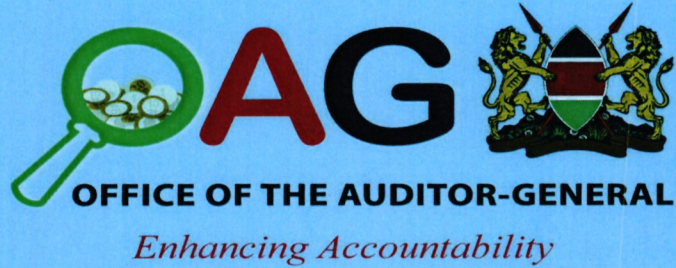


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REPORT

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THE AUDITOR-GENERAL

ON

**LAST MILE CONNECTIVITY PROJECT II
LOAN NO.2000200000152**

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

**THE KENYA POWER AND
LIGHTING COMPANY PLC**



Kenya Power



LAST MILE CONNECTIVITY PROJECT II

THE KENYA POWER AND LIGHTING COMPANY PLC

ADF LOAN NO: 2000200000152

PROJECT ID No: P-KE-FAO-013

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
30 JUNE 2022

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

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: Last Mile Connectivity Project II

Objective: The key objective of the project is to support the Government's initiative of ensuring increased Electricity access to Kenyans, particularly the poor.

Executing Agency: Ministry of Energy

Implementing Agency: The Kenya Power and Lighting Company PLC (Kenya Power)

Address: The Implementing Agency headquarters offices are in Nairobi City, Nairobi County, Kenya
 The address of its registered office is:

Stima Plaza
 Kolobot Road, Parklands
 P. O. Box 30099 - 00100
 Nairobi, Kenya.

Contacts: The following are the projects contacts:

Kenya Power and Lighting Company PLC
 Telephone: +254-02-3201000
 Website: www.kplc.co.ke

1.2 Project Information

Project Start Date:	The project start date is 17 October 2016.
Project End Date:	The project end date 31 December 2022.
Project Coordinator:	The project Coordinator is George Tarus.
Project Sponsor:	The project sponsors are Government of Kenya and African Development Bank.

1.3 Project Overview

Line Ministry/State Department of the project	The Kenyan Ministry of Energy is the Executing Agency of the project while Kenya Power and Lighting Company PLC is the Implementing Agency.
Project number	P-KE-FAO-013- Loan No: 2000200000152
Strategic goals of the project	The strategic goal of the project is to support the Government's initiative of ensuring increased Electricity access to Kenyans, particularly the poor.
Achievement of strategic goals	The project management aims to achieve the goals through the following means: <ul style="list-style-type: none"> • Expansion of the power distribution system to be within reach and thus enable more Kenyans to connect to the grid at affordable cost; and • Reduction of Connection cost paid by the customer.

1.3 Project Overview (continued)

<p>Other important background information of the project</p>	<p>The Government of the Republic of Kenya (the "Government") and the African Development Bank (the "Bank") entered into a Loan Agreement for the Last Mile Connectivity Project II (Project ID. No.: P-KE-FAO-013 and Loan No.: 2000200000152) (the "Project") on 17 October 2016 (the "Loan Agreement"). As per the Loan Agreement, the Fund agreed to extend a loan not exceeding USD 134,640,000 to the Government of Kenya.</p> <p>The Loan Agreement was subject to conclusion of a Subsidiary Grant Agreement between the Government and the Kenya Power and Lighting Company PLC for on-granting of the loan. The Subsidiary Grant Agreement was signed on 4 April 2017.</p> <p>The objective of the Project is to support the Government's initiative of ensuring increased electricity access to Kenyans, particularly the poor. The scope of the Project is the extension of the low voltage network on existing and new distribution transformers to reach households within the transformer protection distance in areas with a low penetration rate throughout the country.</p> <p>The Project has been divided into 22 lots. 15 lots are for supply, design and installation; 6 lots for supply of meters and metering accessories; and 1 for the supervision and management Consultant. The Project was to include the construction of 27,589 kilometres of low voltage distribution lines, and installation of equipment for the connection of 293,446 customers. The financing provides also for the Capacity Building and Public Relation & Communication specialist.</p>
<p>Current situation that the project was formed to intervene</p>	<p>Low Electricity access rate especially in the rural areas across all the 47 Counties of Kenya.</p>
<p>Project duration</p>	<p>The Project started on 17 October 2016 and is expected to run until 31 December 2022.</p>

1.4 Bankers

Standard Chartered Bank Kenya Ltd.
 Harambee Avenue
 P. O. Box 20063-00200
 Nairobi, Kenya.

1.5 Auditors

Principal Auditors

The Auditor General
 Kenya National Audit Office
 Anniversary Towers
 P. O. Box 30084 -00100
 Nairobi, Kenya.

Delegated Auditor

Ernst & Young LLP
 Kenya-Re Towers, Upper Hill
 Off Ragati Road
 P. O. Box 44286 - 00100
 Nairobi, Kenya.

