



OFFICE OF THE AUDITOR-GENERAL

REPORT

 THE NATIONAL ASSEMBLY PAPERS LAID OF	
DATE: 06 DEC 2018	DAY.
TABLED BY:	
THE TABLE:	

PARLIAMENT
OF KENYA
LIBRARY

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
OFF-GRID SOLAR ACCESS PROJECT FOR
UNDERSERVED COUNTIES
(IDA CR. NO. 6135-KE)**

**FOR THE 10 MONTHS PERIOD
ENDED 30 JUNE 2018**

STATE DEPARTMENT FOR ENERGY

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

23 NOV 2018

RECEIVED



**Project Name: OFF-GRID SOLAR ACCESS PROJECT FOR
UNDERSERVED COUNTIES**

Implementing Entity: STATE DEPARTMENT FOR ENERGY

PROJECT CREDIT NUMBER: 6135-KE

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE TEN MONTHS PERIOD ENDED
JUNE 30, 2018**

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

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
for the ten months period ended June 30, 2018**

CONTENTS	PAGE
1. PROJECT INFORMATION AND OVERALL PERFORMANCE	ii
2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES	x
3. REPORT OF THE AUDITOR-GENERAL ON THE OFF-GRID SOLAR ACCESS PROJECT	xi
4. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2018.....	1
5. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2018	2
6. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2018.....	3
7. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS	4
8. NOTES TO THE FINANCIAL STATEMENTS	5
9. OTHER IMPORTANT DISCLOSURES	12

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and Registered Office

Name: The project's official name is Off-Grid Solar Access Project.

Objective: The key objective of the project is to ensure electricity is accessed at the underserved counties.

Address: The project headquarters offices are Nairobi City, Nairobi County, Kenya. The address of its registered office is:

Ministry of Energy
Nyayo House
P. O. Box 30582-0100
NAIROBI

Contacts: The following are the project contacts

Telephone: (254) 203310112

E-mail: ps@energy.go.ke

Website: www.energy.go.ke

1.2 Project Information

Project Start Date:	The project start date is 05 September 2017
Project End Date:	The project end date is 30 th June 2023
Project Manager:	The project manager is Eng. Rodney I. Sultani
Project Sponsor:	The project sponsor is International Development Association, which will contribute 100% of project costs

Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018

1.3 Project Overview

Line Ministry of the project	The project is under the supervision of the Ministry of Energy.
Project number	IDA CR. NO. 6135-KE
Strategic goals of the project	<p>The strategic goals of the project are as follows:</p> <ul style="list-style-type: none"> (i) To support the electrification of areas where electricity supply through mini grids represents the least-cost option from a country perspective, as underpinned by the geospatial plan. (Component 1) (ii) To support off-grid electrification of households in the fourteen (14) target counties. (Component 2A) (iii) To support a transition from low-efficiency baseline stoves to cleaner, higher-efficiency improved stoves. (Component 2B) (iv) To support the provision of electricity services to community facilities in remote areas in underserved counties. (Component 3A) (v) To support financing solar-powered pumping systems to increase sustainable access to water supply by equipping new boreholes and retrofitting existing diesel-powered boreholes associated with community facilities within the target counties. (Component 3B) (vi) To support the consumer education and citizen engagement activities for the program's key delivery areas. (Component 4A) (vii) To support a program of activities designed to strengthen the capacity of the Republic of Kenya for Project management, implementation and coordination, monitoring and evaluation. (Component 4B)
Achievement of strategic goals	<p>The project management aims to achieve the goals through the following means:</p> <ul style="list-style-type: none"> (i) Mini-grids for Community Facilities, Enterprises, and Households <ul style="list-style-type: none"> ▪ Development, construction, operation and maintenance of mini-grids and electricity distribution network, including provision of electricity supply services. ▪ Construction of the distribution network and connecting community facilities, enterprises and households to electricity supply. ▪ Provision of subsidies for connecting consumers to electricity supply.

Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018

(ii) Standalone Solar Systems and Clean Cooking Solutions for Households

Carrying out a program of activities designed to incentivize Solar Service Providers ("SSPs") to supply standalone solar systems to markets in Underserved Counties, and increase off-grid electricity connections for households in Underserved Counties, through the provision of Sub-financing under:

- the Results Based Financing Facility ("RBF Facility"), to finance, *inter alia*, costs associated with such SSPs expansion of operations in Underserved Counties and connections of households to off-grid electricity supply ("SSP Facility Sub- projects"); and
- the Debt Facility, to provide, *inter alia*, debt financing to support such SSPs' upfront costs associated with getting solar system hardware inventory into the market in Underserved Counties for resell to households ("Debt Facility Sub-projects").

(iii) Clean Cooking Solutions for Households

Carrying out a program of activities designed to incentivize Clean Cooking Solutions Providers ("CCSPs") to supply clean cooking equipment to markets in Underserved Counties, through the provision of Sub-financing to CCSPs under the RBF Facility to finance, *inter alia*, costs associated with purchase of selected higher quality stoves and fuels, and transportation to the Underserved Counties for resale to households ("CCSP Facility Sub-projects").

(iv) Stand-alone Solar Systems for Community Facilities

A private sector contractor will be competitively selected for each service territory to supply, install, and maintain stand-alone solar systems in community facilities.

Kenya Power and Lighting Company Limited (KPLC), will sign two contracts with the contractor in each service territory—one for the supply and installation of the stand-alone solar systems and the other for the provision of maintenance services for 7–10-year duration. The contract will specify the minimum requirements with regard to quality standards in electricity supply for the community facilities, developed by the Ministry of Health, Ministry of Education, and Ministry of Interior. Contracts will stipulate the minimum package acceptable as 'basic service' but allow room for provision of additional services to community facilities. The proposed project will cover the supply and installation costs and KPLC will pay the contractor fees under the maintenance contract with allocation or revenues from beneficiary facilities. The costs of maintenance contracts are expected to be passed through into tariff revenues recognized by the ERC.

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

KPLC will take the retail risk of serving these new consumers, for which their payment record for such an arrangement is still unknown. Therefore, a payment risk mechanism will be available to KPLC, to which the proposed project will set aside funds equivalent to 6–12 months of maintenance fees that KPLC can draw upon in case of inadequate revenues to pay the contractor.

(v) Solar Water Pumps for Community Facilities

A private sector contractor will be competitively selected for each service territory to supply, install, and maintain stand-alone solar systems in community facilities.

REA will sign two contracts with the contractor in each service territory—one for the supply and installation of the stand-alone solar systems and the other for the provision of maintenance services for a 7–10-year duration—similar to the design in Subcomponent 3A. The payment for these maintenance services will be recovered on a monthly (or at a frequency determined by relevant stakeholders—counties, REA, and community facilities) basis from the community facilities hosting these boreholes.

A payment risk mechanism will be available to REA, to which the proposed project will set aside funds equivalent to 6–12 months of maintenance fees that REA can draw upon in case of inadequate allocation from the beneficiary facilities to pay the contractor.

(vi) Consumer Education and Citizen Engagement

Carrying out a program of activities designed to support consumer education and citizen engagement among Project beneficiaries, including undertaking an awareness campaign on technologies and products financed under the Project and eligibility requirements.

(vii) Implementation Support and Capacity Building

Carrying out a program of activities designed to strengthen the capacity of the Republic of Kenya for Project management, implementation and coordination, monitoring and evaluation, including: (i) financing the fees for managing and operating the RBF Facility and Debt Facility, including costs for verification of connections financed under Part 2 of the Project; (ii) provision of technical assistance and undertaking studies to support and inform the activities under the Project; (iii) establishing a strategic planning and program management unit within MOEP, including financing of operational costs for the said unit; (iv) provision of technical assistance for sector County capacity building; (v) establishment of a quality of service monitoring unit in the Energy Regulatory Commission; and (vi) capacity building of underserved Counties.

