

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

*Paper laid by
leader of Majority
Party
Tuesday
14/8/2018
Agh*



REPORT

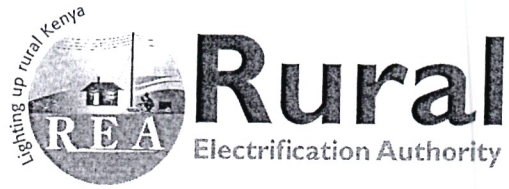
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
RURAL ELECTRIFICATION
AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2017**



RURAL ELECTRIFICATION AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

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

| Table of Contents | Page |
|--|-------------|
| I. KEY AUTHORITY INFORMATION AND MANAGEMENT | 2 |
| II. BOARD OF DIRECTORS..... | 6 |
| III. MANAGEMENT TEAM..... | 14 |
| IV. CHAIRMAN’S STATEMENT..... | 17 |
| V. REPORT OF THE CHIEF EXECUTIVE OFFICER..... | 19 |
| VI. CORPORATE GOVERNANCE STATEMENT..... | 21 |
| VII. MANAGEMENT DISCUSSION AND ANALYSIS-Planning | 29 |
| VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT | 32 |
| IX. REPORT OF THE DIRECTORS | 33 |
| X. STATEMENT OF DIRECTOR’S RESPONSIBILITIES..... | 34 |
| XI. REPORT OF INDEPENDENT AUDITORS ON RURAL ELECTRIFICATION AUTHORITY..... | 36 |
| XII. STATEMENT OF FINANCIAL PERFORMANCE..... | 38 |
| XIV. STATEMENT OF CASH FLOWS | 41 |
| XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS | 42 |
| XVI. NOTES TO THE FINANCIAL STATEMENTS | 43 |
| I. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS | 73 |
| II. Appendix 1: PROJECTS IMPLEMENTED BY THE ENTITY | 75 |
| III. Appendix 2: INTER-ENTITY TRANSFERS..... | 76 |
| IV. Appendix 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES..... | 79 |

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

| No. | Designation | Name |
|------------|---|-----------------------|
| 1 | Chief Executive Officer | Ng'ang'a Munyu |
| 2 | Ag. Chief Executive Officer | CPA Peter Mbugua |
| 3 | Authority Secretary & Head Legal Department | CS. Dr. Rose Mkalama |
| 4 | Ag. Manager Finance | CPA Margaret Gichana |
| 5 | Manager Procurement & Supplies | Wilfred Oduor |
| 6 | Manager Human Resources & Admin | Elizabeth Onoka |
| 7 | Chief Manager Operations | Eng. Esther Ruto |
| 8 | Chief Manager Design | Eng. David Rogoncho |
| 9 | Renewable Energy | Eng James Muriithi |
| 10 | Manager ICT | Eric Jaoko |
| 11 | Manager Internal Audit | CPA. Joan Riitho |
| 12 | Manager Planning | CPA. Francis Mutua |
| 13 | Chief Manager R & D | Eng. Ephantus Kamweru |
| 14 | Manager Communications | Wangari Githii |

e) Fiduciary Oversight Arrangements

The oversight for financial management is vested in the three Board Committees as discussed below;

Audit Committee

The Audit Committee is basically the watchdog for the Authority. It ensures that all the systems in the Authority are functioning properly. The main terms of reference as provided for in the Board manual are as follows;

- (i) Support the Board of Directors in reviewing the effectiveness of the Authority's processes of Corporate Governance;
- (ii) Review the annual financial statements and consider whether they are complete, consistent and reflect appropriate accounting principles and make appropriate recommendations for necessary action;
- (iii) Recommending financial statements to the Board for approval before submission to the Controller and Auditor General for audit;
- (iv) Review the result of the audit on the financial statements by the External Auditor or any other inspector or investigator engaged by REA;
- (v) Consider the effectiveness of the REA internal control systems established by management to ensure compliance with policies, laws and regulations;
- (vi) Review the risk management framework and assess policies and controls developed by Management for risk assessment and risk management;
- (vii) Review and approve the internal audit plan, charter and manual.

- (viii) Review the activities, organizational structure and qualifications of the internal auditors;
- (ix) Assess managements' action on significant findings and audit recommendations and ensure that action taken is adequate to maintain the integrity of the financial systems.

In addition to the Terms of Reference, the committee also has an Audit committee Charter that defines how they are supposed to execute their responsibilities.

Finance Committee

The committee is responsible for Financial Management and proper resource allocation in the Authority. The Terms of reference of the committee are as follows;

- (i) Develop and recommend to the Board the Authority's Annual Budget;
- (ii) Develop, review and approve major changes in the Authority's accounting policies;
- (iii) Oversee the preparation of year-end financial statements of the Authority;
- (iv) Develop strategies aimed at achieving financial sustainability for the Authority;
- (v) Consider and recommend to the Board Banking facilities and Authority levels;
- (vi) Ensure proper financial management systems are in place;
- (vii) Develop a financial monitoring system for the Organization

Procurement Oversight Committee

The overall responsibility of the committee is to ensure that the annual procurements undertaken by Management are able to support the annual business plans for the Authority. The Terms of Reference are provided for in the Board manual and are summarized as follows;

- (i) Discuss and propose to the Board the Authority's annual procurement plan for approval
- (ii) Review of the annual procurement plan when need arises.
- (iii) Ensure adherence to the procurement plan
- (iv) Ensure that the Authority's procurement plan is capable of enabling the Authority achieve its mandate.
- (v) Monitor the implementation of the procurement plan to ensure that it conforms to the approved budget.
- (vi) Ensure that procurement reports are submitted to the Board.

f) Authority's Headquarters

Kawi House
Red Cross road
P.O Box 34585-00100

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

NAIROBI

g) Authority's contacts.

Telephone: (254) 709 193 000

E-mail: info@rea.co.ke

Website: www.rea.co.ke

h) Authority's Bankers

The Co-operative Bank of Kenya Ltd
P.O. Box 48231 – 00100
Nairobi Business Centre
NAIROBI

Kenya Commercial Bank of Kenya Ltd
P.O Box 69695-00400
Milimani Branch
NAIROBI

Standard Chartered Bank Kenya Ltd
P.O Box 98683-80100
Kenyatta Avenue Branch
NAIROBI

CFC Stanbic Bank Kenya Ltd.
P.O Box, 72833-00200
Upper Hill Branch
NAIROBI

Equity Bank Kenya Ltd
P.O Box 75104-00200
Equity Centre Branch
NAIROBI

National Bank of Kenya Ltd
P.O Box 38645-00100
South C-Red Cross Branch
NAIROBI

Citi Bank N.A Kenya
P.O Box 30711-00100
Citibank House
NAIROBI

i) Independent Auditors

The Auditor General
Anniversary Towers

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017



P.O Box 30084-00100 GPO,
NAIROBI.




j) Principal Legal Adviser.


CS. Dr. Rose N. Mkalama
Rural Electrification Authority
P.O Box 34585-00100
NAIROBI



II. BOARD OF DIRECTORS



The Board Members who served during the Financial Year 2016/2017 were as follows;



| | | |
|-----------|--|--|
| <p>1.</p> |  <p>Prof. Simon Gicharu (CBS) – Chairman of the Board Of Directors</p> | <p>Dr. Simon N. Gicharu was born in the year 1962.</p> <p>He was appointed as a non-executive chairman of the Authority on 20/05/2015 for a period of three (3) years.</p> <p>He holds a Bachelor of Education Science degree from Kenyatta University, and a postgraduate certificate in Managing Enterprise Development from Cranfield University, Britain. He is also a published author in Mathematics.</p> <p>He has previously served in the Government in a similar capacity at the Geothermal Development Company. He is a career educationist and entrepreneur, and is the founder and chairman of Mount Kenya University, which is Eastern and Central Africa’s largest private institution of higher learning. Dr.Gicharu is also a board member of Thika Water and Sewerage Company and the patron of the Inter-Universities Root Moot Court by the Kenya National Scouts Association.</p> |
| <p>2.</p> |  <p>Dr. Kamau Thugge (EBS, MBS) - Principal Secretary, The National Treasury</p> | <p>Dr. Kamau Thugge is currently the Principal Secretary at The National Treasury. He has previously worked in the Ministry of Finance as Head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor. Before joining the Ministry of Finance he worked with the International Monetary Fund (IMF) as Economist/Senior Economist and Deputy Division Chief.</p> <p>Dr. Thugge holds a Bachelor of Arts (Economics) from Colorado College, USA; a Masters in Economics from Johns Hopkins University, USA; and a Doctor of Philosophy in Economics, also from John Hopkins.</p> |


| | | |
|----|---|--|
| 3. |  <p>Dr. Eng. Joseph Njoroge (MBS) - Principal Secretary, Ministry of Energy & Petroleum</p> | <p>Dr. Eng. Joseph K. Njoroge is the Principal Secretary, Ministry of Energy & Petroleum. Before joining the Ministry, he worked in Kenya Power as the Managing Director. He has wide range of experience in power engineering and management of the power sector, having joined Kenya Power in 1980 and serving in various senior positions prior to his appointment as the Principal Secretary, Ministry of Energy & Petroleum.</p> <p>Dr Eng is a holder of a PhD in Business Administration and a BSC in electrical Engineering</p> |
| 4. |  <p>Franklin Mutuma Nkanata</p> | <p>Mr. Franklin Mutuma Nkanata was born in the year 1973</p> <p>He was appointed to the Rural Electrification Authority Board as an independent director on 17th April 2015 for a period of three (3) years. He chairs the Strategy and Project implementation committee and is also a member of the Human Resource Committee of the Board.</p> <p>He has worked in senior management positions in both the Private and Public sector through which he gained a wide experience in Strategic Management, Project Management and administration, capacity building, and performance management among others.</p> <p>He holds a Master of Arts degree in International studies from the Institute of Diplomacy and International studies and a Bachelor of Education Arts, literature and Linguistics from University of Nairobi.</p> |
| 5. |  <p>Eng. Elisha Akech</p> | <p>Eng. Elisha Akech was born in the year 1973.</p> <p>He was appointed to the Rural Electrification Authority Board as an independent director on the 17th April 2015 for a period of three (3) years. He chairs the Procurement Oversight committee and is also a member of the Human Resource Committee of the Board.</p> <p>He is a practicing consulting civil engineer of over 17 years' experience. He has a private sector business management experience</p> |

