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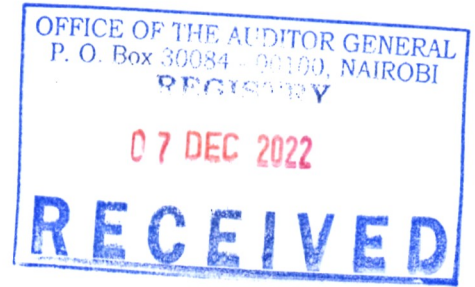
ON

**ETHIOPIA – KENYA ELECTRICITY HIGHWAY
PROJECT (ADB LOAN NO. 2000200003502 –
MARIAKANI SUBSTATION PROJECT
ID NO: P-ZI-FA0-162)**

**FOR THE YEAR ENDED
30 JUNE, 2022**

**KENYA ELECTRICITY TRANSMISSION
COMPANY LIMITED**





**Project Name: SUPPLEMENTARY FINANCING FOR THE ETHIOPIA- KENYA ELECTRICITY
HIGHWAY (MARIKANI SUBSTATION PROJECT)**

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

CREDIT NUMBER : ADB LOAN NO: 2000200003502 P-Z1-FA0-162

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the period to 30 June 2022

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

Kenya Electricity Transmission Company Limited (KETRACO)
Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project
(2000200003502 P-Z1-FA0-162)
Report and Financial Statements
For The Year Ending 30 June 2022

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ABBREVIATIONS

| | |
|---------|--|
| AfD | Agence Francaise de Developement |
| AfDB | African Development Bank |
| GOK | Government of Kenya |
| HVDC | High Voltage Direct Current |
| IPSAS | International Public Sector Accounting Standards |
| ICPAK | Institute of Certified Public Accountants of Kenya |
| ISA | International Standards on Auditing |
| IDA | International Development Association |
| KETRACO | Kenya Electricity Transmission Company Limited |
| KV | Kilovolts |
| PFSs | Project Financial Statements |
| RAP | Resettlement Action Plan |
| UA | Units of Account |
| USD | United States Dollar |
| KShs | Kenya Shilling |
| EUR | Euro |
| KE | Kenya |
| CKE | Credit Kenya |
| OGW | Order of the Golden Warrior |
| PFM | Public Financial Management Act 2012 |
| PSAB | Public Sector Accounting Standards Board |
| EACC | Ethics and Anti-Corruption Commission |

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and Registered Office

Name: The project's official name is Mariakani Substation (Supplementary Financing for the Ethiopia- Kenya Electricity Highway) Project.

Objective: The key objective of the project is to increase electricity access and address the challenges of access and low connectivity.

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

The address of its registered office is:

Mariakani Substation Project
 Block B, Kawi House
 Off Red Cross Road, South C
 P.O. Box 34942 – 00100 Nairobi

Contacts: The following are the project contacts

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

1.2 Project Information

| | |
|---------------------|---|
| Project Start Date: | The project start date is June 2019 |
| Project End Date: | The project end date is 31 December 2022 |
| Project Manager: | The project manager is Engineer Moses Kerre |
| Project Sponsor: | The project sponsor is Government of Kenya |

1.3 Project Overview

| | |
|---|--|
| Line Ministry/State Department of the project | The project is under the supervision of Kenya Electricity Transmission Company Limited. |
| Project number | 200020003502 P-Z1-FA0-162 |
| Strategic goal of the project | The strategic goal of the project is to evacuate power from planned generation plants and to transmit electricity to areas that are currently not supplied from the national grid. |

1. PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.3 Project Overview (continued)

| | |
|--|---|
| Other important background information of the project | <p>The project is implemented by Kenya Electricity Transmission Company Limited (KETRACO) which was incorporated on 2 December 2008 and registered under the Companies Act, Cap 486 pursuant to Sessional Paper No. 4 of 2004 on Energy. The Company was established to develop new high voltage electricity transmission infrastructure that will form the backbone of the National Transmission Grid, in line with Kenya Vision 2030. Its core business is to plan, design, build and maintain new electricity Substations and associated substations. These new lines will include 132kV, 220kV, 400kV and 500kV High Voltage Direct Current (HVDC). In carrying out this mandate, the Company is expected to develop a new and robust grid system in order to:</p> <ul style="list-style-type: none"> (i) Improve quality and reliability of electricity supply throughout the country; (ii) Transmit electricity to areas that are currently not supplied from the national grid; (iii) Evacuate power from planned generation plants; and (iv) Provide a link with the neighbouring countries in order to facilitate power exchange and develop electricity trade in the region. <p>As the owner of the project, KETRACO provides the organizational set up for the activities, qualified staff and basic office infrastructure for efficient execution of the project.</p> <p>The Mariakani Substation Project is funded jointly by the Government of Kenya through the Ministry of Energy and the National Treasury, and a line of credit obtained from ADB. The line of credit agreement was signed in 2019 for UA 75,000,000/ EUROS 26,510,000 an equivalent of KShs 3,287,778,153</p> <p>The commercial contract has a value of \$ 23,846,925 equivalent to KShs 2,809,940,405 and a KShs component of KShs 132,481,271.</p> |
| Current situation that the project was formed to intervene | Low electricity access and low connectivity. |
| Project duration | The project started on 19 June 2019 and is expected to run until 31 December 2022. |

1.4 Bankers

The following are the bankers for the current year:

KCB Bank Limited
 Moi Avenue
 P. O. Box 30081 – 00100
 Nairobi.

1. PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.5 Auditors

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

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

1.6 Roles and Responsibilities

| Names | Title designation | Key qualification | Responsibilities |
|--------------------------|--------------------------|---|---|
| CPA Antony Wamukota, OGW | Ag. Managing Director | Certified Public Accountant with ICPAK | Accounting Officer for KETRACO |
| CPA Tom Imbo | General Manager, Finance | Master's in Business Administration (Finance, Economics) Certified Public Accountant with ICPAK , Member Services Committee. | Head of Finance Department in KETRACO |
| Engineer Moses Kerre | Project Manager | Bachelor of Science (Electrical and Electronic Engineering), Professional Engineer with Engineers Board of Kenya, Corporate Member Institution of Engineers of Kenya | Project Coordinator |
| Johnson Muthoka | Senior Manager Wayleaves | Bachelor of Arts Land Economics (Honors), Masters in Urban and Regional Planning (University of Nairobi), full member of Institute of Surveyors Kenya, registered and licensed land economist | Wayleaves acquisition (land economists, land surveyors, social economists, environmental experts) |
| Micere M. Nyaga | Project Accountant | Masters in Business Administration (Strategic Management and Finance) Bachelor of Commerce (Finance), | Preparation of project financial reports |

1. PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.7 Funding Summary

The Project commenced on 19 June 2019 to 31 December 2022 with an approved budget of ADB funding amounting to EUROS 26,510,000 as highlighted in the table below:

A. Source of Funds

| Source of funds | Donor Commitment- (Rate 120.6747) | | Amount received as at: – (30.06.2022) | | Undrawn balance as at: (30.06. 2022) | |
|--------------------|--------------------------------------|----------------------------|---------------------------------------|----------------------------|---|---------------------------------|
| | EURO | Kshs Equivalent (A') | EURO | Kshs Equivalent (B') | EURO | Kshs Equivalent (A')-(B') |
| (i) Grant/Loan ADB | 26,510,000 | 3,199,086,297 | 10,752,171 | 1,297,514,976 | 15,757,829 | 1,901,571,321 |
| Total | 26,510,000 | 3,199,086,297 | 10,752,171 | 1,297,514,976 | 15,757,829 | 1,901,571,321 |

B. Application of Funds

| Application of funds | Amount received to date – (30 Jun 2022) | | Cumulative Amount paid to date – (30 June 2022) | | Unutilised balance to date (30 Jun 2022) | |
|----------------------|---|----------------------|---|----------------------|---|----------------------|
| | Donor currency- EURO | KShs | Donor currency- EURO | KShs | Donor currency- EURO | KShs |
| (i) Loan | (A) | (A') | (B) | (B') | (A)-(B) | (A')-(B') |
| ADF | 10,752,171 | 1,297,514,976 | 10,752,171 | 1,297,514,976 | 15,757,829 | 1,901,571,321 |
| Total | 10,752,171 | 1,297,514,976 | 10,752,171 | 1,297,514,976 | 15,757,829 | 1,901,571,321 |

1. PROJECT INFORMATION AND OVERALL PERFORMANCE (continued)

1.8 Summary of Overall Project Performance:

1.8.1 Budget Performance Against Actual Amounts

During the period under review, the project received KShs 646,168,025 against a final budget of KShs 911,765,710. Similarly, the project incurred total expenditure of KShs 650,645,225 during the period, representing 86% budget utilization.

