

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

Paper Laid
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table of the House
on Thursday 12/2/15
@ 230pm By Hon
Kando ole Metiro

12 FEB 2015

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REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL STATEMENTS OF
ENERGY REGULATORY COMMISSION
FOR THE YEAR ENDED
30 JUNE 2014

V,





Energy Regulatory Commission

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2014**

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

21

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The *Energy Regulatory Commission* was formed under the Energy Act, No. 12 of 2006.

(b) Principal Activities

The principal activity/mission of the *ERC* is to regulate the Energy Sector with responsibility for economic and technical regulation of electric power, renewable energy, and downstream petroleum sub sectors. Its functions include tariff setting and review, licensing, enforcement, dispute settlement and approval of power purchase and network services contracts.

(c) Key Management

The *ERC's* day-to-day management is under the following key organs:

The Commissioners

The Commissioners who served during the year and to date of this report are:-

- | | | | |
|---|--------------------------|---|---|
| 1 | Eng. (Mrs) Emma Kiilu | - | Chairperson |
| 2 | Eng. Joseph Nganga | - | Director General |
| 3 | Eng. Joseph Njoroge, MBS | - | Principal Secretary, Ministry of Energy and Petroleum |
| 4 | Eng. Titus Ndonga Gitahi | - | Alternate to the Principal Secretary |
| 5 | Dr. Keren Kaberere | - | Commissioner |
| 6 | Ms. Nassra Haji | - | Commissioner |
| 7 | Mr. Stanley Ngaine | - | Commissioner |
| 8 | Mr. Kenneth W. Akide | - | Commissioner |

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2014 and who had direct fiduciary responsibility were:

	Designation	Name
1	Director General	Eng. Joseph Nganga
2	Commission Secretary	Ms. Mueni Mutung'a
3	Director Petroleum	Eng. Linus Gitonga
4	Ag. Director Electricity	Eng. Buge Wasioya
5	Director Renewable Energy	Mr. Pavel Oimeke
6	Director Economic Regulation	Dr. Frederick Nyang
7	Senior Manager, HR&Admin.	Ms. Elizabeth Njau
8	Senior Manager, Finance and Strategic Planning	Mr. James Kilonzo
9	Senior Manager, Comm. & Public Affairs	Mrs. Antoinette Kamau
10	Ag. Procurement Manager	Mr. Michael Mwangi
11	Internal Auditor	CPA. Rosalind Murithi

(e) Fiduciary Oversight Arrangements

The Commission

The Commission is chaired by a Non Executive Chairperson (Eng. Emma Kiilu) appointed by the President. All Commissioners have extensive business and administrative experience in private and/or public sectors that is applied in the management of the ERC. Commission meetings are held regularly to review the ERC's performance against set targets and business plans as well as to formulate and implement strategy. Various committees whose chair-persons report to the Commission supplement the functions of the Commission.

Commission Finance and Administration Committee

The Commission Finance and Administration Committee is chaired by Non Executive Commissioner and meets at least on quarterly basis. The members are Mr. Stanley Ngaine (Chair), Eng. Titus Ndonga Gitahi and Dr. Frederick Nyang. The Committee's responsibilities are ensuring overall sound financial reporting, internal system of controls, business plans and budgets, procurement, ICT, Public Relations, administration and staff affairs.

Commission Audit Committee

The Audit Committee is chaired by a non executive Commissioner and the members who are Non Executive Commissioners. The members are Mr. Kenneth Akide (Chair), M/s Nassra Haji and Dr. Keren Kaberere. The responsibilities of the committee are to review the financial information of the Commission, monitoring the effectiveness of management information and internal control systems, deliberate on significant findings arising from both internal and external audits, and review the overall risks facing the Commission.

Commission Technical Committee

The Technical Committee is chaired by a Non Executive Commissioner and meets at least on quarterly basis. The members are, Dr. Keren Kaberere (Chair), Eng. Titus Ndonga Gitahi, Mr. Kenneth Akide, M/s Nassra Haji and Dr. Frederick Nyang. The committee's responsibilities are to provide technical strategic direction of ERC and approve technical plans, activities, reports and budgets.

(f) Commission Headquarters

Eagle Africa Centre,
Longonot Road,
Upperhill,
P.O. Box 42681-00100
Nairobi, Kenya

(g) Commission Contacts

Telephone: (254) 2002847200
E-mail: info@erc.go.ke
Website: www.erc.go.ke

(h) Commission Bankers

Kenya Commercial Bank
Moi Avenue Branch
P.O. Box 48400
GPO 00100
Nairobi, Kenya

National Bank of Kenya
Harambee Avenue Branch
P.O. Box 41862
GPO 00100
Nairobi, Kenya

(i) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

(j) Principal Legal Adviser

Musalia Mwenesi Advocates
APA Insurance Arcade
Argwings Kodhek Rd
P.O. Box 29880
Kenyatta N. Hospital 00202
Nairobi, Kenya

II. THE COMMISSIONERS



Eng. Mrs. Emma Kiilu
Chairperson

Eng. Mrs. Emma Kiilu was born in 1957. She holds a Bachelor of Science in Electrical Engineering and a Masters in Business Administration both from the University of Nairobi.

She is a registered Consulting Engineer, a member of the Institution of Engineers of Kenya and also a Registered Class A Contractor. Before being appointed a Commissioner in Energy Regulatory Commission, She had served as a Director of the board of Rural Electrification Authority.



Eng. Joseph Ng'ang'a
Director General
MBA, BSc (Mech. Eng.)
R. Eng., MIEK

Eng. Ng'ang'a brings to the DG's office over three decades of experience in the energy sector. He started out as a drilling engineer with the Kenya Power and Lighting Company at Olkaria in the early 1980s, a time when geothermal power generation in Kenya was at its infancy. Over the years, Eng. Ng'ang'a served in various technical and management positions at Kenya Power and later at the Kenya Electricity Generating Company (KenGen). He had risen to Deputy Managing Director at KenGen by February 2010 when he left to join ERC.



Eng. Joseph Njoroge -
Principal Secretary,
Ministry of Energy and
Petroleum




Eng. Joseph K Njoroge, who was born in 1958, has wide experience in power engineering and management. He joined KPLC in 1980 and rose through the ranks to become Managing Director in June 2007. Eng. Njoroge holds a Bachelor of Science degree in electrical engineering and Master of Business Administration with a major in strategic management. He is a Chartered Electrical Engineer, a member of the Institution of Engineering and Technology, UK, a Registered Consulting Engineer, and is also a Fellow of the Institution of Engineers of Kenya. He is also Chairman of the MBA Chapter of University of Nairobi Alumni Association.