| | | |
|----|---|---|
| | | <p>mainly in the infrastructural development sector in the areas of transportation, housing and water resources from planning, design and construction management</p> <p>He holds BSc. Civil Engineering (JKUAT), MSc. Safety Engineering (WIU), MSc. Climate Change Science (UoN) and a PhD. in Business Administration (WIU). He is a registered consulting engineer with Engineer's Board of Kenya (EBK). He is a corporate Member of Institution of Engineers of Kenya (MIEK) and is a registered water resource professional (Ministry of Water & Irrigation).</p> |
| 6. |  <p>Francis M. Ongaki</p> | <p>Mr. Francis M. Ongaki was born in the year 1958.</p> <p>He joined REA as an alternate director to the Principal Secretary, Ministry of Energy and Petroleum on the 17th day of July 2015.</p> <p>He sits in the Finance and Strategy and Project implementation Committees of the Board.</p> <p>He is the Senior Deputy Secretary (SDS) in the Ministry of Energy and Petroleum. Prior to this appointment, he was the alternate director at the Kenya Pipeline Company (KPC).</p> <p>Mr. Ongaki is a career administrator with 32 years of experience having joined the Civil Service in 1983 as a District Officer. Since then he has served in the Office of the President as Senior Assistant Secretary, Under Secretary and Deputy Secretary and has also worked in the Ministry of East African Community as well as the then Ministry of Lands. From his experience and background, Mr. Ongaki has a wealth of knowledge in Policy Formulation, Financial Management, Corporate Governance and Strategic Leadership Development.</p> <p>Mr. Ongaki holds a degree in Public and Development Administration and is currently pursuing a Master's degree in Disaster Management at the University of Nairobi</p> |

| | | | |
|----|--|--|--|
| 7. |  | <p>Mrs. Josephine Waceke Muritu</p> | <p>Mrs. Josephine Waceke Muritu was born in the year 1974. She was appointed to the Rural Electrification Authority Board as an independent director on 17th April 2015 for a period of three (3) years. She chairs the Finance committee of the board and is also a member of the Procurement Oversight Committee. She is the Senior Legal Counsel, in charge of legislative drafting, Conveyancing and Contract negotiations in the County Government of Kiambu. She holds Bachelor of laws degree (LLB) from University of Nairobi, Diploma in Laws from Kenya School of Law and she is currently pursuing a Master Degree in Organizational Leadership from Africa International University, Kenya. Mrs. Muritu is a member of the Law society of Kenya and an Advocate of the High Court of Kenya</p> |
| 8. |  | <p>Eng. Otwani, Justus Aufridus</p> | <p>Eng. Otwani Justus Ofridus was born in the year 1972. He was appointed to the Rural Electrification Authority Board as an independent director on 17th April 2015 for a period of three (3) years. He is the chairman of the Human Resource committee and is also a member of the Strategy and project implementation committee of the Board. Eng. Otwani has a wealth of working experience in Civil Engineering spanning over 18 years gained in Kenya and Southern Sudan. He has successfully undertaken several design and construction supervision projects working in various positions of responsibility. He was the Resident Engineer on the upgrading of General Waruinge and Eastleigh First Avenue roads project in Nairobi from single to dual carriageway and the Project Director for the design and construction supervision of upgrading and automation works at the Athi River and Mariakani Axle Load Control Stations. He has also worked as a Drainage/Structural Engineer and as a Highway Engineer on many high profiled projects in both Kenya and South Sudan. Eng. Otwani is currently the Project Team Leader and Resident Engineer on the Meru Eastern and Western bypass roads</p> |

| | | |
|-----|---|---|
| | | <p>project.</p> <p>He holds a Master’s Degree in Project Planning and Management, a Bachelor of Science Degree in Civil Engineering from JKUAT and is currently pursuing a Master of Science Degree in Civil Engineering (Transportation Planning) at Nairobi University.</p> |
| 9. |  <p>Prof. Bernard Kipsang Rop</p> | <p>Prof . Bernard Kipsang Rop was born in the year 1955.</p> <p>He was appointed to the Rural Electrification Authority Board as an independent Director on 17th April 2015 for a period of three years. He sits in the Strategy and Project implementation committee and also the Audit committee of the Board.</p> <p>Prof. Rop wields over 27 years’ experience in mining and energy programs. He is currently a Senior Lecturer and Chairperson, Department of Mining, Materials and Petroleum Engineering at Jomo Kenyatta University of Agriculture & Technology (JKUAT). Dr. Rop is also a prolific researcher and author and has published several books and academic papers in internationally refereed journals. He is also a Registered Geologist and Registered Lead Expert (NEMA).</p> <p>Dr. Rop is a renowned academician, researcher, consultant and leader (former Commissioner of Mines and Geology). He holds BSc, MSc and PhD degrees in Petroleum Engineering Geology</p> |
| 10. |  <p>Jonas M. V. Kuko</p> | <p>Mr. Jonas Kuko MistoVincent was born in the year 1960.</p> <p>He was appointed to the Rural Electrification Authority Board as an independent Director on 17th April 2015 for a period of three (3) years. He is the chair of the Audit committee and a member of the Procurement Oversight Committees of the Board.</p> <p>He has a wealth of knowledge and experience in the public sector having worked in the ministry of Agriculture in senior positions for a period spanning 28 years. He has also so served as principal of the Agricultural Training Centre.</p> <p>He holds a Bachelor of Science Degree in Agriculture from Egerton University, Diploma in Farm Management from Egerton University</p> |

| | | |
|-----|---|--|
| | | and Certificate in General Agriculture. |
| 11. |  <p>Mrs. Florence Jematiah Sergon</p> | <p>Mrs. Sergon was born in the year 1980.</p> <p>She was appointed to the Rural Electrification Authority Board as an independent Director on 2nd October 2015 for a period of three (3) years. She is a member of Strategy and Project implementation and the Finance Committees of the Board.</p> <p>She has vast experience in the health and public sector. She has also worked as a private dental practitioner as a consultant and advisor in Political Affairs in United Republican Party (URP) for 3 years dealing with political programmes, party elections, empowering youth and women who engage in political matters.</p> <p>She holds a Bachelor of Arts degree in political science and sociology from the University of Nairobi and she is currently pursuing her Master’s degree in International Relations (Foreign Policy) at the University of Nairobi. She also has a diploma in Dental Technology from a medical college.</p> |
| 12. |  <p>Prof. Robert G. Gateru</p> | <p>Prof. Robert Gateru was born in the year 1974.</p> <p>He was appointed to the Rural Electrification Authority Board as an independent Director on 2nd October 2015 for a period of three (3) years. He is the Chairman of the Audit Committee and also a member of the Human Resource Committee of the Board..</p> <p>He is a seasoned academic, with over 10 years teaching and administration experience in various universities; he serves on a number of Boards, including Rural Electrification Authority, LIWA (Linking Industry With Academia) Kenya Trust and the Rift Valley Institute of Science & Technology. He is a Fellow of the Cambridge Commonwealth Society, a Senior Member of the Institute of Electrical & Electronic Engineer (IEEE), which</p> |

| | | |
|-----|---|--|
| | | <p>is the world’s largest technical professional association. He is also a Founding Member of the Physics Society of Kenya where he serves in the Executive Committee. He has served in the Editorial Board of the International Journal of Professional Practice and Chaired many Conference Steering Committee</p> <p>He is a holder of PhD in Microelectronic Engineering & Semiconductor Device Physics from the University of Surrey (UK), Masters in Microelectronic Engineering & Semiconductor Device Physics from the University of Cambridge (UK) and BSc. in Physics from the University of Nairobi.</p> |
| 13. |  <p>Mr. David Ntirania Oleshege, OGW</p> | <p>Mr. Oleshege was born in the year 1967.</p> <p>He was appointed to the Rural Electrification Authority Board on 14th October 2015 as an Alternate Director to the Principal Secretary, the National Treasury. He is a member of the Finance and Audit committees of the Board.</p> <p>He has experience spanning over 16 years having held in various positions in the Public Sector. He is currently the Director of Administration at the National Treasury.</p> <p>He holds a Bachelor of Education degree from Moi University and a Master’s degree in Arts, Peace and conflict Management, Kenyatta University.</p> |

III. MANAGEMENT TEAM

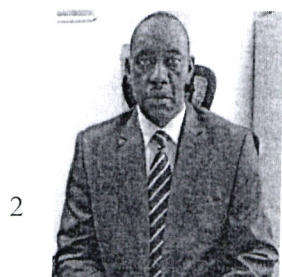


Ng'ang'a Munyu
Chief Executive Officer

Ng'ang'a Munyu assumed the position of Chief executive officer on 4th May 2015 a position he held until 27th March 2017. He is in-charge of all operations of the Authority.

He worked with REA as HOD corporate Planning and prior to this he was head of planning at the ministry of energy.

He holds a Masters Degree in energy and a degree in Economics



CPA Peter Mbugua
Ag. Chief Executive Officer

CPA Peter Mbugua assumed the position of Ag CEO on 27th March 2017. Prior to that he was Manager Finance from 1st September 2016.