1.6 ROLES AND RESPONSIBILITIES

Name	Title Designation	Key Qualifications	Responsibilities
Mr. Benard Nguji	Ag. Managing Director & Chief Executive Officer, KPLC, resigned on 3 August 2021	MBA(Finance), B.COM (Accounting), CPA(K), CPS(K)	Accounting officer
Eng. Rosemary Oduor	Ag. Managing Director & Chief Executive Officer, KPLC, appointed on 3 August 2021 and resigned on 17 May 2022	MBA, BSc. Electrical Eng. & Technology	Accounting officer
Eng. Geoffrey Muli	Ag. Managing Director, KPLC, appointed on 17 May 2022	MBA, BSc. Electrical Engineering	Accounting officer
Eng. Aggrey Machasio	General Manager, Infrastructure Development	BSc. Electrical Eng.& Technology	Head Infrastructure Development
Eng. Kennedy Owino	Manager, Connectivity & Turnkey Projects	MSc. CBIS, BSc. Electrical Eng. & Electronic Engineering	Supervision and Management of all Projects.
George Tarus	Project Leader, LMCP II	BSc. Electrical and Communication Engineering.	Project Coordination, Supervision and Management.
Ambrose Lamaon	Chief Accountant, Donor Funded Projects, KPLC	MBA(Finance), B. Com Accounting, CPA(K)	Project Financial Management.
Stella Mucheke	Chief Supply Chain Officer, Donor Funded Project	MBA (Operations Management), BA - Economics, Maths and Sociology, CIPS Level 6.	Project Procurement and Contract Management
Simon Tirop	Project Accountant	B.Com Accounting, CPA(K).PMD Pro Level 1.	Project Financial Management.
Allan Otieno	Procurement specialist	MBA-Procurement & Supply Chain; B.A Anthropology; CIPS Level 4	Project Procurement and Contract Management
Wilfred Koech	SHE Specialist	M. Philosophy (Environ Sc.), BSc. (Environ. Sc.), Dip. (Environ Mgt)	Coordination and Management of Social, Safety and Environmental aspects of the project

1.7 Funding summary

The Project duration is six years from 2016 to 2022 with an estimated project Cost of USD 198.48 Million, equivalent to KShs 20.499 Billion as highlighted in the table below. Additionally, the project has accumulated miscellaneous receipts of KShs 1.46 Million. Below is the funding summary:

a) Sources of Funds

	Donor Commitment		Amount received as at 30.06.2022		Undrawn balance as at 30.06.2022	
	USD	KShs'000'	USD	KShs'000'	USD	KShs,000
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
African Development Bank Financing	134,640,000	13,905,175	129,960,428	13,798,418	4,679,572	106,757
(ii) Counterpart funds						
Government of Kenya Contribution	63,841,089	6,593,297	40,989,735	4,233,296	22,851,354	2,360,001
Miscellaneous receipts	-	1,463	-	1,463	-	-
Total	198,481,089	20,499,935	170,950,163	18,033,177	27,530,926	2,466,758

b) Application of Funds

	Amount received as at 30.06.2022		Cumulative Amount Paid as at 30.06.2022		Unutilised Balance as at 30.06.2022	
	USD	KShs'000'	USD	KShs'000'	USD	KShs'000'
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
African Development Bank Financing	129,960,428	13,798,418	129,960,428	13,798,418	-	-
(ii) Counterpart Funding						
Government of Kenya	40,989,735	4,233,296	40,989,735	4,233,296	-	-
Miscellaneous receipts	-	1,463	-	1,463	-	-
Total	170,950,163	18,033,177	170,950,163	18,033,177	-	-

1.8 Summary of Overall Project Performance:

a) Budget Performance against Actual Amounts

As at end of the year under review, the Project has utilised KShs 18 Billion, which is 88 % of the project cost.

b) Physical Progress and Achievement of the Project

The project is at advanced stage. The contractors have purchased most of the required materials and the installation works as well as the metering works are ongoing. As at 30 June 2022, a total of 310,939 (106%) customers were connected under the project out of the targeted 293,446 customers as per the actual designs. During the period, a total of 57,409 customers were connected.

c) Implementation Challenges and way forward

Implementation of the project has faced several challenges, which have affected the timely execution and delivery of key project milestones. Document collection and data gathering challenges were experienced as most of the customers are from the rural areas and do not have the mandatory statutory documents for power supply contracting. Also, poor performance of contractors due to lack of adequate cash flow and poor project planning affected the project. During year, the effects of Covid-19 slowed down the progress of installation works and supply of goods.

To mitigate the effects of the various challenges, the Project Implementation Team have enhanced supervision of works by increase of site supervisors, fast tracking payments to contractors and closely liaising with Government for adequate funding. In addition, the Team embraced the use of local administration for stakeholder sensitization to facilitate document collection and data gathering.

1.9 Summary of Project Compliance:

KPLC is entrusted with responsibility of implementing the Last Mile Connectivity Project II.

a) Compliance with applicable environmental laws and regulations

KPLC strives to comply with all the national and international environmental statutory and regulatory provisions that apply to its operational activities. The key national laws are; the Water Act of 2002 and the Environmental Management and Coordination Act (EMCA) of 1999 and the associated regulations. While key International Best practices include the IFC Performance Standards. Therefore, all KPLC's projects promote sound healthy environment and opportunities for environmental conservation with local communities in all project areas.

b) Non-compliance attracts consequences

KPLC takes the utmost precautions in its operations in ensuring all associated impacts are negligible on health and the environment. The Company has not suffered any consequences because of non-compliance due to its commitment towards environmental regulatory compliance.

c) Mitigation measures are taken to alleviate the adverse effects of actual or potential consequences of non-compliance

KPLC has a sound environmental policy that reflects commitment to continually improve in the field of environmental management and monitoring. It serves as a guide to the company, contractors and suppliers and forms the basis for good collaboration with stakeholders.