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

Other important background information of the project	<p>The proposed project aims to support the GoK’s announced objective of reaching all Kenyan consumers with energy services. The project proposes a comprehensive suite of investments to provide modern energy services to households, enterprises, and community facilities, with pragmatic business models to attract private sector investment, sustainable services, know-how, and efficiencies. A substantial TA component is proposed to support a widespread consumer education campaign to inform and engage with citizens, create a new strategic planning and program management (SPPM) unit to coalesce sector planning and NES implementation efforts, and launch an inclusive county capacity building program across various dimensions identified through a needs assessment.</p> <p>The project area is divided into six lots (referred as ‘service territories’ hereon) based on county allocations derived from scale of challenge (electrified population and community facilities), poverty index, and population density¹⁹ to (a) achieve greatest impact with limited IDA resources, (b) deliver services where the need is the largest, (c) consider additional costs due to low population density, and (d) consider principles of equality such that all the counties should benefit in a similar manner (Error! Reference source not found.). Such a division into lots allows economies of scale in the procurement and elicits private sector contractors to be present in these underserved counties over a long term. All the procurements in the proposed project will be carried out according to these lots.</p>
Current situation that the project was formed to intervene	<p>The 14 underserved counties collectively represent 72 percent of the country’s total land area and 20 percent of the country’s population, including historically nomadic societies that even today continue to rely on pastoralism. Their population is highly dispersed, at a density four times lower than the national average. They present profound infrastructure deficits, including lack of access to roads, electricity, water, and social services. There is also significant insecurity in certain areas, giving rise to substantial numbers of displaced persons and livelihood adaptations that further undermine economic prosperity.</p>
Project duration	<p>The project started on 5th September 2017 and is expected to run until 30 June 2023</p>

1.4 Bankers

The banker for the current year is Central Bank of Kenya

1.5 Auditors

The project is audited by the **Office of the Auditor-General, P.O Box 30084, 00100, Nairobi**

Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018

1.6 Roles and Responsibilities

The different people and their mandates who will be working on the project are:

Names	Title Designation	Qualifications	Responsibilities
Dr Eng. Joseph Njoroge,CBS	Principal Secretary	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. He also holds a PhD from University of Nairobi's School of Business.	Accounting Officer
Rodney Sultani	Project Coordinator	MSc. Project Management, BSc Civil Engineering.	Coordination of the day to day activities of the Program.
Eng. Isaac Bondet	Power Engineering Consultant	BSc. Mechanical Engineering	Technical Advisor on civil matters
Eng. Richard Muiru	Power Engineering Consultant	MSc. Electrical Engineering, BSc Electrical Engineering	Technical Advisor on electrical matters
William Mbaka	SD/Director of Budget	He holds a MBA in Finance from Birmingham University (UK), A degree in Business Studies from Kenyatta University and an ACCA qualification.	Preparation of budget for the Project
Jedidah A.N. Macharia	Head of Accounting Unit	B. Com (Accounting Option) Degree, CPA (K)	Management of accounting function of the Project

1.7 Funding Summary

The Project is for duration of Six (6) years from 2017 to 2023 with an approved budget of EUR 133,800,000, equivalent to Kshs.15 billion as highlighted in the table below:

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

Source of funds	Donor Commitment-		Amount received to date – (30 06 2018)		Undrawn balance to date (30 06 2018)	
	EUR	Kshs	EUR	Kshs	EUR	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
International Development Association (IDA)	133,800,000	15,000,000,000	2,330,000	275,654,611	131,470,000	14,724,345,389
Total	133,800,000	15,000,000,000	2,330,000	275,654,611	131,470,000	14,724,345,389

1.8 Summary of Overall Project Performance:

1.8.1 Budget performance against actual amounts

During the year under review, the Project had a budget of Kshs.371,692,000 against actual receipts of Kshs.275,654,611, representing 74% budget utilization.