He holds an MBA (Finance) and a Bachelor of Commerce (B.COM) Hons

He has worked with Telkom Kenya as head of treasury and assistant manager

A CPA (K), Peter has been an active member of the Institute of Certified Public Accountants of Kenya (ICPAK). He is also a member of The Institute of Certified Public Secretaries of Kenya (ICPSK).

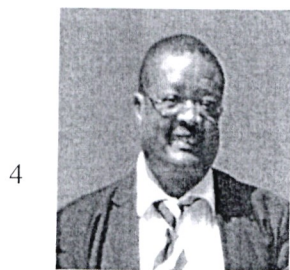


Dr. Rose N. Mkalama
Company Secretary

CS Dr Rose Ndanu Mkalama assumed the position of Authority in August 2008.

Dr Mkalama is charged with the responsibility of being the Secretary to the Board of Directors and head of Legal department. Her responsibilities are ensuring that the interests of the Authority are safe guarded and that the Authority has the required good governance structures in place.

She holds a PhD in Business Administration (Strategic Management), a Masters of Business Administration and a Bachelor's degree in Laws all from the University of Nairobi. Kenya She is also a Certified Utility Management Specialist from Water Engineering and Development Centre of the University of Loughborough in the United States of America, an advocate of the High court of Kenya and a Certified Public Secretary of Kenya form the Institute of Certified Secretaries of Kenya (ICPSK).



Eng. David Rogoncho
Chief Manager Design

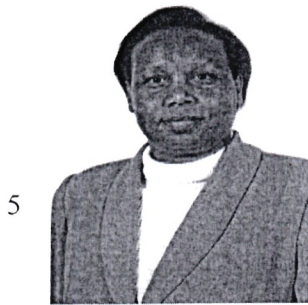
Eng. David Rogoncho has held the position of Chief Manager Design since July 2008.

His main duties are to Design of all projects for REA in readiness for construction.

He holds a Masters in Business Administration from Management Africa

University, Bachelor of Science in Electrical Engineering (Power Option) and

Registered Engineer with the Engineers Registration Board of Kenya.



Eng. Esther C. Ruto
Chief Manager
Construction

Eng. Esther Chelangat Ruto assumed the position of Chief Manager Construction in Rural Electrification Authority in July 2016.

She is in charge of implementation and monitoring of all grid connected projects requiring electricity, and managing the resources within the construction department.

She holds a Master of Science in Energy Management and a Bachelor of Science degree in Electrical Engineering, from University of Nairobi, Kenya.

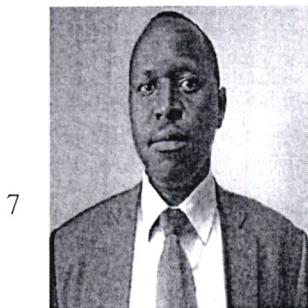


Eng. Ephantus
Kamweru
Chief Manager R & D

Eng Ephantus Kamweru assumed the position of Head of Research & Development in August 2015.

He is in charge of Research & material standards.

He holds a Master of Science Degree in Entrepreneurship from Jomo Kenyatta University of Agriculture & Technology and Bachelor of Science Degree of the University of Nairobi. He is a registered Engineer and licensed Technician (A1)



CPA Francis Mutua
Chief Manager Corporate
Planning

CPA, CS Francis Mutua assumed the position of Chief Manager, Corporate Planning in September 2016.

He is in charge of updating the Rural Electrification Masterplan, implementation of the Authority 5 Year Strategic Plan, Award of Construction contracts, data management and monitoring and evaluation of projects.

He holds an MBA (Finance) and a Bachelor of Commerce (B.COM) Hons. from the University of Nairobi. Certified Public Accountant CPA (K), Certified Secretary of Kenya (ICPSK), a Graduate of the World class Advanced Management Program (AMP) Strathmore Business School. He is currently pursuing PhD Degree in Business Administration at JKUAT



Elizabeth Onoka
Manager Human
Resource &
Administration

Elizabeth Onoka assumed the positions of Manager, Human Resource and Administration in 15th April 2008.

She is in charge of recruitment, management of human resource and maintenance and repairs of office. She has over 15 years' experience in human resource.

She holds a Masters in Education (planning and Administration), Bachelor of education From the University of Nairobi. Elizabeth is a member of Institute of Human resource management, in addition she holds a diploma in human resource management



Eng. James Muriithi
Manager Renewable
energy

Eng. James Muriithi assumed the position of Manager Renewable Energy in July 2015. His responsibility is to formulate, develop and align Renewable Energy polices with the laws of Kenya and Corporate strategies & policies, plan, coordinate and program the implementing of the renewable projects as approved by Board.

He is a holder of Master of Science (Renewable Energy Technology), Kenyatta University, Bachelor of Science in Mechanical Engineering, University of Nairobi, Registered Engineer and Member of Institute of Engineers of Kenya



Eric E. Jaoko
Manager ICT

Eric Jaoko assumed office in 15th April 2008.

He is in charge of developing and implementing ICT plans, policies and procedures that support operations in the authority. He holds a bachelor of science in Computer Engineering



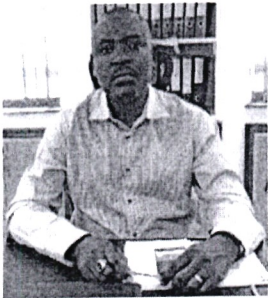
Wangari Githii
Manager
Communications

Wangari Githii assumed the position of Manager Communications in 2008.

She holds a BA (Hons) and a diploma in journalism.

She is also a member of the Public Relations Society of Kenya.

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017



12

Wilfred Oduor
Manager Procurement & Supplies

Wilfred Oduor assumed office in 15th April 2008. He holds a Bachelor of Commerce (B.COM-) Hons. From Kenyatta University and a member of chartered institute of purchasing and supply (CIPS)



13

CPA Joan Riitho
Manager Internal Auditor

CPA Joan Riitho assumed the position of Manager Internal Audit in 21st August 2008. She is in charge of internal audit strategies, plans, policies procedures and systems and policies. She holds an MBA and a Bachelor of commerce (B.COM) Hons. From the University of Nairobi. A CPA (K), Joan has been an active member of the Institute of Certified Public Accountants of Kenya (ICPAK) for the last 12 years. He is a member of The Institute of Certified Public Secretaries of Kenya (ICPSK).



14

CPA. Margaret A. Gichana
Ag. Manager Finance

CPA Margaret A Gichana assumed the position of Ag. Finance Manager in April 2017. She is in charge of accounting and Financial reporting, Budgeting as well as designing, implementing and Monitoring internal control relevant to the preparation & fair presentation of the financial statements. She holds Masters in Business Administration in (Strategic Management / Finance) from University of Nairobi, Bachelor of Commerce -Finance option Certified Public Accountant (CPA. K), Advanced Diploma in Procurement & Supply (CIPS). She is currently Pursuing Doctor of Philosophy (PhD) in Business Administration at University of Nairobi.

IV. CHAIRMAN'S STATEMENT

Introduction

On behalf of the Board of Directors, I am pleased to present the Annual Report and Financial Statements for Rural Electrification Authority for the year ended 30th June 2017.

Electrification of Primary Schools and the Last Mile Programme

During the year under review, the Authority's focus was on the electrification of primary schools and installation of extension transformers under the last mile programme. As at 30th June 2016, a total of 615 schools were un-electrified, another 487 primary schools were identified during the year bringing the total to 1,102 all of which were electrified during the year. Towards the end of the year, a further 237 schools were identified and this balance is expected to be completed during the 2017/18 FY alongside other public facilities that were not electrified before.

Under the Last Mile Constituency Transformers programme, REA installed extension transformers and maximized them by connecting customers within their vicinity. A total of 466 transformer projects had been identified and 216 started. They will be completed in the course of 2017/8.

Financial Performance


The Authority received a total of Ksh.13.8 Billion during the year under review out of which Ksh.12.4 Billion was funded by the GOK and the balance of Ksh.1.6 Billion was raised through donor funds, partnerships with counties, constituencies as well as generated internally. These receipts were used to fund the recurrent (4%) and development expenditure (96%).

Future Prospects

The Authority remains committed to the continued electrification of the rural population. Going forward, particular attention will be given to the use of renewable energy from solar, wind and other sources.

Appreciation

I wish to thank my colleagues in the Board for their support and the staff of the Authority for their efforts during the year that has ensured that the Authority meets its objectives. In addition, I wish to thank the Government for its continued support to REA during the year



Dr. SIMON GICHARU, CBS
CHAIRMAN

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

Introduction

Electrification of Primary Schools

A preliminary survey undertaken by the Rural Electrification Authority (REA) in May and June 2013 showed that there were about 21,222 public primary schools across the country. The level of electrification of the schools was as follows;

| | | |
|-----------------------------------|---|---------------|
| Number of schools electrified | - | 10,157 |
| Number of schools not electrified | - | <u>11,065</u> |
| Total | - | 21,222 |

Based on this data, the target set at the beginning of 2013/14 was to electrify 5,000 and 6,065 public primary schools in 2013/14 and 2014/15 financial years, respectively.