The period under review for the Financial Statements is 12 months from 1 July 2021 to 30 June 2022.

1.8.2 Physical Progress and Achievements of the Project

Mariakani Substation is expected to be completed in December 2022. The physical progress is follows:

| Phase | Weights | % Progress against Weight | Physical Progress (%) |
|------------------------|---------|---------------------------|-----------------------|
| Engineering | 5 | 4.98 | 99 |
| Procurement | 60 | 59.02 | 98 |
| Construction | 30 | 24.70 | 82 |
| Test and Commissioning | 5 | - | - |
| Total | 100 | 88.70 | - 88 |

Physical completion expected to be achieved on 31 December 2022. Energization planned for in October 2022

1.8.3 Implementation Challenges and Way Forward

Delays in completion of the project associated with the contractor submitting invoices with incomplete documentation (Tax compliance certificate). This is however being addressed by engaging both the contractors and KETRACO engineers who are fast-tracking design approvals and site inspection, and supervision works.

1.8.4 Summary of Project Compliance:

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

1.8.5 Absorption rate per year

| Financial Year | Budget KShs | Actual KShs | Absorption rate (%) |
|----------------|----------------|----------------|---------------------|
| 2020/2021 | 929,177,079 | 912,870,788 | 98 |
| 2021/2022 | 1,064,000,000 | 650,645,225 | 61 |

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVES

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

The key development objectives of the projects are to:

- a) Enhance electricity access, availability and reliability of the completed Substations and substations and complete construction of key transmission infrastructure.
- b) Increase electricity supply by completing Substations for evacuating generated power.
- c) Provide a link with the neighbouring countries in order to facilitate power exchange and develop electricity trade in the region

Progress on attainment of Strategic development objectives

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement: Below we provide the progress on attaining the stated objectives:

| Project | Objective | Outcome | Indicator | Performance |
|---|---|---|--|--|
| Supplementary Financing For The Ethiopia-Kenya Electricity Highway (Mariakani Substation Project) | To Strengthen the electricity grid system and Enhance power transfer capacity to the coast region | -Increased stability of power supply to Mombasa - enabling additional evacuation of power from Olkaria and Loiyangalani | Completion and Energizing 400/220kV Mariakani substation and upgrading Mombasa-Nairobi Transmission Line to operate at 400kV | In 2021/2022 Objective is to evacuate power and improve stability of transfer capacity between Nairobi and Mombasa load centres. |

3. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

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

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

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

Below is an outline of the organisation's policies and activities that promote sustainability.

1. Sustainability strategy and profile

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

This was evident in key areas such as education, health and environmental conservation. In addition, KETRACO offered youth internship opportunities to fresh graduates and industrial attachments to ongoing University students for the purpose of transferring skills and future career preparation.

2. Environmental performance

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

The Environmental Management and Coordination Act, Cap 387; The Environmental Impact (Assessment and Auditing) Regulations, 2003; Environmental Management and Coordination (Environmental Impact Assessment and Audit) Regulations, 2003; Environmental Management and Coordination (Water Quality) Regulations of 2006; Environmental Management and Coordination (Waste Management) Regulations of 2006 ; Environmental Management and Co-ordination (Controlled Substances) Regulations, 2007; The Environmental Management and Co-ordination (Conservation of biological diversity and resources, and access to genetic resources and benefits sharing) Regulations, 2006; The Environmental Management and Coordination (Wetlands, Riverbanks, Lakeshores and seashores management) Regulations, 2009; Environmental Management and Coordination (Noise and Excessive Vibration Pollution Control) Regulations, 2009; Environmental Management and Coordination (Air Quality) Regulations, 2008; Occupational Safety and Health Act (OSHA 2007) ; Wildlife Management and Conservation Act, 2013; Forest Act 2015 ; Public Health Act (Cap. 242) 36; The Environment and Land Court Act, 2011; Water Act, 2002.

3. ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

3. Employee welfare

During the period, KETRACO undertook a skill gap analysis exercise and submitted a report detailing priority training needs to the Human Resource Advisory Committee for consideration. Several staff members were trained in various identified areas.

In addition, the Company achieved the following in regard to employee welfare;

1. KETRACO deployed Azure Multifactor Authentication to all users in the organization to mitigate against technological hazards. This is to provide an extra layer of security to minimize unauthorized log-ins in KETRACO network. 110 Critical Infrastructure Protection Unit (CIPU) officers were deployed on various substations.
2. A nine-member gender mainstreaming committee was reconstituted and trained in the year. The gender policy was finalized and submitted to the Ministry of Energy and State Department for Gender for review, and later circulated to staff. Staff were also sensitized on gender mainstreaming.
3. KETRACO staff attended an online sensitization on disability mainstreaming conducted by National Council for Persons with Disability (NCPWD). National Council for Persons with Disability (NCPWD) undertook an accessibility and usability audit of KETRACO HQ offices.
4. In the year, an alcohol and drug abuse policy was developed, approved by the Board of Directors and circulated to staff. About 100 Employees were sensitized online on the findings of a baseline survey that was undertaken in the previous financial year by the Alcohol and Drug Abuse prevention committee. In addition, 7 committee members were trained on workplace-based prevention measures
5. The company drafted a road safety policy and circulated it to all staff. Road safety committee was reconstituted with the appointment of 10 members. In addition, 20 drivers were trained on defensive driving by the AA of Kenya.

4. Market place practices

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

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

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

3 ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

4. Market place practices (continued)

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

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

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

5. Community Engagements

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

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

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Chief Executive Officer of KETRACO and the Project Coordinator for the Mariakani Substation Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on 30 June 2022. This responsibility includes (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; selecting and applying appropriate accounting policies; and (v) making accounting estimates that are reasonable in the circumstances.

The Chief Executive Officer of KETRACO and the Project Coordinator for the Mariakani Substation Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Chief Executive Officer of KETRACO and the Project Coordinator for the Mariakani Substation Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended 30 June 2021, and of the Project's financial position as at that date. Chief Executive Officer of KETRACO and the Project Coordinator for the Mariakani Substation Project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Chief Executive Officer of KETRACO and the Project Coordinator for the Mariakani Substation Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by Chief Executive Officer of KETRACO and the Project Coordinator for the Mariakani Substation Project on 30/11 2022 and signed by them.



Chief Executive Officer
CPA Antony Wamukota:OGW



Project Coordinator
Eng Justin Muna:



General Manager Finance
Tom Imbo
ICPAK Member Number:7039

5. REPORT OF THE INDEPENDENT AUDITORS ON THE MARIAKANI SUBSTATION PROJECT

To the Auditor General

Opinion

We have audited the accompanying financial statements of Mariakani Substation Project set out on pages 14 to 26 which comprise the statement of financial assets as at 30 June 2022, and the statement of receipts and payments, statement of cash flows, and statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position of Mariakani Substation Project as at 30 June 2022, and of its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS) financial reporting framework under the cash basis of accounting.

Basis for Opinion

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

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

Other Information

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

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



5. REPORT OF THE INDEPENDENT AUDITORS ON THE MARIAKANI SUBSTATION PROJECT

(Continued)

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

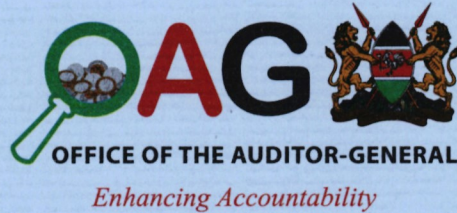
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Chief Executive Officer of KETRACO and the Project Coordinator's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue sustaining its services. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease sustaining its services.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON ETHIOPIA – KENYA ELECTRICITY HIGHWAY PROJECT (ADB LOAN NO. 2000200003502 – MARIAKANI SUBSTATION PROJECT ID NO: P-ZI-FA0-162) FOR THE YEAR ENDED 30 JUNE, 2022 - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Ethiopia – Kenya Electricity Highway Project (ADB Loan No. 2000200003502 – Project ID No: P-ZI-FA0-162) set out on pages 14 to 24, which comprise the statement of financial assets and liabilities as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the period then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte and Touche LLP, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Ethiopia – Kenya Electricity Highway Project as at 30 June, 2022, and of its financial performance and its cash flows for the twenty four then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Loan Agreement 2000200003502 P-ZI-F0-162) dated 19 June, 2019 between the African Development Fund (ADF) and the Republic of Kenya, the Subsidiary Agreement between The Government of the Republic of Kenya and Kenya Electricity Transmission Company dated 18 August, 2020 and the Public Finance Management Act, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Ethiopia – Kenya Electricity Highway Project Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

