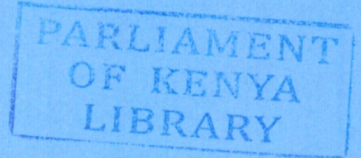




Enhancing Accountability



REPORT

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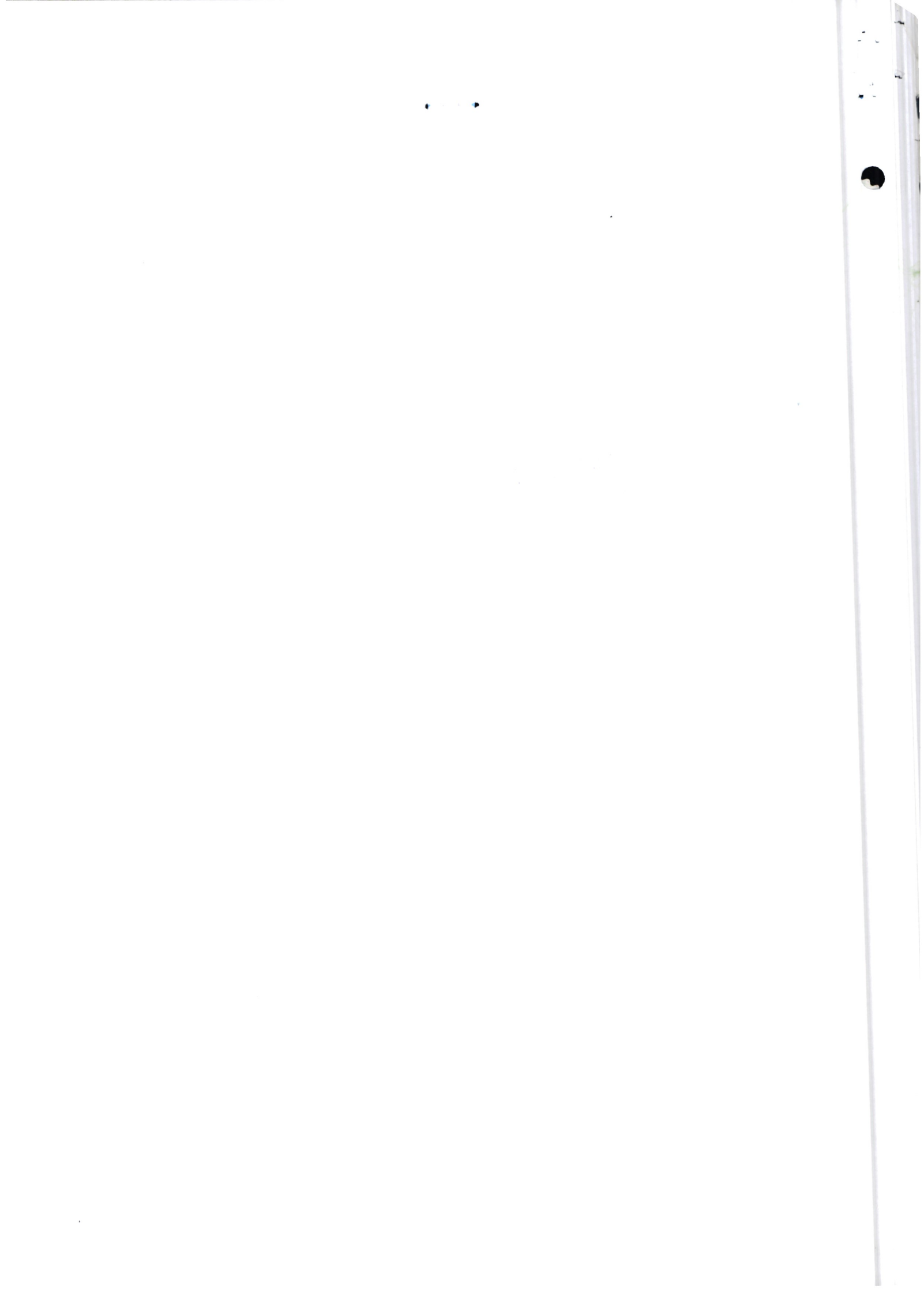
THE AUDITOR-GENERAL

ON

**OLKARIA-LESSOS-KISUMU TRANSMISSION
LINES CONSTRUCTION PROJECT
(JICA LOAN NO. KE-P28)**

**FOR THE YEAR ENDED
30 JUNE, 2021**

**KENYA ELECTRICITY TRANSMISSION
COMPANY LIMITED**



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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OLKARIA-LESSOS-KISUMU TRANSMISSION LINES CONSTRUCTION PROJECT

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED (KETRACO)

JICA LOAN NO.KE-P28

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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

ABBREVIATIONS

GOK	Government of Kenya
HVDC	High Voltage Direct Current
ISA	International Standards on Auditing
JICA	Japan International Co-operation Agency
JPY	Japanese Yen
KETRACO	Kenya Electricity Transmission Company
KV	Kilovolts
PFSs	Project Financial Statements
PIU	Project Implementing Unit
RAP	Resettlement Action Plan
SORE	Statement of Receipts and Expenditure
UA	Units of Account
USD	United States Dollar
IPSAS	International Public-Sector Accounting Standards
MDAs	Ministries, Departments and Agencies
JV	Joint Venture
FCPA	Fellow of the Institute of Certified Accountants of Kenya
CPA	Certified Public Accountant of Kenya
ISO	International Organisation for Standardisation
Ag	Acting
Eng	Engineer
BSc	Bachelor of Science
IEK	Institution of Engineers of Kenya
BA	Bachelor of Arts
UON	University of Nairobi
ISK	Institution of Surveyors of Kenya
MA	Master of Arts
OGW	Order of Grand Warrior
ICPAK	Institute of Certified Public Accountants
HRAC	Human Resource Advisory Committee
JV	Joint Venture
AGPO	Access to Government Procurement Opportunities

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: The project's official name is the Olkaria-Lessos-Kisumu Transmission Lines Construction Project.

Objective: The key objective of the project is to increase electricity access and address the challenges of access and low connectivity.

Address: The project headquarters offices are in Nairobi, Nairobi County, Kenya.

The address of its registered office is:

Kenya Electricity Transmission Company Limited
Block B, Kawi House
Off Red Cross Road, South C
P. O. Box 34942 – 00100
Nairobi.