REA has continued to update the data on public primary schools through consultation with stakeholders and currently the total number stands at about 23,825. The update has also revealed that the number of primary schools electrified by 30th June 2013 was about 7,591 and not 10,157. Currently a total of 23,588 public primary schools have been electrified while 237 are in progress as shown below;

| STATUS | MODE OF POWER SUPPLY | NO. OF SCHOOLS | | PERCENTAGE |
|-------------------------|-----------------------------|-----------------------|---------------|-------------------|
| Electrified | Grid | 19,185 | 23,588 | 99% |
| | Solar | 4,403 | | |
| Not electrified* | Major works completed - | 32 | 237 | 1% |
| | Grid | 167 | | |
| | Solar | 38 | | |
| Total | | | 23,825 | 100% |

Last Mile project

REA's Last Mile projects involve extending short HT lines and mounting a transformer or mounting a transformer online and maximizing it (connecting customers within its vicinity) under the Constituency Transformers programme. A total of 466 transformer projects had been identified in 170 constituencies. Out of those identified, 216 projects were in progress by end of June 2017 and will be completed in the course of 2017/8.

Financial Performance

The Authority continues to pursue prudent financial management policies as attested to by the financial results herein. As highlighted by the Chairman, out of the total receipts of 13.8 Billion during the year, 96% was channeled to capital expenditure while a paltry 4 % was utilized on recurrent expenditures.

Customer Focus

During the year, the Authority continued its efforts towards ensuring the customer needs were continuously identified and met. The results of the internal ISO quality audits reflect positively on the Authority's intent to ensure that its customers and other stakeholders are aware of the Authority's procedures and systems and have access to the pre-defined mechanism of channeling their concerns.

Our Employees

Our staffs remain the greatest asset of the Authority. The Authority will continue to build on the commitment of the staff through facilitating continuous professional development as well as structured remuneration to ensure that they remain motivated in line with the Authority's staff retention policy.

Future Outlook

REA's target is to electrify all the remaining un-electrified main public facilities and households within their vicinity by the end of 2020/21 financial year. This will be done alongside the last mile projects launched by His Excellency the President in May 2015

Appreciation

I wish to salute the selfless, committed, passionate and dedicated staff who worked round the clock to ensure that they at all times achieve and even surpass set targets. Any form of achievement can only be made through commitment, hard work and self-sacrifice. My sincere gratitude also goes out to the Rural Electrification Authority Board of Directors for the continued support accorded to us throughout this process. We are also indebted to the Government and the Ministry of Energy for their support that has ensured successful implementation of the Authority's mandate



CPA PETER MBUGUA
CHIEF EXECUTIVE OFFICER

VI. CORPORATE GOVERNANCE STATEMENT

Introduction

The Rural Electrification Authority (REA) was established under Section 66 of the Energy Act No. 12 of 2006. The Authority's mandate is set out under section 67 of the Act which states that the Authority is set up to:

- a) Manage the Rural Electrification Programme Fund;
- b) Develop and update the rural electrification master plan;
- c) Implement and source additional funds for the rural electrification programme;
- d) Promote the use of renewable energy sources;
- e) Manage the delineation, tendering and award of Contracts for licenses and permits for rural electrification;
and
- f) Perform such other functions as the Board may direct.

Corporate Governance Practices

Corporate governance refers to the manner in which the power of any organization is exercised in the stewardship of the organization's total portfolio of assets and resources with the objective of maintaining and increasing the satisfaction of the stakeholders, in the context of the corporate Vision and mission. The Board of directors and Management of REA acknowledge that the Authority, as an agent of Government, manages public funds while electrifying rural areas which require a high degree of accountability. In order to achieve its mandate, and to properly report back to the owners on how well it has utilized public resources, the Authority has developed and embraced the ethos of good corporate governance. To this end, the Authority has taken deliberate measures to ensure that levels of governance in the Authority are in line with accepted good governance standards. The main corporate Governance practices and structures are set out in this statement.

Appointment of Directors

The Board of Directors of the Authority is appointed pursuant to Section 68(1) of the Energy Act 2006. This section also sets out mandatory qualifications that individuals must possess to qualify for appointment as directors. The chairman is appointed by the President of the Republic of Kenya to serve for five (3) years and may be re-appointed for one further term of three (3) years. Directors are appointed by the Minister of Energy for a three (3) year term but can subsequently be re-appointed for a further term of three years.

The Board consists of eleven (11) directors. Two are drawn from Government that is, the Permanent Secretary, Ministry of Energy and the Permanent Secretary, Ministry of Finance. The chairman of the Board and the other

eight (8) directors are drawn from both the private and public sector. This provides the necessary mix of skills experience and expertise to the Board that are required to propel the Authority towards meeting its Legal mandate of electrifying rural areas which will eventually spur economic and social development in the country.

Interfaces between the Authority and Government

The Authority is a State Corporation pursuant to the State Corporations Act. It is a body corporate, governed by the principles of Corporate Governance but being a State Corporation established by an Act of Parliament, it does not have shareholders as defined in the Companies Act, Chapter 486. The equivalent to shareholders is the Government, which under the State Corporations Act, has the ultimate legal authority over State Corporations. To ensure proper linkages with Government and proper information flow, the Permanent Secretary, Ministry of Finance and the Permanent Secretary, Ministry of Energy are Board members while the Inspector General (Corporations), Inspectorate of State Corporations, attends Board and Committees meetings on invitation. The three are able to give policy direction to the Board to ensure decisions made by the Board are in tandem with Government policy. The Board also, in keeping with Government policy, consults widely with Treasury and the State Corporations Advisory Committee (SCAC) through the parent ministry from time to time and is keen to implement guidelines that are issued by Government from time to time through circulars.

Board Manual, Board Charter and Code of Ethics

The Board acknowledges that it is the custodian of good corporate governance in the Authority, and it has the responsibility to ensure that proper Governance Structures are developed and properly implemented to this end, it has put in place structures both at the strategic and operational level to support good corporate governance in the Authority. At the operational level, all systems and procedure manuals are in place and are continuously monitored through the various Board Committees. In order to guide its business, the board operates in accordance with the principles set out in its Board manual, Board Charter and Code of ethics and conduct.

Board Manual

This is a reference guide for Directors of the Authority. It seeks to expound and explain the collective and individual powers, duties, obligations, responsibilities and liabilities of Directors. It also highlights the requirements of good Corporate Governance which are necessary to bring the standards of Corporate Governance in the Authority up to International best practice. Specifically the Board Manual clearly spells out the roles and duties of the Chairman, Directors, CEO and Management ; the liabilities of directors; the interface between the Government and the Authority; procedures and conduct of meetings; terms of reference of various Board committees ;capacity building of Directors and evaluation of the performance of Directors. The Manual also elaborates the key tenets of Corporate Governance.

Board Charter

The Charter seeks to facilitate the effectiveness of each Director's contribution, consistent with the standards of independent judgement, ethics and integrity that Directors are expected to observe as they provide leadership in achieving the Authority's mandate as articulated in Section 67 of the Energy Act, 2006. By abiding to the Charter and living the values of the Authority, the Board has committed that it will provide leadership and strategic direction to the staff in achieving the Vision and Mission of the Authority. In summary, the charter covers the following; that Directors shall always act in the interest of the Authority; have commitment to attend meetings and to meaningfully contribute to matters before the Board; uphold the core values of the Authority; observe confidentiality; be committed to Board evaluation at the end of every year; be responsible to all stakeholders including staff and observe proper financial management of the public funds bestowed on them.

Code of Ethics and Conduct for Directors and Staff

A Code of Ethics and Conduct for Directors and staff have been developed and signed by all directors and staff as a demonstration of individual commitment in upholding good corporate governance. The code sets out the ethical rules that govern the conduct of individual Directors and staff which are considered essential in providing guidance and direction in the manner in which members of the Board and staff is expected to conduct themselves when handling matters relating to the Authority.

It is intended to establish standards of ethical conduct and behavior for both the staff and the Board of Directors of the Authority, so as to maintain integrity and impartiality in the provision of services to members of the public. The main areas in the code include; to always uphold good faith and act honestly; to always promote and practice fairness to all stakeholders in the course of executing their mandate; to have integrity and to always declare interest whenever there was an issue related to him/her that is before the Board; upholding confidentiality in matters of Authority that come to their attention by virtue of their positions as staff or directors; not involving themselves in any business transaction with the Authority; not to misuse Authority property; compliance with Authority policies and being sensitive to the customers that they serve.

The Roles and Responsibilities of the Chairman

The Chairman of the Board who served during the year under review was Dr. Simon Gicharu. The Chairman provides the required leadership to the Board and manages the affairs of the Board with the assistance of the Chief Executive Officer. The main duties of the chairman include; Provision of overall leadership to the Board and chairing all board meetings; setting the agenda for meetings in consultation with the CEO and efficiently conducting board meetings; harnessing the collective skills of the board and executive team; creating teamwork among Directors and also between the Directors and Management; ensuring new directors are properly inducted;

encouraging directors to fully participate in board deliberations; overseeing the development of the Board's annual business plan and preparation of the Authority's annual Performance Contracts; ensuring that there are constant strategies for monitoring and evaluating the effectiveness of the Board, the Chairman, individual Directors, senior management and the entire Authority; acting as an informal link between the Board, Management and Government.

