Authority achieve its

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

mandate.

- (v) Monitor the implementation of the procurement plan to ensure that it conforms to the approved budget.
- (vi) Ensure that procurement reports are submitted to the Board.

**h) Authority's Headquarters**

Kawi House  
Red Cross road  
P.O Box 34585-00100  
NAIROBI

**i) Authority's contacts.**

Telephone: (254) 4953600  
E-mail: [info@rea.co.ke](mailto:info@rea.co.ke)  
Website: [www.rea.co.ke](http://www.rea.co.ke)

**j) Authority's Bankers**

The Co-operative Bank of Kenya Ltd  
P.O. Box 48231 – 00100  
Nairobi Business Centre  
NAIROBI

Kenya Commercial Bank of Kenya Ltd  
P.O Box 69695-00400  
Milimani Branch  
NAIROBI

Standard Chartered Bank Kenya Ltd  
P.O Box 98683-80100  
Kenyatta Avenue Branch  
NAIROBI

CFC Stanbic Bank Kenya Ltd.  
P.O Box, 72833-00200  
Upper Hill Branch  
NAIROBI

**k) Independent Auditors**

The Auditor General  
Anniversary Towers  
P.O Box 30084-00100 GPO,  
NAIROBI.

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

**Principal Legal Adviser.**

Dr. Rose N. Mkalama  
Rural Electrification Authority  
P.O Box 34585-00100  
NAIROBI

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

**BOARD OF DIRECTORS**

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The Board Members who served during the Financial Year 2015/16 were as follows;

**Board of Directors Profile**



**Prof. Simon Gicharu, CBS**

Prof. Simon N. Gicharu was appointed as a chairman of the Rural Electrification Authority on 20/05/2014. He holds a Bachelor of Education Science degree from Kenyatta University, and a postgraduate certificate in Managing Enterprise Development from Cranfield University, Britain. He is also a published author in Mathematics. He has previously served in the Government in a similar capacity at the Geothermal Development Company. He is a career educationist and entrepreneur, and is the founder and chairman of Mount Kenya University, which is Eastern and Central Africa's largest private institution of higher learning. Prof. Gicharu is also a board member of Thika Water and Sewerage Company and the patron of the Inter-Universities Root Moot Court by the Kenya National Scouts Association.

As Chairman of the National Private Universities Owners Association of Kenya, he has been actively involved in championing for policies that lead to advancement in the democratization of access to higher education in Kenya. He has earned several accolades including induction into the World Entrepreneurs of the Year Hall of Fame (2015), the 2014 Ernst and Young Eastern Africa Entrepreneur of the Year, and Honorary Doctor of Science degree from Gulu University Uganda. In 2012, Prof. Gicharu received the 1<sup>st</sup> Class Chief of the Order of Burning Spear (CBS) from the President of the Republic of Kenya, which is the highest award that can be bestowed on a civilian in the country.



**Dr. Kamau Thugge (EBS, MBS) - Principal Secretary, The National Treasury**

Dr. Kamau Thugge is currently the Principal Secretary at The National Treasury. He has previously worked in the Ministry of Finance as Head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor. Before joining the Ministry of Finance he worked with the International Monetary Fund (IMF) as Economist/Senior Economist and Deputy Division Chief. Dr. Thugge holds a Bachelor of Arts (Economics) from Colorado College, USA; a Masters in Economics from Johns Hopkins University, USA; and a Doctor of Philosophy in Economics, also from John Hopkins.



**Eng. Joseph Njoroge (MBS) - Principal Secretary, Ministry of Energy & Petroleum**

Eng. Joseph K. Njoroge is the Principal Secretary, Ministry of Energy & Petroleum. Before joining the Ministry, he worked in Kenya Power as the Managing Director. He has wide range of experience in power engineering and management of the power sector, having joined Kenya Power in 1980 and serving in various senior positions prior to his appointment as the Principal Secretary, Ministry of Energy & Petroleum.



**Franklin Mutuma Nkanata**

Mr. Franklin Mutuma Nkanata was appointed to the Rural Electrification Authority Board on 17<sup>th</sup> April 2015. Mr. He holds a Master of Arts degree in International studies from the Institute of Diplomacy and International studies and a Bachelor of Education Arts, literature and Linguistics from University of Nairobi. He has worked in senior management positions in both the Private and Public sector through which he gained a wide experience in Strategic

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

Management, Project Management and administration, capacity building, and performance management among others.



**Eng. Elisha Akech.**

Eng. Elisha Akech was appointed to the Rural Electrification Authority Board on the 17<sup>th</sup> April 2015. He is a practicing consulting civil engineer of 17 years' experience. He holds BSc. Civil Engineering (JKUAT), MSc. Safety Engineering (WIU), MSc. Climate Change Science (UoN) and a Ph.D. in Business Administration (WIU). He is a registered consulting engineer with Engineer's Board of Kenya (EBK). He is a corporate Member of Institution of Engineers of Kenya (MIEK). He is a registered water resource professional (Ministry of Water & Irrigation). He has a private sector business management experience spanning 13 years mainly in the infrastructural development sector in the areas of transportation, housing and water resources from planning, design and construction management. In May, 2015, he was appointed as board member at Rural Electrification Authority which is a state corporation under the Ministry of Energy and Petroleum for a period of 3 years.



**Mrs. Josephine Waceke Muritu**

Mrs. Josephine Waceke Muritu was appointed to the Rural Electrification Authority Board on 17<sup>th</sup> April 2015. She holds Bachelor of laws degree (LLB) from University of Nairobi, Diploma in Laws from Kenya School of Law and she is currently pursuing a Master Degree in Organizational Leadership from Africa International University, Kenya. Muritu is a member of the Law society of Kenya and an Advocate of the High Court of Kenya. She is also the Senior Legal Counsel, in charge of legislative drafting, Conveyancing and Contracts negotiation in Kiambu County Government.

## Rural Electrification Authority

### Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016



#### **Eng. Otwani, Justus Aufridus**

Eng. Otwani was appointed to the Rural Electrification Authority Board on 17<sup>th</sup> April 2015. Eng. Otwani has a wealth of working experience in Civil Engineering spanning over 18 years gained in Kenya and Southern Sudan. He holds a Master's Degree in Project Planning and Management, a Bachelor of Science Degree in Civil Engineering from JKUAT and is currently pursuing a Master of Science Degree in Civil Engineering (Transportation Planning) at Nairobi University. Eng. Otwani has successfully undertaken several design and construction supervision projects working in various positions of responsibility. He was the Resident Engineer on the upgrading of General Waruinge and Eastleigh First Avenue roads project in Nairobi from single to dual carriageway and the Project Director for the design and construction supervision of upgrading and automation works at the Athi River and Mariakani Axle Load Control Stations. He has also worked as a Drainage/Structural Engineer and as a Highway Engineer on many high profiled projects in both Kenya and South Sudan. Eng. Otwani is currently the Project Team Leader and Resident Engineer on the Meru Eastern and Western bypass roads project.



#### **Dr. Bernard Kipsang Rop**

Dr. Bernard Kipsang Rop was appointed to the Rural Electrification Authority Board of on 17<sup>th</sup> April 2015. Dr. Rop is a renowned academician, researcher, consultant and leader (former Commissioner of Mines and Geology). He holds BSc, MSc and PhD degrees in Petroleum Engineering Geology and wields over 27 years' experience in mining and energy programs. He is currently a Senior Lecturer and Chairperson, Department of Mining, Materials and Petroleum Engineering at Jomo Kenyatta University of Agriculture & Technology (JKUAT). Dr. Rop is also a prolific researcher and author and has published several books and academic papers in internationally refereed journals. He is also a Registered Geologist and Registered Lead Expert (NEMA).

## **Rural Electrification Authority**

### **Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**



**Jonas M. V. Kuko**

Mr. Jonas Kuko MistoVincent was appointed to the Rural Electrification Authority Board on 17<sup>th</sup> April 2015. He holds a Bachelor of Science Degree in Agriculture from Egerton University, Diploma in Farm Management from Egerton University and Certificate in General Agriculture. He has a wealth of knowledge and experience in the public sector having worked in the ministry of Agriculture in senior positions for a period spanning 28 years. He has also so served as principal of the Agricultural Training Centre.