Contacts: The following are the project contacts

Telephone: (+254) 20 – 4956000
E-mail: info@KETRACO.co.ke
Website: www.KETRACO.co.ke

1.2 Project Information

Project start dates:	KETRACO/PT/005/2014-LOT 1 - 23 February 2016 KETRACO/PT/005/2014-LOT 2 - 15 February 2016 KETRACO/PT/005/2014-LOT 3 - 16 February 2016
Project end dates:	KETRACO/PT/005/2014-LOT 1 –30 June 2021 KETRACO/PT/005/2014-LOT 2 – 31 May 2021 KETRACO/PT/005/2014-LOT 3 – 31 March 2022
Project manager:	The project manager is Eng. Samson Akuto
Project sponsor:	The project sponsors are Government of Kenya and JICA

1. PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.3 Project Overview

Line Ministry/ State Department of the project	The project is under the supervision of the Kenya Electricity Transmission Company Limited, a state corporation under the State Department of Energy.
Project number	KETRACO/PT/005/2014-LOT 1 KETRACO/PT/005/2014-LOT 2 KETRACO/PT/005/2014-LOT 3
Strategic goals of the project	The strategic goal of the project is to increase electricity access and address the challenges of access and low connectivity
Achievement of strategic goals	The project management aims to achieve the goals through the following means: Lot 1 – Design, manufacture, supply, erection, testing and commissioning of the 400kV transmission lines Lot 2 – Design, manufacture, supply, erection, testing and commissioning of 220kV and 132 kV Transmission Lines Lot 3 – Design, manufacture, supply, erection, testing and commissioning of substation extensions at Olkaria, Lessos and Kisumu and a new 220/132/33kV substation at Kibos.
Other important background information of the project	<p>The project is implemented by Kenya Electricity Transmission Company Limited (KETRACO) which was incorporated on 2 December 2008 and registered under the Companies Act, Cap 486 pursuant to Sessional Paper No. 4 of 2004 on Energy. The Company was established to develop new high voltage electricity transmission infrastructure that will form the backbone of the National Transmission Grid, in line with Kenya Vision 2030. Its core business is to plan, design, build and maintain new electricity transmission lines and associated substations. These new lines will include 132kV, 220kV, 400kV and 500kV High Voltage Direct Current (HVDC). In carrying out this mandate, the Company is expected to develop a new and robust grid system in order to:</p> <ul style="list-style-type: none"> (i) Improve quality and reliability of electricity supply throughout the country; (ii) Transmit electricity to areas that are currently not supplied from the national grid; (iii) Evacuate power from planned generation plants; and (iv) Provide a link with the neighbouring countries in order to facilitate power exchange and develop electricity trade in the region. <p>As the owner of the project, KETRACO provides the organizational set up for the activities, qualified staff and basic office infrastructure for efficient execution of the project.</p> <p>The JICA Funded Projects comprises of projects which are funded jointly by the Government of Kenya through the Ministry of Energy and Petroleum and The National Treasury and a loan obtained from Government of Japan. The loan agreement was signed on 10 December 2010 for JPY 12.41 Billion. The Consultant and Contractors' details are as follows:</p>

1. PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.3 Project Overview (continued)

	Name	Description	Project Scope	Contract Amount-USD	Expected completion date
	JV of Nippon Koei Philkoei UK and Gibb International	Consultant-signed on 09 December 2011	Engineering and project management services	JPY 305,118,100 USD 724,190 and KShs 274,688,910	31 March 2021
	JV of Kalpataru and Kinden	Contractor-signed on 10 March 2015	Lot 1 – Design, manufacture, supply, erection, testing and commissioning of the 400kV transmission lines	USD 66,843,520.02 and KShs 942,085,144.63	30 June 2021
	JV of NARI Group Corporation and CCCE	Contractor-signed on 10 March 2015	Lot 2- Design, manufacture, supply, erection, testing and commissioning of 220kV and 132 kV Transmission Lines	USD 19,579,361	31 May 2021
	JV of Sieyuan and NEIE	Contractor-signed on 31 March 2015	Lot 3- Design, manufacture, supply, erection, testing and commissioning of substation extensions at Olkaria, Lessos and Kisumu and a new 220/132/33kV substation at Kibos.	USD 12,087,842.80 and KShs 481,258,463.33	31 March 2022
Current situation that the project was formed to intervene	Low electricity access and low connectivity.				
Project duration	The project was expected to be completed in 24 months which ended on 24 February 2018 but has received extensions as detailed in the addendums.				

1. PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.4 Bankers

The following are the bankers for the current year:

NCBA Bank Mara & Ragati Roads, Upper Hill P. O. Box 30437 – 00100 GPO Nairobi, Kenya.	KCB Group Limited Moi Avenue P. O. Box 30081 – 00100 Nairobi, Kenya.
Central Bank of Kenya Head Office, Haile Selassie Avenue, P.O. Box 60000-0200, Nairobi,	

1.5 Auditors

Delegated Auditor: Deloitte & Touche LLP
 Certified Public Accountants (Kenya)
 Deloitte Place, Waiyaki Way Muthangari
 P O Box 40092 – 00100 GPO
 Nairobi

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

1.6 Roles and Responsibilities

Below is a list of the different people involved with the project:

Names	Title designation	Key qualification	Responsibilities
FCPA Fernandes Barasa	Managing Director	Fellow and a former chairman of the Institute of Certified Public Accountants of Kenya; also a lead ISO auditor; he has a wealth of experience in public finance and risk management as well as corporate governance among others.	Managing Director
Eng. Anthony Wamukota	General Manager, Design and Construction	Bachelor's degree in civil engineering; CPA final. He is registered by the Engineers Board of Kenya (EBK) as a professional engineer. Member of the Institution of Engineers of Kenya(IEK).	Project Coordinator
CPA Tom Imbo	General Manager, Finance	Master of Business Administration (Finance) and Bachelor of Education (Economics, Business Administration) degrees; Certified Public Accountant of Kenya; Member of the Member Services Committee of ICPAK.	Project Reporting
Engineer Samson Akuto	Project Manager	Bachelor of science Electrical Engineering	Project Engineer
Johnson Muthoka	Senior Manager Wayleaves	Bachelor of Arts Land Econ (Hons), MA (urban and regional planning (UON), Full member of ISK, registered and Licensed land economist	Wayleaves Acquisition (Land Economists, Land surveyors, Social Economists, Environmental Experts)

1. PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.7 Funding summary:

A. Source of Funds

Source of funds	Donor Commitment		Amount received to date – (30/06/2021)		Undrawn balance to date – (30/06/2021)	
	JPY (A)	KShs (A')	JPY (B)	KShs (B')	JPY (A)-(B)	KShs (A')-(B')
Loan						
JICA	12,410,000,000	12,094,326,830	10,609,323,127	9,453,517,207	1,800,676,873	2,640,809,623
Counterpart funds						
Government of Kenya	-	5,129,681,890	-	2,961,213,785	-	2,168,468,105
Funding from KETRACO						
Miscellaneous receipts						
Total	12,410,000,000	17,224,008,720	10,609,323,127	13,871,198,472	1,800,676,873	4,809,277,728

B. Application of Funds

Application of funds	Amount received to date – (30 June 2021)		Cumulative Amount paid to date – (30 June 2021)		Unutilised balance to date (30 June 2021)	
	Donor JPY (A)	currency- KShs (A')	Donor JPY (B)	currency- KShs (B')	Donor JPY (A)-(B)	currency- KShs (A')-(B')
(i) Loan						
JICA	12,410,000,000	12,094,326,830	10,609,323,127	9,453,517,207	1,800,676,873	2,640,809,623
(ii) Counterpart funds						
Government of Kenya	--	5,129,681,890	--	2,961,213,785	--	2,168,468,105
Total	12,410,000,000	17,224,008,720	10,609,323,127	12,414,730,992	1,800,676,873	4,809,277,728

1. PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.7 Funding summary: (continued)

During the year under audit, the financiers disbursed funds as below:

	Amounts
Financiers	(KShs Equivalent)
JICA	1,473,800,416
GOK- Consolidated fund	1,300,000,000
Inter-project financing KETRACO	1,446,813,110
Total	4,220,613,526

1.8 Summary of Overall Project Performance

i) Budget Performance Against Actual Amounts

During the year under review, the project received KShs. 4,220,613,526 against a final budget of KShs. 5,067,559,158 . Similarly, the project incurred total expenditure of KShs. 4,525,875,565 during the year, against a final budget of KShs. 5,067,559,158 , representing 74 % budget utilization. The project's cumulative receipts and payments to-date amounts to KShs. 15,164,210,250 and KShs. 15,148,232,001 respectively.

ii) Physical Progress and Achievements of the Project

JICA finances the Olkaria-Lessos-Kisumu Transmission Line and associated Substations. So far, the Olkaria to Lessos and Lessos to Kisumu Transmission Lines are 100% complete. The substations component comprising of Lot 3 is also 100% complete.

iii) Value for money Achievements

The following value for money achievements will be realised now that the project was completed on 30th June 2021:

- 1/ No power outages in Kisumu and environs. Therefore no electricity user is off power supply.
- 2/ There is no venting of steam at Olkaria because now there is a line to evacuate power;
- 3/ Reduced losses because higher voltage OLK line offers low power losses during transmission;
- 4/ Industries in Kisumu can grow in business due to reliable power supply afforded by the OLK transmission line.

iv) Absorption rate

<u>YEAR</u>	<u>FINAL BUDGET-KShs</u>	<u>ACTUAL SPENT-KShs</u>	<u>ABSORPTION</u>
	<u>A</u>	<u>B</u>	<u>C=B/A</u>
2016/2017	5,108,000,000	1,313,931,367	25.7%
2017/2018	1,374,500,000	2,298,375,610	167.2%
2018/2019	1,522,000,000	1,375,357,692	90.4%
2019/2020	2,232,000,000	1,939,078,225	86.9%
2020/2021	5,067,559,158	4,525,875,565	89.3%
AVERAGE			74.8%

1. PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

1.8 Summary of Overall Project Performance (continued)

v) Implementation Challenges and Way Forward

The main challenge is the acquisition of the wayleaves. Difficulties have been encountered in accessing the wayleaves necessary to implement the project. It is anticipated that sustained sensitisation efforts and the cooperation of the local leadership will result in the acquisition of more work fronts that will facilitate uninterrupted construction works. The Covid-19 pandemic continues to pose a challenge in project implementation.

1.9 Summary of Project Compliance:

The project complied with the applicable laws and regulations and essential external financing covenants/agreements.

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVES

Introduction

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

The key development objectives of the project's 2018-2022 are to:

- a) Enhance electricity access, availability and reliability of the completed transmission lines and substations and complete construction of key transmission infrastructure.
- b) Increase electricity supply by completing transmission lines for evacuating generated power.
- c) Provide a link with the neighbouring countries in order to facilitate power exchange and develop electricity trade in the region

Progress on attainment of Strategic development objectives

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement: Below we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
The Olkaria-Lessos-Kisumu Project	To stabilise power supply in the western parts of Kenya	-Facilitate evacuation of power from the geothermal fields of Olkaria - enabling additional evacuation of power from Olkaria and Loiyangalani	Number of substations and transmission lines complete.	In financial year 2020/2021 construction works were completed on the transmission line and substations. Contractually, the contractor has a further 12 months Defects Liability Period within which to rectify any defects at no extra cost to KETRACO. After this will be the final sign-offs and handover.

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

KETRACO has the obligation to plan, design, construct, own, operate and maintain the country's high voltage electricity grid and regional power interconnectors. This primary objective must, however, be twinned with positive impacts to societies that such businesses operate in. These positive impacts include creation of employment opportunities, provision of goods and services, contribution to the economy by paying taxes, contributing towards development of infrastructure and improvement of quality of life for the people.

KETRACO, being an obliging and proactive company, has mainstreamed corporate social responsibility (CSR) in its operations. Beyond grid matters, the company has expanded its jurisdiction to improve the well-being of humanity and impact society to be better.

This deliberate move is necessary because it is the society that gives us a "license to operate" and their goodwill is necessary for continued security and room to operate long after our transmission projects construction is over.