The Company continues to streamline its environmental and social management/monitoring plans to be in total compliance with International Environmental Best Practices and Standards. Dissemination of knowledge on environmental conservation, management and awareness has been a key component through the social afforestation program.

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVES

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The key development objective of the project's 2018-2022 plan is to support the Government's initiative of ensuring increased electricity access to Kenyans, particularly the low-income earners.

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. The Project status deliverables as at year-end is as follows.

S N	Item Description	Unit	Quantity	Status of Execution	% Achieved
1	LV route length	km	18,893	18,153	96%
2	Customer	PC	293,446	310,939	106%

The project as proposed targets connecting customers in areas with low access to electricity as per the government policy. The electrification of rural areas has immediate effect on economic activities in those regions thus creating employment and increase in business opportunities, better education services, improved health facilities and overall quality of life for the citizens. Below we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
Last Mile Connectivity Project II	To accelerate Electricity Access	Increased Electricity access rate	No. of New customer Connected in the project	In FY 21/22, 57,409 Customers were connected

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Kenya Power as corporate entity is committed to sustainable development policies and measures. Kenya Power has contributed tremendously to global efforts to ensure that the “only one earth” is protected and conserved, ensuring the sustainability of its economy and society. Kenya Power business is heavily dependent on the sustainable utilization of natural resources, and the network traverses diverse environmental ecosystems in the process of transmission and distribution of electricity to customers. Thus, management and mitigation against activities that have deleterious environmental effects is imperative as it ensures the sustainability of our business.

ENVIRONMENTAL PERFORMANCE

Tree Planting: Kenya Power has always partnered with Kenya Forest Service (KFS) and other stakeholders and supported several environmental conservation initiatives such as trees planting around Kenya’s water catchment areas. The company intensified planting of trees in unutilized Kenya Power properties through an employee-driven environmental conservation program. During the financial year, the company partnered with Ministry of Energy and KFS in planting over 2000 tree seedlings in Endarasha in Aberdares Forest. It also provided over 5000 seedlings to (NEMA) during World Environment Day christened “only one earth”. Over the last 11 years, the company planted 273,500 trees in various parts of the country. To further reduce reliance on wooden poles and maintain the forest cover, the company has incrementally used concrete poles for construction of power lines. During the financial year 2021/2022, Kenya power increased the usage of concrete poles to 33,080 poles from 22,765 used in the previous financial year, saving over 33,080 trees which could have been cut for wooden poles. The concrete poles are long lasting and durable as compared to wooden ones, reducing the rate of poles replacement by 50%.

Environmental Screening: In compliance with environmental regulations the company conducts Environmental screening and Social Impact assessments for all new infrastructure projects. In the 2021/2022 financial year, eight (8) Environmental and Social Impact assessments and reviewing of 80 Environmental and Social impact assessments for Solar Minigrid projects were done. Moreover, we conduct environmental audits and inspections of existing facilities and monitoring of ongoing projects including Last Mile Connectivity to ensure that they are environmentally sustainable. Facilities and infrastructural projects in the eight (8) Kenya power regions were audited, inspected and monitored during the just ended financial year.

Water Harvesting: Kenya power has been at the forefront of advocating for water harvesting in schools and health centres in dry areas as well as in its facilities. The company up scaled installation of roof gutters and providing tanks for water storage in new building and Off Grid power generating stations to supplement conventional water supply.

Waste Management: Kenya power sustained strategies to minimize paper usage by adopting electronic systems in its operation such as billing, job application and tendering. The company has also limited paper used per staff by providing monthly limits. By saving on paper usage, less trees are cut and less industrial emissions are generated during paper manufacturing.

Energy Conservation - Lighting: Additionally, Kenya Power has been driving the use of energy saving bulbs for both domestic and industrial customers to promote energy conservation as well as the use of electric induction cookers and other energy efficient appliances. The use of induction cookers reduces overreliance on firewood, charcoal and fossil fuels which have deleterious impacts on the environment. The company continued with its sensitization of the public on energy saving methods during the financial year.

Energy Conservation - Cooking: The Company continued running a campaign on media dubbed Pika na Power (Cook with Electricity) which was broadcasted on national TV and social media. The campaign was aimed at promoting the use of electricity for cooking, thus reducing use of fossil fuels that generate greenhouse gases and destroy carbon sinks.

Wildlife Conservation: Kenya Power has been working in conjunction with the Colobus Conservation Trust in the protection and conservation of the endangered monkey species in Diani area of Kwale County. The company has contributed immensely since 2008 on the conservation through various avenues including but not limited to ring fencing of its transformers with razor wires to deter monkeys from accessing energized transformers, trimming of trees to create clear and accessible path free of power network for colobus monkeys and the use of insulated cable within areas inhabited by the colobus monkeys. No colobus Monkey electrical incident was reported in the 2021/2022 financial year. The company has further invested in giraffe conservation within Nakuru National park, Soysambu Conservancy and Naivasha Game reserve through; improving ground clearance of HT network in giraffe areas. Transformers in Naivasha Wildlife training institute were ring fenced to prevent electrocution of giraffes.

