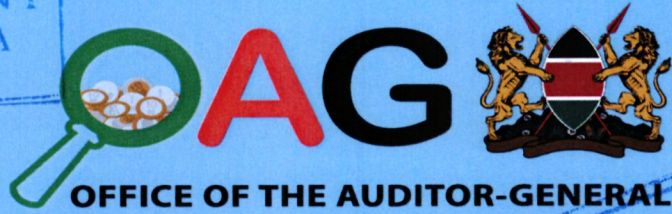
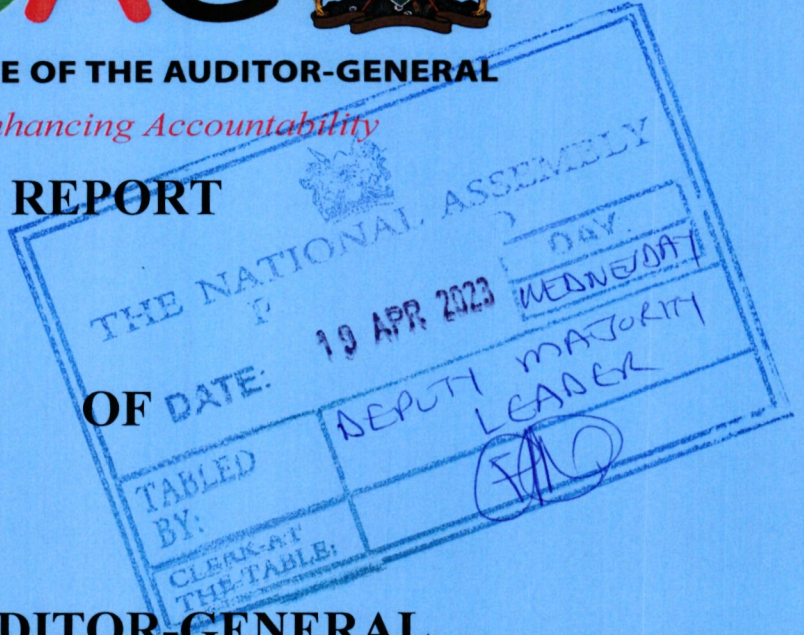


REPUBLIC OF KENYA



Enhancing Accountability

REPORT



THE AUDITOR-GENERAL

ON

**KENYA ELECTRICITY MODERNISATION
PROJECT (IDA CREDIT NO.5587-KE)**

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

**RURAL ELECTRIFICATION AND
RENEWABLE ENERGY CORPORATION**



**KENYA ELECTRICITY MODERNIZATION PROJECT
(KEMP)**

**RURAL ELECTRIFICATION AND RENEWABLE ENERGY
CORPORATION**

PROJECT CREDIT NUMBER 55870KE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2022

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

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Table Contents

KENYA ELECTRICITY MODERNIZATION PROJECT	i
1. PROJECT INFORMATION AND OVERALL PERFORMANCE.....	iv
2. STATEMENT OF PERFORMANCE AGAINST PROJECT’S PREDETERMINED OBJECTIVES .	xiv
3. ENVIRONMENTAL AND SUSTAINABILITY REPORTING	xvi
4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES.....	xx
5. REPORT OF THE INDEPENDENT AUDITOR ON THE KENYA ELECTRICITY EXPANSION PROJECT.....	xxii
6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2022.....	1
7. STATEMENT OF FINANCIAL ASSETS AS AT 30 TH JUNE 2022	2
8. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30 TH JUNE 2022	3
9. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS	4
10. SIGNIFICANT ACCOUNTING POLICIES.....	5
11. NOTES TO THE FINANCIAL STATEMENTS.....	12
12. OTHER IMPORTANT DISCLOSURES	27
13. PRIOR YEAR AUDITOR-GENERAL’S RECOMMENDATIONS	32
14. ANNEXES	35

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: Kenya Electricity Modernization Project (KEMP)

Objective: The key objectives of the project are:

The Government aims to achieve universal access to electricity by the year 2021. The objective project is to assist the government in achievement of this target by enhancing electrification access in areas that are not likely to be connected to the grid in the medium and short term. The project involves development of 10 solar hybrid mini grid projects to connect households and public facilities in the selected areas.

The project headquarters offices are in Nairobi, Kenya

The address of its registered office is:

Kawi House, Red Cross Road,
P.O Box 34585 – 000100,
Telephone: (254) 2341400, 2710955,
E-mail: info@rea.co.ke,
Website: www.rea.co.ke

1.2 Project Information

Project Start Date:	The project start date is 29 th June 2015
Project End Date:	The project end date is 30 th December 2022
Project Manager:	The project coordinator is Mr. Edward Gakunju
Project Sponsor:	The project sponsor is International Development Association, which will contribute 100% of project costs.

1.3 Project Overview

Line Ministry	The project is under the supervision of the Ministry Of Energy and Petroleum
Project number	The project number is IDA CREDIT NUMBER 55870KE
Strategic goals of the project	The strategic goals of the project are as follows: (i) To connect public facilities in selected areas (ii) To increase access to electricity.
Achievement of	The project management aims to achieve the goals through

strategic goals	(i) mini-grids supplied preferably by hybrid generation systems (ii) Construction of necessary distribution infrastructure.
Achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) To connect public facilities in selected areas (ii) To connect households in the selected Islands
Other important background information of the project	The project is being implemented in conjunction with MOE, and KPLC
Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: The project has two components: (i) Consultancy (ii) Construction of Solar Mini Grids
Project duration	The project started on 29 th June 2015 and is expected to run until 31 st December 2022

1.4 Bankers

The following are the bankers for the current year:

- (i) Central Bank of Kenya (Special Account)
Account No. 1000250682
Nairobi
- (ii) Co-operative Bank
Nairobi Business Centre Branch
Account No. 01136125016302
Nairobi

1.5 Auditors

The project is audited by the:

Auditor-General,
Office of the Auditor-General,
Anniversary Towers, University Way,
P. O. Box 30084-00100,
Nairobi

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.6 Roles and Responsibilities

Names and contact details	Title designation	Key Qualifications	Responsibilities
Edward Gakunju 0722244879 egakunju@rea.co.ke	Project Coordinator	Master's Degree in Economic Policy Management	<p>Overall coordination of Project activities</p> <p>Responsibilities</p> <ul style="list-style-type: none"> • Coordinate Project implementation activities as per the work plan • Prepare project implementation reports • Attend project coordination meetings
Caroline Kamau 0724517005 ckamau@rea.co.ke	Project Accountant	Bsc Admin(Accounting), C.P.A (K)	<ul style="list-style-type: none"> • Preparation of Financial Reports for the project • Process of project related payments
Festus Kasonzo 0722138880 fkasonzo@rea.co.ke	Procurement Specialist	Master's Degree in Procurement and Supplies	<ul style="list-style-type: none"> • Preparation of projects procurement plans • Preparation of bid documents • Coordinate tendering evaluation and award notifications • Coordination of procurement activities of the project

<p>Nicholas Muigai 0722269540 nmuigai@rea.co.ke</p>	<p>Project Engineer</p>	<p>Bsc in Electrical Engineering</p>	<ul style="list-style-type: none"> • Review of project designs • Analyse all the Technical aspects of the project
<p>World Bank and Government</p>			<ul style="list-style-type: none"> • Project sponsors. • Review and approving the projects withdrawal applications, expenditure justifications, no objection requests, annual work plan and budget, expenditure category reallocation request. • Participating in implementation support missions.
<p>The Ministry Of Energy</p>			<ul style="list-style-type: none"> • Ensures Project's budget is captured in its development Projects • Disburse the government counterpart funding. • Review and track the Project's annual work plan and budget against the set targets and makes the approvals. • Oversee the execution of the project coordinating team.