**Francis M. Ongaki**

Mr. Francis M. Ongaki joined REA as an alternate director to the Principal Secretary, Ministry of Energy and Petroleum on the 17<sup>th</sup> day of July 2015. He is the Senior Deputy Secretary (SDS) in the Ministry of Energy and Petroleum. Prior to this appointment, he was the alternate director at the Kenya Pipeline Company (KPC). He has a degree in Public and Development Administration and is currently pursuing a Master's degree in Disaster Management at the University of Nairobi. Mr. Ongaki is a career administrator with 32 years of experience having joined the Civil Service in 1983 as a District Officer. Since then he has served in the Office of the President as Senior Assistant Secretary, Under Secretary and Deputy Secretary and has also worked in the Ministry of East African Community as well as the then Ministry of Lands. From his experience and background, Mr. Ongaki has a wealth of knowledge in Policy Formulation, Financial Management, Corporate Governance and Strategic Leadership Development.

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**



**Mrs. Florence Jematiah Sergon**

Mrs. Sergon was appointed to the Rural Electrification Authority Board on 2<sup>nd</sup> October 2015. She holds a Bachelor of Arts degree in political science and sociology from the University of Nairobi and she is currently pursuing her Master's degree in International Relations (Foreign Policy) at Nairobi University. She has a diploma in Dental Technology from a medical college. She has vast experience in the health and public sector. She has also worked as a private dental practitioner as a consultant and advisor in Political Affairs in United Republican Party (URP) for 3 years dealing with political programmes, party elections, empowering youth and women who engage in political matters. She also engages in business in the Petroleum subsector as a local dealer in petrol stations. Her future ambition is to change the society in her political leadership.



**Prof. Robert G. Gateru**

Prof. Robert Gateru was appointed to the Rural Electrification Authority Board on 2<sup>nd</sup> October 2015. He is a holder of PhD in Microelectronic Engineering & Semiconductor Device Physics from the University of Surrey (UK), Masters in Microelectronic Engineering & Semiconductor Device Physics from the University of Cambridge (UK) and BSc. (First Class Honours) in Physics from the University of Nairobi.

He is a seasoned academic, with over 10 years teaching and administration experience in various universities; he serves on a number of Boards, including Rural Electrification Authority, LIWA (Linking Industry With Academia) Kenya Trust and the Rift Valley Institute of Science & Technology. He is a

## **Rural Electrification Authority**

### **Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

Fellow of the Cambridge Commonwealth Society, a Senior Member of the Institute of Electrical & Electronic Engineer (IEEE), which is the world's largest technical professional association. He is also a Founding Member of the Physics Society of Kenya where he serves in the Executive Committee. He has served in the Editorial Board of the International Journal of Professional Practice and Chaired many Conference Steering Committees.

Selected awards that Prof. Gateru has received include the Distinguished Scholar Award by the ICT Association of Kenya, the Africa HR Leadership Award for Outstanding Contribution to Training & Development, and Kenya's Top 40 Under 40 Men (2012) recognition by the Business Daily. He has won numerous grants, most notably a KES 46 Million grant from the World Bank through the Government of Kenya for establishment of the Kenya Centre of Excellence for BPO Training. He has published widely in international journals and presented in conferences across the world.

Prof. Gateru joined Riara University from Kenya Methodist University (KeMU) where he was the Principal of the Nairobi Campus, a position he has held from 2010. He has also worked as founding Dean and Associate Professor in KeMU's Faculty of Computing and Informatics as well as Head of Department for the same institution. Prof. Gateru has previously served as the Founding Dean of the School of Science, Engineering and Technology at the Kabarak University where he also served as Head of Department for Computing, Mathematics and Physical Sciences as a Senior Lecturer.



Mr. David Ntirania Oleshege, OGW

Mr. Oleshege was appointed to the Rural Electrification Authority Board on 14<sup>th</sup> October 2015 as an Alternate Director to the Principal Secretary, National Treasury. He holds a Bachelor of Education degree from Moi University and a Master's degree in Arts, Peace and conflict Management, Kenyatta University. He has experience spanning over 16 years having held in various positions in the Public Sector. He is currently the Director of Administration at the National Treasury.



**Goretti M. Nyariki**

Goretti M. Nyariki was appointed to the Rural Electrification Authority Board on 17<sup>th</sup> April 2015<sup>1</sup>. She holds a Master Degree in Law (LLM) in Law, Bachelor of Laws (LLB), and Bachelor of Arts (Political Science). She is an Advocate of the High Court of Kenya with over 15 years post admission experience who has worked in the Private, Public and Non – Governmental Organizations sectors. She is also a Commissioner for Oaths, Notary Public, Arbitrator, Mediator, Certified Public Secretary, Human Rights Defender, Child Rights Lawyer, Facilitator and consultant on Constitutional issues.

Ms Goretti is also a Board member of the Kenya Coconut Development Authority and the Agricultural development Corporation and member in the following institutions; Institute of Directors, LSK's Committee on Continuing Legal Education & Child Law Practice, ICPSK's Editorial & Disciplinary Committees, and Council Member: FIDA – K and East Africa Law Society. She is also a member of the following professional bodies: Law Society of Kenya, East Africa Law Society, and Association of Professional Societies in East Africa, Certified Public Secretaries, Federation of Women Lawyers, FEMNET, Pan African Lawyers Union and the Chartered Institute of Arbitrators.



**Joshua Nthenge Musili**

Mr. Musili was appointed to the Rural Electrification Authority Board on 13<sup>th</sup> July 2009<sup>2</sup>. He holds a Bachelor of Science degree in Chemistry and Biochemistry. He has a wide range of experience both in Public and Private Sector. Prior to his appointment, Mr. Musili was a director with National Oil Corporation of Kenya. (NOCK).

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<sup>1</sup> Appointment revoked on 2.10.2015

<sup>2</sup> Term expired on 12.07.2015

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**



**Mrs. Beatrice W. Gathirwa**

Mrs. Gathirwa was appointed to the Rural Electrification Authority Board on 7<sup>th</sup> march, 2011<sup>3</sup> as an Alternate to the permanent secretary, Ministry of Finance. She holds a Master's degree in Business administration (MBA) in Strategic Management and a Bachelor of Commerce degree, accounting option from the University of Nairobi. She is also a certified Public Accountant (CPAK) . She is currently working in the department of Government Investment and Public Enterprises as the Acting Director, Investment. She has a wide range of experience in accounting in the civil service and has a wealth of knowledge and training in Board matters, corporate Governance, policy development and implementation, performance monitoring and strategy planning, implementation and evaluation.



**Mr. Jackson Barngetuny**

Mr. Barngetuny was appointed to the Rural Electrification Authority & Board on 6<sup>th</sup> April, 2012<sup>4</sup> as an Alternate to the Permanent Secretary, Ministry of Energy. He holds a Master's Degree Major in Accounting. He has a wide range of experience in Accounting in the Civil Service. He is currently working as the Senior Principal Finance officer in the Ministry of Energy.

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<sup>3</sup> Term expired on 14.10.2015

<sup>4</sup> Term ended on 17.07.2015

MANAGEMENT TEAM

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**N'gang'a Munyu**  
**Chief Executive Officer**



**Eng. David Rogoncho**  
**Chief Manager, Design**



**Dr. Rose Mkalama**  
**Authority Secretary**



**Eng. Ephantus Kamweru**  
**Chief Manager,**  
**Research & Development**



**Eng. Esther Ruto**  
**Chief Manager, Operations**



**Peter Mbugua**  
**Manager, Finance**



**Elizabeth Onoka**  
**Chief Manager, Human Resources**  
**& Administration**



**Erick Jaoko**  
**Chief Manager, ICT**



**James Muriithi**  
**Manager, Renewable Energy**



**Wangari Githii**  
**Manager, Communications**



**Wilfred Oduor**  
**Chief Manager, Procurement**  
**& Supplies**



**Joan Riitho**  
**Chief Manager, Internal Audit**



**Lindsay Kipkemoi**  
**Security Officer**

**Rural Electrification Authority  
Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

**CHAIRMAN'S STATEMENT**

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**Introduction**

On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements for Rural Electrification Authority for the year ended 30<sup>th</sup> June 2016.