Eng. Titus Ndonga
Gitahi - Alternate to the
Principal Secretary

Eng. Ndonga Gitahi was born in 1958. He holds a Bachelor of Science in Mechanical Engineering from University of Nairobi, and a Master of Science in Environmental Engineering from University of South Bank, London

Eng. Gitahi worked with the Ministry of Public Works from 1983 to 2010, rising through the ranks to a senior engineer position where he was in charge of Design and Supervision of Mechanical Engineering Works in Government Building and Institutions. In 2010, Eng. Gitahi joined the Ministry of Energy and Petroleum.

	<p>He has attended several short courses both locally and abroad. Some of the courses attended include Electrical Power Systems Engineering (Tokyo, Japan), Energy Policy Development for Developing Countries (Beijing, China), Power Engineering & Management, Seoul, S. Korea), Environmental Impact Assessment of Projects. He is a Registered Engineer (R. Eng.) and is a Member of the Institution of Engineers of Kenya (MIEK)</p>
 <p>Mr. Stanley M. Ngaine – Commissioner</p>	<p>Mr. Stanley M. Ngaine holds a Bachelor of Commerce degree (Accounting option) from the University of Nairobi. He is a Fellow of the Chartered Certified Accountants (FCCA-UK) and also an associate member of the Chartered Institute of Management Accountants (ACMA-UK). He is a Certified Public Accountant and a Fellow of the World Bank Economic Institute.</p> <p>Mr. Ngaine is currently the Executive Chairman of Sterling Capital Ltd, a Director of Madison Insurance Company Kenya Ltd, Deputy Chairman of Remu DTM Ltd and was Director, Nairobi Securities Exchange Ltd until March 2012.</p>
 <p>Ms Nassra Abdirahman Haji Commissioner</p>	<p>Ms. Nassra A. Haji holds a Masters degree in Public Administration and Public Policy from London School of Economics and a Bachelor of Science degree in Development Economics from the University of London.</p> <p>From 2001, she initially worked for Alliance for Africa which is a non-governmental organization that focuses on women empowerment. Ms. Nassra later joined the United Nations (UN) in New York where she was in the division for advancement of women within the Department of Economic and Social Affairs (DESA).</p>
 <p>Dr. Keren Kanuthu Gitundu Kabere – Commissioner</p>	<p>Dr. Keren Kanuthu Gitundu Kabere holds a Doctor of Philosophy in Electrical Engineering from the University of Cape Town, South Africa. She also holds Master and Bachelor of Science degrees in Electrical and Electronic Engineering both from the University of Nairobi.</p> <p>Dr. Kabere is a Senior Lecturer in the Department of Electrical and Electronic Engineering at Jomo Kenyatta University of Agriculture and Technology (JKUAT), which she joined in 1993.</p>



Mr. Kenneth Wabwire Akide - Commissioner

Mr. Kenneth Wabwire Akide holds a Bachelor of Laws (LL.B) degree from the University of Nairobi and a Diploma from the Kenya School of Law. Mr. Akide is a Practising Lawyer, an Associate of the Chartered Institute of Insurers (ACII) and an Associate of the Chartered Institute of Arbitrators AClarb.

Mr. Akide was the Chairman of the Law Society of Kenya from March 2010 to March 2012.



Ms. Mueni Mutung'a - Commission Secretary

Mueni was born on 28th February, 1964. She holds a Masters in Business Administration and a Bachelor of Laws degree both from the university of Nairobi, and a diploma in legal practice from the Kenya School of Law. She has also trained extensively in Good Corporate Governance and is a member of the Institute of Directors. She is also an advocate of the High Court of Kenya And a member of the Chartered Institute of Arbitrators.

She started her career as an advocate and worked with the law firm of Robson Harris & Co advocates. She later moved to Total Kenya Ltd where she worked as a legal officer. Mueni has worked for many years in the public sector. She worked as the Corporation Secretary of Kenya Wildlife Service prior to taking up her current appointment as the Commission Secretary.

III. MANAGEMENT TEAM



Eng. Joseph Ng'ang'a
MBA, BSc (Mech. Eng.)
R. Eng., MIEK

Director General: Commissioner and the Chief Executive Officer of the Commission.



Dr. Frederick Nyang
PhD (Economics)

Director, Economic Regulation
Heading the Economic Regulation function of the Commission



Ms. Mueni Mutung'a
MBA, LL.B (Hons), CPS
(K), Dip. Law (KSL)

Commission Secretary: Secretary to the Commission and Head of the
Legal function of the Commission



Eng. Buge Wasioya
Bsc (Elec. Eng),
R. Eng, EBK

Ag. Director Electricity: Heading the electricity subsector regulation
function of the Commission



Eng. Linus Gitonga
MBA, BSc (Mech. Eng),
R.Eng, MIEK

Director Petroleum Regulation: Heading the downstream petroleum regulation function of the Commission.



Pavel Oimeke
B.Tech (Chem. Eng) -
MU

Director Renewable Energy: Heading the renewable energy regulation function of the Commission.



Mrs. Antoinette
Kamau
MA(Communication)
BED(Hons)

Senior Manager, Communication & Public Affairs: Heading Communication, public affairs and Corporate social responsibility functions of the Commission



Ms. Elizabeth Njau
MBA(HR), BA(Hons),
Dip.(Business Mgt)

Senior Manager, Human Resource & Administration: Heading the Human Resource and Administrative functions of the Commission.



CPA James Kilonzo
MBA(MU),
Bcom(UoN), CPA(K),
CISA

Senior Mgr, Finance and Strategic Planning: Heading the finance, ICT, Strategic planning and Performance Contracting functions of the Commission.



CPA Rosalind Murithi
MBA, Bcom, CPA(K),
CISA, CISM

Internal Auditor: Providing value added services in controlling risks, compliance monitoring and continuously improving internal control systems



Mr. Michael Mwangi
Bsc, MCIPS, MKISM

Ag. Procurement Manager: Heading the supplies and procurement functions of the Commission.