The company progressed the assessment of the Rerouting of the submerged 132kV Dual Circuit Transmission Power Lines at Lake Nakuru National Park to eliminate the frequent electrocution and collision of Avifauna especially the Pelicans and flamingos by allowing the birds to manoeuvre easily and minimize any dangers to natural ecosystem that may result from power line collapsing in the lake. The company will eliminate Avifauna mortality due to electrocution by and or collisions with the power line.

Increased Green Energy Connectivity: The government in liaison with the energy sector players including Kenya Power has been increasing the number of customers connected to the national grid through programs such as the Last Mile Connectivity Projects (JICA, AFDB, AFD and WB), and increased access to clean electricity in off-grid areas through green energy initiatives of wind and solar. Increased reliance on clean energy will reduce the use of diesel generators, kerosene lamps and overreliance on wood hence saving the planet from tonnes of greenhouse gas emissions and save our forests, which are key carbon sinks.

EMPLOYEE WELFARE

The Company continued with promotion of safety culture of employees, customers and the general public, which is of great concern to the Company as we transact our business. Safety training and awareness for staff was conducted including routine worksites inspections to ensure compliance with safe operating procedures and routine inspections of tools and equipment. The Company also participated in development of road safety policy and review of electrical safety rules. Public electrical safety sensitization workshops for national Government administration officers were conducted during the year with 26 out of 47 counties sensitization having been conducted by end of the year. Other activities conducted included fire safety and burns awareness forums, staff sensitization on safety measures to act as safety ambassadors in their communities, branding of vehicles with safety messages and engaging the mass media and schools' sensitization programs.

SOCIAL

Supporting Social Welfare: The Company apart from supporting programmes focusing on education and environmental conservation supports various wide-ranging programmes within the communities that centres on humanitarian causes across our different areas of operation. For instance, during this financial year, staff from Central Office donated diapers, sanitary towels, craft items, toys, therapy items and knitting items to Dr Ribeiro special unit.

Social Impact Programmes: As the Company ushers in a new dawn, we have an impeccable opportunity to make smart and time-bound investments in-order to reinvent ourselves as a 21st century business.

Our business is intertwined with the environment and therefore we are obligated to support various programmes and initiatives that promote environmental conservation. Our activities are highly dependent on natural resources for instance, wooden poles to support its infrastructure, water for hydro- electricity and energy from geothermal steam. For these, and many other reasons, we are keen on programmes that are endeared towards empowering, creating value, nurturing allegiance as well as goodwill for business sustainability. Investing in the future of the community therefore is investing in the future of the country, and consequently of the Company. Since inception of the Corporate Social Investment policy in the year 2007, the Company has been dedicating 1% of its after tax profits towards initiatives that support social-economic programmes among communities. Over the years, our Corporate Social Investment pillars therefore, which form part of our sustainability agenda, have been embodied towards education, environmental conservation and social impact.

Education programme: Education undeniably plays a significant role in catalysing economic transformation and development by nurturing a culture of innovation and facilitating societal growth. Investing in education, therefore, is investing in the future of the country. Indeed, at Kenya Power, we have over the years prioritised programmes that support education of marginalised children because we understand the role of education as a powerful tool to enable disadvantaged communities lift themselves up economically and socially. Our Corporate Social Investment programmes envisage a future where more people access high quality education as our way of giving back to the communities from which we draw our human resources.

Endowment Programme: Over the years, we have continued to support students from disadvantaged communities to study at Starehe Boys Centre and Starehe Girls Center dating back to 1998 and 2008 respectively under the Kenya Power Endowment Programme. The fund has so far offered full scholarships to (31) smart students from underprivileged backgrounds. We currently have fourteen students still pursuing their education in the above facilities. This financial year, we plan to scale this up by considering having endowment funds in two select top girls and boys regional schools. We intend to put a seed capital of Shs. 1 million per school in order to educate bright underprivileged students. In the just concluded financial year, we collaborated with Engineers and professionals from different functions to mentor young boys and girls in both Starehe Girls and Boys secondary schools. We also plan to drive Mentorship Programs in select schools preferably Extra County high schools across the Country going forward.

Vulnerable Groups: Economic empowerment is one of the most effective ways of empowering any section of the population. The government has taken cognisance of this under the Public Procurement and Disposal Regulations Act 2020 that requires procuring entities to allocate at least 30% of their annual procurement budget to women, youth and persons with disability. The uptake of these procurement opportunities has been low due to lack of financing, information and understanding of government procurement processes.

To support this uptake, Kenya Power rolled out awareness programmes to increase participation of women, youth and persons with disabilities in procurement opportunities within the Company. Such forums have in the past proven helpful in enabling the aforementioned groups secure more business opportunities with the Company. They act as a one-stop shop where the groups are taken through the requirements of the procurement process, including registration on our procurement portal.

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

KPLC, through the KPLC Project Implementation 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 (period) 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; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The KPLC Project Implementation Team 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 (IPSAS).

The KPLC Project Implementation Team is 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 2022, and of the Project's financial position as at 30 June 2022 in accordance with the Cash Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS). The KPLC Project Implementation Team further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project's financial statements as well as the adequacy of the systems of internal financial control.