The Office Of The Auditor General			<ul style="list-style-type: none"> • Mandated to audit all national government entities, which include government development projects and present these statutory financial statements to the Parliament. • Facilitate submission of the audited report to the project's sponsors by 30th December each year.
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1.7 Funding summary

The Project is for duration of (6) years from 2015 to 2022 with an approved budget of US\$ 10M equivalent to Kshs 1,013,000,000 as highlighted in the table below:

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

Below is the funding summary:

A. Source of Funds

Source of funds	Donor Commitment		Amount received to date (30:06:2022)		Undrawn balance to date (30:06:2022)	
	USD (A)	Kshs (A')	USD (B)	Kshs (B')	USD (A)-(B)	Kshs (A')-(B')
(i) Grant						
International Development Association-IDA	7,500,000	759,750,000	857,073	88,976,927	6,642,927	670,773,073
(ii) Loan						
International Development Association-IDA	2,500,000	253,250,000	1,274,400	129,083,976	1,225,600	124,166,024
(iii) Counterpart Funds-GOK	1,000,000	100,000,000	50	5,000	999,950	99,995,000
Total	11,000,000	1,113,000,000	2,131,523	218,065,903	8,868,477	894,934,097

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

B. Application of Funds

Application of funds	Amount received to date – (30 th June 2022)		Cumulative amount paid to date – (30 th June 2022)	Unutilised balance to date (30 th June 2022)	
	Donor currency USD (A)	Kshs (A')		Donor currency (A)-(B)	Kshs (A')-(B')
(iii) Grant					
International Development Association-IDA	857,073	88,976,927	88,976,927		
(iv) Loan					
International Development Association-IDA	1,274,400	129,083,976	81,207,950	406,306	47,876,026
(iii) Counterpart Funds-GOK	50	5,000	5,000		
Total	2,131,523	218,065,903	170,189,877	406,306	47,876,026

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.8 Summary of Overall Project Performance:

- i) Budget performance against actual amounts for current year and for cumulative to-date,
- ii) Physical progress based on outputs, outcomes, and impacts since project commencement,
- iii) Comment on value-for-money achievements,
- iv) Indicate the absorption rate for each year since the commencement of the project.
- v) List the implementation challenges and recommended way forward.

i) Budget performance against actual amounts for current year and for cumulative to-date,

During the year under review, the project received Kshs. 19,976,926 against a final budget of Kshs. 621,000,000 and incurred a total expenditure of Kshs. 19,976,926 against a budget of Kshs 621,000,000 resulting to underutilization of Kshs 601,023,074 or 3%. The projects' cumulative receipts and payments are Kshs 218,065,903 and Kshs 170,189,877 respectively.

ii) Physical progress based on outputs, outcomes and impacts since project commencement Budget,

Activities planned for the reporting period	Activity Implementation Status	Narration
Recruitment of consults for preliminary designs and environmental impact assessment	Preparation of bid, advertisements, opening of bids, evaluation of bids and awards of jobs	Completed.
Recruitment of transaction advisor	Preparation of bid, advertisements, opening of bids, evaluation of bids and awards of	Completed.

	jobs	
Submission of final report on preliminary designs and ESIA's	For the ten sites raft final report in 2018	Completed
Submission of bid document by the transaction advisor	For recruitment of construction contractor	Completed
Recruitment of Construction contractor	Advertisements, opening of bids, evaluation of bids and awards of jobs	Completed
Site handover to the contractor	For Seven sites that are ready for implementation	Completed
Material manufacture	Advance payment processed and payment done. However, manufacturer was affected by Covid 19 and has delayed	On going
Factory Acceptance Tests	For materials already completed was done virtually	Completed
Delivery of materials	Tax exemption obtained, awaiting shipping	On going

iii) Comment on value-for-money achievements,

The project was extended and the new closure date is 31st December 2022. The Corporation is overseeing activities of the construction contractor to ensure implementation of the planned activities is achieved. The following are the achievements: -

1. Preliminary designs for the mini-grids were done and completed on time
2. ESIA reports were done and completed on time
3. Transaction advisor recruited and submitted bidding documents for recruitment of construction contractor.

4. Construction materials awaiting shipping and delivery
 5. Construction contractor already on site
- iv) Indicate the absorption rate for each year since the commencement of the project.**

The absorption rate is 19% compared to the disbursement plan in the Project Appraisal Document (PAD) this was due to delay by the contractors delivering the materials. As at to date the Bank has disbursed USD 2,131,523 against a commitment of USD 10,000,000.

v) Implementation challenges and recommended way forward.

- a) The world is experiencing a pandemic called COVID-19. An effort to contain the spread is social distancing which has drastically affected the progress in material manufacturer, travel and exchange of documents.
- b) Lengthy process of land acquisition which has been solved by county and community engagements
- c) Delay by the contractors in manufacturing and delivery of materials.

1.9 Summary of Project Compliance:

There were no significant cases of non-compliance with applicable laws and regulations, and essential external financing agreements/covenants.

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVES

a) Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives. This component will finance consultancy services, feasibility studies for new investments, training actions and other activities to support, among others:

b) The key development objectives of the project's 2018-2021 plan are to:

(i) Preparation of the National Electrification Strategy (NES). The objective of the NES is to achieve universal access to electricity services meeting applicable standards on quality in a sustainable manner in the shortest possible time. The strategy should also optimize allocation of resources from a country perspective. MoEP will implement this activity.

(ii) Detailed national technical specifications and. This assistance will support the technical and economic optimization of the design and construction of electricity networks needed to supply new users located in areas that are currently not electrified, meeting applicable standards on service quality. This will result in the addition of new standardized construction units to those currently applied by KPLC and REA. MoEP will implement this activity.

(iii) Regulations for enforcing quality on electricity service. Assistance to ERC to implement a regime on service quality, based on systematic monitoring of key parameters through direct access of the records of the information systems used by KPLC. This will also be combined with assessment of KPLC's customers' complaints and commercial systems. MoEP through ERC will implement this activity.

(iv) Training and capacity building. This will finance training and capacity building and communications for the sector entities, including MoEP, KPLC, REA, KETRACO, KenGen

and ERC.

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
Kenya Electricity Modernization Project.	Provision of electricity in selected islands.	Connection of public facilities and households.	Availability of electricity in the selected islands	In FY 21/22 we were in the process of having the construction contractor on site to start project implementation. The project status is at 43% meaning that it is just commenced.

3. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The Project exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy. Below is a brief highlight of our activities that drive towards sustainability.

1. Sustainability strategy and profile

The Corporation is committed to promoting sustainable environmental management and utilization of natural resources to generate socio- economic benefits. Measures were put in place in 2019/20 to ensure sustainable energy resource management. Among them include: Implementation of the Energy Act 2019 through development and review of various regulations (in draft form) that guides on sustainable utilization of the energy resources; Formulation of the Kenya Energy Efficiency and Conservation Strategy and Bio-energy strategy (which aims at promote the development and utilization of bio-energy resources in Kenya in a sustainable manner) both of which are at draft stage; among others. Other strategies put in place included protection of riparian land and reforestation of hydro dam catchment areas through direct involvement and also supply of seedlings to the communities living in project areas.

2. Environmental performance

- a. The proposed project was screened by World Bank and assigned an Environmental Category B Partial Assessment, on the assumption that no major civil works will be funded and no major physical or economic displacement will take place. Four safeguard policies have been triggered for the project. They include (a) OP/BP 4.01 (Environmental Assessment); (b) OP/BP 4.04 (Natural Habitats); (c) OP/BP 4.10, (Indigenous Peoples); and (d) OP/BP 4.12 (Involuntary Resettlement).
- b. The World Bank operational policy on Environmental Assessment (OP/BP 4.01) has been triggered, due to the implementation of the activities outlined under Components 1–3. The main potential environmental impacts anticipated for the project are (a) civil works that would be limited to construction of the mini-grids in remote areas (Component 1), installation of stand-alone systems for households (Component 2), installation of solar PV for water pumping (Component 3), and construction of distribution lines to connect new customers and (b) environmental, health, and safety concerns are likely to be associated

with recycling and disposal of spent batteries at the end of their useful lives, which is usually 3–5 years after deployment. Rechargeable batteries for storing solar energy may run on nickel-cadmium (Ni-Cad), nickel metal hydride (NiMH), lithium-ion (Li-ion), lead-acid (Pb-A), or lead-gel (Pb-gel). These batteries should not be disposed in standard landfills because they can create long-lasting environmental and human health impacts (for example, headaches, abdominal discomfort, seizures and comas, cancers, irritation of skin and respiratory system, burns and damage to skin and eyes, and corrosion) due largely to the heavy metals such as mercury, lead, cadmium, and nickel and acids. The entire management processes including de-manufacturing, collection, storage, recycling, transport, and disposal may present a challenge to this project and, given the scope of this World Bank operation, could result in environmental and social risks and impacts, although these impacts are reversible and localized and can be easily and cost-effectively mitigated.

- c. The operational policy on Natural Habitats (OP/BP 4.04) has been triggered, on the assumptions that the project activities under Components 1 and 3 are likely to affect the natural habitats through erection of poles, construction of the mini-grids, and the installation of the solar water pumping equipment.

3. Employee welfare

The policies that guides the Corporation on recruitment includes: PSC Recruitment and Selection Policy; Delegation of PSC HRM Functions to the Cabinet Secretary, July,2018; Framework for Short Term Employment in the Public Service, May,2019; and Human Resources Policies and Procedure Manual for the Public Service, May,2016. This enabled the Corporation to promote common cadre under the delegated powers as guided by the policy taking into consideration gender and regional balance.

For skill improvements and career progression the Corporation is guided by Human Resource Development Policy for the Public Service, June, 2015 and Guidelines on Managing Training in the Public Service. This enabled the Corporation to conducts individual trainings programmes required for career progression/promotion and those required in the Schemes of Service for various cadres and also group trainings for various cadres.

The Corporation ensured that all staffs were put on Performance Appraisal System (PAS) as guided by guidelines for Implementation of Performance Rewards and Sanctions in the Public Service and also Performance Rewards and Sanctions framework.

The Corporation has developed its own Occupational Safety and Health Policy with reference to made Occupational Safety and Health, ACT of 2007. A Corporation Committee on Occupational Safety and Health is in place which ensures adherence to OSHA and safety and security of the staff and Corporation properties.

4. Market place practices

- a) **Responsible competition practice.** (Strict adherence to Annex IV of World Bank Regulations on Banks Anti-corruption guidelines)
- b) **Responsible Supply chain and supplier relations-** Procurement undertaken in compliance with WB Procurement Regulations as per Section 3.7 of the regulations are as follows;
 - a. Provide timely and sufficient information to Bidders/Proposers/Consultants, including through the Notification of Intention to Award and debriefing, so that Bidders/Proposers/Consultants can both understand the basis for the Borrower's decision and make an informed decision on whether to lodge a Complaint challenging that decision.
 - b. Promptly acknowledge Complaints received;
 - c. Resolve Complaints promptly and fairly;
 - d. Preserve the confidentiality and proprietary information of other Applicants/ Bidders/Proposers/Consultants, including commercial and financial information and trade secrets as requested by the Bidders/Proposers/Consultants in their Bids/Proposals;
 - d. Maintain complete records of all debriefings and Complaints and their resolution;
 - e. For contracts subject to prior review, inform the Bank promptly of any Complaint submitted and provide the Bank a copy of all relevant documents and information; and
 - f. For contracts subject to prior review, The Client consult with the Bank promptly and forthrightly throughout the Complaint review and resolution process.

- c) **Responsible marketing and advertisement-:** Ensuring suppliers are given sufficient time to respond. Provide extensions in even of clarifications lead to substantial changes to bidding documents
- d) **Product stewardship-;** we have to ensure adherence to NEMA in project implementation is undertaken and well as pursuing “green procurement “to ensure that suppliers who value the environment are encouraged.

5. Community Engagements

The Corporation has been carried out the following measures to enhance acceptance of the projects by the communities around the project area; The Ministry and its Agencies put in place mechanism for engagement of the people during project implementation. Among them includes operationalization of Stakeholders Coordination Committees and rolling out of community engagement strategy and policy.

In addition, the Corporation continued to ensure that local communities were considered for jobs during the implementation of the energy projects. Local communities were also involved during land acquisition.

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Chief Executive Officer, Rural Electrification and Renewable Energy Corporation and the Project Manager 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 June 30, 2022.

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

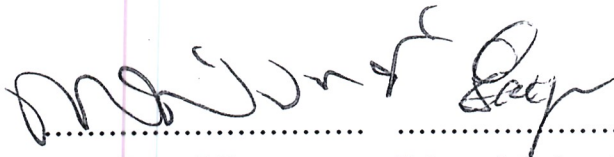
The Chief Executive Officer and the Project Manager for KEMP Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting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

The Chief Executive Officer and the Project Manager for KEMP 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 June 30, 2022, and of the Project's financial position as at that date. The Chief Executive Officer and the Project Manager for 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.