IV. CHAIRPERSON'S STATEMENT

It is with great pleasure that I present the Energy Regulatory Commission's 2013-2014 Annual Report and Financial Statements. The Commission was established in 2007 to regulate Kenya's energy sector including the electricity subsector (generation, transmission and supply of electricity), the petroleum subsector (importation, transport, storage and retailing) and the renewable energy subsector (solar, geothermal, wind power and biomass).

Kenya's energy sector is attracting investment from both domestic and foreign sources. Oil and gas exploration is an ongoing activity in preparation for commercial production. Alongside this, the energy sector has a roadmap of increasing electricity output to 5,000MW by 2017 through a mix of renewable energy, liquefied natural gas and locally-produced coal. Electricity transmission and distribution systems are also being expanded and upgraded accordingly.

In November 2013, the Commission introduced new retail tariffs for electricity that will apply in the next 3 years. The tariff reviews took account of the commissioning of new electricity generating plants, especially geothermal, that will be less reliant on fossil fuel. Besides, the Commission is continuously exploring ways to reduce tariffs in order to lower the costs of living, while ensuring the tariffs remain attractive to investors. That aside, there is marked progress towards laying a solid foundation for competition in the electricity supply industry. This will initially be through bilateral agreements at the regional level. But it is anticipated that the shift will attract investors who will set the stage for competition for and in the market. This will in turn lower prices.

On the other hand, the country continues to record growth in the downstream petroleum sector as a result of the increased demand for products and services both locally and regionally. As a consequence, plans have been put in place to ensure that the current petroleum infrastructure is expanded to cope with rising demand. The country has in the recent past experienced increased interest by developers in the development of LPG infrastructure. This has been buoyed by a growth in LPG consumption as more Kenyans enter the middle class and abandon traditional biomass sources as cooking fuel.

On this account, the Commission continues to monitor the quality of petroleum fuels used in the country through a national marking and monitoring program. The program ensures that consumers are protected from adulterated fuels and hence safeguards their vehicles from damage. The program

also protects the country's tax revenue by preventing dumping of tax exempt export bound petroleum products into the local market.

At a policy level, the Commission is participating in reforms of national energy policy and act. The draft National Energy Bill and draft National Energy Policy will align the energy sector to the Constitution of Kenya 2010 and to the country's Vision 2030.

The Commission remains focused on its mandate, in particular on the role it plays in protecting consumers of energy products and services, and in maintaining a competitive business environment.

In this regard, the Commission appreciates the support it has received from both the national and county governments, the energy sector players and from all Kenyans in general. Finally, I take this opportunity to commend the Commission's staff, management and my fellow Commissioners for the conclusion of yet another successful year.



Eng. Emma Kiilu
CHAIRPERSON

V. REPORT OF THE DIRECTOR GENERAL

Energy is a key driver of the economy. Therefore vast amounts of investment and planning have to be done to achieve this. With the upcoming infrastructure and vast development plans by the government we believe in the achievement of Vision 2030 as we stay on course. The petroleum industry has seen a lot of growth and immense competition with the entrance of Oil Marketing Companies investing in the business and with the discovery of oil in Turkana, we believe the future is bright and the growing petroleum and LPG demands will be met. The Commission has continued to discharge its mandate as per the powers given in the Energy Act 2006.

Moreover, the Commission has been involved in the expansion plans of the electricity subsector. The launch of project 5000MW+ a generation expansion project under Ministry of Energy and Petroleum that is undertaken by all energy sector parastatals. This is to boost expected demand surge from Vision 2030 projects and the impact of investments arising from devolution to the 47 counties. As a Commission under project 5000MW+ we have committed to review Power Purchase Agreements (PPA) in 30 days. This is a significant reduction from the usual 90 days as stipulated in our service charter. This will allow investors save time and finances so as to meet the target of the energy demand by 2016. The country and investors are now looking into tapping the renewable energy sources like geothermal, wind and fossil fuels.

The Commission has continued to diligently involve all stakeholders in the development of regulations which has seen the sector regulated in fair manner especially in the renewable energy sector. Still, regulations will continue to be developed to ensure that the sector curtails all illegal businesses and continue to streamline the industry. Internally we have increased our human resource capacity to meet our critical duties with much competence. As stipulated in our Strategic Plan 2012-2015 the Commission is on a path of excellence and continual improvement.

In the year under review, the Commission collected KES.154million from the Petroleum Levy compared to KES.137million the previous year, an increase of 12%. On the other hand, the Electricity Levy increased by 8% from KES.194 million in 2012/13 to KES.211 million in 2013/14.

Government transfers decreased by 11% from KES.90 million in 2012/13 to KES. 79 million in 2013/14. In total, revenue went up by 6% from KES.424million in 2012/13 to KES.450 Million in 2013/14. The total recurrent expenditure decreased by 1% from KES.439 million in 2012/13 to KES.436 million.

The Commission's total asset base reduced by 8% from KES. 273 million in the previous period to KES.251 million in 2013/14. Non-current assets went down by 30% to KES.84 million down from KES.84 million due to normal depreciation. Current assets went up by 16% to KES.112 million from KES.96 million.

Current liabilities decreased by 38% to KES.58 million down from KES.78 million in the 2012/13 financial year mainly due to settlement of contracted projects. Further, total equity increased by 7% from KES.180 million to KES.193 million in 2013/14.



Eng. Joseph Ng'ang'a
Director General

VI. CORPORATE GOVERNANCE STATEMENT

Introduction

Corporate governance is the process by which companies are directed and controlled. The concept of corporate governance has gained prominence and enshrined in codes of best practice developed by the Organization for Economic Co-operation and Development (OECD), Commonwealth Association of Corporate Governance (CACG) and the Centre for Corporate Governance in Kenya.

The Commissioners recognize the need to conduct the business and operations of the ERC with integrity and in accordance with generally accepted corporate practice and endorse internationally developed principles of corporate governance. The Commissioners will continue to focus their attention on maintaining the highest standards of corporate governance and business ethics in the ERC's operations.

The Commission

The Commission is chaired by a Non Executive Chairperson (Eng. Emma Kiilu) appointed by the President. All Commissioners have extensive business and administrative experience in private and/or public sectors that is applied in the management of the ERC. Commission meetings are held regularly to review the ERC's performance against set targets and business plans as well as to formulate and implement strategy. Various committees whose chair-persons report to the Commission supplement the functions of the Commission.