**Electrification of Primary Schools**

During the year under review, the Authority's focus was on the electrification of primary schools. As at 30<sup>th</sup> June 2015, a total of 1,450 schools were un-electrified all of which were electrified during the year. During the year, a further 853 schools were identified and this balance is expected to be completed during the 2016-17 FY alongside other public facilities that were not electrified before.

**Financial Performance**

The Authority received a total of Ksh.13.4 Billion during the year under review out of which Ksh.12.4 Billion was funded by the GOK and the balance of Ksh.1.0 Billion was raised through donor funds, partnerships with counties, constituencies as well as generated internally. These receipts were used to fund the recurrent (4%) and development expenditure (96%).

**Future Prospects**

The Authority remains committed to the continued electrification of the rural population. Going forward, particular attention will be given to the use of renewable energy from solar, wind and other sources.

**Appreciation**

I wish to thank my colleagues in the Board for their support and the staff of the Authority for their efforts during the year that has ensured that the Authority meets its objectives. In addition, I wish to thank the Government for its continued support to REA during the year

  
Prof. SIMON GICHARU, CBS

CHAIRMAN

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

**REPORT OF THE CHIEF EXECUTIVE OFFICER**

---

**Introduction**

**Electrification of Primary Schools**

A preliminary survey undertaken by the Rural Electrification Authority (REA) in May and June 2013 showed that there were about 21,222 public primary schools across the country. The level of electrification of the schools was as follows;

Number of schools electrified	-	10,157
Number of schools not electrified	-	<u>11,065</u>
<b>Total</b>	<b>-</b>	<b>21,222</b>

Based on this data, the target set at the beginning of 2013/14 was to electrify 5,000 and 6,065 public primary schools in 2013/14 and 2014/15 financial years, respectively.

REA has continued to update the data on public primary schools through consultation with stakeholders and currently the total number stands at about 23,082. The update has also revealed that the number of primary schools electrified by 30<sup>th</sup> June 2013 was about 7,591 and not 10,157. Currently a total of 22,208 public primary schools have been electrified while 874 are in progress as shown below;

STATUS	MODE OF POWER SUPPLY	NO. OF SCHOOLS		PERCENTAGE
<b>Electrified</b>	Grid	18,271	22,208	96%
	Solar	3,937		
<b>Not electrified*</b>	Major works completed -	432	874	4%
	Grid	359		
	Solar	83		
<b>Total</b>			<b>23,082</b>	<b>100%</b>

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

**Financial Performance**

The Authority continues to pursue prudent financial management policies as attested to by the financial results herein. As highlighted by the Chairman, out of the total receipts of 13.4 Billion during the year, 96% was channeled to capital expenditure while a paltry 4 % was utilized on recurrent expenditures.

**Customer Focus**

During the year, the Authority continued its efforts towards ensuring the customer needs were continuously identified and met. The results of the internal ISO quality audits and the recently concluded surveillance audits reflect positively on the Authority's intent to ensure that its customers and other stakeholders are aware of the Authority's procedures and systems and have access to the pre-defined mechanism of channeling their concerns.

**Our Employees**

Our staffs remain the greatest asset of the Authority. The Authority will continue to build on the commitment of the staff through facilitating continuous professional development as well as structured remuneration to ensure that they remain motivated in line with the Authority's staff retention policy.

**Future Outlook**

REA's target is to electrify all the remaining un-electrified main public facilities by the end of 2020/21 financial year. This will be done alongside the last mile projects launched by His Excellency the President in May 2015.

**Appreciation**

I wish to salute the selfless, committed, passionate and dedicated staff who worked round the clock to ensure that they at all times achieve and even surpass set targets. Any form of achievement can only be made through commitment, hard work and self-sacrifice. My sincere gratitude also goes out to the Rural Electrification Authority Board of Directors for the continued support accorded to us throughout this process. We are also indebted to the Government and the Ministry of Energy for their support that has ensured successful implementation of the Authority's mandate.



**NG'ANG'A MUNYU, MBS**

**CHIEF EXECUTIVE OFFICER**

## **CORPORATE GOVERNANCE STATEMENT**

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### **Introduction**

The Rural Electrification Authority (REA) was established under Section 66 of the Energy Act No. 12 of 2006. The Authority's mandate is set out under section 67 of the Act which states that the Authority is set up to:

- a) Manage the Rural Electrification Programme Fund;
- b) Develop and update the rural electrification master plan;
- c) Implement and source additional funds for the rural electrification programme;
- d) Promote the use of renewable energy sources;
- e) Manage the delineation, tendering and award of Contracts for licenses and permits for rural electrification; and
- f) Perform such other functions as the Board may direct.

### **Corporate Governance Practices**

Corporate governance refers to the manner in which the power of any organization is exercised in the stewardship of the organization's total portfolio of assets and resources with the objective of maintaining and increasing the satisfaction of the stakeholders, in the context of the corporate Vision and mission. The Board of directors and Management of REA acknowledge that the Authority, as an agent of Government, manages public funds while electrifying rural areas which require a high degree of accountability. In order to achieve its mandate, and to properly report back to the owners on how well it has utilized public resources, the Authority has developed and embraced the ethos of good corporate governance. To this end, the Authority has taken deliberate measures to ensure that levels of governance in the Authority are in line with accepted good governance standards. The main corporate Governance practices and structures are set out in this statement.

### **Appointment of Directors**

The Board of Directors of the Authority is appointed pursuant to Section 68(1) of the Energy Act 2006. This section also sets out mandatory qualifications that individuals must possess to qualify for appointment as directors. The chairman is appointed by the President of the Republic of Kenya to serve for five (3) years and may be re-appointed for one further term of three (3) years. Directors are appointed by the Minister of Energy for a three (3) year term but can subsequently be re-appointed for a further term of three years.

The Board consists of eleven (11) directors. Two are drawn from Government that is, the Permanent Secretary, Ministry of Energy and the Permanent Secretary, Ministry of Finance. The chairman of the Board and the other eight (8) directors are drawn from both the private and public sector. This provides the necessary mix of skills, experience

## **Rural Electrification Authority Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

and expertise to the Board that are required to propel the Authority towards meeting its Legal mandate of electrifying rural areas which will eventually spur economic and social development in the country.

### **Interfaces between the Authority and Government**

The Authority is a State Corporation pursuant to the State Corporations Act. It is a body corporate, governed by the principles of Corporate Governance but being a State Corporation established by an Act of Parliament, it does not have shareholders as defined in the Companies Act, Chapter 486. The equivalent to shareholders is the Government, which under the State Corporations Act, has the ultimate legal authority over State Corporations. To ensure proper linkages with Government and proper information flow, the Permanent Secretary, Ministry of Finance and the Permanent Secretary, Ministry of Energy are Board members while the Inspector General (Corporations), Inspectorate of State Corporations, attends Board and Committees meetings on invitation. The three are able to give policy direction to the Board to ensure decisions made by the Board are in tandem with Government policy. The Board also, in keeping with Government policy, consults widely with Treasury and the State Corporations Advisory Committee (SCAC) through the parent ministry from time to time and is keen to implement guidelines that are issued by Government from time to time through circulars.

### **Board Manual, Board Charter and Code of Ethics**

The Board acknowledges that it is the custodian of good corporate governance in the Authority, and it has the responsibility to ensure that proper Governance Structures are developed and properly implemented to this end, it has put in place structures both at the strategic and operational level to support good corporate governance in the Authority. At the operational level, all systems and procedure manuals are in place and are continuously monitored through the various Board Committees. In order to guide its business, the board operates in accordance with the principles set out in its Board manual, Board Charter and Code of ethics and conduct.

### **Board Manual**

This is a reference guide for Directors of the Authority. It seeks to expound and explain the collective and individual powers, duties, obligations, responsibilities and liabilities of Directors. It also highlights the requirements of good Corporate Governance which are necessary to bring the standards of Corporate Governance in the Authority up to International best practice. Specifically the Board Manual clearly spells out the roles and duties of the Chairman, Directors, CEO and Management ; the liabilities of directors; the interface between the Government and the Authority; procedures and conduct of meetings; terms of reference of various Board committees ;capacity building of Directors and evaluation of the performance of Directors. The Manual also elaborates the key tenets of Corporate Governance.