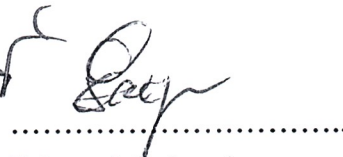
The Chief Executive Officer and the Project Manager for KEMP Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes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

Approval of the Project Financial Statements

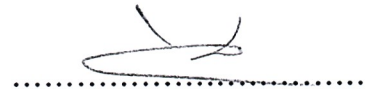
The Project financial statements were approved by the Chief Executive Officer and the Project Manager for KEMP on 30/9 2022 and signed by them.



CPA Peter Mbugua
Chief Executive
Officer



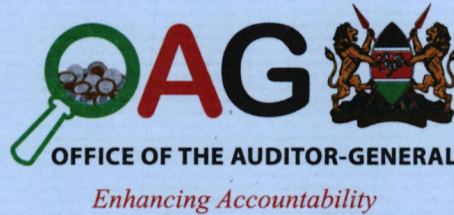
Edward Gakunju
Project Manager



Caroline Kamau
Project Accountant
ICPAK Member No:8665

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY MODERNISATION PROJECT (IDA CREDIT NO.5587-KE) FOR THE YEAR ENDED 30 JUNE, 2022 – RURAL ELECTRIFICATION AND RENEWABLE ENERGY CORPORATION

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

I have audited the accompanying financial statements of Kenya Electricity Modernization Project set out on pages 1 to 34, which comprise of the statement of financial assets as

Report of the Auditor-General on Kenya Electricity Modernisation Project (IDA Credit No.5587-KE) for the year ended 30 June, 2022 – Rural Electrification and Renewable Energy Corporation

at 30 June, 2022, and the statement of receipts and payments, statement of cash flow 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.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Kenya Electricity Modernization Project as at 30 June, 2022 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and Financing Agreement No.5587-KE dated 29 June, 2015, between the International Development Association (IDA) and the Republic of Kenya.

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

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Electricity Modernization 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. There were no key audit matters to report in the year under review.

Other Matter

Delay in Project Implementation

As disclosed in paragraph 1.2 of the Project information and overall performance, the Project was earmarked to close on 30 December, 2022 following a one (1) year extension of the initial end date of 30 December 2021. However, Note 1.7 on funding summary indicates that the Donor had made commitment amounting to Kshs.1,013,000,000 equivalent of USD 10,000,000 as at 30 June, 2022. However, actual drawdowns during the project life amounted to Kshs.218,065,903 equivalent to USD 2,131,523 leaving Kshs.894,934,097 or 80% of Donor commitment undrawn. The credit is set to lapse without being fully utilized and the project's planned deliverables earmarked for completion using the funding may not be realized.

In the circumstances, the Project's objectives are unlikely to be achieved and hence affect the benefits that should have accrued to the citizens.

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.

Irregular Payment of Supply of Solar Power Generation Plants

The statement of receipts and payments reflects expenditure of Kshs.19,976,926 in respect of acquisition of non-financial assets. The expenditure includes two payments of Kshs.5,163,253 and Kshs.14,813,673 to an international company as advance payments and invoice settlement for supply of materials for a solar photovoltaic power generation plant respectively.

Review of the payments and other contract documents revealed the following anomalies;

- i. The contract between the Corporation and the Supplier provided that the effective date of the contract will be after fulfilment of conditions which included execution of contract by both parties, submission of performance security by the contractor, advance payment to the contractor and submission of documentary credit to the contractor. In addition, the contract provided that if the conditions are not fulfilled within two months from the date of the contract because of reasons not attributable to the Contractor, parties shall discuss and agree on equitable adjustment to the contract. However, the conditions were not fulfilled and an adjustment to the contract in form of an addendum to the Contract was signed on 15 July, 2021, which was over 20 months from the date of the contract, extending the contract period to 31 July, 2022. Further, reasons for non-execution of the contract within two months from the contract date and a notice of extension were not provided for audit review.
- ii. Management paid an advance amount of Kshs.5,163,253 on 30 June, 2022, which was 10% of the total contract sum. However, the contract provided for 10% advance payment on total Carriage and Insurance Paid (CIP) amount. According to subsequent invoices from the contractor, only equipment valued at Kshs.14,799,596 had been invoiced as at 30 June, 2022, therefore an advance payment of Kshs.1,479,960 was due to the Contractor. The resultant variance of Kshs.3,683,293 was not supported by invoices and shipping documents.
- iii. The contractor was paid full invoice amount of Kshs.14,799,596 in respect of equipment delivered, despite an earlier payment of 10% advance on the total contract sum, and the contract requirement to withhold 10% of the invoice amount until issuance of a completion certificate. Further, no withholding tax was deducted and remitted to the Kenya Revenue Authority (KRA). Consequently, the Contractor was

overpaid by an amount of Kshs.2,959,914 in respect of the deliveries invoiced in June, 2022.

In the circumstances, Management was in breach of the contract and the law in respect of withholding tax retention.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 the 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 overall governance.

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the

Report of the Auditor-General on Kenya Electricity Modernisation Project (IDA Credit No.5587-KE) for the year ended 30 June, 2022 – Rural Electrification and Renewable Energy Corporation

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 financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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


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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Project 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 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 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 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

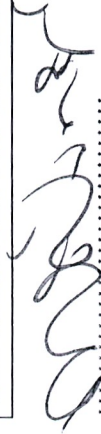
09 December, 2022

Report of the Auditor-General on Kenya Electricity Modernisation Project (IDA Credit No.5587-KE) for the year ended 30 June, 2022 – Rural Electrification and Renewable Energy Corporation

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

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.


	Note	2021-2022		2020-2021		Total	Cumulative to date
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payments controlled by the entity	Payments made by third parties		
		KShs	KShs	KShs	KShs	KShs	KShs
RECEIPTS							
Transfer from Government entities	1	-	-	-	-	-	5,000
Proceeds from domestic and foreign grants	2	-	19,976,926	19,976,926	69,000,001	69,000,001	88,976,927
Loan from external development partners	3	-	-	-	-	-	129,083,976
Miscellaneous receipts	4	-	-	-	-	-	
TOTAL RECEIPTS		-	19,976,926	19,976,926	69,000,001	69,000,001	218,065,903
PAYMENTS							
Compensation of employees	5	-	-	-	-	-	
Purchase of goods and services	6	-	-	-	-	-	
Social security benefits	7	-	-	-	-	-	
Acquisition of non-financial assets	8	-	19,976,926	19,976,926	69,000,001	71,925,425	170,071,258
Transfers to other government entities	9	-	-	-	-	-	-
Other grants and transfers and payments	10	4,926	-	4,926	6,048	6,048	77,027
TOTAL PAYMENTS		4,926	19,976,926	19,981,852	69,000,001	71,931,473	170,148,285
SURPLUS/DEFICIT FOR THE YEAR		(4,926)	-	(4,926)	-	(2,931,472)	47,917,618


CPA Peter Mbugua

Chief Executive Officer


Edward Gakunju

Project Manager




Caroline Kamau
Project Accountant
ICPAK Member No:8665

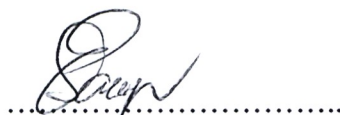
7. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2022