Commission Finance and Administration Committee

The Commission Finance and Administration Committee is chaired by Non Executive Commissioner and meets at least on quarterly basis. The members are Mr. Stanley Ngaine (Chair), Eng. Titus Ndonga Gitahi and Dr. Frederick Nyang. The Committee's responsibilities are ensuring overall sound financial reporting, internal system of controls, business plans and budgets, procurement, ICT, Public Relations, administration and staff affairs.

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deliberate on significant findings arising from both internal and external audits, and review the overall risks facing the Commission.

Commission Technical Committee

The Technical Committee is chaired by a Non Executive Commissioner and meets at least on quarterly basis. The members are, Dr. Keren Kaberere (Chair), Eng. Titus Ndonga Gitahi, Mr. Kenneth Akide, M/s Nassra Haji and Dr. Frederick Nyang. The committee's responsibilities are to provide technical strategic direction of ERC and approve technical plans, activities, reports and budgets.

Delegation of Responsibilities

The preparation of ERC's financial statements is a role that has been delegated to management. These financial statements have been prepared in accordance with internationally accepted accounting practice based on appropriate accounting policies consistently applied and supported by reasonable judgment and estimates.

Management ensures that adequate internal financial control systems are developed to provide reasonable certainty in respect of:

- The completeness and accuracy of accounting records;
- The integrity and reliability of the ERC's annual financial statements and
- The safeguarding of ERC's assets.

The responsibility for the integrity, reliability and objectivity of the ERC's financial statements lies with the Commissioners. The external auditors are responsible for independently examining and expressing an opinion on the reasonableness of the financial statements based on their audit.

Statement of Risk Management and Internal Control

The Commission has recognised its responsibility to manage both internal and external risks as a key component of good corporate governance and is committed to embedding risk management into the daily operations of the Commission; from the setting of objectives, to financial planning towards achieving the set objectives, through to departmental processes established to aid provision of service by the Commission. It is believed that effective risk management shall help the

Commission to achieve its corporate objectives and provide better services. The Commission has developed and is implementing an Institutional Risk Management Policy Framework (IRMPPF)

Responsibility

Risk management is one of the most important activities of the Commission. The Commission through the Audit and Risk Committee have a responsibility for overseeing risk management within ERC by determining that appropriate risk management strategies and policies are in place, and that processes established are adequate and effective. The Commission defines ERC's overall level of risk tolerance and ensuring that there are adequate tools and resources for managing risks.

The Commission has assigned responsibility for risk management to the Director General; hence the management ensures that sound risk management processes are in place and functioning effectively. The costs and resources involved in risk management are in proportion to the obtainable benefits.

Internal Controls

Internal controls are designed to support the Commission in achieving its objectives. The risks related to the achievement of objectives need to be identified and evaluated in order to manage them. Thus, identification and assessment of risks is a prerequisite for internal control in ERC. The continuity of operations is ensured by safeguarding critical functions and essential resources.

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The Commission believes in adding value to Kenyan communities by investing in their economic and social growth. This is achieved through structured, continuous Corporate Social Responsibility (CSR) programmes aimed at addressing some of the social, environmental and economic challenges facing Kenyan communities. In the 2013/14 financial year, the Commission was involved in various CSR activities across the country. Among them was sponsoring the Africa Swimming Gala, planting tree seedlings at Eburru forest, a visit to Shelter and the SOS Children's homes and the donation of a water tank to Ogande School for the Mentally Challenged. In the long run, the Commission plans to reach out in a more focused manner. A CSR policy will be rolled out to meet this goal.

VIII. REPORT OF THE COMMISSIONERS

The Commissioners submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the *Commission's* affairs.

Principal activities

The principal activities of the Commission are: -

1. To regulate: -
 - i. Importation, exportation, generation, transmission, distribution, supply and use of electrical energy;
 - ii. Importation, exportation, transportation, refining, storage and sale of petroleum and petroleum products;
 - iii. Production, distribution, supply and use of renewable and other forms of energy;
2. Protect the interests of consumer, investor and other stakeholder.

Results

The results of the Commission for the year ended June 30, 2013 are set out on page 1

Commissioners

The members of the Board of Commissioners who served during the year are shown on page v. The Commissioners are appointed in line with Section 10 of the Energy Act 2006.

Auditors

The Auditor General is responsible for the statutory audit of the *Commission* in accordance with the Section 22 (4) of the Energy Act 2006.

By Order of the Commission


Ms. Mueni Mutung'a
Commission Secretary

NAIROBI

Date:.....

IX. STATEMENT OF COMMISSIONERS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012, section 21 of the Energy Act 2006 and section 9 of the State Corporations Act, require the Commissioners to prepare financial statements in respect of that *Commission*, which give a true and fair view of the state of affairs of the *Commission* at the end of the financial year/period and the operating results of the *Commission* for that year/period. The Commissioners are also required to ensure that the *Commission* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *Commission*. The Commissioners are also responsible for safeguarding the assets of the *Commission*.

The Commissioners are responsible for the preparation and presentation of the *Commission's* financial statements, which give a true and fair view of the state of affairs of the Commission for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Commission; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *Commission*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Commissioners accept responsibility for the *Commission's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Commissioners are of the opinion that the *Commission's* financial statements give a true and fair view of the state of *Commission's* transactions during the financial year ended June 30, 2014, and of the *Commission's* financial position as at that date. The Commissioners further confirm the completeness of the accounting records maintained for the *Commission*, which have been relied upon in the preparation of the *Commission's* financial statements as well as the adequacy of the systems of internal financial control.

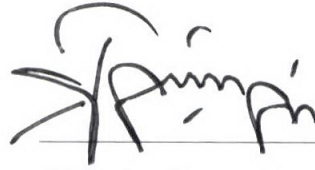
Nothing has come to the attention of the Commissioners to indicate that the *Commission* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The *Commission's* financial statements were approved by the Commission on 25th September 2014 and signed on its behalf by:



Chairperson



Director General

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON ENERGY REGULATORY COMMISSION FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Energy Regulatory Commission set out on pages 1 to 23, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, the statement of changes in assets, the statement of cash flows, the statement of comparative budgets and actual amounts and a summary of significant accounting policies and other explanatory information in accordance the provisions of Article 229 of the Constitution of Kenya, Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purposes of the audit.