## **Rural Electrification Authority**

### **Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

#### **Board Charter**

The Charter seeks to facilitate the effectiveness of each Director's contribution, consistent with the standards of independent judgement, ethics and integrity that Directors are expected to observe as they provide leadership in achieving the Authority's mandate as articulated in Section 67 of the Energy Act, 2006. By abiding to the Charter and living the values of the Authority, the Board has committed that it will provide leadership and strategic direction to the staff in achieving the Vision and Mission of the Authority. In summary, the charter covers the following; that Directors shall always act in the interest of the Authority; have commitment to attend meetings and to meaningfully contribute to matters before the Board; uphold the core values of the Authority; observe confidentiality; be committed to Board evaluation at the end of every year; be responsible to all stakeholders including staff and observe proper financial management of the public funds bestowed on them.

#### **Code of Ethics and Conduct for Directors and Staff**

A Code of Ethics and Conduct for Directors and staff have been developed and signed by all directors and staff as a demonstration of individual commitment in upholding good corporate governance. The code sets out the ethical rules that govern the conduct of individual Directors and staff which are considered essential in providing guidance and direction in the manner in which members of the Board and staff is expected to conduct themselves when handling matters relating to the Authority.

It is intended to establish standards of ethical conduct and behavior for both the staff and the Board of Directors of the Authority, so as to maintain integrity and impartiality in the provision of services to members of the public. The main areas in the code include; to always uphold good faith and act honestly; to always promote and practice fairness to all stakeholders in the course of executing their mandate; to have integrity and to always declare interest whenever there was an issue related to him/her that is before the Board; upholding confidentiality in matters of Authority that come to their attention by virtue of their positions as staff or directors; not involving themselves in any business transaction with the Authority; not to misuse Authority property; compliance with Authority policies and being sensitive to the customers that they serve.

#### **The Roles and Responsibilities of the Chairman**

The Chairman of the Board who served during the year under review was Prof. Simon Gicharu. The Chairman provides the required leadership to the Board and manages the affairs of the Board with the assistance of the Chief Executive Officer. The main duties of the chairman include; Provision of overall leadership to the Board and chairing all board meetings; setting the agenda for meetings in consultation with the CEO and efficiently conducting board meetings; harnessing the collective skills of the board and executive team; creating teamwork among Directors and also between the Directors and Management; ensuring new directors are properly inducted; encouraging directors to fully participate in board deliberations; overseeing the development of the Board's annual business plan and

## **Rural Electrification Authority Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

preparation of the Authority's annual Performance Contracts; ensuring that there are constant strategies for monitoring and evaluating the effectiveness of the Board, the Chairman, individual Directors, senior management and the entire Authority; acting as an informal link between the Board, Management and Government.

### **The Roles and Responsibilities of the Board**

The functions of the Board are strategic in nature in that they provide overall leadership to management to ensure that the Authority is at all times on course in achieving its mandate. The Board of the Authority is mandated to exercise all the powers of the Authority within the framework of the Energy Act and the laws and regulations that regulate State Corporations, in particular the State Corporations Act, Chapter 446. The main functions of the Board include; overseeing the development, implementation, review and monitoring of the Authority's Strategic plan; approval of the Core values, mission and vision; approval of annual budget and monitoring compliance to the Budget; approval of interim Financial statements; approval of all the procedure manuals and systems; setting the terms of service for staff; setting Board Committees; monitoring performance; ensuring that a vibrant risk management system is in place and strictly adhered to; overseeing the development of staff policies; development and implementation of a capacity programme for the directors. The Board may, by resolution either generally or in any particular case, delegate to any committee of the Board or to any member, officer, employee or agent of the Authority, the exercise of any of the functions or duties of the Board

The Directors who served during the year under review were Prof. Simon Gicharu (Chairman), Eng. Joseph Njoroge (PS, MOE), Mr. Jackson Barng'etuny (Alternate to PS-MOE), Dr. Kamau Thugge (PS, National Treasury), Beatrice W. Gathirwa (Alternate PS, Treasury), Mr. Joshua Nthenge Musili, Mr. Franklin Mutuma Nkanata, Eng. Elisha Akech, Mrs. Josephine Muritu, Otwani Justus Oufridas, Dr. Benard Kipsang Rop, Jonas Kuto Misto Vincent, Goretta M. Nyariki, Francis M. Ongaki, Prof. Robert Gateru, Mrs Florence J. Serگون, and Mr. David Oleshege.

### **The Roles and Responsibilities of the Chief Executive Officer**

The Chief Executive Officer (CEO) who served during the year under review was Mr. Ng'ang'a Munyu. The CEO is the Authority's most senior employee. The main responsibilities of the CEO are set out in the Board manual and are summarized as follows; recommending policy, strategic direction and business plans for Board approval; in charge of the day to day running of the Authority implementing Board decisions; submitting reports on the performance of the Authority to the Board; implementing the corporate Strategic plan; submitting financial reports to the Board for approval before audit; preparing and implementing the annual performance contract for the Authority; Developing all the systems and procedures and recommending them to the Board for approval; Preparation of quarterly Performance contract reports; procurement of goods and services; preparation of funding proposals; attending to staff matters; ensuring that a proper training programme for the staff and the Board is in place and

## **Rural Electrification Authority**

### **Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

properly implemented; ensuring that the Authority has the right staff at all times; putting in place a proper succession plan; ensuring that there is a good working environment for staff; acting as the link between the Board and the staff; communicating Board decisions to staff and creating teamwork work among the staff and also between the Board and management.

#### **The Roles of the Authority Secretary**

Dr. Rose N. Mkalama served as the Authority secretary during the year under review. The duties of the Authority secretary are enumerated in the Board manual as follows; in consultation with the CEO; provision of secretarial services to the Board and Board committees; Organizing Board and Board committee meetings ; advising management on content and organization of memoranda or presentations to the Board meetings; Circulating Board papers to directors in good time to ensure that directors have sufficient time to prepare for Board and Board committee meetings; ensuring that minutes are taken in all meetings and that the minute books are properly maintained; ensuring that that all Board committees are properly constituted and provided with clear terms of reference; ensuring that the Authority is at all times compliant with all the Laws and Government policies issued from time to time; development and implementation of a schedule of Board and Board committee meetings and other board activities every year, and development and implementation of a capacity building programme for Directors.

#### **Board Meetings**

The State Corporations Act provides that the Board shall meet at least four (4) times in a year. The responsibility of deciding the number of meetings that the Board and Board committee should hold is vested on the Board. In order to ensure that Directors plan early, the schedule of Board meetings for each financial year is approved by the Board at the beginning of the year. Special Board meetings may be called from time to time to address specific issues that cannot wait for the scheduled meeting. Notices to board meetings are sent fourteen (14) days before the meeting. Board papers are circulated at least seven days before meetings. The Chairman provides leadership during Board meetings and strives to ensure open and constructive discussions during the meetings. During the year under review, the Board held seven (7) Board meetings. The average attendance to Board meetings by Directors recorded during the year was about 80%. This good attendance made it possible for crucial decisions and approvals to be given and hence Management was able to implement Board decisions in good time. The board is allowed to obtain outside independent professional advice from qualified individuals if they consider it necessary. The costs for such services are met by the Authority. To ensure involvement of Directors in Board matters, Directors are allowed to propose Agenda items during Board meetings.

#### **Committees of the Board**

## **Rural Electrification Authority**

### **Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

The State Corporations Act gives powers to the Board to constitute such other standing committees as it deems fit. Board committees are designed to ensure that that the Board is run efficiently, effectively and in a manner that embraces Corporate Governance. They delve into issues that require attention and this way, the committees are able to give greater attention to issues and then report back to the Board. This enables the Board to deliberate on issues and make more informed decisions. In order to achieve this, the Board has established five (5) committees as follows;

- a) Audit Committee
- b) Finance committee
- c) Strategy and Project Implementation Committee
- d) Human Resources Committee
- e) Procurement Oversight Committee

In coming up with the members of the various Committees, the Board is guided by the area of specialization of each Director.

The Committees meet at least four times in a year. However, special meetings may be called from time to time to deal with specific matters. Notices to meetings are sent fourteen (14) days to the date of the meeting, and papers for discussion are circulated seven (7) days to the date of the meeting. This way, members are able to adequately prepare for meetings and give meaningful contribution.