Description	Note	2021-2022 KShs	2020-2021 KShs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	11.A	47,917,618	47,922,544
Cash Balances	11.B	-	-
Cash Equivalents (short term deposits)	11.C	-	-
Total Cash and cash equivalents		47,917,618	47,922,544
Accounts receivables – Imprest and Advances	12	-	-
TOTAL FINANCIAL ASSETS		47,917,618	47,922,544
FINANCIAL LIABILITIES REPRESENTED BY			
Payables-Deposits and Retentions	13		
Fund balance b/fwd	14	47,922,544	50,854,016
Prior year adjustments	15	-	-
Surplus/Deficit for the year		(4,926)	(2,931,472)
NET FINANCIAL POSITION		47,917,618	47,922,544

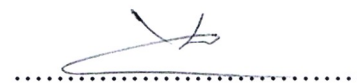
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30/9 2022 and signed by:



CPA Peter Mbugua
Chief Executive officer



Edward Gakunju
Project Manager

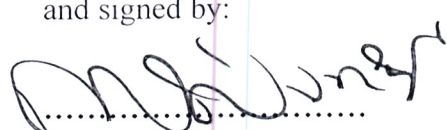


Caroline Kamau
Project Accountant
ICPAK Member No:8665

8. STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30TH JUNE 2022

Description	Note	2021-2022 KShs	2020-2021 KShs
CASHFLOWS FROM OPERATING ACTIVITIES			
Receipts			
Transfer from Government entities	1	-	-
Proceeds from domestic and foreign grants	2	-	-
Miscellaneous receipts	4	-	-
Total Receipts			
Payments			
Compensation of employees	5	-	-
Purchase of goods and services	6	-	-
Social security benefits	7	-	-
Transfers to other government entities	9	-	-
Other grants and transfers	10	4,926	(6,048)
Total Payments			
Adjustments during the year			
Prior year adjustments	15		
Decrease/ (increase) in accounts receivables	16	-	-
Increase/(decrease) in accounts payable	17		
Net cash flow from operating activities		(4,926)	(6,048)
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of non-financial assets	8	(19,976,926)	(71,925,425)
Net cash flows from Investing Activities		(19,976,926)	(71,925,425)
CASHFLOW FROM FINANCING ACTIVITIES			
Proceeds from foreign borrowings	3	19,976,926	69,000,001
Net cash flow from financing activities		19,976,926	69,000,001
NET INCREASE IN CASH AND CASH EQUIVALENT			
Cash and cash equivalent at beginning of the Year	11	47,922,544	50,854,016
Cash and cash equivalent at end of the Year	11	47,917,618	47,922,544

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30/9 2022 and signed by:



CPA Peter Mbugua
CHIEF Executive Officer



Edward Gakunju
Project Manager



Caroline Kamau
Project Accountant
ICPAK Member No:8665

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

9. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Final Budget	Actual on comparable basis	Budget Utilisation Difference	% of Utilisation	Comments on Variance (Below 90% and over 100%)
	a	b	c=a-b	d=b/a %	
RECEIPTS					
Transfer from Government entities	-	-	-	-	
Proceeds from domestic and foreign grants	-	-	-	-	
Proceeds from borrowings	621,000,000	19,976,926	601,023,074	3%	Delay in land acquisition
Miscellaneous receipts	-	-	-	-	
Total Receipts	621,000,000	19,976,926	601,023,074	3%	Delay in land acquisition
PAYMENTS					
Compensation to employees	-	-	-	-	
Purchase of goods and services	-	-	-	-	
Social security benefits	-	-	-	-	
Acquisition of non-financial assets	621,000,000	19,976,926	601,023,074	3%	Delay in land acquisition
Transfers to other government entities	-	-	-	-	
Other grants and transfers	-	-	-	-	
Total Payments	621,000,000	19,976,926	601,023,074	3%	Delay in land acquisition
Surplus or Deficit	-	-	-	-	

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



CPA Peter Mbugua
Chief Executive Officer



Edward Gakunju
Project Manager



Caroline Kamau
Project Accountant
ICPAK Member No:8665

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

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

10.2 Reporting entity

The financial statements are for the Project KEEP under the National Government of Kenya. The financial statements are for the reporting entity Project 50MW Solar Power Plant as required by Section 81 of the PFM 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 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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

a) 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.

b) 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.

c) 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.

10.5 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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

10.8 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:

SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.

Annex 5 of this financial statement is a register of the contingent liabilities in the year.

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.

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. and are disclosed in the payment to third parties' column in the statement of receipts and payments. During the year, Kshs 19,976,926 being loan disbursements were received in form of direct payments from third parties.

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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 15 of these financial statements

11. NOTES TO THE FINANCIAL STATEMENTS

1. Transfers from Government entities

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

Description	KShs	KShs	Cumulative to date (from inception)
	2021-2022	2020-2021	
Counterpart funding through Ministry of Energy	-	-	-
Counterpart funds Quarter 1	-	-	-
Counterpart funds Quarter 2	-	-	-
Counterpart funds Quarter 3	-	-	-
Counterpart funds Quarter 4	-	-	-
Total (Annex 2)	-	-	-
Other transfers from government entities	-	-	-
Ministry of Finance	-	-	-
Appropriations-in-Aid	-	-	-
Total	-	-	-

“Other transfers from government entities” is not the counterpart funding which is the government’s share of contribution towards the implementation of the project as mandated by the Project Agreement.

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. Proceeds From Domestic and Foreign Grants

During the financial period to 30 June 2022, we received grants from donors as detailed in the table below:

Name of Donor	Date received	Amount received in donor currency	Grants Received in Cash	Grants received as direct payments	Grants Received in Kind	Total amount in Kshs	
						2021-2022	2020-2021
		USD	KShs	KShs	KShs	KShs	KShs
Grants Received from Bilateral Donors (Foreign Governments)							
World Bank			-	-	-	-	-
Grants Received from Multilateral Donors (International Organisations)							
International Development Association (IDA)		127,969	-	19,976,926	-	19,976,926	69,000,001
Total		127,969	-	19,976,926	-	19,976,926	69,000,001

(* The direct payment grants represent payments for goods and services done directly by the donor on behalf of the project. Projects should ensure that the adequate documents and support document is requested from the donors to support this grant).