Our approach

KETRACO's approach towards CSR is focused on identifying and formulating projects guided by its CSR policy and in response to specific needs that go towards solving a problem that members of the concerned community assess as a priority. To this end, the Company consulted widely internally and beyond on best practices in order to make corporate social responsibility an integral part of its undertakings. During the financial year under review, social, economic and environmental issues were addressed.

Below is a brief highlight of our achievements in each pillar

1. Social Sustainability strategy and profile -

KETRACO ensured that its operations were carried out professionally and in humane manner, considering that construction of transmission projects involves acquisition of land for substations and wayleaves access for the lines. This necessitates compensation and at times resettlement of the Projects Affected Persons (PAPs) hence the need to expedite the process harmoniously. In addition, KETRACO actively participated in several engagements with various stakeholders towards improving their quality of life which translates into creating a better society. This was evident in key areas such as education, health and environmental conservation.

In addition, KETRACO offered youth internship opportunities to fresh graduates and industrial attachments to ongoing University students for the purpose of transferring skills and future career preparation.

2. Environmental performance

KETRACO's environmental and social impact assessment plans are anchored on environmental laws, regulations, standards and best practices. The Company ensures compliance with all relevant national and international environmental and other statutory regulatory provisions that apply to its projects to ensure sound environmental management practice. The Company undertakes annual environmental audits and has valid permits and licenses for its operations. The Company is guided by the following environmental and social management laws and regulations in its execution of its projects:

The Environmental Management and Coordination Act, Cap 387;The Environmental Impact (Assessment and Auditing) Regulations, 2003;Environmental Management and Coordination (Environmental Impact Assessment and Audit) Regulations, 2003;Environmental Management and Coordination (Water Quality) Regulations of 2006;Environmental Management and Coordination (Waste Management) Regulations of 2006 ; Environmental Management and Co-ordination (Controlled Substances) Regulations, 2007;The Environmental Management and Co-ordination (Conservation of biological diversity and resources, and access to genetic resources and benefits sharing) Regulations, 2006;The Environmental Management and Coordination (Wetlands, Riverbanks, Lakeshores and seashores management) Regulations, 2009;Environmental Management and Coordination (Noise and Excessive Vibration Pollution Control) Regulations, 2009;Environmental Management and Coordination (Air Quality) Regulations, 2008;Occupational Safety and Health Act (OSHA 2007) ;Wildlife Management and Conservation Act, 2013;Forest Act 2015 ;Public Health Act (Cap. 242) 36;The Environment and Land Court Act, 2011;Water Act, 2002.

**3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING
(CONTINUED)**

3. Employee welfare

Competence Management

KETRACO has developed many policies that guide recruitment among them being the Gender policy which is in line with a third rule enshrined in the constitution. The skills gap analysis report was received from the consultant and training priority areas picked for discussion during HRAC meeting as intervention for skills gaps identified. The company also developed reward and performance system policy that help in recognizing performance and sanctions. A committee to handle staff appraisals was formed during the year (Performance management review committee), an ad-hoc committee answerable to HRAC.

Safety and Security Measures

During the year ended 30 June 2021, the Company achieved the following;

1. Championed the roll out of ISO 45001: 2018 – Occupational health and safety management system certification journey in the company through staff awareness trainings, development of safety procedures and carrying out internal audits. The Section also developed a Safety and Health policy being a management tool for OSH in the organization.
2. Participated in the development of the Energy (Incident and Accident Reporting) Regulations as well being incorporated in the Ministerial OSH Committee.
3. Promotional of safe work through effective incident and accident investigations, OSH inspections /audits, robust risk assessment and monitoring implementations of corrective actions for both operational sites and sites under construction.
4. Sensitized/trained staff and contracted personnel on workplace safety and health measures in the offices and substations. As well as dissemination of vital Osh information to employees.
5. Participated in the management of COVID-19 pandemic through development of guidelines, protocols, and purchase of protective equipment.
6. Enhanced public safety by listening to safety and health concerns of employees and other stakeholders and guiding appropriately.
7. Developed guidelines on statutory occupational safety and health training requirements for the company.
8. The Section played a key role in ensuring safety and health during the completion and commissioning of Olkaria-Lessos-Kisumu transmission line and associated substations.
9. Participated in the development of the Energy (Incident and Accident Reporting) Regulations.

Market place practices

KETRACO continues to comply with the Treasury Circular No. 09/2015 on creation of the Government Advertising Agency (GAA) to coordinate public sector advertising; and Office of the President Circular No. OP/CAB.58/4A on establishment of MyGov publication. In addition, we are guided by the company's core values and endeavour to responsibly update our stakeholders on our mandate through various Information, Education and Communication (IEC) materials published in print, broadcast and / or electronic media.

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (CONTINUED)

3. Employee welfare (continued)

Market place practices (continued)

On matters procurement, we complied with 30% of access to government procurement opportunities (AGPO) requirement by ensuring that youth, women and persons with disabilities supplied goods and services. Further, KETRACO complied with 40% Government requirement on local content procurement where goods and services were procured locally by the company. These procurement opportunities have created diverse financial benefits for the special groups as well as enhancing the KETRACO corporate image and reputation.

During this Financial Year the company revised its integrity and ethics instruments namely: Corruption and Fraud Prevention Policies, Whistle Blowing Policy and the Gifts and Benefit policy. A sensitization exercise was conducted via Microsoft teams to all staff to enlighten them on the need to promote an ethical culture within and outside the organisation. The policies were also uploaded to the companies SharePoint for ease of reference on any matter of interest. These policies shall also be uploaded to the company's website for public viewing and reference.

As part of the signed performance contract on corruption prevention the company updated the Corruption Risk Assessment and mitigation plan which is shared with the Ethics and Anti-Corruption Commission (EACC). On a quarterly basis the corruption prevention committee held update meetings and reported on implementation status with supporting documents to EACC.

On a continuous basis the corruption reporting channels remain operational for use by all. They include a dedicated email address and phone number all uploaded in the company website. The company has also installed corruption reporting boxes on each floor at its headquarters in KAWI House.

The Company continued implementing corruption prevention measures as identified in the corruption risk assessment and mitigation plan. In addition, Integrity Committee quarterly meetings were held and quarterly reports of the corruption risk assessment reports and the implementation of the mitigation plans were prepared and submitted to EACC.