Management's Responsibility for the Financial Statements

The Management of Energy Regulatory Commission is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation for financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the report in compliance with Article 229 (7) of the Constitution of Kenya. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

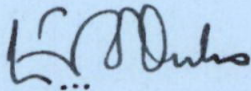
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Energy Act, 2006.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 December 2014

XI. STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2014

		2013-2014	2012-2013
		KES	KES
Revenue from non-exchange transactions	Note		
Electricity Levy	3	210,906,037	194,487,122
Petroleum Levy	4	153,770,283	137,087,045
Transfers from other government entities	5	79,471,225	89,689,876
		444,147,545	421,264,043
Revenue from exchange transactions			
Finance income - external investments	6	6,076,355	3,220,242
		6,076,355	3,220,242
Total Revenue		450,223,900	424,484,285
Expenses			
Commission Costs	7	14,038,926	22,736,899
Employee Costs	8	174,891,462	172,389,700
Training and other personnel costs	9	41,832,170	38,877,623
Office supplies	10	12,277,030	8,964,992
Transport and travel	11	25,997,931	22,722,971
Public relations and consumer services	12	31,778,070	24,180,533
Utilities	13	3,047,985	2,780,301
Information & communication technology	14	9,751,087	3,098,072
Office rent and office services	15	26,859,316	29,474,395
Consultancy & other professional services	16	61,487,803	70,018,189
HIV/ AIDS prevention	17	1,068,318	832,230
Depreciation/ Amortization	22&23	42,424,813	42,981,269
Total expenses		445,454,911	439,057,174
Surplus / (Deficit) from operating activities		4,768,989	(14,572,890)
Other Gains/Losses			
Gain / (Loss) on disposal	18	(46,804)	1,685,115
Surplus before tax		4,722,185	(12,887,776)
Taxation		-	-
Surplus for the period		4,722,185	(12,887,776)

The notes set out on pages 6 to 24 form an integral part of the Financial Statements

Energy Regulatory Commission Annual Report and Financial Statements 2014


XII. STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

ASSETS	Note	2013-2014 KES	2012-2013 KES
Current assets			
Cash & cash equivalents	21	86,895,506	50,151,142
Receivables from exchange transactions	19	6,695,967	5,339,472
Receivables from non-exchange transactions	20	19,061,650	40,916,438
		<u>112,653,123</u>	<u>96,407,052</u>
Non-current assets			
Property, plant and equipment	22	77,725,438	96,568,124
Investments	24	55,167,776	55,537,700
Intangible assets	23	7,335,219	24,360,744
		<u>140,228,433</u>	<u>176,466,568</u>
Total Assets		<u><u>252,881,556</u></u>	<u><u>272,873,620</u></u>
LIABILITIES			
Current Liabilities			
Trade & other payables from exchange transaction	25	53,189,029	77,956,787
Provisions	26	7,269,688	2,615,539
Employee benefits Obligation	27	7,639,779	11,926,522
		<u>68,098,496</u>	<u>92,498,848</u>
Total Liabilities		<u>68,107,045</u>	<u>92,498,848</u>
Net Assets			
Reserves (sinking Fund)		55,000,000	55,000,000
Accumulated Surplus		129,783,060	125,374,772
Total net assets		<u>184,783,060</u>	<u>180,374,772</u>
Total net assets and liabilities		<u><u>252,881,556</u></u>	<u><u>272,873,620</u></u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Commission's financial statements were approved on 25th September 2014 and signed by:

Director General



Chairperson of the Commission



II. STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30 June 2014

	Sinking Fund Reserves KES	Accumulated Surplus KES	Total Reserves KES
Balance as at 1st July, 2012	55,000,000	138,262,548	193,262,548
Net surplus for the period	-	(12,887,776)	(12,887,776)
Transfer to/from Sinking Fund	-	-	
Balance as at 30th June, 2013	<u>55,000,000</u>	<u>125,374,772</u>	<u>180,374,772</u>
Balance as at 1 st July, 2013	55,000,000	125,374,772	180,374,772
Adjustment	-	(313,896)	(313,896)
Net surplus/loss for the period	-	4,722,184	4,722,184
Transfer to/from Sinking Fund	-	-	
Balance as at 30 June, 2014	<u>55,000,000</u>	<u>129,783,060</u>	<u>184,783,060</u>

STATEMENT OF CASH FLOW

For the year ended 30th June, 2014

	Notes	2013-2014 Ksh	2012-2013 Ksh
Receipts			
Levy		380,465,773	326,594,822
Transfers from other government entities		88,172,178	106,903,048
Receipts From staff advances		332,954	
Other Miscellaneous Receipts		191,393	1,265,266
Total Receipts		469,162,298	434,763,136
Payments			
Commissioners expenses		14,094,012	24,089,393
Employee Costs		174,515,506	171,148,101
Training and other personnel costs		41,832,170	39,462,623
Office supplies and expenses		12,277,031	8,964,992
Transport and travel		25,957,256	25,680,719
Public relations and consumer services		32,674,229	24,180,533
Utilities		3,047,984	2,780,301
Information and communication technology expenses		9,751,087	3,098,072
Office rent and office services		26,859,316	29,474,395
Consultancy and other professional services		85,296,332	99,820,782
HIV/ AIDS prevention related expenses		1,382,214	832,230
Staff Imprest		3,301,591	(2,092,824)
		430,988,727	427,439,317
Net Cash Flow from Operating Activities		38,173,571	7,323,819
Investing activities:			
Purchase of fixed assets		(6,779,067)	(4,812,242)
Proceeds of Sale of fixed assets		137,000	1,875,100
Interest received		5,212,861	3,819,544
Net Cash outflow from investing activities		(1,429,206)	882,402
Net Increase (Decrease) in cash & cash equivalents		36,744,364	8,206,221
Cash & cash equivalents at the beginning of the period		50,151,142	41,944,921
Cash & cash equivalents at the end of the period		86,895,506	50,151,142
Represented by:			
Short term deposits		60,590,620	30,000,000
Bank balances		26,204,886	20,150,517
Petty cash		100,000	625
Total		86,895,506	50,151,142

