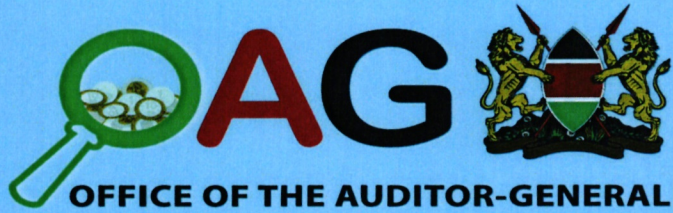


REPUBLIC OF KENYA



Enhancing Accountability

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THE AUDITOR-GENERAL

ON

**LAST MILE CONNECTIVITY PROJECT I
(LOAN NO.2100150032195)**

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

**THE KENYA POWER AND LIGHTING
COMPANY PLC**



LAST MILE CONNECTIVITY PROJECT I

THE KENYA POWER AND LIGHTING COMPANY PLC

ADF LOAN NO: 2100150032195

PROJECT ID No: P-KE-FAO-010

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 I

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: 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.

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 18 December 2014.
Project End Date:	The project end date is 31 December 2024.
Project Manager:	The project manager is Eng. Jared Biwott.
Project Sponsors:	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 (Kenya Power) is the Implementing Agency.
Project number	P-KE-FAO-010- Loan No: 2100150032195
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 Fund (the "Fund"/"ADF") entered into a Loan Agreement for the Last Mile Connectivity Project I (Project ID. No.: P-KE-FAO-010 and Loan No.: 2100150032195) (the "Project") on 18 December 2014 (the "Loan Agreement"). As per the Loan Agreement, the Fund agreed to extend a loan not exceeding 90 million Units of Account (UA 90,000,000) to the Government.</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 September 2015.</p> <p>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. The Project was to include the construction of 11,906.09 kilometres of low voltage distribution lines, and installation of equipment for the connection of 224,952 customers. The Project has been divided into 12 Lots. 10 lots were for supply and installation of electricity, 1 lot for supply of meters and 1 for the Supervision and Management Consultant.</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 18 December 2014 and is expected to run until 31 December 2024.</p>

1.4 Auditors

The project is audited by the below 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.

1.5 Project Implementation Team

Name	Title Designation	Key Qualifications	Responsibilities
Mr. Benard Ngugi	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	BSc. Electrical Eng. & Technology & MBA	Accounting officer
Eng. Geoffrey Muli	Ag. Managing Director, KPLC, appointed on 17 May 2022	MBA, BSc. Electrical Eng.	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.
Eng. Jared Biwott	Project Leader, LMCP I	BSc. Electrical and Electronic Eng.	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.

1.6 Funding summary

The Project duration is 10 years, from 2014 to 2024, with an approved budget of UA 106,951,017 equivalent to KShs 15.733 Billion as highlighted in the table below:

a) Sources of Funds

Source of funds	Donor Commitment		Amount Paid as at 30.06.2022		Undrawn balance as 30.06.2022	
	Unit of Account-UA	KShs '000	Unit of Account-UA	KShs '000	Unit of Account-UA	KShs '000
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
ADF Financing (UA)	90,000,000	13,228,362	77,853,487	11,102,363	12,146,513	2,125,999
(ii) Counterpart funds						
Government of Kenya	16,951,017	2,505,423	12,555,496	1,855,749	4,395,521	649,674
Total	106,951,017	15,733,785	90,408,983	12,958,112	16,542,034	2,775,673

b) Application of Funds

	Amount Received as at 30.06.2022		Cumulative Amount Paid as at 30 June 2022		Unutilised Balance as at 30 June 2022	
	Unit of Account-UA	KShs '000	Unit of Account-UA	KShs '000	Unit of Account-UA	KShs '000
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
ADF Financing (UA)	77,853,487	11,102,363	77,853,487	11,102,363	-	-
(ii) Counterpart funds						
Government of Kenya	12,555,496	1,855,749	12,555,496	1,855,749	-	-
Total	90,408,983	12,958,112	90,408,983	12,958,112	-	-

1.7 Summary of Overall Project Performance:

a) Budget Performance against Actual Amounts

To date the Project has utilised KShs 12.96 Billion, which is 82% of the budget.

b) Physical Progress and Achievement of the Project

A total of 5,320 transformers were to be maximized under the Project. However, after design the targeted number of transformers was reduced to 4,859. The targeted number of customers to be connected is 224,952.