4. Community Engagements

KETRACO has remained committed to engaging with local communities in project affected areas, the general public, sector partners and other stakeholders aiming at cultivating their goodwill, cooperation and amicable association. In this regard, KETRACO ensured that all CSR projects were implemented through a consultative process with stakeholders' right from the initial project planning through to commissioning.

In addition, the host communities in the areas where the projects traverse benefited from employment opportunities by KETRACO and its contractors. This has boosted the living standards of the communities in the project areas.

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Chief Executive Officer of KETRACO and the Project Coordinator for the Olkaria- Lessos-Kisumu Transmission Lines Construction Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on 30 June 2021. This responsibility includes maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; safeguarding the assets of the Project; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.


The Chief Executive Officer of KETRACO and the Project Coordinator for the Olkaria- Lessos-Kisumu Transmission Lines Construction Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public-Sector Accounting Standards.


The Chief Executive Officer of KETRACO and the Project Coordinator for the Olkaria- Lessos-Kisumu Transmission Lines Construction Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended 30 June 2021, and of the Project's financial position as at that date. Chief Executive Officer of KETRACO and the Project Coordinator for the Olkaria- Lessos-Kisumu Transmission Lines Construction Project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.


The Chief Executive Officer of KETRACO and the Project Coordinator for the Olkaria- Lessos-Kisumu Transmission Lines Construction Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by Chief Executive Officer of KETRACO and the Project Coordinator for the Olkaria- Lessos-Kisumu Transmission Lines Construction Project on
..... 30 June 2021 and signed by them.

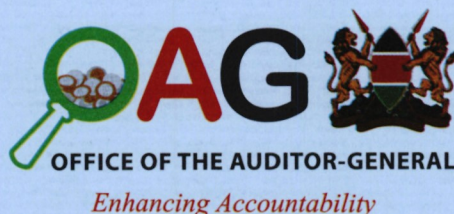

.....
Chief Executive Officer
FCPA Fernandes Barasa, OGW


.....
Project Coordinator
Antony Wamukota


.....
General Manager – Finance
CPA Tom Imbo
ICPAK Member Number: 7039

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON OLKARIA-LESSOS-KISUMU TRANSMISSION LINES CONSTRUCTION PROJECT (JICA LOAN NO. KE-P28) FOR THE YEAR ENDED 30 JUNE, 2021 - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

PREAMBLE

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

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

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Olkaria-Lessos-Kisumu Transmission Lines Construction Project (JICA Loan No.KE-P28) set out on pages 17 to 34, which comprise the statement of financial assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte and Touche, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Olkaria-Lessos-Kisumu Transmission Lines Construction Project (JICA Loan No. KE-P28) as at 30 June, 2021, 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. KE-P28 dated 10 December, 2010 between Japan International Cooperation Agency (JICA) and the Government of the Republic of Kenya.

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

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Olkaria-Lessos-Kisumu Transmission Lines Construction Project (JICA Loan No. KE-P28). Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1. Budgetary Performance and Control

The Project budgeted to receive a total of Kshs.5,067,559,158 as transfer from Government entities and loans from external development partners but received a total of Kshs.4,220,613,526 resulting to a shortfall of Kshs.846,945,632 or 16.7%. Similarly,

Report of the Auditor-General on Olkaria-Lessos-Kisumu Transmission Lines Construction Project (JICA Loan No. KE-P28) for the year ended 30 June, 2021 - Kenya Electricity Transmission Company Limited

the project budgeted to spend Kshs.5,067,559,158 on purchase of goods and services and acquisition of assets but spent Kshs.4,525,875,565 resulting to under absorption of Kshs.541,683,593 or 11%.

The reported under funding and under absorption of the project budget may have resulted in delayed implementation of planned project activities and achievement of the set objectives.

2. Pending Bills

As disclosed in Annex 3A to the financial statements, the project management contracted works and services amounting to Kshs.12,707,860,870. The amount certified payable as at 30 June, 2021 amounted to Kshs.9,939,257,070 out of which Kshs.9,020,007,591 was paid leaving a balance of Kshs.919,249,479 as pending bills. The unpaid bills are likely to result to interest, penalties or litigation and related legal expenses, which are wasteful expenditure

3. Long Outstanding Wayleave Compensation

As disclosed in Annex 3C to the financial statements, the expected compensation to landowners amounted to Kshs.5,129,890 for wayleave acquired since inception of the project in February 2016. The amount certified amounted to Kshs.2,993,949,151 and the amount paid to date amounted to Kshs.2,961,213,785 leaving a balance of Kshs.32,735,366. Management attributed failure to pay the amount to lack of budgetary allocation from the National Treasury and lengthy land valuation negotiations due to absentee landlords and various court injunctions.

Other Information

"The Project Management are responsible for the other information, which comprises statement of corporate governance, management discussions and responsibilities, statement of corporate social responsibility and the statement of directors' responsibilities." The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Automation of the Financial Reporting Process

Review of the financial reporting process for the project revealed that there is significant manual intervention in preparation of financial reports. Whereas the sub-ledgers are extracted from SAP system through the Business Intelligent Reporting Module, the processing of trial balance and financial statements is done manually on excel.

Consequently, the manual intervention may result in errors in the Project financial statements

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the state of expenditure procedure for Japan ODA Loans, Guidelines for borrowers, under Japan International Cooperation Agency (JICA), I report based on the audit that:

- i. Each expenditure listed under the statement of expenditure (SOE) is appropriate and conforms to the objectives of the project under the loan agreement and complies the provisions of the agreement.
- ii. That the Project expenditure does not include non-eligible items.

- iii. The Project's statement of expenditure is in agreement with the underlying records and returns.
- iv. In my opinion, the statement of expenditure is eligible for JICA financing under the loan agreement and its supported by sufficient and appropriate supporting documents under the loan agreement.

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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


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

conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the project to cease to continue as a going concern or to sustain its services.