Unless expressly delegated by the Board to one of its committees, all matters determined by committees are submitted to the full Board as recommendations for Board decision. All committees are allowed to obtain outside independent professional advice from qualified individuals to advice on specific issues if they consider it necessary. The costs for such services are met by the Authority. Each committee has its own terms of reference that guide its operations as summarized here below;

#### **Audit Committee**

The Audit Committee is basically the watchdog for the Authority. It ensures that all the systems in the Authority are functioning properly. The main terms of reference as provided for in the Board manual are as follows;

- (i) Support the Board of Directors in reviewing the effectiveness of the Authority's processes of Corporate Governance;
- (ii) Review the annual financial statements and consider whether they are complete, consistent and reflect appropriate accounting principles and make appropriate recommendations for necessary action;
- (iii) Recommending financial statements to the Board for approval before submission to the Controller and Auditor General for audit;

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

- (iv) Review the result of the audit on the financial statements by the External Auditor or any other inspector or investigator engaged by REA;
- (v) Consider the effectiveness of the REA internal control systems established by management to ensure compliance with policies, laws and regulations;
- (vi) Review the risk management framework and assess policies and controls developed by Management for risk assessment and risk management;
- (vii) Review and approve the internal audit plan, charter and manual;
- (viii) Review the activities, organizational structure and qualifications of the internal auditors;
- (ix) Assess managements' action on significant findings and audit recommendations and ensure that action taken is adequate to maintain the integrity of the financial systems.

In addition to the Terms of Reference, the committee also has an Audit committee Charter that defines how they are supposed to execute their responsibilities.

**Finance Committee**

The committee is responsible for Financial Management and proper resource allocation in the Authority. The Terms of reference of the committee are as follows;

- (i) Develop and recommend to the Board the Authority's Annual Budget;
- (ii) Develop, review and approve major changes in the Authority's accounting policies;
- (iii) Oversee the preparation of year-end financial statements of the Authority;
- (iv) Develop strategies aimed at achieving financial sustainability for the Authority;
- (v) Consider and recommend to the Board Banking facilities and Authority levels;
- (vi) Ensure proper financial management systems are in place;
- (vii) Develop a financial monitoring system for the Organization

**Strategy and Project Implementation Committee**

The main responsibility of this committee is to ensure that the Authority's strategic plan is in place and is being implemented. The Committee also monitors the Authority's performance. The Committee's Terms of reference are set out in the Board manual and summarized here below;

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

- (i) Advise the Board on strategies to be adopted in order to enhance performance of the Authority towards achieving its mandate and objectives;
- (ii) Develop annual work plans for the committee and ensure compliance with the same;
- (iii) Receive and consider the reports of all proposed new business practices, policies and capital development
- (iv) Review the Authority's Master plan from time to time and make recommendations for its amendment to the Board;
- (v) Develop, Review and oversee the implementation of the Authority's corporate strategic plan;
- (vi) Consider and make recommendations to the Board on an annual basis on project identification, preliminary costing of projects and funds allocation.
- (vii) Monitor the Authority's performance.

**Human Resources Committee**

The overall responsibility of the Human Resource committee is to ensure that proper policies are developed to manage the Authority's human resource in accordance with the labour Laws and any other applicable laws. Their Terms of Reference are enumerated in the Board manual and summarized here below;

- (i) Oversee human resource planning and ensure that the Authority has the right number of staff at the right time and at the right place capable of delivering the Authority's mandate;
- (ii) Consider and recommend the Authority's staff establishment and remuneration, including bonuses and other incentives, to the Board for approval;
- (iii) Consider staff recruitment and make recommendations to the Board and to ensure that the recruitment process is done in a fair manner;
- (iv) Approve the training plan for the Authority and recommend the training budget to the Board for approval;
- (v) Develop and oversee the implementation of a health and safety policy for the staff in the work place as required by the law;
- (vi) Develop anti-sexual harassment policy, HIV policy and an equal employment policy for the Authority as required by the law;
- (vii) Develop and oversee the implementation of a comprehensive human resource manual for the staff; and to review it from time to time;
- (viii) Ensure that the Authority complies with all the labour laws and Government circulars released by the office of the President from time to time;
- (ix) Ensure that staff has a conducive work environment.

## **Rural Electrification Authority**

### **Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

#### **Procurement Oversight Committee**

The overall responsibility of the committee is to ensure that the annual procurements undertaken by Management are able to support the annual business plans for the Authority. The Terms of Reference are provided for in the Board manual and are summarized as follows;

- (i) Discuss and propose to the Board the Authority's annual procurement plan for approval
- (ii) Review of the annual procurement plan when need arises.
- (iii) Ensure adherence to the procurement plan
- (iv) Ensure that the Authority's procurement plan is capable of enabling the Authority achieve its mandate.
- (v) Monitor the implementation of the procurement plan to ensure that it conforms to the approved budget.
- (vi) Ensure that procurement reports are submitted to the Board.

#### **Directors Remuneration**

The Chairman and members of the Board are paid out of the funds of the Authority, such sitting or other remuneration and/or benefits as the Board may, within the scales of remuneration specified from time to time by the State Corporations Advisory Committee, approve.

**Rural Electrification Authority**  
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**CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

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Rural Electrification Authority (REA) recognizes CSR as a vital part of its corporate activity and is therefore committed to sustainable business practices in the endeavor to achieve its mandate.

**Contribution to Community Empowerment**

The Authority supports sustainable initiatives by the communities to develop their social, economic, and institutional development and contributes to the building of a prosperous and vibrant society by providing safe, high-quality products and services. We recognize that every community is unique and we work with our community partners to ensure that our support matches their priorities.

We seek to maximize employment, business and economic opportunities for local communities in all our operations.

**Stakeholder Engagement**

The Authority will promote an ongoing dialogue and disclose information openly and transparently in order to maintain and develop a relationship of trust with stakeholders in the communities where we operate, and act responsibly towards them through various means of communication

**Human Rights**

The Rural Electrification Authority will conduct all its business in accordance with accepted standards in the protection and promotion of human rights based on the principles of fairness and sincerity and a high sense of corporate ethics.

**Environmental Conservation**

The Rural Electrification Authority will strive to minimize environmental effects in its areas of operations and utilize its resources towards the development of a sustainable society that is in harmony with the environment.

**Health and Education**

REA supports both Health and Educational institutions in order to improve the standard of these services in the rural areas and therefore contribute towards the provision of skills to steer Kenya to the economic and social goals of Vision 2030.

**Preservation of Art, Culture and Sports**

We respect the cultural, historical perspectives and rights of the communities in our areas of operation. The Rural Electrification Authority will preserve and encourage activities to promote local culture and sports for posterity.

**Responsible Partnerships**

## **Rural Electrification Authority**

### **Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

The Rural Electrification Authority will make every effort to promote fair and sound business practices among its partners by fostering a common awareness of social responsibility.

#### **Conformity with Laws and Regulations**

REA will act in conformity with the laws and regulations that govern our operations and also adhere to relevant international conventions and incorporate respect for international standards

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

**REPORT OF THE DIRECTORS**

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The Directors submit their report and audited financial statements for the year ended 30<sup>th</sup> June 2016 which disclose the state of affairs of the Authority.

**Principal Activities**

The principal activities of REA as stipulated in section 67 of the Act are as follows;

1. To manage the Rural Electrification Programme fund.
2. To develop and update the Rural Electrification program master plan.
3. Implementing and sourcing for funding for the rural electrification programme.
4. Promotion of renewable energy sources of electricity and,
5. Management of delineation, tendering and award of contracts for licences and permits for rural electrification.
6. Perform such other function as the Board may direct.

**Results for the year**

The results for the Authority for the year are shown in the Statement of Financial performance as set out on page 1

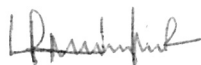
**Directors**

The Directors who served during the year are as shown in page vii

**Auditors**

The Auditor General is responsible for the Statutory Audit of the Company's books of accounts in accordance with provisions of the Public Audit Act, 2015.