Other Matter

1. Delay in Project Deliverables

Review of project deliverables revealed that the project was behind schedule with respect to the completion of the Engineering at 99%, procurements at 98%, construction at 82% and testing and commissioning at 0%.

As at 30 June, 2022 the activities executed were valued at Kshs.1,893,723,322 compared to the contract sum of Kshs.3,357,298,517 or 56 %. This was despite having the completion date reviewed to December, 2022.

Consequently, delays in completion of the Project may result in escalation of projected costs or expiry and withdrawal of funding by project financiers.

2. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a total income budget of Kshs.911,765,710 against actual receipts of Kshs.646,168,025 resulting to underfunding of Kshs.265,597,685. The statement also reflects a total expenditure budget balance of Kshs.650,645,225 which differed with the income budget of Kshs.911,765,710 resulting in unbalanced budget of Kshs.261,120,485.

In the circumstances, the revenue shortfall affected the planned activities and may have impacted negatively on service delivery to the public. Further, the project's budget was not balanced and Management was in breach of the law.

3. Pending Bills-Goods and Services

The project management contracted works and services amounting to Kshs.3,357,298,517 as disclosed in Annex 2A. The amount certified as payable amounted to Kshs.1,893,723,322 out of which Kshs.1,399,345,104 has been cumulatively paid leaving a balance of Kshs.494,378,218 as pending bills. The unpaid bills are likely to attract interest and penalties and or litigation and related legal expenses which are wasteful expenditure.

In the circumstances, failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions in the subsequent years as they form a first charge.

4. Low Absorption of Funds

The project duration of three and half years starting June, 2019 and expected completion date of December, 2022 with total funding of Euro 26,510,000 equivalent of Kshs.3,199,086,297. As at 30 June, 2022, only Kshs.1,297,514,976 had been drawn leaving a balance of Kshs.1,901,571,321 or 59% undrawn with only six months remaining. It is now clear that the project may not absorb all its funds denying citizens the benefits of the loan.

Further, the amount received as per project information (funding summary) under Note 1:7 of Kshs.1,297,514,976 is at variance with cumulative loans from development partners balance of Kshs.1,399,345,104 reflected in the statement of receipts and payments resulting to unexplained variance of Kshs.101,830,128.

In the circumstances, the cumulative loan receipts balance of Kshs.1,297,514,976 remains doubtful.

Other Information

The Management are responsible for the other information, which comprises the statement of performance against Project's predetermined objectives and responsibilities, statement of corporate social responsibility/sustenance reporting and the statement of management responsibilities. The other information does not include the financial statements and my auditor's report thereon.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Project Commitment Without Funding

According to the Project's work plan attached to the subsidiary agreement, procurement in respect of the project was done on 25 January, 2016 which is also indicated as the contract commencement date. Further, review of the financing agreement and implementation agreement indicates that they were signed on 19 June, 2019 and 18 August, 2020 respectively. It is therefore apparent that the procurement for the Project was done way before the financing agreement was signed which is contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act, 2015. The section requires that all procurement processes be within the approved budget of the procuring entity and be planned by the procuring entity concerned through an annual procurement plan.

Management was therefore in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my

report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Automation of the Financial Reporting Process

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

Consequently, the manual intervention could result in errors in the preparation of financial statements.