Similarly, the Project had an expenditure budget of Kshs.371,692,000, while actual expenditure amounted to Kshs.6,733,349, representing 1.8% budget utilization. The very low absorption arose since this is the year of commencement and major activities during this period were not attracting costs. The procurement took longer than scheduled because many members of the Project Coordinating Unit (PCU) and the Project Implementation Units (PIU) had no previous experience regarding implementation of World Bank projects, thus a significant learning curve.

The cumulative receipts and expenditure to date (30 June 2018) were Kshs.275,654,611 and Kshs.6,733,349 respectively.

1.8.2 Physical progress based on outputs, outcomes and impacts since project commencement,

The project started during the year under review in the last month of the second quarter. The project has been executing preliminary activities, which include setting up of the PCU at Ministry of Energy (MoE), procurement of twenty-seven (27) consultants and setting up and carrying out trainings for PCU and PIU members from MoE, Kenya Power and Lighting Company (KPLC) and Rural Electrification Authority (REA)

1.8.3 Achievements

Progress as at 30 June 2018 was as follows:

- The PCU at MoE was staffed with a Project Coordinator and seven officers from the Ministry of Energy. Procurement of seven specialists had progressed significantly, with four out of the seven having accepted offers and their contracts cleared by the World Bank for signature;
- Interviews had been completed for 12 out of 14 County Renewable Officers;

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

- The PIUs at KPLC and REA had been fully constituted and were operational; and
- Training had been undertaken for 41 members of the PCU and the PIUs

1.8.4 Implementation challenges and recommended way forward.

The Project was not able to access funds because the head of Accounting Unit was among accounting and procurement officers who were suspended by Government to undergo fresh vetting and lifestyle audit. It took time for her deputy to be granted approval to operate the Project Account. In fact, the Project ‘borrowed’ funds from MoE’s development vote and Kenya Electricity Modernization Project to meet its expenses during the year under review.

1.9 Summary of Project Compliance:

The Project did not have cases of non-compliance with laws, regulations or financing agreement during the year under review.

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Principal Secretary for the Ministry of Energy and the Project Coordinator for Off-grid Solar Access Project for Underserved Counties (IDA Cr. No. 6135-KE) 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 June 30, 2018. 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 Principal Secretary for the Ministry of energy and the Project Coordinator for Off-grid Solar Access Project for Underserved Counties (IDA Cr. No. 6135-KE) accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary for the Ministry of Energy and the Project Coordinator for Off-grid Solar Access Project for Underserved Counties (IDA Cr. No. 6135-KE) are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the ten months period ended June 30, 2018, and of the Project's financial position as at that date. The Principal Secretary for the Ministry of Energy and the Project Coordinator for Off-grid Solar Access Project for Underserved Counties (IDA Cr. No. 6135-KE) further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Principal Secretary for the Ministry of Energy and the Project Coordinator for Off-grid Solar Access Project for Underserved Counties (IDA Cr. No. 6135-KE) confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the Principal Secretary for the Ministry of Energy and the Project Coordinator for Off-grid Solar Access Project for Underserved Counties (IDA Cr. No. 6135-KE) on 15-11- 2018 and signed by them.



Principal Secretary
Dr. Eng. Joseph Njoroge, CBS



Project Coordinator
Eng. Rodney Sultani



Project Accountant:
Jedida A.N. Macharia
ICPAK Number. 8805

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

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON OFF-GRID SOLAR ACCESS PROJECT FOR UNDERSERVED COUNTIES (IDA CR. NO. 6135-KE) FOR THE 10 MONTHS PERIOD ENDED 30 JUNE 2018 – STATE DEPARTMENT FOR ENERGY

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Off-grid Solar Access Project for Underserved Counties (IDA Cr. No. 6135-KE) set out on pages 1 to 14, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the 10 months period then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015, and Financing Agreement No. 6135-KE dated 5 September 2017, between the International Development Association (IDA) and the Republic of Kenya. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In addition, the accompanying special/designated account statement presents fairly, in all material respects, the funds received into and disbursements made from the special/designated account of the project during the 10 months' period ended 30 June 2018.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Off-grid Solar Access Project for Underserved Counties as at 30 June, 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreement No. 6135-KE of 5 September 2017.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Off-grid Solar Access Project for Underserved Counties in accordance with ISSAI 30 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.