The Roles and Responsibilities of the Board

The functions of the Board are strategic in nature in that they provide overall leadership to management to ensure that the Authority is at all times on course in achieving its mandate. The Board of the Authority is mandated to exercise all the powers of the Authority within the framework of the Energy Act and the laws and regulations that regulate State Corporations, in particular the State Corporations Act, Chapter 446. The main functions of the Board include; overseeing the development, implementation, review and monitoring of the Authority's Strategic plan; approval of the Core values, mission and vision; approval of annual budget and monitoring compliance to the Budget; approval of interim Financial statements; approval of all the procedure manuals and systems; setting the terms of service for staff; setting Board Committees; monitoring performance; ensuring that a vibrant risk management system is in place and strictly adhered to; overseeing the development of staff policies; development and implementation of a capacity programme for the directors. The Board may, by resolution either generally or in any particular case, delegate to any committee of the Board or to any member, officer, employee or agent of the Authority, the exercise of any of the functions or duties of the Board

The Directors who served during the year under review were Dr. Simon Gicharu (Chairman), Eng. Joseph Njoroge (PS, MOE), Eng. Francis M. Ongaki (Alternate to PS-MOE), Dr. Kamau Thugge (PS, National Treasury), Mr. David Oleshege. (Alternate PS, Treasury) Mr. Franklin Mutuma Nkanata, Eng. Elisha Akech, Mrs. Josephine Muritu, Otwani Justus Oufridas, Dr. Benard Kipsang Rop, Jonas Kuto Misto Vincent, Prof. Robert Gateru, and Mrs Florence J. Sergon,

The Roles and Responsibilities of the Chief Executive Officer

The Chief Executive Officer (CEO) who served during the year under review was Mr. Ng'ang'a Munyu. The CEO is the Authority's most senior employee. The main responsibilities of the CEO are set out in the Board manual and are summarized as follows; recommending policy, strategic direction and business plans for Board approval; in charge of the day to day running of the Authority implementing Board decisions; submitting reports on the performance of the Authority to the Board; implementing the corporate Strategic plan; submitting financial reports to the Board for approval before audit; preparing and implementing the annual performance contract for the

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

Authority; Developing all the systems and procedures and recommending them to the Board for approval; preparation of quarterly Performance contract reports; procurement of goods and services; preparation of funding proposals; attending to staff matters; ensuring that a proper training programme for the staff and the Board is in place and properly implemented; ensuring that the Authority has the right staff at all times; putting in place a proper succession plan; ensuring that there is a good working environment for staff; acting as the link between the Board and the staff; communicating Board decisions to staff and creating teamwork work among the staff and also between the Board and management.

The Roles of the Authority Secretary

Dr. Rose N. Mkalama served as the Authority secretary during the year under review. The duties of the Authority secretary are enumerated in the Board manual as follows; in consultation with the CEO; provision of secretarial services to the Board and Board committees; Organizing Board and Board committee meetings ; advising management on content and organization of memoranda or presentations to the Board meetings; Circulating Board papers to directors in good time to ensure that directors have sufficient time to prepare for Board and Board committee meetings; ensuring that minutes are taken in all meetings and that the minute books are properly maintained; ensuring that that all Board committees are properly constituted and provided with clear terms of reference; ensuring that the Authority is at all times compliant with all the Laws and Government policies issued from time to time; development and implementation of a schedule of Board and Board committee meetings and other board activities every year, and development and implementation of a capacity building programme for Directors.

Board Meetings

The State Corporations Act provides that the Board shall meet at least four (4) times in a year. The responsibility of deciding the number of meetings that the Board and Board committee should hold is vested on the Board. In order to ensure that Directors plan early, the schedule of Board meetings for each financial year is approved by the Board at the beginning of the year. Special Board meetings may be called from time to time to address specific issues that cannot wait for the scheduled meeting. Notices to board meetings are sent fourteen (14) days before the meeting. Board papers are circulated at least seven days before meetings. The Chairman provides leadership during Board meetings and strives to ensure open and constructive discussions during the meetings. During the year under review, the Board held seven (7) Board meetings. The average attendance to Board meetings by Directors recorded during the year was about 80%. This good attendance made it possible for crucial decisions and approvals to be given and hence Management was able to implement Board decisions in good time. The board is allowed to obtain outside independent professional advice from qualified individuals if they consider it necessary. The costs for such

services are met by the Authority. To ensure involvement of Directors in Board matters, Directors are allowed to propose Agenda items during Board meetings.

Committees of the Board

The State Corporations Act gives powers to the Board to constitute such other standing committees as it deems fit. Board committees are designed to ensure that that the Board is run efficiently, effectively and in a manner that embraces Corporate Governance. They delve into issues that require attention and this way, the committees are able to give greater attention to issues and then report back to the Board. This enables the Board to deliberate on issues and make more informed decisions. In order to achieve this, the Board has established five (5) committees as follows;

- a) Audit Committee
- b) Finance committee
- c) Strategy and Project Implementation Committee
- d) Human Resources Committee
- e) Procurement Oversight Committee

In coming up with the members of the various Committees, the Board is guided by the area of specialization of each Director.

The Committees meet at least four times in a year. However, special meetings may be called from time to time to deal with specific matters. Notices to meetings are sent fourteen (14) days to the date of the meeting, and papers for discussion are circulated seven (7) days to the date of the meeting. This way, members are able to adequately prepare for meetings and give meaningful contribution.

Unless expressly delegated by the Board to one of its committees, all matters determined by committees are submitted to the full Board as recommendations for Board decision. All committees are allowed to obtain outside independent professional advice from qualified individuals to advice on specific issues if they consider it necessary. The costs for such services are met by the Authority. Each committee has its own terms of reference that guide its operations as summarized here below;

Audit Committee

The Audit Committee is basically the watchdog for the Authority. It ensures that all the systems in the Authority are functioning properly. The main terms of reference as provided for in the Board manual are as follows;

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

- (i) Support the Board of Directors in reviewing the effectiveness of the Authority's processes of Corporate Governance;
- (ii) Review the annual financial statements and consider whether they are complete, consistent and reflect appropriate accounting principles and make appropriate recommendations for necessary action;
- (iii) Recommending financial statements to the Board for approval before submission to the Controller and Auditor General for audit;
- (iv) Review the result of the audit on the financial statements by the External Auditor or any other inspector or investigator engaged by REA;
- (v) Consider the effectiveness of the REA internal control systems established by management to ensure compliance with policies, laws and regulations;
- (vi) Review the risk management framework and assess policies and controls developed by Management for risk assessment and risk management;
- (vii) Review and approve the internal audit plan, charter and manual;
- (viii) Review the activities, organizational structure and qualifications of the internal auditors;
- (ix) Assess managements' action on significant findings and audit recommendations and ensure that action taken is adequate to maintain the integrity of the financial systems.

In addition to the Terms of Reference, the committee also has an Audit committee Charter that defines how they are supposed to execute their responsibilities.

Finance Committee

The committee is responsible for Financial Management and proper resource allocation in the Authority. The Terms of reference of the committee are as follows;

- (i) Develop and recommend to the Board the Authority's Annual Budget;
- (ii) Develop, review and approve major changes in the Authority's accounting policies;
- (iii) Oversee the preparation of year-end financial statements of the Authority;
- (iv) Develop strategies aimed at achieving financial sustainability for the Authority;
- (v) Consider and recommend to the Board Banking facilities and Authority levels;
- (vi) Ensure proper financial management systems are in place;
- (vii) Develop a financial monitoring system for the Organization

Strategy and Project Implementation Committee

The main responsibility of this committee is to ensure that the Authority's strategic plan is in place and is being implemented. The Committee also monitors the Authority's performance. The Committee's Terms of reference are set out in the Board manual and summarized here below;

- (i) Advise the Board on strategies to be adopted in order to enhance performance of the Authority towards achieving its mandate and objectives;
- (ii) Develop annual work plans for the committee and ensure compliance with the same;
- (iii) Receive and consider the reports of all proposed new business practices, policies and capital development
- (iv) Review the Authority's Master plan from time to time and make recommendations for its amendment to the Board;
- (v) Develop, Review and oversee the implementation of the Authority's corporate strategic plan;
- (vi) Consider and make recommendations to the Board on an annual basis on project identification, preliminary costing of projects and funds allocation.
- (vii) Monitor the Authority's performance.

Human Resources Committee

The overall responsibility of the Human Resource committee is to ensure that proper policies are developed to manage the Authority's human resource in accordance with the labour Laws and any other applicable laws. Their Terms of Reference are enumerated in the Board manual and summarized here below;

- (i) Oversee human resource planning and ensure that the Authority has the right number of staff at the right time and at the right place capable of delivering the Authority's mandate;
- (ii) Consider and recommend the Authority's staff establishment and remuneration, including bonuses and other incentives, to the Board for approval;
- (iii) Consider staff recruitment and make recommendations to the Board and to ensure that the recruitment process is done in a fair manner;
- (iv) Approve the training plan for the Authority and recommend the training budget to the Board for approval;
- (v) Develop and oversee the implementation of a health and safety policy for the staff in the work place as required by the law;
- (vi) Develop anti-sexual harassment policy, HIV policy and an equal employment policy for the Authority as required by the law;
- (vii) Develop and oversee the implementation of a comprehensive human resource manual for the staff; and to

review it from time to time;

- (viii) Ensure that the Authority complies with all the labour laws and Government circulars released by the office of the President from time to time;
- (ix) Ensure that staff has a conducive work environment.

Procurement Oversight Committee

The overall responsibility of the committee is to ensure that the annual procurements undertaken by Management are able to support the annual business plans for the Authority. The Terms of Reference are provided for in the Board manual and are summarized as follows;

- (i) Discuss and propose to the Board the Authority's annual procurement plan for approval
- (ii) Review of the annual procurement plan when need arises.
- (iii) Ensure adherence to the procurement plan
- (iv) Ensure that the Authority's procurement plan is capable of enabling the Authority achieve its mandate.
- (v) Monitor the implementation of the procurement plan to ensure that it conforms to the approved budget.
- (vi) Ensure that procurement reports are submitted to the Board.

Directors Remuneration

The Chairman and members of the Board are paid out of the funds of the Authority, such sitting or other remuneration and/or benefits as the Board may, within the scales of remuneration specified from time to time by the State Corporations Advisory Committee, approve.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

During 2016/17 financial year, REA's focus was on electrification of the remaining public facilities, mainly secondary schools, polytechnics, health centres, trading centres, tea buying centres, coffee processing plants, water projects and administrative offices.