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

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Project's financial reporting process, reviewing the effectiveness of how the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation

to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a

basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi


09 December, 2022

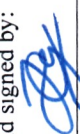
Kenya Electricity Transmission Company Limited (KETRACO)
 Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)
 Report and Financial Statements
 For The Year Ending 30 June 2022


6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDING 30 JUNE 2022

| | Note | FY 2021/2022 | | FY 2020/2021 | Cumulative to date |
|--|------|--|--------------------------------|--------------------|----------------------|
| | | Receipts and payments controlled by the entity | Payments made by third parties | | |
| | | KShs | KShs | KShs | KShs |
| RECEIPTS | | | | | |
| Transfer from Government entities | 11.1 | - | - | 176,000,000 | 176,000,000 |
| Loans from external development partners | 11.2 | - | 646,168,025 | 733,177,079 | 1,399,345,104 |
| TOTAL RECEIPTS | | - | 646,168,025 | 929,177,079 | 1,575,345,104 |
| PAYMENTS | | | | | |
| Purchase of goods and services | 11.5 | 4,477,200 | - | 36,631,302 | 41,108,502 |
| Acquisition of non-financial assets | 11.6 | - | 646,168,025 | 876,239,486 | 1,522,407,511 |
| TOTAL PAYMENTS | | 4,477,200 | 646,168,025 | 912,870,788 | 1,563,516,013 |
| (DEFICIT)/SURPLUS FOR THE PERIOD | | (4,477,200) | - | 16,306,291 | 11,829,091 |

The accounting policies and explanatory notes to these project financial statements form an integral part of the project financial statements. The project financial statements were approved on 2022 and signed by:


 Chief Executive Officer
 CPA Antony Wamukota, OGW


 Project Coordinator
 Justin Muna


 General Manager Finance
 Tom Imbo
 ICPAK Member Number:7039

7. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2022

| | NOTE | FY 2021/2022 | FY 2020/2021 |
|----------------------------------|------|-------------------|-------------------|
| | | | KShs |
| Cash and cash equivalents | | | |
| Bank Balances | 11.8 | 11,829,091 | 16,306,291 |
| | | | |
| TOTAL FINANCIAL ASSETS | | 11,829,091 | 16,306,291 |
| | | | |
| Represented by: | | | |
| Fund balance b/fwd | | 16,306,291 | - |
| (Deficit)/surplus for the period | | (4,477,200) | 16,306,291 |
| | | | |
| NET FINANCIAL POSITION | | 11,829,091 | 16,306,291 |

The accounting policies and explanatory notes to these project financial statements form an integral part of the project financial statements. The project financial statements were approved on 30th.....2022 and signed by:



Chief Executive Officer
 CPA Antony Wamukota, OGW



Project Coordinator
 Justin Muna

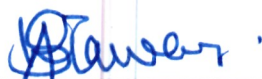


General Manager Finance
 Tom Imbo
 ICPAK Member Number:7039

8. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022

| | NOTES | FY 2021/2022 | FY 2020/2021 |
|--|-------|--------------------|--------------------|
| | | | KShs |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts for operating income | | | |
| Transfers from Government entities | 11.1 | - | 176,000,000 |
| Payments for operating expenses | | | |
| Purchase of goods and services | 11.5 | (4,477,200) | (36,631,302) |
| Net cash flows generated from operating activities | | (4,477,200) | 139,368,698 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of non-financial assets | 11.6 | (646,168,025) | (876,239,486) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Loan from external development partners | 10.2 | 646,168,025 | 753,177,079 |
| NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS | | (4,477,200) | 16,306,291 |
| CASH AND CASH EQUIVALENTS AT START OF THE YEAR | | 16,306,291 | - |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 11.8 | 11,829,091 | 16,306,291 |

The accounting policies and explanatory notes to these project financial statements form an integral part of the project financial statements. The project financial statements were approved on 29/11 2022 and signed by



Chief Executive Officer
 CPA Antony Wamukota, OGW



Project Coordinator
 Justin Muna





General Manager Finance
 Tom Imbo
 ICPAK Member Number:7039


Kenya Electricity Transmission Company Limited (KETRACO)
 Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162))
 Report and Financial Statements
 For The Year Ending 30 June 2022

9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

| Receipts/Payments Item | Original Budget | | Adjustments | | Final Budget | | Actual on Comparable basis | | Variance | |
|-------------------------------------|----------------------|----------------------|--------------------|---|--------------------|------|----------------------------|------|----------|------|
| | a | b | c | d | e (c-d) | KShs | KShs | KShs | KShs | KShs |
| Receipts | | | | | | | | | | |
| Transfer from Government entities | - | - | - | - | - | - | - | - | - | - |
| Transfer from development Partners | 1,064,000,000 | (152,234,290) | 911,765,710 | | 646,168,025 | | (265,597,685) | | | |
| Total receipts | 1,064,000,000 | (152,234,290) | 911,765,710 | | 646,168,025 | | (265,597,685) | | | |
| Payments | | | | | | | | | | |
| Purchase of goods and services | 4,477,200 | - | 4,477,200 | | 4,477,200 | | - | | | |
| Acquisition of non-financial assets | 646,168,025 | | 646,168,025 | | 646,168,025 | | - | | | |
| Total payments | 650,645,225 | - | 650,645,225 | | 650,645,225 | | - | | | |