The total number of customers connected as at 30 June 2022 was 209,700, which is 93% of the total customers targeted. A total of 2,861 new customers were connected during the period under review.

c) Implementation Challenges and way forward

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

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

1.8 Summary of Project Compliance

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

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) Consequences if any suffered on account of non-compliance or likely to be suffered.

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 as a result of non-compliance due to its commitment towards environmental regulatory compliance.

c) Mitigation measures taken or planned to be 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 poor.

Progress on attainment of Strategic development objectives

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives are 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	11,906.09	10,977.60	92%
2	Customer	PC	224,952	209,700	93%

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 that region thus creating employment and increase business opportunities, better education services, improve health facilities and overall quality of life for the citizens.

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 AStrees 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 Enderasha in Aberdares Forest. It also provided over 5000 seedlings to National Environment management Authority (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 Team 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.

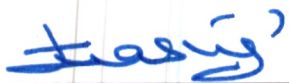
The KPLC Project Implementation Team accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS).

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

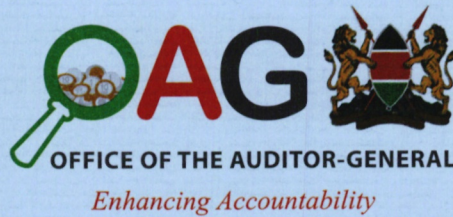


Project Coordinator
Name: Eng. Jared Biwott



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

REPUBLIC OF KENYA



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Website: www.oagkenya.go.ke

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

REPORT OF THE AUDITOR-GENERAL ON LAST MILE CONNECTIVITY PROJECT I (LOAN NO.2100150032195) 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, 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 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 I (Loan No.2100150032195) set out on pages 14 to 29, which comprise of the statement of financial assets as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows, 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 and 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 I as at 30 June, 2022, and of its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the Financing Agreement No.2100150032195 dated 18 December, 2014, between the African Development Fund (ADF) and the Republic of Kenya.

In addition, the special accounts 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 1 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 audit 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 and Annex 2 to the financial statements reflects pending accounts payables totalling Kshs.89,063,528 as at 30 June, 2022. Management indicated that the bills relate to Contracts which were terminated due to non-performance. However, failure to settle bills during the year in which they relate to adversely affects the budgetary provisions for

the subsequent year as they form a first charge. Further, the Project is at risk of incurring significant interest costs and penalties with the continued delay in payment.

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

Failure to Open and Operate a Project Bank Account

Review of project receipts and expenditure records revealed that the Management did not open and operate a Project bank accounts and Project's funds were commingled with Company's Funds. This was contrary to Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015 provides that, for the purpose of disbursement of Project funds, a Project account for every project should be opened and maintained at the Central Bank of Kenya unless it is exempted by the Cabinet Secretary in writing, into which all funds should be kept and such an account shall be in the name of the Project for which it is opened.

The project's Management was in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. 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 the pending bills of Kshs.89,063,531 outstanding for more than one year. Late payment of suppliers and contractors exposes the project to interest charges and penalties on outstanding balances.

2. Delay in Project Delivery

Despite the project having connected 206,839 customers, which is 92% of the total targeted customers of 224,952, there was slow progress in achieving the set targets under Lot 2 and 4 whose achievements are outlined below:

Lot	Targeted Customers	Connected Customers	Outstanding Connections	% of Connectivity
Lot 2	39,287	23,898	15,389	61
Lot 4	22,015	13,502	8,513	61

The Management attributed the slow progress in achieving set targets to a dispute with the contractor who under-performed on the contract. The Kenya Power and Lighting Company PLC made an attempt to terminate the contract, but the contractor went to court to challenge the termination, a case whose decision was made on 28 November, 2019, allowing the contract to be terminated.