By Order of the Board



**Dr. Rose N. Mkalama**

**Authority Secretary**

**30<sup>th</sup> September 2016**

**STATEMENT OF DIRECTOR'S RESPONSIBILITIES**

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Section 82 of the Public Finance Management Act, 2012 and section 77 of the Energy Act 2006, require the Directors to prepare financial statements in respect of that Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year and the operating results of the Authority for that year. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

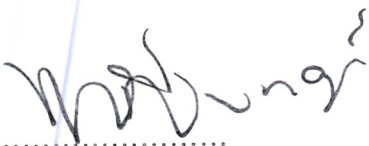
The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements 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 entity; (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 Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2016, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The Authority's financial statements were approved by the Board on 04/04/2017 and signed on its behalf by:

  
.....  
**Ng'ang'a Munyu, MBS**  
**Chief Executive Officer**

  
.....  
**Josephine Muritu**  
**Board Member**

  
.....  
**Prof. Simon Gicharu, CBS**  
**Chairman.**

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

**REPORT OF INDEPENDENT AUDITORS ON RURAL ELECTRIFICATION AUTHORITY**

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## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON RURAL ELECTRIFICATION AUTHORITY FOR THE YEAR ENDED 30 JUNE 2016

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#### REPORT ON FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Rural Electrification Authority set out on pages 1 to 18, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, 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 in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such 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.

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

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with Section 48 of the Public Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures

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*Report of the Auditor-General on the Financial Statements of Rural Electrification Authority for the year ended 30 June 2016*

that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Basis for Qualified Opinion**

#### **1. Property Plant and Equipment - WIP**

The statement of financial position reflects property plant and equipment valued at Kshs.59,510,572,000 (2015 Kshs.48,912,145,000) as at 30 June 2016 further disclosed under Note 19 to the financial statements. Included in the balance is work-in-progress (WIP) valued at Kshs.18,717,253,000 out of which a balance of Kshs.2,433,682,000 relates to WIP brought forward from prior years which however, has not been supported with detailed project analyses. Also included in the WIP balance is a transitional account balance of Kshs.1,123,212,000 that ought to have cleared into the WIP ledger, but was outstanding as of 30 June 2016.

Under the circumstances, it has not possible to confirm if the property, plant and equipment balance of Kshs.59,510,572,000 as at 30 June 2016 is fairly stated.

#### **2. Unremitted Taxes**

As previously reported, the financial statements of the Authority reflect current tax payable to Kenya Revenue Authority amounting to Kshs.17,039,000, as reflected under Note 24 to the financial statements. Included in the amount is withheld Value Added Tax (VAT) totalling Kshs.16,636,822 not remitted to Kenya Revenue Authority (KRA) on due dates. No tangible actions have been taken by management to resolve the matter. The Authority continues to expose itself to the risk of incurring tax penalties for its delay in remitting the withheld taxes.

### **Qualified Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Rural Electrification Authority as at 30 June 2016, and its financial performance and of its cash flows for the year then ended, in accordance with International Public Accounting Standards (Accrual Basis) and comply with the Energy Act, 314 (Rev.2012) of the Laws of Kenya.

## **Other Matter**

### **1. Delays in Completion of Diesel Power Stations**

Included in the property plant and equipment balance under work-in-progress balance of Kshs.18,717,253,000, and as disclosed under Note 19 to the financial statements, is the cost of four (4) diesel power stations projects under construction at Kakuma, Lokirama, Maikona and Kholondile valued at Kshs.622,635,639. The contractual completion dates for the projects have long passed with some more than three (3) years behind schedule. Consequently, it has not been possible to confirm when the projects will be completed and if so, whether this will be at the initial contractual cost.

### **2. Unrecovered Duty Paid to KRA on Behalf of Vendor**

As previously reported, the Authority in the period 2014/2015 paid duty totalling Kshs.31,894,000 to Kenya Revenue Authority (KRA) on behalf of one of its vendors. According to information available, this was to preempt a KRA agency notice being issued against the Authority's bank account. Although management has made full provision for the amount in the financial statements, the amount is yet to be recovered from the vendor. In the circumstance, it has not been possible to confirm whether, and if so, when the amount will be recoverable.



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

**Nairobi**

**30 May 2017**

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

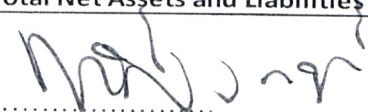
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE PERIOD ENDED 30<sup>TH</sup> JUNE 2016**

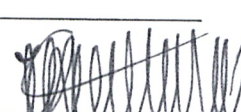
	Note	2015-16 (Kshs.'000')	2014-15 FY (Kshs.'000')
<b>Revenue from Non-Exchange Transactions</b>			
GOK Grants	3	501,579	504,000
Levies	4	4,413,219	4,381,715
External Funding	5	756,640	499,165
Other income	6	183,464	253,174
		<b>5,854,901</b>	<b>5,638,054</b>
<b>Revenue from Exchange Transactions</b>			
Connection fees	7	6,479	68,801
Interest Income	7	41,560	143,863
Other income	7	2,905	-
Sale of Scrap	7	9,970	-
		<b>60,914</b>	<b>212,664</b>
<b>Total Revenue</b>		<b>5,915,815</b>	<b>5,850,718</b>
<b>Expenses</b>			
Employee Costs	8	299,248	256,318
Administrative Expenses	9	95,448	164,606
Remuneration of Directors	10	29,682	15,511
Operating Expenses	11	68,452	211,907
Establishment Expenses	12	625,668	436,386
Finance Costs	13	-	244
Tax Expenses	14	8,221	94,209
<b>Total Expenses</b>		<b>1,126,719</b>	<b>1,179,181</b>
<b>Surplus for the Period</b>		<b>4,789,096</b>	<b>4,671,537</b>

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

STATEMENT OF FINANCIAL POSITION AS AT 30<sup>TH</sup> JUNE 2016

	Note	2015/16 (Kshs.'000')	2014/15 (Kshs.'000')
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	15	864,744	583,402
Receivables from Exchange Transactions	16	599,498	952,519
Receivables from Non-Exchange Transactions	17	37,518	26,286
Inventories	18	4,746,055	4,734,698
		<b>6,247,814</b>	<b>6,296,905</b>
<b>Non-Current Assets</b>			
Property Plant and Equipment	19	59,510,572	48,912,145
Intangible Assets	20	140,720	46,116
		<b>59,651,292</b>	<b>48,958,261</b>
<b>Total Assets</b>		<b>65,899,107</b>	<b>55,255,166</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and Other payables from Exchange Transactions	21	4,569,510	6,232,437
Refundable Deposits from Customers	22	200	200
Provisions	23	43,312	105,907
Taxation	24	17,039	20,450
		<b>4,630,062</b>	<b>6,358,995</b>
<b>Non Current Liabilities</b>			
		-	-
<b>Total Liabilities</b>		<b>4,630,062</b>	<b>6,358,995</b>
<b>Net Assets</b>			
Reserves	25	25,364,638	17,867,788
Accumulated Surplus	25	35,904,406	31,028,383
<b>Total Net Assets and Liabilities</b>		<b>65,899,107</b>	<b>55,255,166</b>

  
 Ng'ang'a Munyu, MBS  
 Chief Executive Officer

  
 Josephine Muritu  
 Board Member

  
 Prof. Simon Gicharu, CBS  
 Chairman.