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. Loan 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 loan currency	Amount Received in Cash	Loan Received as Direct Payment	Total amount In Kshs	
					2021-2022	2020-2021
Loans Received from Bilateral Donors (Foreign Governments)		USD	KShs	KShs		
Loans Received from Multilateral Donors (International Organisations)						
International Development Association (IDA)			-	-	-	-
Total			-	-	--	

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Miscellaneous receipts

Description	2021-2022		Total Receipts	2020-2021	Cumulative to date (from inception)
	Receipts controlled by the entity	Receipts controlled by third parties			
	KShs	KShs	KShs	KShs	KShs
Property income	-	-	-	-	-
Sales of goods and services	-	-	-	-	-
Administrative fees and charges	-	-	-	-	-
Fines, penalties and forfeitures	-	-	-	-	-
Voluntary transfers other than grants	-	-	-	-	-
Other receipts not classified elsewhere	-	-	-	-	-
Total	-	-	-	-	-

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. Compensation to Employees

Description	2021-2022			2020-2021	
	Payments made by the entity in cash	Payments made by third parties	Total Payments	Total Payments	Cumulative to date
	KShs	KShs	KShs	KShs	KShs
Basic salaries of permanent employees	-	-	-	-	-
Basic wages of temporary employees	-	-	-	-	-
Personal allowances paid as part of salary	-	-	-	-	-
Personal allowances paid as reimbursements	-	-	-	-	-
Personal allowances provided in kind	-	-	-	-	-
Pension and other social security contributions	-	-	-	-	-
Compulsory national social security schemes	-	-	-	-	-
Compulsory national health insurance schemes	-	-	-	-	-
Social benefit schemes outside government	-	-	-	-	-
Other Personal Payments	-	-	-	-	-
Total	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Purchase of Goods and Services

Description	2021-2022			2020-2021	
	Payments made in cash	Payments made by third parties	Total Payments	Total Payments	Cumulative to date
	KShs	KShs	KShs	KShs	KShs
Utilities, supplies and services	-	-	-	-	-
Communication, supplies and services	-	-	-	-	-
Domestic travel and subsistence	-	-	-	-	-
Foreign travel and subsistence	-	-	-	-	-
Printing, advertising and - information supplies & services	-	-	-	-	-
Rentals of produced assets	-	-	-	-	-
Training expenses	-	-	-	-	-
Hospitality supplies and services	-	-	-	-	-
Insurance costs	-	-	-	-	-
Specialised materials and services	-	-	-	-	-
Other operating payments	-	-	-	-	-
Routine maintenance - vehicles and other transport equipment	-	-	-	-	-
Routine maintenance - other assets	-	-	-	-	-
Exchange rate losses/gains (net)	-	-	-	-	-
Total	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. Social Security Benefits

Description	2021-2022			2020-2021	
	Payments made by the Entity in cash	Payments made by third parties	Total Payments	Total Payments	Cumulative to date
Government pension and retirement benefits	KShs -	KShs -	KShs -	KShs -	KShs -
Social security benefits in cash and in kind	-	-	-	-	-
Employer social benefits in cash and in kind	-	-	-	-	-
Total	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. Acquisition of Non-Financial Assets

Description	Payments made by the Entity in cash	2021-2022		Total Payments	Total Payments	Cumulative to date
		Payments made by third parties				
	KShs	KShs	KShs	KShs	KShs	KShs
Consultancy/Training	-	-	-	2,925,424	81,094,331	
Purchase of Goods	-	19,976,926	19,976,926	69,000,001	88,976,927	
Total	-	19,976,926	19,976,926	71,925,425	170,071,258	

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

Notes to the Financial Statements (Continued)

9. Transfers to other Government Entities

During the financial period to 30 June 2022, we transferred funds to reporting government entities as shown below:

Description	Payments made by the Entity in cash	2021-2022		Total Payments	Total Payments	Cumulative to date
		Payments made by third parties				
	KShs	KShs	KShs	KShs	KShs	KShs
Transfers to National Government entities						
Ministry of Energy	-	-	-	-	-	-
Transfers to County Government						
	-	-	-	-	-	-
Total	-	-	-	-	-	-

We have confirmed that the beneficiary institutions have received the funds and have recorded these as inter-entity receipts. We have attached these duly signed confirmations as an Appendix to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. Other Grants, Transfers and Payments

Description	Payments made by the Entity in cash	2021-2022		Total Payments	Total Payments 2020-2021	Cumulative to date
		Payments made by third parties				
	KShs	KShs		KShs	KShs	KShs
Bank Charges	4,926	-		4,926	6,048	77,027
Total	4,926	-		4,926	6,048	77,027

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. Cash And Cash equivalents

Description	2021-2022	2020-2021
	KShs	KShs
Bank accounts (Note 11.A)	47,917,618	47,922,544
Cash in hand (Note 11.B)	-	-
Cash equivalents (short-term deposits) (Note 11.C)	-	-
Total	47,917,618	47,922,544

The Project does not operate a bank account.

11. A Bank Accounts

Project Bank Accounts

The Project does not operate a bank account.

Description	2021-2022	2020-2021
	KShs	KShs
<u>Foreign Currency Accounts</u>		
Total foreign currency Balances	-	-
<u>Local Currency Accounts</u>		
Co-operative Bank of Kenya [A/c No. 011301250163]	47,917,618	47,922,544
Total local currency balances	47,917,618	47,922,544
Total bank account balances	47,917,618	47,922,544

Special Deposit Accounts

The balances in the Project's Special Deposit Account(s) as at 30th June 2021 are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision.

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

Special Deposit Accounts Movement Schedule

	2020/21 Usd	2020/21 Kshs	2019/20 Usd	2019/20 Kshs
KEMP A/C 0128945650				
Opening Balance	79.80	8,103.00	79.80	8,103.00
Closing Balance	79.80	8,103.00	79.80	8,103.00

The Special Deposit Account(s) reconciliation statement(s) has (have) been attached as *Appendix ii* support these closing balances.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 B Cash in hand

Description	2021-2022	2020-2021
	KShs	KShs
Location 1	-	-
Location 2	-	-
Location 3	-	-
Other locations (<i>specify</i>)	-	-
Total cash in hand balances	≡	≡

11 C Cash equivalents (short-term deposits)

Description	2021-2022	2020-2021
	Kshs	Kshs
Kenya Commercial Bank [A/C No.....]	-	-
Co-Operative Bank of Kenya [A/C No.....]	-	-
Others (<i>Specify</i>)	-	-
Total	≡	≡

12. Imprests and Advances

Description	2021-2022	2020-2021
	Kshs	Kshs
Government Imprests	-	-
Salary advances	-	-
Total	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12b: Breakdown of Imprests and Advances

Name of Officer or Institution	Amount Taken	Due Date of Surrender	Amount Surrendered	Balance 2022	Balance 2021
	Kshs	Kshs	Kshs	Kshs	Kshs
Officer 1	-	-	-	-	-
Officer 2	-	-	-	-	-
Officer 3	-	-	-	-	-
Officer 4	-	-	-	-	-
Officer 5	-	-	-	-	-
Programme 1	-	-	-	-	-
Total	=	=	-	-	-

13. Deposits and Retention Monies

Description	2021-2022	2020-2021
	Kshs	Kshs
Retention	-	-
Deposits	-	-
Total	-	-

14. Fund Balance Brought Forward

Description	2021-2022	2020-2021
	Kshs	Kshs
Bank accounts	47,922,544	50,854,016
Cash in hand	-	-
Cash equivalents (short-term deposits)	-	-
Outstanding imprests and advances	-	-
Total	47,922,544	50,854,016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Prior Year adjustment