Report of the Auditor-General on the Financial Statements of Off-grid Solar Access Project for Underserved Counties (IDA Cr. No. 6135-KE) for the 10 Months Period ended 30 June 2018 – State Department for Energy

Key Audit Matters

Key audit matters are those matters which, in my professional judgment, are of most significance in the audit of the financial statements. There were no Key Audit Matters to report in the period under review.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

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

Basis for Conclusion

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review to obtain limited assurance on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with all the authorities which govern them.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

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

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

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

Basis for Conclusion

My responsibility is to express a conclusion based on the review. The review was conducted in accordance to ISSAI 1315. The standard requires that I plan and perform the review to

obtain limited assurance on whether effective processes and systems of internal control, risk management and governance, were maintained in all material respects.

The matters reported are limited to the deficiencies identified during the audit which I have concluded are material to be reported on. I have not performed an audit, and accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this review.

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

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the Project's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to terminate the Project, or have no realistic alternative but to do so.

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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Project's financial reporting process, reviewing the effectiveness of management's systems for monitoring compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems to address key roles and responsibilities in relation to governance and risk management, are in place, 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 with limited assurance 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control 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:

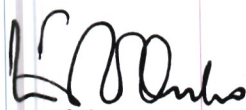
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 going concern 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 sustaining its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease sustaining its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

20 November 2018

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

4. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE TEN MONTHS PERIOD ENDED 30TH JUNE 2018

	Note	2017/2018		2016/2017		Cumulative to-date
		Receipts and payments controlled by the Project	Payments made by third parties	Receipts and payments controlled by the Project	Payments made by third parties	
		Kshs	Kshs	Kshs	Kshs	
RECEIPTS						
Loan from external development partners	8.3	275,654,611	-	-	-	275,654,611
TOTAL RECEIPTS		275,654,611	-	-	-	275,654,611
PAYMENTS						
Purchase of goods and services	8.4	6,733,349	-	-	-	6,733,349
TOTAL PAYMENTS		6,733,349	-	-	-	6,733,349
SURPLUS		268,921,262	-	-	-	268,921,262

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The revised financial statements were approved on 15-11-2018 and signed by:



Principal Secretary
Dr. Eng. Joseph Njoroge, CBS



Project Coordinator
Eng. Rodney I. Sultani



Project Accountant:
Jedida A.N. Macharia
ICPAK Member. 8805

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

5. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2018

	Note	2017/2018	2016/2017
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	8.5A	268,921,262	-
Total Cash and Cash Equivalents	8.5	268,921,262	-
TOTAL FINANCIAL ASSETS		268,921,262	-
REPRESENTED BY			
Surplus for the year		268,921,262	-
NET FINANCIAL POSITION		268,921,262	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The revised financial statements were approved on 15-11- 2018 and signed by:

Principal Secretary
Dr. Eng. Joseph Njoroge, CBS

Project Coordinator
Eng. Rodney I. Sultani

Project Accountant:
Jedida A.N. Macharia
ICPAK Member No. 8805

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

6. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2018

		2017/2018	2016/2017
	Note	Kshs	Kshs
CASHFLOW FROM OPERATING ACTIVITIES			
Payments for operating activities			
Purchase of goods and services	8.4	(6,733,349)	-
Net cash flow from operating activities		(6,733,349)	-
CASHFLOW FROM BORROWING ACTIVITIES			
Loan from external development partners	8.3	275,654,611	-
Net cash flow from financing activities		275,654,611	-
NET INCREASE IN CASH AND CASH EQUIVALENT		268,921,262	-
Cash and cash equivalent at BEGINNING of the year		-	-
Cash and cash equivalent at END of the year		268,921,262	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The revised financial statements were approved on 15-11- 2018 and signed by:



Principal Secretary
Dr. Eng. Joseph Njoroge, CBS



Project Coordinator
Eng. Rodney Sultani



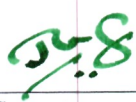
Project Accountant:
Jedida A.N. Macharia
ICPAK Member No. 8805


**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

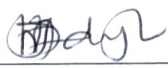
7. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
		Kshs	Kshs	Kshs	Kshs	
Receipts						
Loan from external development partners	-	371,692,000	371,692,000	275,654,611	96,037,389	74%
Total Receipts	-	371,692,000	371,692,000	275,654,611	96,037,389	74%
Payments						
Purchase of goods and services	-	325,100,060	325,100,060	6,733,349	318,366,711	2%
Acquisition of non-financial assets	-	46,591,940	46,591,940	-	46,591,940	0%
Total Payments	-	371,692,000	371,692,000	6,733,349	364,958,651	2%

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


Principal Secretary
Dr. Eng. Joseph Njoroge, CBS


Project Coordinator
Eng. Rodney Sultani


Project Accountant:
Jedida .N. Macharia
ICPAK Number No. 8805

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

8. NOTES TO THE FINANCIAL STATEMENTS

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

8.1. Basis of Preparation

8.1.1. 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.

8.1.2. Reporting entity

The financial statements are for the Off-grid Solar Access Project under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

8.1.3. 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 Kenya Shilling.

8.2. 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.

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

▪ **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.

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.

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

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.

▪ **Purchase 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.

▪ **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

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

d) Cash and cash equivalents

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

Restriction on cash

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

e) Accounts receivable

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

f) 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.

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

g) 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.

h) 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 no loan disbursements were received in form of direct payments from third parties.

i) 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.

j) Comparative figures

The project has just started and therefore no comparative figures.

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

k) Subsequent events

There have been no events subsequent to the ten months period end with a significant impact on the ten months period ended June 30, 2018.

l) 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.

Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018

8.3. LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 10 months to 30 June 2018 we received funding from donors as detailed in the table below:

Name of Donor	Date received	Amount in loan currency	Loans received in cash	Loans received as direct payment	Total amount in Kshs	
		EUR	Kshs	Kshs	2017/2018	2016/2017
Loans Received from Multilateral Donors (International Organisations)						
International Development Association (IDA)	31/10/2017	2,330,000	275,654,611	-	275,654,611	
Total		2,330,000	275,654,611	-	275,654,611	-

8.4. PURCHASE OF GOODS AND SERVICES

	2017/2018			2016/2017	Cumulative to- date
	Payments made by the Project in Cash	Payments made by third parties	Total Payments		
	Kshs	Kshs	Kshs	Kshs	Kshs
Training payments	6,733,349	0	6,733,349	-	6,733,349
Total	6,733,349	0	6,733,349	-	6,733,349

8.5. CASH AND CASH EQUIVALENTS CARRIED FORWARD

	2017/2018	2016/2017
	Kshs	Kshs
Bank accounts (Note 8.5A)	268,921,262	-
Total	268,921,262	-

The project has one project account within the project implementation area as listed below:

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

8.5A Bank Accounts

Project Bank Accounts

	2017/2018	2016/2017
	KShs	KShs
Local Currency Accounts		
Central Bank of Kenya [A/c No. 1000358707]	268,921,262	-
Total local currency balances	268,921,262	-

Special Deposit Accounts

The balances in the Project's Special Deposit Account(s) as at 30th June 2018 are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision.