The audit was conducted in accordance with ISSAI 2315 and 2330. The standards require that I plan and perform the audit to obtain assurance on whether effective processes and systems of internal control, risk management and 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 (AfDB) 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 which are free from material misstatement, whether due to fraud or error, and for assessment of the effectiveness of the internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue 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 to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion on whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them and that public resources are applied

in an effective way, in accordance with the provisions of Article 229(6) of the Constitution, and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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


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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions which may cast significant doubt on the Project's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


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	Payments made by third parties	Total	Receipts and payments controlled by the entity	Payments made by third parties	Total	
		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Receipts								
GoK Counterparty Funding	10.3	287,856	-	287,856	221,090	-	221,090	1,855,749
Loan from African Development Fund	10.4	-	458,717	458,717	-	271,767	271,767	11,102,363
Total Receipts		287,856	458,717	746,573	221,090	271,767	492,857	12,958,112
Payments								
Construction of Distribution Lines	10.5	287,856	458,717	746,573	221,090	271,767	492,857	12,958,112
Total Payments		287,856	458,717	746,573	221,090	271,767	492,857	12,958,112
Surplus		-	-	-	-	-	-	-

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 _____ 2022 and signed by:



Ag. Managing Director
 Name: Eng. Geoffrey Muli



Project Coordinator
 Name: Eng. Jared Biwott

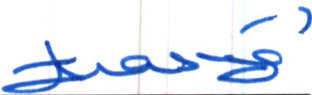


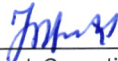
Project Accountant
 Name: Simon Tirop
 ICPAK Member No.: 9665

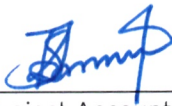
7. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2022

	Notes	FY 2021/2022 KShs	FY 2020/2021 KShs
Financial Assets			
Cash and Cash Equivalents			
Bank Balances		-	-
Cash Balances		-	-
Cash Equivalents (short-term deposits)		-	-
Total Cash and Cash Equivalents		-	-
Accounts receivables - Imprest and Advances		-	-
Total Financial Assets		-	-
Represented By			
Fund balance b/fwd		-	-
Prior year adjustments		-	-
Surplus/(Deficit) for the year		-	-
Net Financial Position		-	-

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: Eng. Jared Biwott


 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			
Transfer from Government entities	10.3	287,856	221,090
Miscellaneous Receipts		-	-
Net Cash Flows from Operating Activities		287,856	221,090
Net cash flows from Investing Activities			
Construction of Distribution Lines	10.5	(746,573)	(492,857)
Net Cash Flows from Investing Activities		(746,573)	(492,857)
Cash Flows from Borrowing Activities			
Proceeds from African Development Bank	10.4	458,717	271,767
Net Cash Flows from Borrowing Activities		458,717	271,767
Net Increase in Cash and Cash Equivalent		-	-
Cash and cash equivalent at beginning of the year		-	-
Cash and cash equivalent at end of the year		-	-

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: Eng. Jared Biwott



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

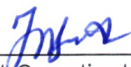
9. STATEMENT OF COMPARISON OF BUDGETS AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on Comparable Basis	Budget Utilization Difference	% 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	287,856	-	287,856	287,856	-	100%
Proceeds from ADF	500,000	(250,000)	250,000	458,717	(208,717)	183%
Total receipts	787,856	(250,000)	537,856	746,573	(208,717)	139%
Payments						
Construction of Distribution Lines	787,856	(250,000)	537,856	746,573	(208,717)	139%
Total payments	787,856	(250,000)	537,856	746,573	(208,717)	139%

NB: Budget utilization differences are explained in Annex1 to the financial statements.



Ag. Managing Director
 Name: Eng. Geoffrey Muli



Project Coordinator
 Name: Eng. Jared Biwott



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 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 I under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012.

10.1.3 Reporting currency

The financial statements are presented in Kenya Shillings (KShs), which is the functional and reporting currency of the Project and all values are rounded to the nearest 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 be recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

- **External Assistance**

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

Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant 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 (continued)

Proceeds from borrowing

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

Undrawn external assistance

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

- **Other receipts**

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

b) Recognition of payments

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

- **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 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 consolidated financial statements.

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

10.2 Significant Accounting Policies (Continued)

b) Recognition of payments (Continued)

• 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.

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.

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

10.2 Significant Accounting Policies (Continued)

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.

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.

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.

10. NOTES TO THE FINANCIAL STATEMENTS (continued)

10.2 Significant Accounting Policies (Continued)

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 was no loan disbursements received in form of direct payments from third parties.