	Balance b/f FY (2020/2021 audited financial statements)	Adjustments	Adjusted balance b/f FY 2020/2021
Description of the error	Kshs	Kshs	Kshs
Bank account Balances	-	-	-
Cash in hand	-	-	-
Accounts Payables	-	-	-
Receivables	-	-	-
Others (<i>specify</i>)	-	-	-
Total	-	-	-

16. Changes in Receivable

Description	2020-2021	2019-2020
	Kshs	Kshs
Opening Receivables as at 1 st July 2022	-	-
Closing account receivables as at 30 th June 2022	-	-
Change in Receivables	-	-

17. Changes in Accounts Payable

Description	2021-2022	2020-2021
	Kshs	Kshs
Deposit and Retentions as at 1 st July 2022	-	-
Closing accounts payables as at 30 th June 2022	-	-
Change in payables	-	-

12. OTHER IMPORTANT DISCLOSURES

1. Pending Accounts Payable (See Annex 3a)

	Balance b/f FY 2020/2021	Additions for the period	Paid during the year	Balance c/f FY 2021/2022
Description	Kshs	Kshs	Kshs	Kshs
Construction of buildings	-	-	-	-
Construction of civil works	-	-	-	-
Supply of goods	-	-	-	-
Supply of services	-	-	-	-
Total	-	-	-	-

2. Pending Staff Payables (See Annex 3b)

	Balance b/f FY 2020/2021	Additions for the period	Paid during the year	Balance c/f FY 2021/2022
Description	Kshs	Kshs	Kshs	Kshs
Senior management	-	-	-	-
Middle management	-	-	-	-
Union employees	-	-	-	-
Others	-	-	-	-
Total	-	-	-	-

OTHER IMPORTANT DISCLOSURES (Continued)

3. Other Pending Payables (See Annex 3c)

	Balance b/f FY 2020/2021	Additions for the period	Paid during the year	Balance e/f FY 2021/2022
Description	Kshs	Kshs	Kshs	Kshs
Amounts due to National Government entities	-	-	-	-
Amounts due to County Government entities	-	-	-	-
Amounts due to third parties	-	-	-	-
Total	-	-	-	-

4. External Assistance

	2021-2022	2020-2021
Description	Kshs	Kshs
External assistance received as grants	-	-
External assistance received as loans	19,976,926	69,000,001
External assistance received in kind- as payment by third parties	-	-
Total	19,976,926	69,000,001

a). External assistance relating loans and grants

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
External assistance received as loans	19,976,926	69,000,001
External assistance received as grants	-	-
Total	19,976,926	69,000,001

OTHER IMPORTANT DISCLOSURES (Continued)

b) Undrawn external assistance

Description	Purpose for which the undrawn external assistance may be used	FY 2021/2022	FY 2020/2021
		Kshs	Kshs
Undrawn external assistance - loans		690,773,073	690,749,999
Undrawn external assistance - grants		124,166,024	124,166,024
Total		814,939,097	814,916,023

c) Classes of providers of external assistance

Description	FY 2021/2022	FY 2020/2021
	Kshs	Kshs
Multilateral donors	-	-
Bilateral donors	-	-
International assistance organization- OFID	19,976,926	69,000,001
NGOs	-	-
National Assistance Organization	-	-
Total	19,976,926	69,000,001

OTHER IMPORTANT DISCLOSURES (Continued)

d. Non-monetary external assistance

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
Goods	-	-
Services	-	-
Total	-	-

e Purpose and use of external assistance

Payments made by third parties	FY 2021/2022	FY 2020/2021
	Kshs	Kshs
Compensation to employees	-	-
Use of goods and services	-	-
Subsidies	-	-
Transfers to other Government entities	-	-
Other grants and transfers	-	-
Social Security benefits	-	-
Acquisition of assets	19,976,926	69,000,001
Finance Costs including loan interest	-	-
Repayment of principal on domestic and foreign borrowing	-	-
Other payments	-	-
Total	19,976,926	69,000,001

OTHER IMPORTANT DISCLOSURES (Continued)

f. External Assistance paid by third parties on behalf of the Entity by Source

This relates to external assistance paid directly by third parties to settle obligations on behalf of the entity.

	FY 2021/2022	FY 2020/2021
Description	Kshs	Kshs
International assistance organization- OPEC Fund	19,976,926	69,000,001
Total	19,976,926	69,000,001

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

13. PRIOR YEAR AUDITOR-GENERAL'S RECOMMENDATIONS

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status <i>(Resolved / Not Resolved)</i>	Timeframe
1	<p>Non-adherence to the Provisions of the Loan Agreement</p> <p>Article IV paragraph 4.2 of the project's subsidiary grant agreement identifies six geographical locations in which the project components would be implemented. Review of the activities relating to the project revealed that Management had increased the project's geographical locations from the original six to ten. No documentation was provided to support the change of scope of the project contrary to the provisions of Article XIII Paragraph 13.02 of the subsidiary grant agreement.</p> <p>Additionally, two projects namely: Kadaina Island in Kilifi County and Chardende in Tana River County and which had been included in the subsidiary grant agreement had not been included in tendering process. In the circumstances, the scope of the project may have been varied without due consideration to the provisions of the article XIII Paragraph 13.02 of</p>	<p>Upon signing of the loan agreements between the Government of Kenya and World Bank for the Kenya Electricity Modernization project (KEMP) on 29th June 2015, the World Bank team held its first project review mission on the project. The letter on the mission was sent to the Cabinet National Treasury 10th August 2015 and the mission meetings were held from 28th September 2015 to October 8, 2015. During the mission, the World Bank team held discussion with REREC on several issues on the project implementation which among others the issue of additional sites 4 sites were discussed. The issue of increasing the number of sites from 6 to 10 was recorded in the aide memoire which was prepared Bank and</p>	Resolved	<p>Expected Completion date: 31st December 2022</p>

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

Reference No. in the external audit Report	Issue / Observations from Auditor	Management comment	Status (Resolved / Not Resolved)	Final time
	<p>the Subsidiary Grant Agreement and the project funding may not be sufficient as a result of scope expansion (additional projects sites).</p> <p>Delay in signing of Operation and Maintenance Contract</p> <p>Review of the financial records revealed that the contract for operation and maintenance was awarded to a contractor for a contract price of USD 4,563,340.8 in respect of foreign currency component and Kshs. 34,421,684 for the local currency component on July, 2019. According to the tender documents provided, the contract was to be signed within 120 days from the bid date. However, as at the time of the audit in November, 2021, the contract has not been signed. The management has not explained the reasons for not signing the contract.</p> <p>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</p>	<p>forwarded to Treasury Cabinet Secretary (A copy of the mission aide memoire is available for review). We therefore would like to observe that the increase in the number of sites was done according to the provisions under the loan agreement.</p> <p>On the two sites mentioned that is Kadaina Island In Kilifi County and Charidende in Tana River County, we observe that by then they were left our during the tendering process as the issue of land for the mini grids had not been finalized. We wish to confirm that the issue of the land for Kadaina has been sorted out and the mini grids will be implemented under the K-OSAP Project while Charidende market has already been connected by REREC through the grid extension. The project was commissioned on 14th December</p>		