The KPLC Project Implementation Team confirms 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 years 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 Kenya Power and Lighting Company PLC Project Implementation Team on 27/10/2022 and signed on their behalf by:



Ag. Managing Director
Name: Eng. Geoffrey Muli



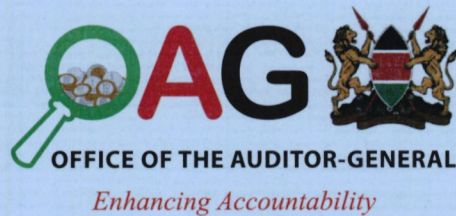
Project Coordinator
Name: George Tarus



Project Accountant:
Name: Simon Tirop
ICPAK Member No.: 9665

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
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HEADQUARTERS
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Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON LAST MILE CONNECTIVITY PROJECT II LOAN NO.2000200000152 FOR THE YEAR ENDED 30 JUNE, 2022 – THE KENYA POWER AND LIGHTING COMPANY PLC

PREAMBLE

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

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

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, 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 Last Mile Connectivity Project II Loan No.2000200000152 set out on pages 14 to 28, which comprise the statement of financial

assets as at 30 June, 2022, the statement of receipts and payments, the statement of cashflows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Ernst & Young 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 the Last Mile Connectivity Project II 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 the Financing Agreement ADF Loan No: 2000200000152 dated 17 October, 2016 between the African Development Bank (AfDB) and the Government of the Republic of Kenya.

In addition, the special account statement presents fairly the special accounts transactions, 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 Last Mile Connectivity Project II 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 which, in my professional judgment, were 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

Pending Bills

Note 11.1 to the financial statements reflects pending bills of Kshs.263,218,000 as at 30 June, 2022. Management did not provide explanations for non-payment of the bills and the Project is at risk of incurring significant interest costs and penalties with the continued delay in payment of the bills. Further, failure to settle bills during the year to which they relate adversely affects the budgetary provisions for the subsequent year as they form a first charge.

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, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, 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

Meter Tampering and Illegally Bypassed Connections

Field visits to Kirinyaga and Kisii Counties revealed at least eleven (11) instances of meter tampering. The tampering ranged from direct connection from Last Mile Connectivity Project poles to changing of live and neutral wires to distort the flow of electricity. In addition, meter tampering and illegal connections led to loss of revenue to the Company and contributed to supply inefficiency.

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 matter described in the basis for conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Delays in Payment Processing

The terms of payments in the signed contracts with suppliers required payments to be processed within sixty (60) days after receiving contractors' invoices. However, review of pending bills as at 30 June, 2022 revealed significant delays in processing of payments. As a result, payments due to suppliers and contractors remained outstanding for more than sixty (60) days, with some outstanding for more than six (6) months. The delay was attributed to a long payment process involving several stages outside KPLC Control such

as management consultant, Project Implementation Team (PIT), Ministry of Energy, The National Treasury, and the Donor.

Late payment of suppliers and contractors exposes the project to interest charges and penalties on outstanding balances.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the African Development Bank (ADB) except for the matter under other matter, I report based on my audit that: -

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,
- iii. The Project's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue 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 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 how 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 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 sustaining 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 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.
- 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


27 October, 2022


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

	Notes	FY 2021/2022		FY 2020/2021		Cumulative to-date (From inception)
		Receipts and payments controlled by the entity KShs'000'	Payment made by third parties KShs'000'	Receipts and payment controlled by the entity KShs'000'	Payments made by third parties KShs'000'	
Receipts						KShs'000'
GoK Counterparty Funding	10.3	2,016,710	-	1,468,885	-	4,233,296
Loan from African Development Bank	10.4	-	570,599	-	3,499,737	13,777,869
Advance Receipts from African Development Bank	10.8	114	-	127	-	20,549
Miscellaneous Receipts	10.5	-	-	-	-	1,463
Total Receipts		2,016,824	570,599	1,469,012	3,499,737	18,033,177
Payments						
Acquisition of Non-Financial Assets	10.7	2,016,710	570,599	1,468,885	3,499,737	18,011,165
Purchase of Goods and Services	10.6	13	-	13	-	21,911
Total Payments		2,016,723	570,599	1,468,898	3,499,737	18,033,076
Surplus		101	-	114	-	101

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements. The project's financial statements were approved on 27/10/2022 and signed by:


 Ag. Managing Director
 Name: Eng. Geoffrey Muli


 Project Coordinator
 Name: George Tarus


 Project Accountant
 Name: Simon Tirop
 ICPAK Member No.: 9665

7. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2022

	Notes	FY 2021/2022 Kshs'000'	FY 2020/2021 Kshs'000'
Financial Assets			
Cash and Cash Equivalents			
Bank Balances	10.9	101	114
Total Cash and Cash Equivalents		<u>101</u>	<u>114</u>
Total Financial Assets		<u>101</u>	<u>114</u>
Represented By:			
Fund balance B/F	10.10	101	114
Net Financial Position		<u>101</u>	<u>114</u>

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements. The project's financial statements were approved on 27/10/2022 and signed by:



Ag. Managing Director
 Name: Eng. Geoffrey Muli



Project Coordinator
 Name: George Tarus



Project Accountant
 Name: Simon Tirop
 ICPAK Member No.: 9665


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

	Notes	FY 2021/2022 KShs'000'	FY 2020/2021 KShs'000'
Receipts from operating activities			
GOK Contribution	10.3	2,016,710	1,468,885
Payment from Operating Activities			
Bank Charges	10.5	(13)	(13)
Net cash flows from operating activities		2,016,697	1,468,872
Net cashflows from investing activities			
Construction of Distribution Lines	10.7	(2,587,309)	(4,968,622)
Net cash flows from investing activities		(2,587,309)	(4,968,622)
Cash Flows from Borrowing Activities			
Loan from African Development Bank	10.4	570,599	3,499,737
Net cash flows from Borrowing activities		570,599	3,499,737
Net Decrease in Cash and Cash Equivalent		(13)	(13)
Cash and cash equivalent at beginning of the year		114	127
Cash and cash equivalent at end of the year	10.9	101	114