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 2021/2022	FY 2020/2021	Cumulative to-date (from inception)
	Kshs '000	Kshs '000	KShs '000
Counterpart Funding	287,856	221,090	1,855,749
Other transfers from government entities	-	-	
Appropriation in Aid	-	-	
Total	287,856	221,090	1,855,749

NB: KPLC receive funds through Ministry of Energy in Lumpsum for all the programmes. All the funds are managed together with other Government fund and allocated on need basis.

10.4 LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2022, the Project 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 UA	Loans received in cash	Loans received as direct payment	Total amount in KShs'000	
		KShs'000 FY 2021/2022	KShs'000 FY 2021/2022	FY 2021/2022	FY 2020/2021
Loans Received from Multilateral Donors (International Organizations)	-	-	-	-	-
African Development Fund	2,928,656	-	458,717	458,717	271,767
Total	2,928,656	-	458,717	458,717	271,767

10. NOTES TO THE FINANCIAL STATEMENTS (Continued)

10.5 ACQUISITION OF NON FINANCIAL ASSETS

	FY 2021/2022			FY 2020/2021	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs'000	KShs '000	KShs '000	KShs '000	KShs'000
Construction of Distribution Lines	287,856	458,717	746,573	492,857	12,958,112
Total	287,856	458,717	746,573	492,857	12,958,112

11. OTHER IMPORTANT DISCLOSURES

11.1 PENDING ACCOUNTS PAYABLE (Refer to Annex 2)

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	275,363	560,274	746,573	89,064
Total	275,363	560,274	746,573	89,064

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.

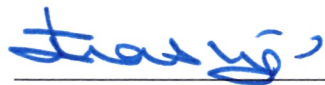
Reference on the previous year audit report	Observation from Auditor	Management comments	Focal person to resolve the issue (Name and designation)	Status	Timeframe
Report on Lawfulness and Effectiveness in Use of Public Resources	<p>Weaknesses in Implementation of the Project</p> <p>i. Lack of public participation by the communities targeted in the project, which led to lack of project ownership, by members of the public thus hampering implementation of the project.</p>	<p>At the inception of the Project, KPLC together with Ministry of Energy did stakeholders' consultation. Public Notice on the launch of Last Mile Project was also done.</p>	<p>Manager, Turnkey & Connectivity Projects</p>	<p>Implementation of the project is already completed.</p>	<p>N/A</p>
Report on Lawfulness and Effectiveness in Use of Public Resources	<p>ii. There was no evidence of engagement with key regulatory, oversight and stakeholder agencies such as the Energy and Petroleum Regulatory Authority (EPRA) and Rural Electrification and Renewable Energy Corporation (REREC), an omission which can lead to duplication of projects.</p>	<p>KPLC undertook a stakeholder engagement forum where participants were drawn from various government agencies such as REA, KENGEN, EPRA. Ministry of Energy and other interest groups. The meeting was held on 6th January 2015 at Safari Park hotel where various aspects of the project were discussed and clarified.</p>	<p>Manager, Turnkey & Connectivity Projects</p>	<p>Resolved. Stakeholder engagement is continuously undertaken in all levels of project implementation cycle.</p>	<p>N/A</p>
Report on Lawfulness and Effectiveness in Use of Public Resources	<p>iii. Documents that are key to procurement of services and works including feasibility studies and surveys, progress reports for projects, technical specifications, bills of quantities and architectural drawings, and environmental and social impacts assessment reports were not provided for audit review.</p>	<p>The project feasibility assessment was conducted by the financiers as part of the project preparation and is captured in various project appraisal documents.</p>	<p>Manager, Turnkey & Connectivity Projects.</p>	<p>Resolved. Feasibility study is a requirement for any proposed projects.</p>	<p>N/A</p>