At the same time, REA started implement connection of all customers within 600 metres radius of the transformer for all new projects being implemented by REA in the 2016/17 Financial year under the Last Mile Connectivity initiative.

Kenya Electricity Expansion Project (KEEP)

This is a World Bank funded with a total cost of Kshs 3.4 Billion equivalent to 34 Million United States Dollar. It was implemented country wide with about 2185 Kilometers of distribution lines constructed in the rural areas. About 284 projects have been completed (See the list attached.) with over 1058 public facilities have been connected to electricity.

The project will formally came to a close by December 2017 upon which all the projects will be completed.

Benefits

- Increased employment opportunities from various income generating activities in rural areas
- Increased business hours in trading centres
- Provision of street lighting in rural towns
- Enhancement of healthcare due to equipment of health centres and dispensaries in rural areas
- Improvement of education standard
- Enhancement of security in rural areas
- Provision of cheap and clean water from Boreholes connected to electricity
- General improvement of standard of living in rural areas.

The Government initiated a process of hybriding of the diesel power stations with solar and wind to make them more sustainable by reducing the operational costs. This has been done in four stations in Takaba, Eldas, Rhamu and Laisamis.

New Strategic Plan.

REA developed a Strategic Plan for the period 2016/17 – 2020/21. The Strategic objectives of this plan are to:

- Develop and promote renewable energy sources
- Increase electricity connectivity
- Establish strategic partnerships with stakeholders
- Strengthen institutional capacity development, and
- Achieve financial stability

Other Achievements

1. 5 No. Isolated Diesel Stations were completed, namely Kiunga, Hulugho, Kamorliban, Khotulo, Kholodile
2. Garissa 50 MW Solar Plant was completed up to 35%
3. Turkwell - Lokichar Project was 70% complete.
4. 278 No. of Public Facilities were electrified.
5. 1841 Kilometres of Distribution Network was extended.
6. 8,323 No. of Customers were Connected to electricity.
7. 615 No. of Public Primary Schools were connected to electricity.
8. 37 transformers were installed under the constituency maximization fund.

Financial Performance

During the financial year the revenue grew by 8% compared to the previous financial year which saw increased support from donor partners whose contribution increased by 73%. The overall revenue for the year was Kshs 6.4 Billion. The surplus for the period was Kshs 5.0 Billion having spent Kshs 1.4 Billion in employee costs, administrative Expenses, Directors Remuneration, Operating Costs, Establishment Costs and payment of taxes.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Rural Electrification Authority (REA) recognizes CSR as a vital part of its corporate activity and is therefore committed to sustainable business practices in the endeavor to achieve its mandate.

Contribution to Community Empowerment

The Authority supports sustainable initiatives by the communities to develop their social, economic, and institutional development and contributes to the building of a prosperous and vibrant society by providing safe, high-quality products and services. We recognize that every community is unique and we work with our community partners to ensure that our support matches their priorities.

We seek to maximize employment, business and economic opportunities for local communities in all our operations.

Stakeholder Engagement

The Authority will promote an ongoing dialogue and disclose information openly and transparently in order to maintain and develop a relationship of trust with stakeholders in the communities where we operate, and act responsibly towards them through various means of communication

Human Rights

The Rural Electrification Authority will conduct all its business in accordance with accepted standards in the protection and promotion of human rights based on the principles of fairness and sincerity and a high sense of corporate ethics.

Environmental Conservation

The Rural Electrification Authority will strive to minimize environmental effects in its areas of operations and utilize its resources towards the development of a sustainable society that is in harmony with the environment.

Health and Education

REA supports both Health and Educational institutions in order to improve the standard of these services in the rural areas and therefore contribute towards the provision of skills to steer Kenya to the economic and social goals of Vision 2030.

Preservation of Art, Culture and Sports

We respect the cultural, historical perspectives and rights of the communities in our areas of operation. The Rural Electrification Authority will preserve and encourage activities to promote local culture and sports for posterity.

Responsible Partnerships

The Rural Electrification Authority will make every effort to promote fair and sound business practices among its partners by fostering a common awareness of social responsibility.

Conformity with Laws and Regulations

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

REA will act in conformity with the laws and regulations that govern our operations and also adhere to relevant international conventions and incorporate respect for international standards

IX. REPORT OF THE DIRECTORS

The Directors submit their report and audited financial statements for the year ended 30th June 2016 which disclose the state of affairs of the Authority.

Principal Activities

The principal activities of REA as stipulated in section 67 of the Act are as follows;

1. To manage the Rural Electrification Programme fund.
2. To develop and update the Rural Electrification program master plan.
3. Implementing and sourcing for funding for the rural electrification programme.
4. Promotion of renewable energy sources of electricity and,
5. Management of delineation, tendering and award of contracts for licences and permits for rural electrification.
6. Perform such other function as the Board may direct.

Results for the year

The results for the Authority for the year are shown in the Statement of Financial performance as set out on page 1

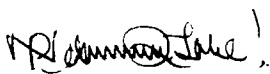
Directors

The Directors who served during the year are as shown in page vii

Auditors

The Auditor General is responsible for the Statutory Audit of the Company's books of accounts in accordance with provisions of the Public Audit Act, 2015.

By Order of the Board



Dr. Rose N. Mkalama
Authority Secretary

30th August 2017

X. STATEMENT OF DIRECTOR'S RESPONSIBILITIES

Section 82 of the Public Finance Management Act, 2012 and section 77 of the Energy Act 2006, require the Directors to prepare financial statements in respect of that Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year and the operating results of the Authority for that year. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

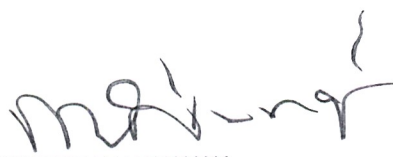
The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2016, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

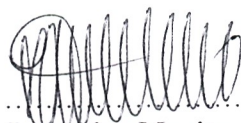
Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

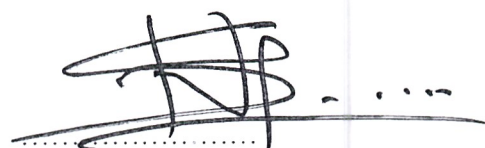
The Authority's financial statements were approved by the Board on 28/09/ 2017 and signed on its behalf by:



CPA. Peter Mbugua
Chief Executive Officer



Josephine Muritu
Board Member



Dr. Simon Gicharu, CBS
Chairman.

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 RURAL ELECTRIFICATION AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Rural Electrification Authority set out on pages 39 to 80, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, 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 in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. 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 my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Rural Electrification Authority as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Energy Act, 314 (Rev. 2012) of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Basis for Qualified Opinion and Emphasis of Matter sections of my report, 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 Qualified Opinion

Property Plant and Equipment - Work-In-Progress

The financial statements reflect property plant and equipment valued at Kshs.65,633,640,000 (2016: Kshs.59,510,572,000), as disclosed in note 16. Included in this figure is Work-In-Progress (WIP) balance of Kshs.10,965,748,000, out of which Kshs.2,315,210,651 relates to WIP brought forward from prior years which however, has not been supported with detailed project analysis. The WIP brought forward further includes a transitional account balance of Kshs.1,004,740,651 which ought to have cleared into the WIP ledger, but was outstanding as at 30 June 2017. Under the circumstances, it has not been possible to confirm whether the property, plant and equipment balance of Kshs.65,633,640,000 as at 30 June 2017, is fairly stated.

Report of the Auditor-General on the Financial Statements of Rural Electrification Authority for the year ended 30 June 2017

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Rural Electrification Authority 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 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 qualified opinion.

Emphasis of Matter

Unrecovered Duty Paid to KRA on Behalf of Vendor

As previously reported, the Authority in the period 2014/2015 paid duty of Kshs.31,894,000 to Kenya Revenue Authority (KRA) on behalf of one of its vendors. According to information available, this was to preempt a KRA agency notice on the Authority's bank account. Management has made full provision for the outstanding amount in the financial statements. However, although management through its lawyers, has pursued the vendor for recovery of the outstanding amounts, the amounts are yet to be recovered. Under the circumstances, it has not been possible to confirm whether and if so, when the Authority will recover the amount.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified Opinion and Emphasis of Matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis), and for such internal controls as directors determine are necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, directors are responsible for assessing the Authority's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless directors are aware of intention to terminate the Authority, or there is no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

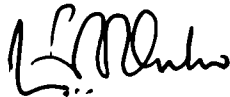
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 that may cast significant doubt on the Authority's ability to continue as a going concern. 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 Authority to cease to continue as a going concern.
- 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 of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the directors 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 to the directors a statement that I have complied with relevant ethical requirements regarding independence, and communicate to 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

13 June 2018

XII. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2017

| | Note | 2016-2017 Kshs.'000' | 2015-2016 Kshs.'000' |
|---|------|-----------------------------|-----------------------------|
| Revenue from Non-Exchange Transactions | | | |
| GOK Grants | 1 | 478,720 | 501,579 |
| Levies | 2 | 4,380,125 | 4,413,219 |
| External Funding | 3 | 1,308,916 | 756,640 |
| Other income | 4 | 132,708 | 183,464 |
| | | 6,300,469 | 5,854,901 |
| Revenue from Exchange Transactions | | | |
| Connection fees | 5 | 79 | 6,479 |
| Interest Income | 5 | 111,161 | 41,560 |
| Other income | | - | 2,905 |
| Sale of Scrap | 5 | - | 9,970 |
| | | 111,240 | 60,914 |
| Total Revenue | | 6,411,709 | 5,915,815 |
| Expenses | | | |
| | | 2016-2017 Kshs.'000' | 2015-2016 Kshs.'000' |
| Employee Costs | 6 | 401,662 | 299,248 |
| Administrative Expenses | 7 | 92,842 | 95,448 |
| Remuneration of Directors | 8 | 56,501 | 29,682 |
| Operating Expenses | 9 | 57,785 | 68,452 |
| Establishment Expenses | 10 | 749,789 | 625,668 |
| Tax Expenses | 11 | 2,084 | 8,221 |
| Total Expenses | | 1,360,662 | 1,176,719 |
| Surplus for the Period | | 5,051,047 | 4,789,096 |