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

Special Deposit Accounts Movement Schedule

	2017/2018	2016/2017
	Kshs	Kshs
Kenya Off-grid Solar Access Project [A/c No. 1000360739]		
Opening balance	-	-
Total amount deposited in the account	458,790,425	-
Total amount withdrawn (as per Statement of Receipts & Payments)	275,654,611	-
Closing balance (as per SDA bank account reconciliation attached)	183,135,814	-

The Special Deposit Account reconciliation statement has been attached as **Annex 3** to support this closing balance. OTHER IMPORTANT DISCLOSURES

9.1 PENDING PAYABLES (See Annex 2)

	2017/2018	2016/2017
	Kshs	Kshs
Amounts due to National Government entities	5,102,372	-
Total	5,102,372	-

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance
	a	b	c=a-b	d=b/a %	
Receipts					
Transfer from Government entities	371,692,000	275,654,611	96,037,389	74%	See (i) below
Total Receipts	371,692,000	275,654,611	96,037,389	74%	
Payments					
Purchase of goods and services	325,100,060	6,733,349	318,366,711	2%	See (ii) below
Acquisition of non-financial assets	46,591,940	-	46,591,940	0%	See (ii) below
Total payments	371,692,000	6,733,349	364,958,651	2%	

Variance Explanation

- (i) The under receipt of 74% was due to low demand for cash caused by few Project activities During the year under review. Most of the budgetary items were procurement related. The processes took longer since some of the procurements needed no objection from the bank. There is also the issue of the project not being able to access funds because the head of Accounting Unit was suspended and it took a lot of time for the acting head of accounting unit to be granted approval to operate the Project Account. In fact, the project ‘borrowed’ funds from GoK and Kenya Electricity Modernization Project to meet its expenses during the year.
- (ii) The low absorption of 2% of budget arose since this is the year of commencement and major activities during this period were not attracting costs. The procurement took longer than scheduled because many members of the Project Coordinating Unit (PCU) and the Project Implementation Units (PIU) had no previous experience regarding implementation of World Bank projects, thus a significant learning curve.

**Off-grid Solar Access Project for Underserved Counties
Reports and Financial Statements
For the ten months period ended June 30, 2018**

ANNEX 2 - ANALYSIS OF PENDING PAYABLES

Name	Brief Transaction Description	Original Amount	Date Payable Contracted	Amount Paid To-Date	Outstanding Balance 2017/2018	Outstanding Balance 2016/2017	Comments
		a	b	c	d=a-c		
		Kshs		Kshs	Kshs	Kshs	
Amounts due to National Government Entities							
Ministry of Energy- Dev Vote	Training Expenses	5,102,372	30/06/2018	0	5,102,372	-	
Total		5,102,372		0	5,102,372	-	

**KENYA OFF GRID ACCESS PROJECT FOR UNDESERVED COUNTIES
STATEMENT OF SPECIAL (DESIGNATED) ACCOUNT RECONCILIATION
FOR THE YEAR ENDED 30 JUNE 2018**

Credit No.: IDA LOAN NO. CREDIT NO.61350-KE MOE

Bank Account No.: 1000360739 Held with CENTRAL BANK OF KENYA

	NOTES	AMOUNT USD	AMOUNT USD
1	Amount advanced by IDA		3,877,975.00
	Less:		
2	Total amount documented		-
3	Outstanding amount to be documented		3,877,975.00
	Represented by:		
4	Ending Special account Balance as as 30 June 2018		1,547,975.00
5	Amounts claimed but not credited as at 30th June 2018		-
6	Amounts withdrawn and not claimed		2,330,000.00
7	Service Charges (if not included in lines 5 and 6 above)		-
8	Interest earned (if included in Special Account)		-
9	Total advance to Special Account Year ended 30 June 2018		3,877,975.00

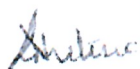
Discrepancy between total appearing on line 3 and 9

-

Notes:

- 1 Explain the discrepancy between totals appearing on lines 3 and 9 above (e.g amount due to be refunded to cover ineligible expenditures paid from the Special/Designated Account)
- 2 Indicate if amount appearing on line 6 is eligible for financing by IDA and provide reasons for not claiming the expenditures

The amount appearing on line 6 is eligible for financing by World Bank and shall be documented in subsequent IFRs


**AUTHORISED REPRESENTATIVE
 RESOURCE MOBILISATION DEPARTMENT
 THE NATIONAL TREASURY**

DATE: 06-09-2018



[Handwritten scribbles]