Reference on the previous year audit report	Observation from Auditor	Management comments	Focal person to resolve the issue (Name and designation)	Status	Timeframe
Report on Lawfulness and Effectiveness in Use of Public Resources	iv. The Company procured consultancy services for supervision and management of civil works and installation of meters at a cost of Kshs. 274,380,500. However, site visits by the audit team revealed no evidence of consultants' personnel presence at the sites raising doubt as to whether they had been deployed as per the contract.	The Consultancy contract was signed on 9th November 2017, the consultant's scope entailed procurement assistance, design reviews/approvals and construction works supervisions. The consultant supervises multiple sites per lot, which cut across several counties. The audit team was assigned to the KPLC Engineers for the period of audit whereas the consultant was engaged in supervising ongoing sites at the same time.	Project Management Team	Resolved.	N/A
Report on Lawfulness and Effectiveness in Use of Public Resources	v. The project had received a total of Kshs. 28,272,249,380 representing 63% of the approved loan amount of Kshs.44,797,955,760. However, documents in respect of disbursement and payments to contractors were not provided for audit verification. In addition, although the project had a projection of connecting 525,796 customers by the end of phase I and II of the project, only 213,432 had been connected representing 41% of the projection yet disbursement was at 63%.	The total disbursement of Kshs. 28,272,249,380 consists of payment for AfDB Phase I, AfDB Phase II and World Bank (IDA) Last Mile Phase III, the payment vouchers and supporting documents are available for review. However, the scope of audit covered AfDB II and World Bank (IDA) whose total budget is Kshs. 31,189,955,760. The total disbursement made for these two project phases (AfDB Phase II & World Bank - IDA) is Kshs. 15,728,249,380 which translates to 50% Disbursement ratio. The corresponding completion rate with respect to the scope of audit is 41%. Therefore, the difference is	Project Management Team	Resolved.	N/A

Reference on the previous year audit report	Observation from Auditor	Management comments	Focal person to resolve the issue (Name and designation)	Status	Timeframe
		9%, which is equivalent to Kshs. 2,544,502,444. This difference is majorly attributable to unrecovered advance payment which was Kshs. 2,515,151,068 for both Phases as at a time of audit.			
Report on Lawfulness and Effectiveness in Use of Public Resources	vi. Single prepaid meters procured from a Chinese company at a cost of US\$.10,073,000 (Kshs. 1,086,373,050) and installed at customers premises were not vending even though they had been activated by the contractor, thereby implying that customers were purchasing tokens but the Consumer Interface Units (CIU) were not picking the tokens and thus had no access to power. Other meters had taken as long as three years without vending.	The contract provides that the supplier remedies for any product defects and faults within the warranty period. KPLC noted this and contacted the supplier to make good (replace) the meters.	Manager, Connectivity & Turnkey Projects	Resolved.	N/A
Report on Lawfulness and Effectiveness in Use of Public Resources	Time Lag 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, 2021 revealed significant delays in processing of payments. As a result, Kshs.89,063,531 remained outstanding for more than one year. The non-payment of the amount was occasioned by KPLC failure to adhere to regulations on contractual period	The payment process is lengthy and involves several stages outside KPLC Control. The process includes the Ministry of Energy, the National Treasury, and the Donor. Other challenges include <ul style="list-style-type: none"> • Delays in budget release and delays opening of IFMIS system at the beginning of the Financial Year. • Change of the Payment processes re-engineering to 	Project Management Team	Recurring.	FY 2022/2023

Reference on the previous year audit report	Observation from Auditor	Management comments	Focal person to resolve the issue (Name and designation)	Status	Timeframe
	provided and rejection of any changes in the contracts by the Company. Delay in payment of contractors exposes the project to interest charges and penalties on outstanding balances. Further, failure to settle bills during the year they relate to distort the financial statements and adversely affects the budgetary provisions for the subsequent year in which they form a first charge.	<p>pay the Withholding Tax before submission of payments to MOE.</p> <ul style="list-style-type: none"> Budget cuts due to budgetary constraint at the National Treasury that affect payment processing especially from GOK Contribution The Long outstanding bills relates to Contract for M/s AEE Power S.A, which was terminated due to Non Performance. <p>However, the contractor went to court contested the termination and the matter is still in court.</p>			
Report on Lawfulness and Effectiveness in Use of Public Resources	Delay in project delivery Despite the project having connected 206,839 customers, which is 92% of the total customers targeted of 224,952, there was slow progress in achieving the set targets under Lot 2 at 61% and Lot 4 at 61 % connectivity. The Management attributed the slow progress in achieving set targets to a dispute with the contractor who under-performed on the contract. Kenya Power and Lighting Company PLC made an attempt to terminate the contract but the contractor went to court to challenge the termination, a case whose decision	The matter has been referred to a Dispute Resolution Board for determination of final settlement since the contractor has not returned the unutilized materials. It is worth noting that the donor has extended the closing date of the financing agreement to June 2024 to allow finalization of the pending works.	Project Management Team	Recurring	30.06.2023