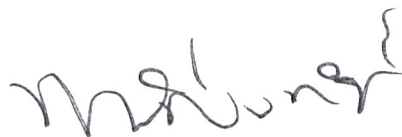
The notes set out on pages 39 to 42 form an integral part of these Financial Statements

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

XII. STATEMENT OF FINANCIAL POSITION AS AT 30th JUNE 2017

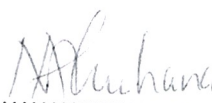
| | Note | 2016/2017 Kshs. '000' | 2015/2016 Kshs. '000' |
|---|------|-----------------------|-----------------------|
| Current Assets | | | |
| Cash and Cash Equivalents | 12 | 5,157,575 | 864,744 |
| Receivables from Exchange Transactions | 13 | 1,856,939 | 599,498 |
| Receivables from Non-Exchange Transactions | 14 | 91,999 | 37,502 |
| Inventories | 15 | 4,511,368 | 4,746,055 |
| | | 11,617,881 | 6,247,799 |
| Non-Current Assets | | | |
| Property Plant and Equipment | 16 | 65,633,640 | 59,510,572 |
| Intangible Assets | 17 | 92,057 | 140,720 |
| | | 65,725,697 | 59,651,292 |
| Total Assets | | 77,343,578 | 65,899,092 |
| Liabilities | | | |
| Current Liabilities | | | |
| Trade and Other payables from Exchange Transactions | 18 | 3,240,878 | 4,569,510 |
| Refundable Deposits from Customers | 19 | 200 | 200 |
| Provisions | 20 | 66,623 | 43,312 |
| Deferred Income | 21 | 280,000 | - |
| Taxation | 22 | 11,468 | 17,039 |
| | | 3,599,169 | 4,630,062 |
| Non Current Liabilities | | | |
| | | - | - |
| Total Liabilities | | 3,599,169 | 4,630,062 |
| Net Assets | | | |
| Reserves | | 73,744,409 | 61,269,045 |
| Accumulated Surplus | 23 | 32,766,253 | 25,364,638 |
| | 23 | 40,978,156 | 35,904,406 |
| Total Net Assets and Liabilities | | 77,343,578 | 65,899,107 |

The Financial Statements set out on pages 39 to 42 were signed on behalf of the Board of Directors by:



CPA Peter Mbugua
 Chief Executive Officer

Date



CPA Margaret. A Gichana
 Head of Finance
 ICPAK No. 5352

Date



Dr. Simon Gicharu, CBS
 Chairman.

Date

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

XIII. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2017

| | Capital Reserves Kshs '000' | Development Reserves Kshs '000' | Accumulated Surplus Kshs '000' | Total Kshs '000' |
|-----------------------------|--------------------------------|------------------------------------|-----------------------------------|---------------------|
| As at 1st July 2015 | 53,596 | 17,814,193 | 31,028,383 | 48,896,172 |
| Surplus for the Year | | | 4,789,096 | 4,789,096 |
| Development Grant | | 7,496,850 | - | 7,496,850 |
| Adjustments | | | 86,928.00 | 86,928 |
| As at 30th June 2016 | 53,596 | 25,311,043 | 35,904,406 | 61,269,045 |
| As at 1st July 2016 | 53,596 | 25,311,043 | 35,904,406 | 61,269,045 |
| Surplus for the period | | | 5,051,047 | 5,051,047 |
| Development Grant | | 7,401,615 | | 7,401,615 |
| Adjustment | 24 | | 22,702 | 22,702 |
| As at 30th June 2017 | 23 | 53,596 | 32,712,658 | 40,978,155 |

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

XIV. STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30TH JUNE 2017

| | Note | <u>2016/2017 Kshs. '000'</u> | <u>2015/2016 Kshs. '000'</u> |
|--|-----------|------------------------------|------------------------------|
| Cash Flow From Operating Activities | | | |
| Surplus for the Period | | 5,051,047 | 4,789,096 |
| Adjust for Depreciation | | 690,901 | 568,263 |
| Working Capital Changes | | | |
| Decrease(Increase) in Inventory | | 234,939 | (11,356) |
| Decrease(Increase) in Receivables | | (1,311,938) | 341,789 |
| Increase (Decrease) in Payables | | (1,030,893) | (1,784,389) |
| Net Cash from Operating Activities | | 3,634,055 | 3,903,403 |
| Investing Activities | | | |
| Purchase of Fixed Assets | | (6,742,839) | (11,118,911) |
| Net Cash used in Investing Activities | | (6,742,839) | (11,118,911) |
| Financing Activities | | | |
| Development Fund Appropriation | 27 | 7,401,615 | 7,496,850 |
| Net Cash from Financing Activities | | 7,401,615 | 7,496,850 |
| Net Increase(Decrease) in Cash and Cash Equivalents | | 4,292,831 | 281,342 |
| Cash and Cash Equivalents 30.06.2016 | | 864,744 | 583,402 |
| Cash and Cash Equivalents 30.06.2017 | | 5,157,575 | 864,744 |
| Cash & Cash Equivalents as per Statement of Financial Position | 12 | 5,157,575 | 864,744 |
| Cash and Cash Equivalents 30.06.2017 | 12 | 5,157,575 | 864,744 |

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

XV STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE PERIOD ENDED 30TH JUNE 2017

| Revenue | Annual Budget 2016-2017 '000' | Revisions | Adjusted Budget '000' | Comparable Basis 30th June 2017 '000' | Performance Difference '000' | Explanation |
|-------------------------------------|-------------------------------------|--------------------|--------------------------|--|---------------------------------|--|
| Exchequer Development | 7,581,315 | 920,300 | 8,501,615 | 7,401,615 | (1,100,000) | Delay in Exchequer Release |
| Exchequer Recurrent | 478,720 | - | 478,720 | 478,720 | - | |
| Petroleum Devt Levy | 687,000 | - | 687,000 | 687,000 | - | |
| Kipovu Oil Storage | 134,000 | - | 134,000 | 38,000 | (96,000) | Delay in Exchequer Release |
| REP Levy | 3,433,022 | - | 3,433,022 | 3,655,125 | 222,103 | |
| China Exim Bank | 9,300,000 | 8,900,000 | 400,000 | 275,551 | (124,449) | Lengthy process of withdrawal applications |
| IDA-KEP | 150,000 | 140,000 | 10,000 | 234,120 | 224,120 | Budget adjusted by treasury after the approval of the withdraw |
| IDA-KEP | 750,000 | 500,000 | 250,000 | 129,084 | (120,916) | Delayed and lengthy procurement of no objection from the don |
| BADEA | 2,010,000 | 1,395,372 | 614,628 | 670,160 | 55,532 | |
| | 24,524,057 | (10,015,072) | 14,508,985 | 13,569,376 | (939,609) | |
| CDF/County Funding | 150,000 | - | 150,000 | 115,784 | (34,216) | Dealy in exchequer release to counties and constituencies |
| Capital Contribution Customers | 11,634 | - | 11,634 | 79 | (11,555) | Connections to primary school doesn't attract connection fees |
| Other Revenue-Licences | 13,314 | - | 13,314 | 16,924 | 3,610 | Increased registration of new electricians |
| Interest Income | - | 30,928 | 30,928 | 111,161 | 80,233 | High level of cash invested received in the last quarter of 2016-2 |
| | 174,948 | 30,928 | 205,876 | 243,948 | 38,072 | |
| Sub-Total Revenue | 24,699,005 | (9,984,144) | 14,714,861 | 13,813,324 | (901,537) | |
| | | | | | | |
| | | | | Actual on Comparable Basis 30th June 2017 '000' | Performance Difference '000' | |
| Recurrent Expenditure | Annual Budget 2016-2017 '000' | Revisions | Adjusted Budget '000' | | | |
| Salaries, Wages & Other Staff Costs | 322,483 | - | 322,483 | 355,143 | (32,660) | |
| Board Expenses | 48,996 | - | 48,996 | 56,501 | (7,505) | |
| Staff Training & Seminars | 49,480 | - | 49,480 | 39,002 | 10,478 | |
| Postage & Telephone | 11,172 | - | 11,172 | 9,432 | 1,740 | |
| General transport/Vehide expenses | 15,000 | - | 15,000 | 8,497 | 6,503 | |
| Traveling- Local | 15,074 | - | 15,074 | 32,961 | (17,887) | |
| Traveling-Foreign | 16,601 | - | 16,601 | 13,558 | 3,043 | Circular restricting foreign travel by officers |
| Hospitality Expenses | 8,500 | - | 8,500 | 7,613 | 887 | |
| Office Cleaning Services | 8,000 | - | 8,000 | 8,953 | (953) | |
| Printing & Stationery | 6,000 | - | 6,000 | 3,949 | 2,051 | |
| Advertising & Promotions | 19,000 | - | 19,000 | 17,824 | 1,176 | |
| Computer Expenses | 47,350 | - | 47,350 | 35,510 | 11,840 | |
| Audit fees | 11,000 | - | 11,000 | 3,062 | 7,938 | Legal audit was rescheduled to 2017/2018 FY |
| Consultancy and Professional Fees | 20,600 | - | 20,600 | 3,425 | 17,175 | Anticipated ISO certification rescheduled to 2017/2018fy |
| Bank Charges & Commissions | 3,000 | - | 3,000 | 2,261 | 739 | Proper management of cash |
| Corporate Social Responsibility | 5,000 | - | 5,000 | 3,094 | 1,906 | |
| Rent and Rates | 6,076 | - | 6,076 | 6,403 | (327) | |
| Repairs & Maintenance Expenses | 5,000 | - | 5,000 | 10,148 | (5,148) | Breakdown of machinery not anticipated during budgeting. |
| General Insurance | 45,345 | - | 45,345 | 16,645 | 28,700 | Use of underwriters who are cheaper |
| Water & Electricity | 10,152 | - | 10,152 | 12,143 | (1,991) | Purchase from water vendors during shortages |
| Security | 15,324 | - | 15,324 | 13,175 | 2,149 | Project related security expenses |
| Subscriptions | 4,457 | - | 4,457 | 1,568 | 2,890 | Low staff registration with professional bodies |
| Research & Development | 8,000 | - | 8,000 | - | 8,000 | Purchase of library material was rescheduled to 2017/2018 fy |
| Finance costs | 1,000 | - | 1,000 | - | 1,000 | Proper management of cash |
| Legal Fees | 8,000 | - | 8,000 | 2,602 | 5,398 | |
| Total Recurrent Expenses | 710,610 | - | 710,610 | 663,468 | 47,142 | |
| Surplus | 23,988,395 | | 14,004,251 | 13,149,856 | | |