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status (Resolved / Not Resolved)	Timeframe
	<p>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.</p>			



.....
Chief Executive Officer
CPA Peter Mbugua



.....
Edward Gakunju
Project Manager

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

14. ANNEXES

ANNEX I - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS FOR FY 2021-2022

Receipts/Payments Item	Final Budget	Actual on comparable basis	Budget Utilisation Difference	% of Utilisation	Comments on Variance (Below 90% and over 100%)
	a	b	c=a-b	d=b/a %	
RECEIPTS					
Transfer from Government entities	-	-	-	-	
Proceeds from domestic and foreign grants	-	-	-	-	
Proceeds from borrowings	621,000,000	19,976,926	601,023,074	3%	Delay in land acquisition
Miscellaneous receipts	-	-	-	-	
Total Receipts	621,000,000	19,976,926	601,023,074	3%	Delay in land acquisition
PAYMENTS					
Compensation to employees	-	-	-	-	
Purchase of goods and services	-	-	-	-	
Social security benefits	-	-	-	-	
Acquisition of non-financial assets	621,000,000	19,976,926	601,023,074	3%	Delay in land acquisition
Transfers to other government entities	-	-	-	-	
Other grants and transfers	-	-	-	-	
Total Payments	621,000,000	19,976,926	601,023,074	3%	Delay in land acquisition
Surplus or Deficit	-	-	-		

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

ANNEX 2: RECONCILIATION OF INTER-ENTITY TRANSFERS

Project Name: Kenya Electricity Modernization Project			
Break down of transfers from the State Department of Energy			
a. Government Counterpart funding	<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	Indicate the FY to which the amounts relate
		-	
		-	
		-	
	Total	-	
B. Direct payments			
	<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	Indicate the FY to which the amounts relate
		-	
		-	
	Total	-	
C. Others			
	<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>	Indicate the FY to which the amounts relate
		-	
		-	
	Total	-	
	Total (A+B+C)	-	

The above amounts have been communicated to and reconciled with the Parent Ministry/ State Department

Project Manager
RERIC



Sign-----
Sign-----

Head of Accounting Unit
Ministry Of Energy

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

ANNEX 3A - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount	Rate Contracted	Amount Paid as of Date	Outstanding Balance 2021	Outstanding Balance 2022	Comments
	a	b	c	d=a-c	2019/21	
Supply of goods	-	-	-	-	-	
	-	-	-	-	-	
	-	-	-	-	-	
	-	-	-	-	-	
Sub-Total	-	-	-	-	-	
Supply of services	-	-	-	-	-	
	-	-	-	-	-	
Sub-Total	-	-	-	-	-	
Grand Total	-	-	-	-	-	

Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022
ANNEX 3B - ANALYSIS OF PENDING: STAFF BILLS

Name of Staff	Job Group	Original Amount	Date Payable Contracted	Amount Paid To Date	Outstanding Balance 2020-2021	Outstanding Balance 2019/20	Comments
Permanent Employees - Management							
1.							
2.							
Sub-Total							
Permanent Employees - Others							
3.							
4.							
Sub-Total							
Temporary employees							
5.							
6.							
Sub-Total							
Others (specify)							
7.							
8.							
Sub-Total							
Grand Total							

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

ANNEX 3C - ANALYSIS OF OTHER PENDING PAYABLES

Sl. No.	Particulars	Original Amount	Date Contacted	Days Amount Paid To Date	Outstanding Balance 20xx	Outstanding Balance 20xx	Comments
	Amounts due to National Govt Entities						
1.							
2.							
	Sub-Total						
	Amounts due to County Govt Entities						
3.							
4.							
	Sub-Total						
	Amounts due to Third Parties						
5.							
6.							
	Sub-Total						
	Others (<i>specify</i>)						
7.							
8.							
	Sub-Total						
	Grand Total						

Kenya Electricity Modernization Project
Annual Reports and Financial Statements For the financial year ended June 30, 2022

ANNEX 4 – SUMMARY OF FIXED ASSETS REGISTER

Asset class	Opening Cost (KSh's) 2020/2021 (20)	Donations in Form of Assets (KSh's) 2021/2022 (21)	Purchases, Additions in the Year (KSh's) 2021/2022 (22)	Disposals in the Year (KSh's) 2021/2022 (23)	Transfers (in/out) KSh's 2021/2022 (24)	Closing Cost (KSh's) 2022 (e) = (a) + (b) + (c) - (d) ± (25)
Land	-	-	-	-	-	-
Buildings and structures	-	-	-	-	-	-
Transport equipment	-	-	-	-	-	-
Office equipment, furniture and fittings	-	-	-	-	-	-
ICT Equipment,	-	-	-	-	-	-
Other Machinery and Equipment	-	-	-	-	-	-
Heritage and cultural assets	-	-	-	-	-	-
Biological assets	-	-	-	-	-	-
Infrastructure assets roads, rails	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Work in Progress	150,094,332	-	19,976,926	-	-	170,071,258
Total	150,094,332	-	19,976,926	-	-	170,071,258

Notes

* Purchases, additions in the year reconciled to the amount in Statement of Receipts and Payments

** The disposal amount to be disclosed in this register is the cost that the asset was acquired at and not the price at which it has been sold. The balance as at the end of the year is the cumulative cost of all assets bought and inherited by the Ministry, Department or Agency. Additions during the year should tie to note 18 on acquisition of assets during the year. Ensure this section is complete covering all the entities assets. Ensure the complete fixed asset register is separately prepared as per circular number 5/2020 and follow up reminder of circular No. 23/2020 of The National Treasury

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

ANNEX 5 – CONTINGENT LIABILITIES REGISTER

	Nature of contingent liability	Estimated liability KSh	Expected date of payment	Remarks
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				

*Kenya Electricity Modernization Project
Annual Report and Financial Statements for the financial year ended June 30, 2022*

ANNEX: 6 REPORTING OF CLIMATE RELEVANT EXPENDITURES

Name of the Organization
Telephone Number
Email Address
Name of CEO/MID/Head

Name and contact details of contact person (in case of any clarifications)

Project Name	Project Description	Project Objectives	Project Activities	Source Of Funds				Implementing Partners
				Q1	Q2	Q3	Q4	

*Kenya Electricity Modernization Project
Annual Reports and Financial Statements For the financial year ended June 30, 2022*

ANNEX 7 DISASTER EXPENDITURE REPORTING TEMPLATE

Entity		Year		Quarter		
Period to which this report refers (FY)						
Name of Reporting Officer						
Contact details of the reporting officer:	Email	Telephone				
Column I	Column II	Column III	Column IV	Column V	Column VI	Column VII
Programme	Sub-programme	Disaster Type	Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness)	Expenditure item	Amount (Kshs.)	Comments

ANNEX 8: OTHER SUPPORT DOCUMENTS

- i. Signed confirmations from beneficiaries in Transfers to Other Government Entities
- ii. Bank Reconciliations statement as at 30th June 2022
- iii. Board of Survey Report
- iv. Special Deposit Account(s) reconciliation statement(s)
- v. GOK IFMIS comparison Trial Balance