XIV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

For the year ended 30th June 2014

	Original Budget 2013-2014 KES	Adjustments 2013-2014 KES	Final Budget 2013-2014 KES	Actual on Comparable Basis 2013-2014 KES	Performance Difference 2013-2014 KES
Revenue					
ERB Levy	208,930,000	(1,536,099)	207,393,902	210,906,037	3,512,135
Petroleum Levy	144,072,000	10,475,564	154,547,564	153,770,283	(777,281)
Transfers from other government entities	75,400,000	60,000,000	135,400,000	79,471,225	(55,928,775)
Other operating revenue	7,000,000	(2,131,308)	4,868,693	6,076,355	1,207,662
Total revenue	435,402,000	66,808,157	502,210,159	450,223,900	(51,986,259)
Expenses					
Board expenses	18,840,000	-	18,840,000	14,038,926	4,801,074
Personnel emoluments	186,482,494	(11,566,284)	174,916,210	174,891,462	24,748
Training and other personnel costs	40,698,200	727,500	41,425,700	41,832,170	(406,470)
Office supplies and expenses	13,367,050	-	13,367,050	12,277,030	1,090,020
Transport and travel	18,547,000	7,000,000	25,547,000	25,997,931	(450,931)
Public relations and consumer services	28,780,000	5,220,000	34,000,000	31,778,070	2,221,930
Utilities	3,240,000	-	3,240,000	3,047,985	192,015
Information and comm. Tech. expenses	9,670,000	-	9,670,000	9,751,087	(81,087)
Office rent and office services	26,096,590	-	26,096,590	26,859,316	(762,726)
Consultancy & other professional services	46,090,000	54,718,000	100,808,000	61,487,803	39,320,197
HIV/AIDS prevention related expenses	1,000,000	400,000	1,400,000	1,068,318	331,682
Depreciation / Amortization	33,250,000	8,746,988	41,996,988	42,424,813	(427,825)
Total expenses	426,061,334	65,246,204	491,307,538	445,454,911	45,852,627
Surplus for the period	9,340,666	1,561,953	10,902,621	4,768,989	

XV. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation

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

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

The accounts are presented in Kenya Shillings (KES)

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Electricity and Petroleum Levies

The Commission recognizes revenues from Electricity and Petroleum levies when the event occurs and the asset recognition criteria are met. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Commission and the fair value of the asset can be measured reliably.

Transfers from other government entities

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

ii) Revenue from exchange transactions

Rendering of services

The Commission recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Sale of goods

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

Interest income

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

b) Budget information

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

c) Taxation/Transfer to treasury

No provision has been made for Income Tax. The Commission does not operate for gain. Its income is therefore not subject to tax. However, a provision is made for transfer of surplus funds to Treasury in line with Section 13A of the Government Financial Management Act that states that a regulatory authority established by an Act of Parliament shall remit into the Consolidated Fund, Ninety percent of its surplus funds reported in the audited financial statements after the end of each financial year.

d) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

e) Property, plant and equipment

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

Fixed assets are stated at cost less accumulated depreciation.

Depreciation is calculated on the cost of the fixed asset assets on straight line basis, at annual rate estimated to write off the cost of these assets over the expected useful life

The depreciation rates used are as follows;

- Motor Vehicles 25%
- Furniture and Fittings 12.5%
- Computer Equipments 30%
- Equipments 12.5%

f) Leases

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Commission. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

g) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The amortization rates used are as follows;

- Intangible Assets 30%

The useful life of the intangible assets is assessed as either finite or indefinite.

h) Research and development costs

The Commission expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Commission can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

i) Financial instruments

Financial assets and financial liabilities are recognised on the Commission's statement of financial position when the Commission has become party to the contractual provisions of the instrument. Specific accounting policies adopted by the Commission for its financial instruments outstanding at year end are set out as follows:

Government securities

Government securities comprise treasury bonds which debt securities are issued by the Government of Kenya. Government securities are classified as held to maturity and are stated at amortised cost.

Short term deposits

Short term deposits are classified as held to maturity and are stated at amortised cost.

Trade receivables

Trade receivables are carried at anticipated realised value. An estimate is made for bad and doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps taken to recover them have failed.

Trade payables

Trade payables are not interest bearing and are stated at their fair value

j) Provisions

Provisions are recognized when the Commission has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or

service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Commission expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

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

k) Contingent liabilities

The Commission 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.

l) Contingent assets

The Commission 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 Commission 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.

m) Nature and purpose of reserves

The Commission creates and maintains reserves in terms of specific requirements.

Accumulated Surplus

The Commission's capitals consist of the Accumulated reserves. The objectives when managing capital include:-

- To safeguard the Commission's ability to continue as a going concern so that it can continue to provide energy regulatory services to the nation.
- To match the profile of its assets and liability, taking account of the risks inherent in the business operation.

- To comply with the statutory requirements on provision for the renewal of depreciating assets

Sinking Fund Reserves

The sinking Fund reserves is money which the Commission set aside over time in order to renew depreciating assets

n) Changes in accounting policies and estimates

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

o) Employee benefits

Retirement benefit plans

The Commission provides retirement benefits for its employees. Defined contribution plans are post employment benefit plans under which the Commission pays fixed contributions into a separate Commission (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

p) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

q) Related parties

The Commission regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Commission. Members of key management are regarded as related parties and comprise Commission Members and senior managers (see further disclosures of related parties in note 29).

potential future use and value from disposal:

The useful lives and residual values of assets are assessed using the following indicators to inform

Useful lives and residual values

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Commission based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Commission. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Estimates and assumptions

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

t) Significant judgments and sources of estimation uncertainty

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

s) Comparative figures

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 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.

r) Cash and cash equivalents

- The condition of the asset based on the assessment of experts employed by the Commission
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

u) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

v) Incorporation

The Commission is a state corporation established under the Energy Act No. 12 of 2006

	2013-2014	2012-2013
	KES	KES
3 Electricity Levy:		
Electricity Levy from Kenya Power (Legal Notice No. 148 of 1999)	210,906,037	194,487,122
4 Petroleum Levy:		
Petroleum Levy	153,770,283	137,087,045
	153,770,283	137,087,045
(Legal Notice No. 91 & 109 of 2008)		
5 Transfers from Government:		
Consultancy-Drafting of regulations, codes and fuel marking	63,171,200	79,045,502
Capacity Building - World Bank	16,300,025	10,644,374
	79,471,225	89,689,876
6 Revenue from exchange transactions		
Interest on investments	5,959,705	3,137,681
Miscellaneous Revenue	116,649	82,561
	6,076,354	3,220,242