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The project's financial statements were approved on 27/10/2022 and signed by:


 Ag. Managing Director
 Name: Eng. Geoffrey Muli


 Project Coordinator
 Name: George Tarus


 Project Accountant
 Name: Simon Tirop
 ICPAK Member No.: 9665

9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	A	B	C = A + B	D	E = C - D	F = D/C %
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	
Receipts						
Transfer from Government of Kenya	2,016,710	-	2,016,710	2,016,710	-	100%
Loan from African Development Fund	2,000,000	(800,000)	1,200,000	570,599	629,401	48%
Miscellaneous Receipts	-	-	-	-	-	-
Total receipts	4,016,710	(800,000)	3,216,710	2,587,309	629,401	80%
Payments						
Construction of Distribution Lines and Capacity Building Expenses	<u>4,016,710</u>	<u>(800,000)</u>	<u>3,216,710</u>	<u>2,587,309</u>	<u>629,401</u>	80%
Total payments	4,016,710	(800,000)	3,216,710	2,587,309	629,401	80%

NB: Budget Utilization differences are explained in Annex 1 of the financial statements.



Ag. Managing Director & CEO
 Name: Eng. Geoffrey Muli



Project Coordinator
 Name: George Tarus



Project Accountant
 Name: Simon Tirop
 ICPAK Member No.9665

10. NOTES TO THE FINANCIAL STATEMENTS

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

10.1 Basis of Preparation

10.1.1 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the Public Sector Accounting standards Board (PSASB) and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

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

10.1.2 Reporting entity

The financial statements are for the Last Mile Connectivity Project II Implemented by KPLC. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012.

10.1.3 Reporting currency

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

10.2 Significant Accounting Policies

a) Recognition of receipts

The Project recognises all receipts from the various sources when the event occurs, and the related cash has actually been received by the Government.

- **Transfers from the Exchequer**

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

- **External Assistance**

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

Donations and grants

Grants and donations is 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.

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

10.2 Significant Accounting Policies (Continued)

a) Recognition of receipts

Proceeds from borrowing

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

Undrawn external assistance

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

- **Other receipts**

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

b) Recognition of payments

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

- **Compensation of employees**

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

- **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.

- **Interest on borrowing**

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

- **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 financial statements.

- **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 financial statements.

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

10.2 Significant Accounting Policies (Continued)

c) In-kind donations

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

d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

Restriction on cash

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

e) Accounts receivable

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

f) 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. There were no contingent liabilities in the year.

Section 89 (2) (i) of the PFM Act requires the National Government to report on the payments made, or losses incurred, by the county government to meet contingent liabilities as a result of loans during the financial year, including payments made in respect of loan write-offs or waiver of interest on loans

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

10.2 Significant Accounting Policies (Continued)

g) 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.

h) 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' items to provide a sense of the overall net cash position of the Project at the end of the year. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

i) 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.

j) 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 there were no loan disbursements that were received in form of direct payments from third parties.

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

10.2 Significant Accounting Policies (Continued)

k) 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.

l) 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.

m) Subsequent events

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

n) Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

10. NOTES TO THE FINANCIAL STATEMENTS (Continued)

10.3 RECEIPTS FROM GOVERNMENT OF KENYA

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

	FY 2020/2021	FY 2021/2022	Cumulative to-date (from inception)
	KShs'000	KShs'000	KShs'000
Counterpart Funding	2,016,710	1,468,885	4,233,296
Other transfers from government entities	-	-	-
Appropriation in Aid	-	-	-
Total	2,016,710	1,468,885	4,233,296

NB: KPLC receive funds through Ministry of Energy in lumpsum for all the programmes. The entire funds are managed centrally with other Government funds and allocated on a need basis.

10.4 LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the year ended 30 June 2022 the entity received funding from development partners in form of loans negotiated by the National Treasury as detailed in the table below:

Name of Donor	Amount in loan currency	Loans received in cash	Loans received as direct payment	Total amount in KShs'000	
				FY 2021/2022	FY 2020/2021
	USD	KShs	KShs'000		
African Development Bank	5,049,723	-	570,599	570,599	3,499,737
Total	5,049,723	-	570,599	570,599	3,499,737

10.5 MISCELLANEOUS RECEIPTS

	FY 2021/2022			FY 2020/2021	Cumulative to date
	Receipts controlled by the entity in Cash	Receipts controlled by third parties	Total Receipts		
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Interest Income	-	-	-	-	1,463
Total	-	-	-	-	1,463

10. NOTES TO THE FINANCIAL STATEMENTS (Continued)

10.6 PURCHASE OF GOODS AND SERVICES

	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	Total Payments
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Capacity Building	-	-	-	-	21,885
Bank Charges	13	-	13	13	26
Total	13	-	13	13	21,911