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

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL


Nairobi

14 December, 2021

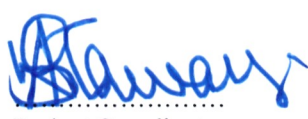
7. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2021

	Notes	2020/2021	2019/2020
Financial Assets		KShs	KShs
Cash and cash equivalents			
Bank balances	11.7	<u>15,978,248</u>	<u>321,240,288</u>
Represented by:			
Fund balance brought forward		321,240,288	145,130,748
(Deficit)/surplus for the year		(305,262,040)	176,109,540
Net Financial Position		<u>15,978,248</u>	<u>321,240,288</u>


The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on.....30/11.....2021 and signed by:



 Chief Executive Officer
 FCPA Fernandes Barasa, OGW



 Project Coordinator
 Antony Wamukota




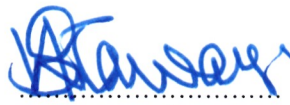
 General Manager – Finance
 CPA Tom Imbo
 ICPAK Member Number: 7039

8. STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2020/2021 KShs	2019/2020 KShs
Cash Flows from Operating Activities			
Receipts from Operating Activities			
Transfers from Government entities	11.1	1,300,000,000	1,455,000,000
Funding from KETRACO	11.2	1,446,813,110	(77,550,251)
Payments from operating activities			
Purchase of goods and services	11.5	(304,863,692)	(214,277,661)
Net cash flow from operating activities		<u>2,441,949,418</u>	<u>1,163,172,088</u>
Cash Flows from investing activities			
Acquisition of non-financial assets	11.6	(4,221,011,874)	(1,647,250,313)
Cash Flows from Financing Activities			
Proceeds from foreign borrowings	11.3	<u>1,473,800,416</u>	<u>660,187,765</u>
Net (decrease)/increase in cash and cash Equivalents		(305,262,040)	176,109,540
Cash and cash equivalents at beginning of the year		<u>321,240,288</u>	<u>145,130,748</u>
Cash and Cash Equivalents at End of the Year	11.7	<u>15,978,248</u>	<u>321,240,288</u>

The entity financial statements were approved on 30 June 2021 and signed by:


 Chief Executive Officer
 FCPA Fernandes Barasa, OGW


 Project Coordinator
 Antony Wamukota



 General Manager - Finance
 CPA Tom Imbo
 ICPAK Member Number: 7039


Kenya Electricity Transmission Company Limited
 Olkaria-Lessos-Kisumu Transmission Lines Construction Project (JICA Loan No. Ke-P28)
 Reports and Financial Statements
 For the Year Ended 30 June 2021


9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payment item	Original budget		Adjustments		Final budget		Actual on Comparable Basis		Budget Utilisation Difference		% Of Utilisation f=d/c%
	a	b	c=a+b	d	e=c-d	f=d/c%					
Receipts											
Transfer from government entities	1,000,000,000	600,000,000	1,600,000,000	1,300,000,000	(300,000,000)	81%					
Loan from external development partners	4,967,559,158	(1,500,000,000)	3,467,559,158	1,473,800,416	(1,993,758,742)	43%					
Transfers from KETRACO	-	-	-	1,446,813,110	1,446,813,110	--					
Total Receipts	5,967,559,158	(900,000,000)	5,067,559,158	4,220,613,526	(846,945,632)	74%					
Payments											
Purchase of goods and services	500,000,000	-	500,000,000	304,863,692	(195,136,308)	61%					
Acquisition of non-financial assets	5,467,559,158	(900,000,000)	4,567,559,158	4,221,011,873	(346,547,285)	92%					
Total payments	5,967,559,158	(900,000,000)	5,067,559,158	4,525,875,565	(541,683,593)	89%					

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


 Chief Executive Officer
 FCPA Fernandes Barasa, OGW


 Project Coordinator
 Antony Wamukota


 General Manager - Finance
 CPA Tom Imbo
 ICPAK Member Number: 7039

10. SIGNIFICANT ACCOUNTING POLICIES

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

10.1 BASIS OF PREPARATION

10.2 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

10.3 Reporting entity

The financial statements are for the JICA Funded Projects under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012.

10.3.1 Reporting currency

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

10.4 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.

i) Transfers from the Exchequer

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

ii) External Assistance

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

iii) Other receipts

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

b) 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 and upon determination of the value. The date of the transaction is the value date indicated on the payment advice

10.4 Significant Accounting Policies (continued)

c) 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.

d) 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

e) Recognition of payments

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

i) Compensation of employees

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

ii) Use of goods and services

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

iii) Interest on borrowing

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

iv) Repayment of borrowing (principal amount)

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

v) Acquisition of fixed assets

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment. A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

10.4 Significant Accounting Policies (continued)

f) In-kind donations

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

g) 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 authorized 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.

h) Accounts receivable

For the purposes of these financial statements, imprests and advances to authorized 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.

i) Contingent Liabilities

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) A present obligation that arises from past events but is not recognised because:
 - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - ii) The amount of the obligation cannot be measured with sufficient reliability.

10.4 Significant Accounting Policies (continued)

i) Contingent Liabilities (continued)

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships,

The Entity does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote..

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

j) Contingent Assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

k) 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 are 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.

l) 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 recognized as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

10.4 Significant Accounting Policies (continued)

m) 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 amount of loan disbursements were received in form of direct payments from third parties.

n) 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 recognized in the statements of receipts and payments.

o) Comparative figures

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

p) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended 30 June 2021.

q) 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.



11. NOTES TO THE FINANCIAL STATEMENTS

11.1 RECEIPTS FROM GOVERNMENT OF KENYA

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

	2020/21	2019/20	Cumulative to-date
	KShs	KShs	KShs
Counterpart funding through State Department of Energy			
Counterpart funds Quarter 1	250,000,000	105,000,000	802,619,622
Counterpart funds Quarter 2	750,000,000	900,000,000	2,053,066,810
Counterpart funds Quarter 3	300,000,000	450,000,000	1,209,727,889
Counterpart funds Quarter 4	-	-	188,811,242
Total	1,300,000,000	1,455,000,000	4,254,225,563

11.2	FUNDING FROM KETRACO			
		2020/2021	2019/2020	Cumulative to-date
		KShs	KShs	KShs
	Funding to/(from) KETRACO	1,446,813,110	(77,550,251)	1,446,813,110

This relates to funds borrowed from KETRACO in the year 2020/2021. KShs 77,550,251 borrowed in 2018/2019 was refunded in 2019/2020.