 Chief Executive Officer
 CPA Antony Wamukota, OGW


 Project Coordinator
 Justin Muna


 General Manager Finance
 Tom Imbo
 ICPAK Member Number:7039

10. Significant Accounting Policies

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

10.1 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with IPSAS financial reporting under the cash basis of accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

10.2 Reporting entity

The financial statements are for the Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation Public Finance management Act 2012.

10.3 Reporting currency

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

10.4 Recognition of receipts

The Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation) Project recognises all receipts from the various sources when the event occurs, and the related cash has actually been received.

i) Transfers from the Exchequer

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

ii) External Assistance

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

iii) Other receipts

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

iv) Donations and grants

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

v) Proceeds from borrowing

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

vi) Undrawn external assistance

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

10. Significant Accounting Policies (Continued)

10.5 Recognition of payments

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

i) Compensation to employees

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

ii) Use of goods and services

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

iii) Interest on borrowing

Borrowing costs that include interest are recognized as payment in the period in which they incur and paid for.

iv) Repayment of borrowing (principal amount)

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

v) Acquisition of fixed assets

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

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

10.6 In-kind donations

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

10.7 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

10. Significant Accounting Policies (Continued)

10.8 Restriction on cash

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

10.9 Imprests and Advances

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

10.10 Contingent Liabilities

A contingent liability is:

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

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/support, insurance, Public Private Partnerships,

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

10.11 Contingent Assets

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

10.12 Pending bills

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

10. Significant Accounting Policies (Continued)

10.13 Budget

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

10.14 Third party payments

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

10.15 Exchange rate differences

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

10.16 Comparative figures

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

10.17 Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2022.

10.18 Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). Explanations and details of these prior period adjustments are presented *in note xx of these financial statements*

11. NOTES TO THE FINANCIAL STATEMENTS

11.1 Transfers From Government Entities

The Project was not allocated any funds by the Government of Kenya in the Financial Year 2021/2022.

| | 2021/2022 | 2020/2021 | Cumulative to-date |
|--|-----------|--------------------|--------------------|
| | KShs | Kshs | KShs |
| Counterpart funding through State Department of Energy | - | 176,000,000 | 176,000,000 |
| Total | - | 176,000,000 | 176,000,000 |

11.2 Loans From External Development Partners

During the financial period to 30 June 2022, we received funding from development partners in form of loans negotiated by the National Treasury as detailed in the table below:

| Name of Donor | Date Received | Amount in grants/Loan currency | Grants/Loan received in cash (Revenue) | Loans Received as Direct Payment* | Total Amount in KES | |
|---|----------------------|--------------------------------|--|-----------------------------------|---------------------|--------------------|
| | | | | | FY 2021/2022 | FY 2020/2021 |
| | 30.06.2022 | | | | | |
| ADB | KShs | EUROs | KShs | | KShs | KShs |
| Grants/Loan Received from Multilateral Donors (International Organisations) ADB:2000200003502 - P-Z1-FA0-162 | 1,333,487,438 | 26,510,000 | 3,287,778,153 | 646,168,025 | 646,168,025 | 753,177,079 |
| Total | 1,333,487,438 | 26,510,000 | 3,287,778,153 | 646,168,025 | 646,168,025 | 753,177,079 |

11.3 Transfer From KETRACO

The project did not receive any funding from KETRACO as there is no Escrow account.

11.4 Miscellaneous Receipts

There were no miscellaneous receipts since there were no unrealized forex gains or interest income.