10.7 ACQUISITION OF NON FINANCIAL ASSETS

	FY 2021/2022			FY 2020/2021			Cumulative to- date
	Payments controlled by the entity	Payment made by third parties	Total Payments	Payments controlled by the entity	Payment made by third parties	Total Payments	Total Payments
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Construction of Distribution Lines	2,016,710	570,599	2,587,309	1,468,885	3,499,737	4,968,622	18,011,165
Total	2,016,710	570,599	2,587,309	1,468,885	3,499,737	4,968,622	18,011,165

10.8 ADVANCE RECEIPTS FROM AFRICAN DEVELOPMENT BANK

AFDB advanced an amount of USD 200,000 (KShs 20.549 Million) to the project on 26/7/2017 for project implementation. The unutilised funds at the end of the year is as presented below:

	FY 2021/2022 KShs'000	FY 2020/2021 KShs'000
Advance Receipts from African Development Bank	114	127
Total	114	127

10. NOTES TO THE FINANCIAL STATEMENTS (Continued)

10.9 CASH AND CASH EQUIVALENTS CARRIED FORWARD

	FY 2021/2022 KShs'000	FY 2020/2021 KShs'000
Local Currency Accounts		
Standard Chartered Bank Kenya Ltd - [A/c No 104074121624]	101	114
Total bank account balances	101	114

10.10 FUND BALANCE CARRIED FORWARD

	FY 2021/2022 KShs'000	FY 2020/2021 KShs'000
Bank accounts	101	114
Total bank account balances	101	114

11 OTHER IMPORTANT DISCLOSURES

11.1 PENDING ACCOUNTS PAYABLE

Description	Balance b/f FY 2020/2021	Additions for the period	Paid during the year	Balance c/f FY 2021/2022
	KShs'000	KShs'000	KShs'000	KShs'000
Supply of Good and Services	517,952	2,332,576	2,587,309	263,219
Total	517,952	2,332,576	2,587,309	263,219

12 PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference on the previous year audit report	Observation from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status	Timeframe
Other Matter	Pending Bills Financial statement reflected pending bills of Kshs 517,951,691 as at 30 June 2021. The management had not provided explanations for non-payment of the bills. The project is at risk of incurring significant interest costs and penalties with the continued delay in payment. Further, failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.	The pending bills have reduced by 51%. The current year closing balance of the pending bills is Kshs 263,218,943.	The project management team	Partially Resolved	FY2022/2023
Report on Lawfulness and Effectiveness in Use of Public Resources	Large Time Lag in Processing of Tax Exemption Certificates for Contractors Contractors incurred retention/storage/Custom Bond 1 - A fees due to delays by KPLC in processing tax exemption certificates on time. As a result, the contractors are demanding reimbursement of approximately Kshs.18,762,706 from Kenya Power and Lighting Company PLC as extra costs incurred in respect of LOT1 and 5 as analyzed in Table 1 below;	Initially, there were challenges of tax exemption following the changes in key personnel and procedures at the National Treasury. To mitigate the risk, custom Bonds were used to clear the consignments.	The project management team	Recurring	FY2022/2023

Lot No	Amount USD	Exchange Rate

	<table border="1"> <thead> <tr> <th></th> <th>(1 USD = Ksh.100)</th> <th>Kshs</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>-</td> <td>4,011,506</td> </tr> <tr> <td>5</td> <td>147512</td> <td>14,751,200</td> </tr> <tr> <td>Total</td> <td></td> <td>18,762,706</td> </tr> </tbody> </table>		(1 USD = Ksh.100)	Kshs	1	-	4,011,506	5	147512	14,751,200	Total		18,762,706	<p>It is worth noting that in some instances, the delay is attributed to the contractor.</p>						
	(1 USD = Ksh.100)	Kshs																		
1	-	4,011,506																		
5	147512	14,751,200																		
Total		18,762,706																		
<p>Report on Lawfulness and Effectiveness in Use of Public Resources</p>	<p>Non-Compliance with Reports Submission Set Timelines</p> <p>Analysis of reports submission for 2020/2021 revealed that the project did not comply with report submission timelines as per Section 7.01 and Section 7.02 of Article VII of Subsidiary Grant Agreement dated 4 April, 2017.</p>	<p>The amount presented by the contractor are provisions and will be analysed and negotiated at the end of the contract.</p>	<p>The project management team.</p>	<p>Resolved</p> <p>N/A</p>																
<p>Quarter</p>	<table border="1"> <thead> <tr> <th>Quarter</th> <th>Due Date</th> <th>Submission Date</th> <th>Days Late</th> </tr> </thead> <tbody> <tr> <td>July-September, 2020</td> <td>15/10/2020</td> <td>21/10/2020</td> <td>6</td> </tr> <tr> <td>October - December, 2020</td> <td>15/01/2021</td> <td>20/01/2021</td> <td>5</td> </tr> <tr> <td>April - June, 2021</td> <td>05/07/2021</td> <td>16/07/2021</td> <td>1</td> </tr> </tbody> </table>	Quarter	Due Date	Submission Date	Days Late	July-September, 2020	15/10/2020	21/10/2020	6	October - December, 2020	15/01/2021	20/01/2021	5	April - June, 2021	05/07/2021	16/07/2021	1	<p>The Covid Protocols that prohibited physical delivery of Reports affected the submission.</p> <p>Due to the huge size of the reports, it could not be sent by mail following limitation in the capacity of the company mails system.</p> <p>This has been resolved and now the mailing capacity expanded.</p>		
Quarter	Due Date	Submission Date	Days Late																	
July-September, 2020	15/10/2020	21/10/2020	6																	
October - December, 2020	15/01/2021	20/01/2021	5																	
April - June, 2021	05/07/2021	16/07/2021	1																	
	<p>The Project is therefore in breach of the terms of the financing agreement.</p>																			