11.3 LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2021, we received funding from development partners in form of loans negotiated by the National Treasury donors as detailed in the table below:

Name of Donor	Date received	Amount received in donor currency	Loans received in cash	Loans received as direct payment	Total amount	
					2020/2021	2019/2020
		JPY	KShs	KShs	KShs	KShs
Grants received from Bilateral Donors (Foreign Governments)						
Japan International Cooperation Agency	July 2020- June 2021	1,475,117,232	86,810,090	1,386,990,326	1,473,800,416	660,187,765
Total		1,475,117,232	86,810,090	1,386,990,326	1,473,800,416	660,187,765

11. NOTES TO THE FINANCIAL STATEMENTS(Continued)

11.4 MISCELLANEOUS RECEIPTS

	2020/2021			2019/2020	Cumulative to- date
	Receipts controlled by the entity in cash	Receipts controlled by third parties	Total receipts		
	KShs	KShs	KShs	KShs	KShs
Interest income	-	-	-	-	9,654,370
Total	-	-	-	-	9,654,370

The miscellaneous receipts relate to interest income received during the financial year 2016/2017 .

11.5 PURCHASE OF GOODS AND SERVICES

	2020/2021			2019/2020	Cumulative to- date
	Payments made by the entity in cash	Payments made by third parties	Total payments		
	KShs	KShs	KShs	KShs	KShs
License fees	310,320	-	310,320	310,320	1,207,000
Professional fees	-	-	-	-	40,206,800
Bank charges and fees	1,565,559	-	1,565,559	1,245,977	11,955,964
Other operating expenses	221,184,558	-	221,184,558	172,115,870	471,113,590
Site travel	81,803,255	-	81,803,255	40,605,494	204,329,248
Total	304,863,692	-	304,863,692	214,277,661	728,812,602

11.6 ACQUISITION OF NON-FINANCIAL ASSETS

	2020/2021			2019/2020	Cumulative to- date
	Payments made by the entity in cash	Payments made by third parties	Total payments		
	KShs	KShs	KShs	KShs	KShs
Consultancy fees	100,295,707	-	100,295,707	69,699,973	509,900,510
Transmission equipment	2,123,489,494	1,386,990,326	3,510,479,820	608,413,773	10,948,305,105
Wayleaves compensation	610,236,347	-	610,236,347	969,136,567	2,961,213,785
Total	2,834,021,548	1,386,990,326	4,221,011,874	1,647,250,313	14,419,419,400

11. NOTES TO THE FINANCIAL STATEMENTS (Continued)

11.7 CASH AND CASH EQUIVALENTS

	2020/2021	2019/2020
	KShs	KShs
Bank accounts	15,978,248	321,240,288
Total	15,978,248	321,240,288

The project has 2 project accounts spread within the project implementation area managed by KETRACO as well as Government of Kenya funding held in the two Kenya Commercial Bank accounts as listed below:

PROJECT BANK ACCOUNTS

	2020/21	2019/2020
	KShs	KShs
Local Currency Accounts		
NCBA Bank [A/c No 762350017]	1,575,882	127,731,563
NCBA Bank[A/c No 762350025]	14,402,366	6,841,180
Kenya Commercial Bank Kenya Limited [A/c No 1111251622]	-	137,344,455
Kenya Commercial Bank Kenya Limited [A/c No 1206560752]	-	49,323,090
Total bank account balances	15,978,248	321,240,288

Special Deposit Accounts

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

	2020/2021	2019/2020
	KShs	KShs
Central Bank of Kenya Account No. 1000236299	--	302,776
Total	--	302,776

12. OTHER IMPORTANT DISCLOSURES

12.1. PENDING ACCOUNTS PAYABLE (Annex 3A)

Description	Balance b/f 2019/2020	Additions for the period	Paid during the year	Balance c/f 2020/2021
	KShs	KShs	KShs	KShs
Supply of goods	4,929,864	2,379,850,075	1,469,367,544	915,412,395
Supply of services	84,635,759	40,630,758	121,429,433	3,837,084
Total	89,565,623	2,420,480,833	1,590,796,977	919,249,479

12.2 OTHER PENDING PAYABLES (See Annex 3C)

Description	Balance b/f 2019/2020	Additions for the year	Paid during the year	Balance c/f 2020/2021
	KShs	KShs	KShs	KShs
Amounts due to Third Parties	382,242,421	260,729,291	610,236,346	32,735,366
Total	382,242,421	260,729,291	610,236,346	32,735,366

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13. 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	Status: (Resolved / Not Resolved)	Timeframe:
1	<p>Pending Bills-Goods & Services As disclosed in Annex 2A in the financial statements, the Project Management contracted works and services amounting to KShs. 12,086,419,352. The amounts certified as payable amounted to KShs. 7,399,029,428 out of which KShs 7,309,463,940 was paid leaving pending bills of KShs 89,565,488. The unpaid bills are likely to result in penalties or litigation and related legal expenses, which are wasteful expenditure.</p> <p>Long outstanding wayleave compensation As disclosed in Annex 2B, the expected compensation to landowners amounted to KShs 4,248,570,720 for wayleaves acquired since inception of the project in February 2016. The amounts certified as payable totalled to KShs 2,733,219,860 of which KShs 2,350,977,439 was paid leaving a balance of KShs 382,242,421. Management attributed failure to pay the amount to lack of budgetary allocation from the National Treasury and lengthy land valuation negotiations due to absentee landowners and various court injunctions.</p>	<p>The balances outstanding as at 30th June 2020 was attributable to outstanding invoices for services received but which have subsequently been paid.</p>	Tom Imbo GM Finance	In progress	FY 2021/2022
2	<p>Long outstanding wayleave compensation As disclosed in Annex 2B, the expected compensation to landowners amounted to KShs 4,248,570,720 for wayleaves acquired since inception of the project in February 2016. The amounts certified as payable totalled to KShs 2,733,219,860 of which KShs 2,350,977,439 was paid leaving a balance of KShs 382,242,421. Management attributed failure to pay the amount to lack of budgetary allocation from the National Treasury and lengthy land valuation negotiations due to absentee landowners and various court injunctions.</p>	<p>The slow wayleaves compensation is occasioned by insufficient documentation from certified landowners for the grant of easement registration in acquiring the right of way. The project did not receive adequate allocation from the National Treasury. The Covid 19 disruptions from March to June 2020 also affected the wayleaves acquisition process especially in the last half of the year under review. Travel restrictions and closure of county lands registries also had an adverse effect.</p>	Tom Imbo GM Finance	In Progress	FY 2021/2022