11.5 Purchase Of Goods and Services

| | FY 2021/2022 | | | FY 2020/2021 | | Cumulative to date |
|-----------------------|-----------------------|--------------------------------|---------------------|-----------------------|-------------------|--------------------|
| | Payments made in cash | Payments made by third parties | Total payments | Payments made in cash | Total payments | Total payments |
| | KShs | KShs | KShs | KShs | KShs | KShs |
| Legal fees | - | - | - | 32,937,593 | 32,937,593 | 32,937,593 |
| Other operating costs | 4,477,200.00 | - | 4,477,200.00 | 3,693,709 | 3,693,709 | 8,170,909 |
| Total | 4,477,200.00 | - | 4,477,200.00 | 36,631,302 | 36,631,302 | 41,108,502 |

11. NOTES TO THE FINANCIAL STATEMENTS (continued)

11.6 Acquisition Of Non-Financial Assets

| | FY 2021/2022 | | | FY 2020/2021 | Cumulative to-date |
|------------------|-------------------------------------|--------------------------------|--------------------|--------------------|----------------------|
| | Payments made by the entity in cash | Payments made by third parties | Total payments | Total Payments | |
| | KShs | KShs | KShs | KShs | KShs |
| Consultancy fees | - | - | - | 123,062,407 | 123,062,407 |
| Powerlines | - | 646,168,025 | 646,168,025 | 753,177,079 | 1,399,345,104 |
| Total | - | 646,168,025 | 646,168,025 | 876,239,486 | 1,522,407,511 |

11.7 Prior Year Adjustments

There were no prior year adjustments since the project did not get any receipts from KETRACO.

11.8 Cash And Cash Equivalents

| | 2021/2022 | 2020/2021 |
|-------------------------------------|-------------------|-------------------|
| | Kshs | KShs |
| Bank accounts balances (Note 11.8A) | 11,829,091 | 16,306,291 |
| Total | 11,829,091 | 16,306,291 |

The project has one project account spread within the project implementation area managed by KETRACO as listed below

11.9 Bank Accounts

| | 2021/2022 | 2021/2022 |
|------------------------------------|-------------------|-------------------|
| | KShs | KShs |
| Local Currency Accounts | | |
| Kenya Commercial Bank | 11,829,091 | 16,306,291 |
| Total bank account balances | 11,829,091 | 16,306,291 |

12. OTHER IMPORTANT DISCLOSURES

12.1 Pending Accounts Payable (Annex 2A)

| | Balance b/f FY 2020/2021 | Additions for the year | Paid during the year | Balance c/f FY 2021/2022 |
|-----------------|-------------------------------------|-----------------------------------|---------------------------------|-------------------------------------|
| Description | Kshs | Kshs | KShs | KShs |
| Supply of goods | 228,780,533 | 911,765,710 | 646,168,025 | 494,378,218 |
| Total | 228,780,533 | 911,765,710 | 646,168,025 | 494,378,218 |

12.2 Other Pending Payables (Annex 2b)

There were no pending project affected persons relating to the project.

13 ANNEXES

ANNEX 2A - ANALYSIS OF PENDING PAYABLES

| Supplier of Goods or Services | Original Amount | Date Contracted | Amount Paid To-Date | | Outstanding Balance | Outstanding Balance |
|-------------------------------|----------------------|-----------------|----------------------|----------------------|---------------------|---------------------|
| | | | | | FY 2021/2022 | FY 2020/2021 |
| | a | b | c | d=a-c | | |
| Supply of goods | | | | | | |
| China CAMC Engineering | 3,357,298,517 | 2019 | 1,399,345,104 | 1,957,953,413 | 494,378,218 | 228,780,533 |
| Grand Total | 3,357,298,517 | | 1,399,345,104 | 1,957,953,413 | 494,378,218 | 228,780,533 |

ANNEX 2B - ANALYSIS OF OTHER PENDING PAYABLES

There were no project affected persons for this project.

ANNEX 2C – SUMMARY OF FIXED ASSET REGISTER

| Asset class | Opening Cost | *Purchases/additions in the year | Closing Cost |
|--|--------------------|----------------------------------|----------------------|
| | KShs | KShs | KShs |
| | 01-Jul-21 | 2021/2022 | 30-Jun-22 |
| | (a) | (b) | (c)= (a)+ (b) |
| Infrastructure Assets Powerline Transmission Equipment | 876,239,486 | 646,168,025 | 1,522,407,511 |
| Total | 876,239,486 | 646,168,025 | 1,522,407,511 |

Notes

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