Reference on the previous year audit report	Observation from Auditor	Management comments	Focal person to resolve the issue (<i>Name and designation</i>)	Point to the issue	Status	Timeframe
	<p>was made on 28 November, 2019, allowing the contract to be terminated. The Management did not provide documentation to support termination of the project and neither was there evidence of continuous implementation of the project by the contractor. There is a high chance that set outcomes/targets may not be achieved. The donor has, however, extended the closing date of the financing agreement to December, 2022 to allow finalization of the pending works.</p>					



Ag. Managing Director
 Name: Eng. Geoffrey Muli



Project Coordinator
 Name: Eng. Jared Biwott



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

ANNEX 1: VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on Comparable Basis	Budget Utilization Difference	% Utilization	Comments on Variance
	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	287,856	-	287,856	287,85	-	100%	
Proceeds from ADF	500,000	(250,000)	250,000	458,717	(208,717)	183%	(i), (ii)
Total receipts	787,856	(250,000)	537,856	746,573	(208,717)	139%	
Payments							
Construction of Distribution Lines	787,856	(250,000)	537,856	746,573	(208,717)	139%	(ii)
Total payments	787,856	(250,000)	537,856	746,573	(208,717)	139%	

- (i) The National Treasury reduced the budget for the project during the supplementary budget review.
- (ii) The payments for the period includes Kshs 275 Million in relation to pending bills cleared during the period but had already been budgeted in the previous years hence the high absorption rate

ANNEX 2: ANALYSIS OF PENDING BILLS

Name	Brief Transaction Description	Original Amount	Date Payable Contracted	Amount Paid to-Date	Amount Approved for payments	Outstanding Balance as at 30 June 2022	Outstanding Balance as at 30 June 2021
		KShs		KShs	KShs	KShs	KShs
		a	b	c	d	e= d-c	
Lot 1-Gammon India Ltd	Construction of Distribution Lines	2,515,190,252	30/03/2016	2,193,157,369	2,193,157,369	-	108,923,142
Lot 2- AEE Power S.A	Construction of Distribution Lines	2,376,920,220	23/03/2016	1,485,370,112	1,541,980,034	56,609,922	56,609,922
Lot 3-Rwathia Distributor JV	Construction of Distribution Lines	1,706,758,972	15/04/2016	1,613,794,081	1,613,794,081		74,977,792
Lot 4-AEE Power S.A	Construction of Distribution Lines	1,574,587,087	30/03/2016	1,117,594,227	1,150,047,833	32,453,606	32,453,606
Lot 5-Etrade Company Ltd	Construction of Distribution Lines	1,132,843,148	17/05/2016	993,673,653	993,673,653	-	-
Lot 6-Polyphase Systems Ltd	Construction of Distribution Lines	406,177,170	17/05/2016	344,257,474	344,257,474	-	-
Lot 7-Neo Electric Company Ltd	Construction of Distribution Lines	1,720,885,769	01/06/2016	1,674,905,926	1,674,905,926	-	-
Lot 8-Metsec Cables Ltd	Construction of Distribution Lines	1,405,276,589	24/04/2016	1,261,634,836	1,261,634,836	-	-
Lot 9-Angelique International Ltd	Construction of Distribution Lines	735,678,957	17/05/2016	713,536,881	713,536,881	-	-
Lot 10-Etrade Company Ltd	Construction of Distribution Lines	776,997,264	17/05/2016	648,134,245	648,134,245	-	-
Shenhen Inhemeter Feedback Infra Pvt Ltd	Construction of Distribution Lines	728,069,880	27/10/2016	728,069,880	728,069,880	-	-
	Construction of Distribution Lines	153,948,691	08/01/2016	183,983,515	183,983,515	-	2,398,785
Grand Total		15,233,333,999		12,958,112,198	13,047,175,727	89,063,528	275,363,247

The Pending Bills at the end of the year comprises of approved outstanding payments as at year-end.

ANNEX 3: SUMMARY 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	KShs'000	KShs'000	KShs'000	KShs'000
	(a)	(b)	(c)	(d)	(e)=(a)+(b)-(c)+(-)d
Construction of Distribution Lines	12,211,539	746,573	-	-	12,958,112
Total	12,211,539	746,573	-	-	12,958,112