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe:
3	<p><u>Budgetary Performance and Control</u> The Project budgeted to receive a total of KShs.2,232,000,000 as transfers from government entities and loans from external development partners, but received a total of KShs 2,037,637,514, resulting to a budget shortfall of KShs 194,362,486 or 9% . Similarly, the Project budgeted to spend a total of Kshs1,861,527,974 on purchase of goods and services and acquisition of non-financial assets but spent KShs. 214,277,661 resulting to an under absorption of KShs 370,472,027 or 17%.</p> <p>The reported under funding and under absorption of the Project's budget may have resulted in delayed implementation of planned Project's activities and achievement of the objectives.</p>	<p>We anticipate that with the easing of restrictions brought about by the pandemic and the interventions by the County administration, the balances will reduce. However, inadequate budgetary allocation is still a limitation in reducing the balances.</p> <p>Performance against budget was affected by travel restrictions in the later half of 2019/2020 brought about by Covid-19 containment measures announced by the government. External financing uptake was also low as all our contractors ceased operations by reason of force majeure due to Covid-19 containment measures.</p>	Tom Imbo GM Finance	In Progress	FY 2021/2022
4	<p><u>Automation of the Financial Reporting Process</u> Review of the financial reporting process for the Project revealed significant manual intervention. Whereas the subledgers are extracted from SAP through the Business Intelligence Reporting Module, the processing of the trial balance and financial statements is done manually on excel. Consequently, the manual intervention may result in errors in the Project financial statements.</p>	<p>The Company is in the process of fully automating the projects reporting system (Project services module in SAP) and Integrating SAP with Integrated Location Intelligence System (ILIS)</p>	Tom Imbo GM Finance	In progress	FY 2021/2022

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (<i>Resolved / Not Resolved</i>)	Timeframe:
		this will ensure end to end processing of project financial information in the system and reporting. The implementation is currently on-going and is expected to be completed by 31 December 2021			

.....
 Chief Executive Officer
 FCPA Fernandes Barasa, OGW

 Date

.....
 Project Coordinator
 Antony Wamukota

 Date

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14. ANNEXES

ANNEX 1 – VARIANCE EXPLANATIONS – COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget	Actual on Comparable Basis	Budget Utilisation Variance	Comments on Variance	% of Utilisation	
					KShs	KShs
Receipts During the Year						
Transfer from Government entities	1,600,000,000	1,300,000,000	(300,000,000)	(i)	(19%)	
Loan from external development partners	3,467,559,158	1,473,800,416	(1,993,758,742)	(ii)	(57%)	
Funding from KETRACO	-	1,446,813,110	1,446,813,110	(iii)	>100%	
Total Receipts	5,067,559,158	4,220,613,526	(846,945,632)		26%	
Payments During the Year/Period						
Purchase of goods and services	500,000,000	304,863,692	195,136,308	(iv)	39%	
Acquisition of non-financial assets	4,567,559,158	4,221,011,873	346,547,285	(v)	8%	
Total Payments	5,067,559,158	4,525,875,565	541,683,593		11%	

Explain all variances (% of utilization) below 90% and above 100%

Explanation:

- (i) The negative variance of KShs 300 million on the government funding is attributed to the final disbursement from exchequer for FY 2020/2021 received in July 2021.
- (ii) The negative balance in External financing is a reflection of outstanding unpaid contractors invoices at the end of the period.
- (iii) These are transfers from KETRACO to fund project activities. The project did not receive adequate budget allocation from Treasury
- (iv) & (v) The positive variance is due to outstanding unpaid contractors' invoices at the end of the period at various stages of vetting

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ANNEX 3A - ANALYSIS OF PENDING BILLS

Supply of Goods or Services	Original Amount	Date Contracted	Amount for certified work to-date	Amount Paid To-Date	Outstanding Balance		Comments
					2021	2020	
	KShs		KShs	KShs	KShs	KShs	
	a	b	c	d=a-c			
Construction of civil works							
KALPATARU	8,151,158,799	03/02/2016	6,471,976,853	5,687,189,305	784,787,548	-	
NARI Group Corporation & CCCE LOT 2	2,111,634,084	15/02/2016	1,462,690,650	1,332,065,803	130,624,847	4,929,729	
Sieyuan & NEIE	1,784,932,309	16/02/2016	1,431,859,839	1,431,859,839	-	-	
Sub-Total	12,047,725,192		9,366,527,342	8,451,114,947	915,412,395	4,929,729	
Supply of services							
JV of Nippon Koei Philkoei UK and Gibb International	660,135,679	09/12/2011	572,729,728	568,892,644	3,837,084	84,635,759	
Sub-Total	660,135,679		572,729,728	568,892,644	3,837,084	84,635,759	
Grand Total	12,707,860,871		9,939,257,070	9,020,007,591	919,249,479	89,565,488	

ANNEX 3C - ANALYSIS OF OTHER PENDING PAYABLES

Name	Brief transaction description	Original amount	Date payable contracted	Amount for certified work to-date	Amount paid to-date	Outstanding balance	
						2021	2020
		a	b	c	d	e=c-d	
		KShs		KShs	KShs	KShs	KShs
Amounts due to third parties							
Project affected persons	Wayleaves compensation	5,129,681,890	2015-2021	2,993,949,151	2,961,213,785	32,735,366	382,242,421
Total		5,129,681,890		2,993,949,151	2,961,213,785	32,735,366	382,242,421

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ANNEX 4– SUMMARY OF FIXED ASSET REGISTER

Asset class	Opening Cost	*Purchases/additions in the year	Closing Cost
	KShs	KShs	KShs
	1 July 2020	2020/2021	30 June, 2021
	(a)	(b)	(d)= (a)+ (b)-(c)
Infrastructure Assets Powerline Transmission Equipment	<u>10,198,407,527</u>	<u>4,221,011,873</u>	<u>14,419,419,400</u>
Total	<u>10,198,407,527</u>	<u>4,221,011,873</u>	<u>14,419,419,400</u>

Notes

* Purchases/Additions in the year reconciled to the amount in Statement of Receipts and Payments

10/10/10

10/10/10

10/10/10

10/10/10

10/10/10

10/10/10

10/10/10