**Rural Electrification Authority**

**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

STATEMENT OF CHANGES IN NET ASSETS FOR THE PERIOD ENDED 30<sup>TH</sup> JUNE 2016

Description	Note	Capital Reserves (Kshs '000')	Development Reserves (Kshs '000')	Accumulated Surplus (Kshs '000')	Total (Kshs '000')
As at 1st July 2014		53,596	10,832,102	26,351,611	37,237,309
Surplus for the Year				4,671,537	4,671,537
Development Grant			6,982,091		6,982,091
Prior year adjustment				5,235	5,235
<b>As at 30th June 2015</b>		<b>53,596</b>	<b>17,814,193</b>	<b>31,028,383</b>	<b>48,896,172</b>
As at 1st July 2015		53,596	17,814,193	31,028,383	48,896,172
Surplus for the Year				4,789,096	4,789,096
Adjustments	26			86,928	86,928
Development Grant			7,496,850		7,496,850
<b>As at 30th June 2016</b>		<b>53,596</b>	<b>25,311,043</b>	<b>35,904,406</b>	<b>61,269,045</b>

Rural Electrification Authority  
Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30<sup>TH</sup> JUNE 2016

	<u>2015/16 (Kshs. '000')</u>	<u>2014/15 (Kshs. '000')</u>
<b>Cash Flow From Operating Activities</b>		
Surplus for the Period	4,789,096	4,671,537
Adjust for Depreciation	568,263	352,699
Write-off of bond discount on sale	-	-
<b>Working Capital Changes</b>		
Decrease(Increase) in Inventory	(11,356)	379,581
Decrease(Increase) in Receivables	341,789	715,853
Increase (Decrease) in Payables	(1,784,389)	4,963,150
<b>Net Cash from Operating Activities</b>	<b>3,903,403</b>	<b>11,082,820</b>
<b>Investing Activities</b>		
Purchase of Fixed Assets	(11,118,911)	(18,923,142)
Disposal of Long Term Bonds	-	-
Disposal of Motor Vehicle	-	2,911
<b>Net Cash used in Investing Activities</b>	<b>(11,118,911)</b>	<b>(18,920,231)</b>
<b>Financing Activities</b>		
Development Fund Appropriation	7,496,850	6,982,091
Refund of Overcharge	-	-
<b>Net Cash from Financing Activities</b>	<b>7,496,850</b>	<b>6,982,091</b>
<b>Net Increase(Decrease) in Cash and Cash Equivalents</b>	<b>281,342</b>	<b>(855,320)</b>
Cash and Cash Equivalents 30.06.2015	583,402	1,438,722
<b>Cash and Cash Equivalents 30.06.2016</b>	<b>864,744</b>	<b>583,402</b>
Cash & Cash Equivalents as per Statement of Financial Position	864,744	583,402
Less: Overdraft	-	-
<b>Cash and Cash Equivalents 30.06.2016</b>	<b>864,744</b>	<b>583,402</b>

Rural Electrification Authority  
Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016

STATEMENT OF COMPARISON OF BUDGET & ACTUAL EXPENDITURE FOR THE PERIOD  
ENDED 30<sup>TH</sup> JUNE 2016

Revenue	Original Budget 2015-2016 '000'	Adjustments '000'	Adjusted Budget '000'	Actual on Comparable Basis 30th June 2016 '000'	Performance Difference '000'
Exchequer Development	7,496,850	-	7,496,850	7,496,850	-
Last Mile Connectivity	1,500,000	(1,500,000)	-	-	-
Exchequer Recurrent	504,000	-	504,000	501,579	(2,421)
Petroleum Devt Levy	687,000	-	687,000	687,000	-
Kipevu Oil Storage	134,000	-	134,000	128,000	(6,000)
REP Levy	2,114,000	1,415,213	3,529,213	3,598,219	69,006
Royalties- collected by GOK	-	-	-	-	-
IDA	700,000	191,697	891,697	756,640	(135,057)
BADEA	2,471,000	(1,871,000)	600,000	-	(600,000)
	<b>15,606,850</b>	<b>(1,764,090)</b>	<b>13,842,760</b>	<b>13,168,287</b>	<b>(674,473)</b>
CDF/ County Funding	150,000	-	150,000	161,930	11,930
Capital Contribution Customers	-	10,577	10,577	6,479	(4,098)
Other Revenue	-	-	-	2,905	2,905
Interest Income	-	19,507	19,507	41,560	22,053
Licences	-	12,104	12,104	21,533	9,429
Royalties- collected by REA	-	-	-	-	-
Sale of Scrap	-	3,406	3,406	9,970	6,564
	<b>150,000</b>	<b>45,594</b>	<b>195,594</b>	<b>244,378</b>	<b>48,784</b>
<b>Sub-Total Revenue</b>	<b>15,756,850</b>	<b>(1,718,496)</b>	<b>14,038,354</b>	<b>13,412,665</b>	<b>(625,689)</b>
Recurrent Expenditure	Original Budget 2015-2016 '000'	Adjustments '000'	Adjusted Budget	Actual on Comparable Basis 30th June 2016 '000'	Performance Difference
Salaries, Wages & Other Staff Costs	268,957	-	268,957	284,693	(15,736)
Board Expenses	47,996	-	47,996	29,682	18,314
Staff Training & Seminars	5,000	1,146	6,146	8,291	(2,144)
Postage & Telephone	12,276	-	12,276	8,824	3,452
General transport/ Vehicle expenses	15,000	-	15,000	7,679	7,321
Traveling- Local	5,012	16,215	21,227	14,177	7,050
Traveling-Foreign	5,000	(3,000)	2,000	378	1,622
Hospitality Expenses	5,000	2,557	7,557	6,023	1,533
Office Cleaning Services	5,000	3,901	8,901	8,332	569
Printing & Stationery	7,000	2,606	9,606	36,097	(26,491)
Advertising & Promotions	19,000	-	19,000	30,400	(11,400)
Computer Expenses	35,102	-	35,102	33,539	1,563
Audit fees	3,062	-	3,062	3,062	-
Consultancy and Professional Fees	-	1,496	1,496	1,496	0
Bank Charges & Commissions	3,000	-	3,000	1,149	1,851
Corporate Social Responsibility	5,000	-	5,000	488	4,512
Rent and Rates	3,563	1,320	4,883	4,815	68
Repairs & Maintenance Expenses	5,283	-	5,283	4,848	434
General Insurance	22,952	2,085	25,037	25,037	-
Water & Electricity	6,000	3,284	9,284	9,261	24
Security	13,080	-	13,080	12,896	184
Subscriptions	1,000	-	1,000	549	451
Research & Development	-	-	-	-	-
Finance costs	1,000	-	1,000	-	1,000
Library	-	-	-	-	-
Legal Fees	10,000	-	10,000	3,279	6,721
Establishment of county offices	-	-	-	-	-
<b>Sub-Total Recurrent Expenses</b>	<b>504,283</b>	<b>31,610</b>	<b>535,893</b>	<b>534,995</b>	<b>897</b>

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

Capital Expenditure	Approved Estimates 2015/16	Adjustments	Adjusted Budget	Actual on Comparable Basis	Performance Difference
Pending Bills	3,900,000	0	3,900,000	3,900,000	-
RE-Projects (GOK)	7,853,765	(28,804)	7,824,961	6,940,639	884,322
RE-Projects (EXTERNAL FUNDING)	3,171,000	(1,679,303)	1,491,697	756,640	735,057
Renewable Energy Projects	180,000	(42,000)	138,000	138,000	-
Other Capex					-
Communication Infrastructure	25,340		25,340	23,985	1,355
Computers & Computer Software	70,745		70,745	69,498	1,247
IFMIS Implementation	50,000		50,000	240	49,761
Storage facilities and Equipment	-		-	-	-
Office Equipment	2,000		2,000	893	1,107
Tools and Implements	-		-	-	-
Asset Tagging	-		-	-	-
Security Equipment (CCTV Links)	-		-	-	-
					-
<b>Sub-Total Capital Expenditure</b>	<b>15,252,850</b>	<b>(1,750,107)</b>	<b>13,502,743</b>	<b>11,829,894</b>	<b>1,672,849</b>
<b>Total Expenditure</b>	<b>15,757,133</b>	<b>(1,718,497)</b>	<b>14,038,636</b>	<b>12,364,890</b>	<b>1,673,746</b>

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Statement of compliance and basis of preparation – IPSAS 1

The entity's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest thousand (Kshs 000). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

### 2. Summary of Significant Accounting Policies

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

#### a) Revenue recognition

##### i) Revenue from non-exchange transactions – IPSAS 23

#### Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

##### ii) Revenue from exchange transactions – IPSAS 9

#### Connection fees

Revenue from connection fees is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on payment and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

**Notes to the Financial Statements Continued:**

**Interest income**

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

**b) Budget information – IPSAS 24**

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

**c) Property, plant and equipment – IPSAS 17**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

**Depreciation**

Depreciation is calculated to write-off the asset cost to the residual values on a straight line basis over the expected useful life. Where an asset is acquired during the year, depreciation is applied on a prorata basis over the number of days to the end of the financial year of purchase.