7	Commission Expenses:		
	Monthly fees/Honorarium	4,620,000	5,126,129
	Sitting Allowance-Commission Members	5,300,000	7,080,667
	Seminars, Travel and Accommodation	2,423,419	7,942,073
	Medical and GPA	562,815	746,503
	Meeting, Entertainment and Others	1,132,692	1,841,527
		<u>14,038,926</u>	<u>22,736,899</u>
8	Staff Salaries and Benefits:		
	Salaries	106,081,989	105,587,717
	House Allowance	30,078,119	30,654,329
	Car/Commuting Allowance	13,454,774	13,657,829
	Pension and Gratuity	16,481,300	15,802,855
	Employee Compensation-Court Award	5,000,000	-
	Special Duty/Acting Allowance	1,397,823	548,695
	Leave and Other Allowances	2,397,458	6,138,275
		<u>174,891,462</u>	<u>172,389,700</u>
9	Training and Personnel Costs:		
	Medical	12,952,617	14,989,710
	Life and Accident Insurance	2,867,748	2,042,583
	Training and Capacity Building-ERC funded	7,739,099	9,732,402
	Training and Capacity Building -World Bank funded	16,300,025	10,211,524
	Subscriptions-club and professional associations	1,124,257	1,110,117
	Staff welfare and laundry	478,152	65,108
	Staff uniforms	370,272	759,779
		<u>41,832,170</u>	<u>38,877,623</u>
	Number of Employees	76	69
10	Office Supplies and Expenses:		
	Stationary, postage and supplies	6,169,489	4,432,248
	Meetings, office tea and miscellaneous	4,962,532	3,644,089
	Newspapers, books and periodicals	1,145,009	888,655
		<u>12,277,030</u>	<u>8,964,992</u>

11	Transport and Travel Expenses		
	Travel-Local and Surveillance Audits	11,465,786	9,867,681
	Travel-International	10,672,917	8,747,492
	Fuel	1,412,297	1,659,455
	Vehicle repair and service	1,151,638	1,245,420
	Vehicle insurance and licences	1,295,293	1,202,923
		<u>25,997,931</u>	<u>22,722,971</u>
12	Public Relations and Consumer Services		
	Corporate subscriptions	1,472,570	1,612,163
	Corporate Social Responsibility (CSR)	2,003,222	4,116,119
	Advertisement and Public Relations	17,657,915	12,880,559
	Branding	2,150,870	498,550
	Public Seminars/Workshops	6,493,494	3,073,142
	Kenya Energy Environment Programme (KEEP)	2,000,000	2,000,000
		<u>31,778,070</u>	<u>24,180,533</u>
13	Utilities		
	Telephone and fax	2,125,936	2,492,328
	ISDN Line	922,049	287,973
		<u>3,047,985</u>	<u>2,780,301</u>
14	Information and Communication Technology Expenses		
	Bandwidth	904,609	1,109,360
	Software licenses	8,846,478	1,988,712
		<u>9,751,087</u>	<u>3,098,072</u>
15	Office Rent and Office Services		
	Rent	21,502,866	25,810,743
	Security	990,000	1,164,800
	Office cleaning	1,876,517	1,569,619
	Repair and service-office equipment	1,460,358	463,760
	Insurance and other	1,029,575	465,473
		<u>26,859,316</u>	<u>29,474,395</u>
16	Consultancy and other services		
	Consultancy-ERC funded	60,632,588	26,741,655
	Consultancy - World Bank-GoK funded	-	42,396,785
	Bank charges	507,215	531,749
	Audit fees and expenses	348,000	348,000
		<u>61,487,803</u>	<u>70,018,189</u>
17	HIV/ AIDS Prevention Related Expenses		
	Gender	-	116,000
	Drugs and substance abuse	70,624	-
	HIV/ AIDS, Corruption, Disability and Safety	997,694	716,230
		<u>1,068,318</u>	<u>832,230</u>

18	Gain (Loss) on sale of assets		
	Property, plant and equipment	(46,804)	1,685,115
19	Receivables from exchange transactions		
	Hospital and rent deposit	5,245,472	5,245,472
	Telephone-deposits	94,000	94,000
	Investment interest	1,356,495	-
		<u>6,695,967</u>	<u>5,339,472</u>
20	Receivables from non-exchange transactions		
	Levies	12,717,898	28,747,077
	Consultancy-GoK (IDA) project	1,943,421	10,644,374
	Staff advance	200,072	541,575
	Commission imprest	-	10,000
	Staff imprest	4,200,259	898,668
	Miscellaneous receivables	-	74,744
		<u>19,061,650</u>	<u>40,916,438</u>
21	Cash and cash equivalents		
	Fixed/Call Deposit:		
	NBK (FDR for 3 months at 10%)	10,000,000	30,000,000
	NBK (Call deposit at 7%)	10,000,000	
	KCB (FDR for 3 months at 10%)	40,590,620	-
		<u>60,590,620</u>	<u>30,000,000</u>
	Bank Balances:		
	Commercial Bank of Africa	87,360	94,500
	National Bank of Kenya	3,008,811	120,212
	Kenya Commercial Bank	23,108,715	19,935,805
	Petty Cash	100,000	625
		<u>26,304,886</u>	<u>20,151,142</u>
	Total cash and cash equivalents	<u>86,895,506</u>	<u>50,151,142</u>

22. PROPERTY, PLANT, AND EQUIPMENT

	Motor Vehicles KES	Computers KES	Furniture & Fittings KES	Equipment KES	Total KES
Cost					
At 1 July 2012	35,546,607	25,122,944	97,144,329	11,172,610	168,986,490
Add: additions during the year	-	3,723,475	164,245	900,161	4,787,881
Less: disposals during the year	(4,700,000)	(5,139,198)	(66,773)	(144,130)	(10,050,101)
Adjustment		2,251,650	(5)	(2,251,650)	(5)
At 30 June 2013	30,846,607	25,958,872	97,241,796	9,676,991	163,724,266
Cost					
As at 1 st July 2013	30,846,607	25,958,872	97,241,796	9,676,991	163,724,266
Add: additions during the year	-	3,385,732	1,508,963	511,640	5,835,335
Less: disposals during the year	-	-	(114,002)	(217,490)	(331,492)
At 30th June 2014	30,846,607	29,344,604	98,636,557	9,971,141	168,798,909
Depreciation					
At 1 July 2012	17,614,771	15,907,927	12,142,417	6,622,166	52,287,281
Adjustment		828,870	(3)	(828,870)	(3)
Charge for the year	6,124,201	5,664,376	12,152,878	787,526	24,728,981
Disposal	(4,700,000)	(5,043,802)	(8,347)	(107,967)	(9,860,116)
At 30 June 2013	19,038,972	17,357,371	24,286,945	6,472,855	67,156,143
Depreciation					
At 1 st July 2013	19,038,972	17,357,371	24,286,945	6,472,855	67,156,143
Adjustment		34,425		(38,079)	(3,654)
Charge for the year	5,316,144	5,896,078	12,223,023	633,626	24,068,871
Disposal	-	-	(35,626)	(112,062)	(147,688)
At 30 June 2014	24,355,115	23,287,874	36,474,343	6,956,340	91,073,672
Net book value					
At 30 June 2014	6,491,492	6,056,731	62,162,414	3,014,801	77,725,438
At 30 June 2013	11,807,635	8,601,501	72,954,853	3,204,135	96,568,124

At 30 June 2014, property and equipment with cost amounting to Kes 27,382,920 were fully depreciated and Intangible Assets with Cost amounting to Kes 3,920,334 were fully amortised.