The Kenya Power and Lighting Company PLC
Last Mile Connectivity Project II
Annual Report and Financial Statements
For The Year Ended 30 June 2022



Ag. Managing Director
Name: Eng. Geoffrey Muli



Project Coordinator
Name: George Tarus



Project Accountant
Name: Simon Tirop
ICPAK Member No.: 9665

13 ANNEXES

ANNEX 1: VARIANCE EXPLANATIONS: COMPARATIVE BUDGET AND ACTUALS

	Original budget	Adjustments	Final budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments
	A	B	C = A + B	D	E = C - D	F = D/C %	
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000		
Receipts							
Transfer from Government of Kenya	2,016,710	-	2,016,710	2,016,710	-	100%	
Loan from African Development Fund	2,000,000	(800,000)	1,200,000	570,599	629,401	48%	(i)
Miscellaneous Receipts	-	-	-	-	-	-	
Total receipts	4,016,710	(800,000)	3,216,710	2,587,309	629,401	80%	
Payments							
Construction of Distribution Lines and Capacity Building Expenses	4,016,710	(800,000)	3,216,710	2,587,309	629,401	80%	(ii)
Total payments	4,016,710	(800,000)	3,216,710	2,587,309	629,401	80%	

- (i) The budget for the project was decreased during the supplementary budget review by the National Treasury.
 (ii) This is attributable to slow implementation progress in some contracts facing various challenges.

ANNEX 2: ANALYSIS OF PENDING BILLS

Name	Original Amount	Amount Approved for payments	Amount Paid To-Date	Outstanding Balance as at 30 June 2022	Outstanding Balance as at 30 June 2021
	KShs	KShs	KShs	KShs	KShs
	a	b	c	d=b-c	
Giza Cable Industries	880,642,440	880,527,276	833,859,891	46,667,385	-
Giza Cable Industries	1,176,039,469	1,113,466,985	1,052,901,435	60,565,550	-
Bajaj Electricals Ltd/ Wayne Homes Kenya Ltd	1,597,203,479	1,530,860,977	1,530,860,977	-	35,601,251
Transrail Lighting Ltd	1,883,586,272	1,715,499,347	1,661,436,676	54,062,671	19,323,872
Sinotec Company Ltd	1,655,628,925	1,421,264,933	1,399,314,801	21,950,132	16,808,337
Esiko Kenya Enterprises / NARI Group Corporation	1,545,058,076	1,226,521,709	1,186,762,973	39,758,736	16,623,023
K.B.Sangani & Sons Colpitt Ltd	1,487,509,735	1,454,951,147	1,454,951,147	-	27,859,009
CP Power E.A Ltd/Gateway Clean Energy Africa Ltd	1,430,283,925	1,131,013,866	1,131,013,866	-	-
CCC International Engineering Nigeria Ltd	1,181,302,133	1,029,474,748	1,029,474,748	-	52,534,170
Camusat Kenya Ltd/Philafe Engineering Ltd/Clear Water Industries Ltd JV	390,962,769	324,097,322	324,097,322	-	-
Meru Woods I/Elegant/Hitecs JV	946,668,643	718,937,371	718,937,371	-	-
Nirav Agencies Ltd/Annihi Creations Enterprises Ltd JV	1,210,662,083	1,362,802,158	1,327,903,544	34,898,614	18,539,210
Burhani Engineers	777,924,899	710,980,938	710,980,938	-	8,056,747
Steg International Services	1,010,773,600	1,073,343,412	1,073,343,412	-	-
Global Access Networks Ltd/CPF Financial Services Ltd JV	507,475,959	406,395,992	406,395,992	-	28,965,822
Shenzhen Clou Electronic Co. Ltd	524,785,703	449,633,079	444,317,224	5,315,855	33,830,751
Wings Enterprises Ltd	102,676,170	102,115,085	102,115,085	-	-
Nirav Agencies Ltd	213,656,000	140,131,680	140,131,680	-	-
Rousant International Ltd	173,509,816	228,270,389	228,270,389	-	-
Quingdao	176,321,589	-	-	-	-
Shenzhen Clou Electronic Co. Ltd	1,041,682,171	967,908,180	967,908,180	-	259,809,499
Aberdare Engineering Ltd	274,380,500	275,295,659	275,295,659	-	-
PWC	2,505,000	2,505,000	2,505,000	-	-
Ernst & Young	4,090,947	8,386,441	8,386,441	-	-
Total	20,195,330,303	18,274,383,694	18,011,164,751	263,218,943	517,951,691

ANNEX 3: SUMMARY OF FIXED ASSETS REGISTER

Asset class	Opening Cost as at 01.07.2021	Acquisition in the year	Disposals in the Year	Transfers in/(out)	Closing Cost as 30.06.2022
	KShs'000 (a)	KShs'000 (b)	KShs'000 (c)	KShs'000 (d)	KShs'000 (e)=(a)+(b)-(c)+(-)d
Distribution Lines	15,423,856	2,587,309	-	-	18,011,165
Total	15,423,856	2,587,309	-	-	18,011,165