<b>Asset</b>	<b>Depreciation Rate (%)</b>
Distribution lines	2.5 (40yrs)
Plant and Machinery	12.5
Motor Vehicles	25
Furniture, fittings & Equipment	12.5
Computers & Allied Hardware & Software	33.3
Tools implements and Testing apparatus	22.5(4yrs) (R10%)

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

**Notes to the Financial Statements Continued;**

**Distribution lines**

All distribution lines are capitalized in property, plant and equipment when commissioned and are depreciated over their useful lives. The useful life is currently estimated to be forty years from the date of commissioning.

**Work in Progress**

Work-in-progress represents costs incurred in acquisition/installation of an item of property plant and equipment which is not in use. Work-in-progress is not depreciated until the assets are completed and brought into use.

**d) Intangible assets – IPSAS 31**

Intangible assets acquired separately are initially recognized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

**e) Inventories – IPSAS 12**

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method

After initial recognition, inventory is measured at the lower of cost and current replacement cost.

**f) Provisions – IPSAS 19**

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

**Contingent liabilities**

The Entity does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

As at 30<sup>th</sup> June 2016 the Authority had court cases arising from project implementation which were under arbitration. Consequently, the Authority estimates the potential legal liability of these cases at about **Ksh.1,801,106,165.**

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

**Notes to the Financial Statements Continued;**

In addition the Authority had provided for Kshs **5,502,420** relating to wrongly paid amount to Geowani Investment Ltd in June 2015. Ksh 1.3 million has since been recovered

On 19<sup>th</sup> June 2014 Kenya Revenue Authority issued a demand notice for **Kshs 31,894,048.25** relating to Apar Industries for under declaration of taxes. To avoid an agency notice, the Authority paid this amount to be recovered from Apar Industries. This amount was been provided in the June 2015 Financial Statements.

**g) Nature and purpose of reserves**

The Entity creates and maintains reserves in terms of specific requirements. The development, capital and revenue reserves are used to finance the Rural Electrification projects.

**h) Changes in accounting policies and estimates – IPSAS 3**

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

**i) Employee benefits – IPSAS 25**

The Authority runs a defined contribution pension scheme. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the company at 10% and employees at 5% of basic salary. During the year, the scheme was managed by the following service providers;

Genesis Investments	-Fund Manager
Co-operative Bank of Kenya Ltd	-Custodian
Liaison Associates	-Administrator

**j) Related parties – IPSAS 20**

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the Directors, and the Chief Executive Officer.

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

**Notes to the Financial Statements Continued**

**m) Cash and Cash Equivalents**

Cash and Short term deposits comprise cash at banks and at hand. Short term deposits are those which are readily convertible to known amounts of cash with an original maturity of three months or less. For the purposes of the cash flow statement; cash and cash equivalents include short term deposits.

**n) Comparative Figures**

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

**o) Significant judgments and sources of estimation uncertainty – IPSAS 1**

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**p) Subsequent events – IPSAS 14**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2016.

**q) Capital Commitments and Operating Leases**

There were no capital commitments or operating leases during the financial year 2015-2016.

**Rural Electrification Authority**  
**Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016**

**Notes to the Financial Statements Continued :**

	Kshs '000'	Kshs '000'
	2015-16	2014-15
<b>3 GOK Grants</b>		
Exchequer Recurrent	501,579	504,000
<b>TOTAL</b>	<b>501,579</b>	<b>504,000</b>
<b>4 Levies</b>		
Revenue - Royalties (Independent power producers)	-	14,792
Revenue - Petroleum Devt Levy	687,000	687,000
Revenue-Kipevu Oil	128,000	134,000
Revenue - 5% REP Levy	3,598,219	3,545,923
<b>TOTAL</b>	<b>4,413,219</b>	<b>4,381,715</b>
<b>5 External Funding</b>		
Revenue-World Bank	756,640	499,165
<b>TOTAL</b>	<b>756,640</b>	<b>499,165</b>
<b>6 Other Income</b>		
Revenue - Const & County partnership	161,930	241,130
Revenue - Licences	21,533	12,043
O.Rev-Private Public	-	-
Other Revenue - Donations	-	-
<b>TOTAL</b>	<b>183,464</b>	<b>253,174</b>
<b>7 Exchange Transactions</b>		
Connection fees	6,479	68,801
Interest Income	41,560	143,863
Interest Income-Discout on Bonds	-	-
Other Revenue	2,905	-
Sale of Scrap	9,970	-
<b>TOTAL</b>	<b>60,914</b>	<b>212,664</b>
<b>8 Employee Costs</b>		
Salaries and Wages	251,077	202,275
Gratuity	2,083	330
Other Staff Costs	31,533	32,540
Local Travelling	14,177	18,993
External Travelling	378	2,180
<b>TOTAL</b>	<b>299,248</b>	<b>256,318</b>

Rural Electrification Authority  
Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016

Notes to the Financial Statements Continued:

	Kshs '000'	Kshs '000'
<b>9 Administrative Expenses</b>	<b>2015-16</b>	<b>2014-15</b>
Computer Expenses	33,539	21,701
Vehicle Running Expenses	7,679	14,758
Advertisement and Promotions	30,400	57,044
Office Refreshments	6,023	13,158
Legal fees	3,279	4,174
Consulting and Professional fees	1,496	3,542
Audit fees	3,062	3,000
Bank Charges and commissions	1,149	4,222
Office Cleaning	8,332	2,702
Social Responsibility costs	488	1,035
Theft & Pilferages -Inventories	-	33,768
Theft & Pilferages-Geowan Investments	-	5,502
<b>TOTAL</b>	<b>95,448</b>	<b>164,606</b>
<b>10 Board Expenses</b>	<b>2015-16</b>	<b>2014-15</b>
Honoraria	960	939
Director's Allowances	14,993	7,912
Director's fees	4,795	2,691
Other Other Expenses	8,934	3,968
<b>TOTAL</b>	<b>29,682</b>	<b>15,511</b>
<b>11 Operating Expenses</b>	<b>2015-16</b>	<b>2014-15</b>
Training and seminars	8,291	18,074
Postage	456	68
Telephone	8,368	8,637
Obsolete inventory	14,890	147,120
Printing and Stationery	36,097	4,124
Tender processing Costs	350	1,990
Bad debts expense	-	31,894
<b>TOTAL</b>	<b>68,452</b>	<b>211,907</b>
<b>12 Establishment Expenses</b>	<b>2015-16</b>	<b>2014-15</b>
Depreciation	568,263	352,699
Security and surveillance	12,896	22,517
Rent	4,815	19,865
Insurance	25,037	27,433
Office repairs and mantainance	4,848	7,146
Electricity	9,261	6,518
licences and subscriptions	549	208
<b>TOTAL</b>	<b>625,668</b>	<b>436,386</b>

Rural Electrification Authority  
Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2016

Notes to the Financial Statements Continued;

	Kshs '000'	Kshs '000'
	<b>2015-16</b>	<b>2014-15</b>
<b>13 Finance Costs</b>		
Interest on overdraft	-	244
<b>TOTAL</b>	<b>-</b>	<b>244</b>
<b>14 Tax Expenses</b>	<b>2015-16</b>	<b>2014-15</b>
Withholding Tax on Interest Income	8,221	94,209
<b>TOTAL</b>	<b>8,221</b>	<b>94,209</b>
<b>15 Cash and Bank Balances</b>	<b>2015-16</b>	<b>2014-15</b>
<b>Deposits</b>		
<b>Term Deposits</b>		
COOP Bank	100,000	-
	<b>100,000</b>	<b>-</b>
<b>Call Deposits</b>		
Held with Cooperative Bank	323,437	225,188
Held With Standard Chartered	20	20
Held With CFC Stanbic	0	0
	<b>323,457</b>	<b>225,207</b>
<b>Current Accounts</b>		
Cooperative Bank	1,058	1,000
Standard Chartered	65,354	222,091
KCB Main	155,608	132,058
KCB Development	12	17
CFC Stanbic	1,344	1,375
Current Account- KEEP	197,775	1,633
Current Account- KEMP	1	
Current Account- KSSG	20,002	
	<b>441,155</b>	<b>358,175</b>
<b>Cash in Hand</b>		
Petty Cash	132	20
	<b>132</b>	<b>20</b>
<b>TOTAL</b>	<b>864,744</b>	<b>583,402</b>