	2013-2014	
	KES	KES
23 Intangible assets		
Cost		
At 1 July 2012	64,761,294	
Adjustment	-	
Add: Additions during the year	24,360	
Less: disposal during the year	-	
At 30 June 2013	<u>64,785,654</u>	
Cost		
At 1 st July 2013	64,785,654	
Adjustment	-	
Add: Additions during the year	1,334,071	
Less: disposal during the year	-	
At 30 th June 2014	<u>66,119,725</u>	
Amortization charge		
At 1 st July, 2012	22,172,622	
Adjustment	-	
Amortization charge	18,252,288	
Less disposal during the year	-	
At 30 June 2013	<u>40,424,910</u>	
At 1 st July, 2013	40,424,910	
Adjustment	3,654	
Amortization charge	18,355,942	
Less disposal during the year	-	
At 30 June 2014	<u>58,784,506</u>	
Net book value 30 June 2014	7,335,219	
Net book value at 30 June 2013	24,360,744	
	2013-2014	2012-2013
	KES	KES
24 Investment		
Treasury Bonds	55,537,700	55,537,700
Armotisation Charge	369,924	-
	<u>55,167,776</u>	<u>55,537,700</u>
25 Payables from Exchange Transactions		
Suppliers	31,796,300	41,175,872
Rural Electrification Authority (REA) contractors	345,295	593,525
Year End accrual	13,754,607	14,141,173
Commission Fees payable	26,397	91,482
Energy Act advances from energy sector stakeholders	7,266,430	21,954,736
	<u>53,189,029</u>	<u>77,956,788</u>

26	Provisions		
	Audit fees	348,000	348,000
	Lawsuit-Former Employee	5,000,000	-
	Withheld tax and other statutory deductions	1,921,688	2,267,540
		7,269,688	2,615,540
27	Employee benefits		
	Gratuity - Director General	-	3,959,570
	Gratuity - staff	1,897,152	1,248,431
	Other payroll benefits	5,742,627	6,718,520
		7,639,779	11,926,521

28. Financial Risk Management Objectives and Policies

The commission activities expose it to a variety of financial risks, including credit risk, liquidity risk and interest rates. The commission's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The commission regularly reviews its risk management policies and systems to reflect changes in markets and emerging best practices. Risk management is carried out by the management under the supervision of the Commissioners.

The Commissioners provides policies for overall risk management, as well as policies covering specific areas such as, interest rate risk, credit risk, use of non-derivative financial instruments and investing excess liquidity.

a) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the company.

Credit risk arises from bank balances, trade receivables and amounts due from related parties. The Commission's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors.

Classification of credit risk bearing assets

The table below represents company's maximum exposure to credit risk as at 30th June 2014

	Fully performing KES	Past due KES	Impaired KES	Total KES
Receivables from non-exchange transactions	19,073,949	-	-	19,073,949
Government securities	55,167,776	-	-	55,167,776
Bank balances	86,895,506	-	-	86,895,506
	<u>161,137,231</u>	<u>-</u>	<u>-</u>	<u>161,137,231</u>

All the Commission's receivables are fully performing and are expected to be repaid.

The Government securities are from the Government of Kenya that has no history of default.

Bank balance includes cash in hand and deposits held with banks. Bank balances are not restricted to any use by the client.

b) Market risk management

Interest rate risk

The Commission's interest rate risk arises from investments in short term deposits and Government securities. These are fixed income instruments and would not be significantly affected by fluctuations in interest rates.

Foreign currency risk

The commission does not hold any foreign currency denominated assets or liabilities and hence there is no exposure to foreign currency risk.

Price risk

The Commission does not hold investments that would be subject to price risk; hence this risk is not relevant.

c) Liquidity risk management

Liquidity risk is the risk that the commission will not be able to meet its financial obligations when they fall due. The Commission's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging reputation.

The Commission ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. All liquidity policies and procedures are subject to review and approval by the Commissioners.

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The table below provides a contractual maturity analysis of the Commission's financial liabilities:

	1-6 months KES	06-12 months KES	Total KES
Trade & other payables from exchange transactions	48,297,866	-	48,297,866
Employee benefits Obligation	7,226,121	-	7,226,121
Lawsuit-Former Employee	5,000,000	-	5,000,000
Audit fees payable	348,000	-	348,000
Withheld tax and other statutory deductions	1,930,236	-	1,930,236
	<u>62,802,223</u>	<u>-</u>	<u>62,802,223</u>

29. Related Party Transactions

The following transactions were carried out with related parties

Key management compensation

	2013-2014 KES	2012-2013 KES
Key management compensation		
Salaries to senior Management	46,979,895	46,439,825
Other Allowances	28,002,970	30,914,068
	<u>74,982,865</u>	<u>77,353,893</u>

Board remuneration

	2013-2014 KES	2012-2013 KES
Board Remuneration		
Monthly fees/Honorarium	4,620,000	5,126,129
Sitting Allowance-Commission Members	5,300,000	7,080,667
Seminars, Travel and Accommodation	2,423,419	7,942,073
Medical and GPA	562,815	746,503
Meeting, Entertainment and Others	1,132,692	1,841,527
	<u>14,038,926</u>	<u>22,736,899</u>

Grants from GOK

	2013-2014 KES	2012-2013 KES
Recurrent grant	79,471,225	89,689,876

XVI. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

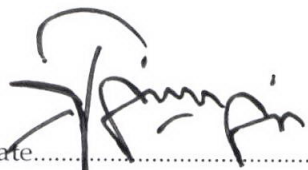
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved/ Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)


Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

Director General


Date.....

Chairperson


Date.....