Note:

1. The revisions were done by the treasury in the supplementary budget

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Rural Electrification Authority was established by an Act of Parliament xxx entity is established by and derives its authority and accountability from Energy Act 2006. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is rural electrification.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION – IPSAS 1

The entity's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest thousand (Kshs 000). The accounting policies have been consistently applied to all the years presented.

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

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

| Standard | Impact |
|--|--|
| <p>IPSAS 33: First time adoption of Accrual Basis IPSAS</p> | <p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period. <i>Rural Electrification Authority adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the entity.</i></p> |
| <p>IPSAS 34: Separate Financial Statements</p> | <p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares</p> |

Standard

Impact

IPSAS 35:
 Consolidated
 Financial
 Statements

separate financial statements.
Rural Electrification Authority does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply/ the entity is a parent company and has prepared consolidated financial statements and therefore the standard does not apply.

Effective for annual periods beginning on or January 1, 2017)

In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following:

- Its power over the other entity
- Its exposure or rights to variable benefits from involvement with the other entity
- Its ability to control the nature, timing and amount of benefits from the other entity.

Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35.

Rural Electrification Authority does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.

IPSAS 36:
 Investments in
 Associates and
 Joint Ventures

(Effective for annual periods beginning on or January 1, 2017)

In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.

Rural Electrification Authority does not have investments in associates or joint ventures.

**IPSAS 37: Joint
 Arrangements**

(Effective for annual periods beginning on or January 1, 2017)

In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.

Rural Electrification Authority does not have an interest in a joint arrangement and therefore the standard does not apply.

| Standard | Impact |
|---|---|
| IPSAS 38: Disclosure of Interests in Other Entities | (Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows. <i>Rural Electrification Authority does not have an interests in other entities and therefore the standard does not apply.</i> |

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

| Standard | Effective date and impact: |
|---|---|
| IPSAS 39: Employee Benefits | Applicable: 1 January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach. |
| IPSAS 40: Public Sector Combinations | Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations. |

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2017.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Transfers from other government entities

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

ii) Revenue from exchange transactions – IPSAS 9

Connection fees

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

Interest income

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

b) Budget information

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The original budget for FY 2016-2017 was approved by the National Assembly in April 2016. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of xxxxx on the 2016-2017 budget following the governing body's approval.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section xxx of these financial statements.

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

d) Investment property

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

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

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

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

f) Property, plant and equipment – IPSAS 17

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

Depreciation

Depreciation is calculated to write-off the asset cost to the residual values on a straight line basis over the expected useful life. Where an asset is acquired during the year, depreciation is applied on a prorata basis over the number of days to the end of the financial year of purchase.

| Asset | Depreciation Rate (%) |
|---------------------------------|------------------------------|
| Distribution lines | 2.5 (40yrs) |
| Plant and Machinery | 12.5 |
| Motor Vehicles | 25 |
| Furniture, fittings & Equipment | 12.5 |

| | |
|--|-------------------|
| Computers & Allied Hardware & Software | 33.3 |
| Tools implements and Testing apparatus | 22.5(4yrs) (R10%) |

Distribution lines

All distribution lines are capitalized in property, plant and equipment when commissioned and are depreciated over their useful lives. The useful life is currently estimated to be forty years from the date of commissioning.

Work in Progress

Work-in-progress represents costs incurred in acquisition/installation of an item of property plant and equipment which is not in use. Work-in-progress is not depreciated until the assets are completed and brought into use.

f) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

g) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized

NOTES TO THE FINANCIAL STATEMENTS (Continued)

development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

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

i) Research and development costs

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

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

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

h) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or a entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

h) Financial instruments (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

i) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

j) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Contingent liabilities

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.

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) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. The development, capital and revenue reserves are used to finance the Rural Electrification projects.

l) Changes in accounting policies and estimates

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

m) Employee benefits

Retirement benefit plans

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

m) Employee benefits (Continued)

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The Authority runs a defined contribution pension scheme. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the company at 10% and employees at 5% of basic salary. During the year, the scheme was managed by the following service providers;

| | |
|--------------------------------|----------------|
| Genesis Investments | -Fund Manager |
| Co-operative Bank of Kenya Ltd | -Custodian |
| Liaison Associates | -Administrator |

n) Foreign currency transactions

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

o) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

p) Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the Directors, and the Chief Executive Officer.

q) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it

NOTES TO THE FINANCIAL STATEMENTS (Continued)

controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

r) 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.

Cash and Short term deposits comprise cash at banks and at hand. Short term deposits are those which are readily convertible to known amounts of cash with an original maturity of three months or less. For the purposes of the cash flow statement; cash and cash equivalents include short term deposits.

Deffered Income –Escrow Account

The Authority opened this account as a condition precedent for the Exim Bank Loan. The Kshs 280Million was deposited in the account to take care of any default in the repayment of the loan.

s) Comparative figures

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

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

State all judgements, estimates and assumptions made: e.g

Deposit for Legal Case

The Authority was directed by court to deposit Kshs 50Million in the ongoing case between REA and a supplier Patmose (K) Ltd until the case is determined.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Estimates and assumptions

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

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

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

t) Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 22

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

The provisions recognized by the Authority includes; provision for gratuity, provision for accrued leave, provision for audit fees, provision for directors' fees and provision for theft and pilferages.

The said provisions are estimated as follows;

- Provision for gratuity is calculated at the rate of 31% of basic salary of the beneficiary.
- Provision for leave is estimated based on accrued leave days; where for 30 days leave is equivalent to an individual month's basic salary.
- Audit fees is estimated based on previous year's payment.
- Directors fees is based on government circular guidelines
- Provision for theft and pilferage is made based on the cost / book value of stolen materials

u) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | Kshs '000' | Kshs '000' |
|--------------------------------------|------------------|------------------|
| | 2016-2017 | 2015-2016 |
| 1 GOK Grants | | |
| Exchequer Recurrent | 478,720 | 501,579 |
| TOTAL | 478,720 | 501,579 |
| 2 Levies | | |
| Revenue - Petroleum Devt Levy | 687,000 | 687,000 |
| Revenue-Kipevu Oil | 38,000 | 128,000 |
| Revenue - 5% REP Levy | 3,655,125 | 3,598,219 |
| TOTAL | 4,380,125 | 4,413,219 |
| 3 External Funding | | |
| Revenue - Govt of BADEA | 670,160 | - |
| Revenue - China Exim Bank | 275,551 | - |
| Revenue-World Bank | 363,204 | 756,640 |
| TOTAL | 1,308,916 | 756,640 |
| 4 Other Income | | |
| Revenue - Const & County partnership | 115,784 | 161,930 |
| Revenue - Licences | 16,924 | 21,533 |
| TOTAL | 132,708 | 183,464 |
| 5 Exchange Transactions | | |
| Connection fees | 79 | 6,479 |
| Interest Income | 111,161 | 41,560 |
| Other Revenue | - | 2,905 |
| Sale of Scrap | - | 9,970 |
| TOTAL | 111,240 | 60,914 |
| 6 Employee Costs | | |
| Salaries and Wages | 309,737 | 251,077 |
| Gratuity | 2,102 | 2,083 |
| Local Travelling | 32,961 | 14,177 |
| External Travelling | 13,558 | 378 |
| TOTAL | 401,662 | 290,218 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | Kshs '000' | Kshs '000' |
|----------------------------------|------------------|------------------|
| 7 Administrative Expenses | 2016-2017 | 2015-2016 |
| Computer Expenses | 35,510 | 33,539 |
| Vehicle Running Expenses | 8,497 | 7,679 |
| Advertisement and Promotions | 17,824 | 30,400 |
| Office Refreshments | 7,613 | 6,023 |
| Legal fees | 2,602 | 3,279 |
| Consulting and Professional fees | 3,425 | 1,496 |
| Audit fees | 3,062 | 3,062 |
| Bank Charges and commissions | 2,261 | 1,149 |
| Office Cleaning | 8,953 | 8,332 |
| Social Responsibility costs | 3,094 | 488 |
| TOTAL | 92,842 | 95,448 |
| 8 Board Expenses | 2016-2017 | 2015-2016 |
| Honoraria | 960 | 960 |
| Director's Allowances | 14,636 | 14,993 |
| Director's fees | 5,280 | 4,795 |
| Other Expenses | 35,625 | 8,934 |
| TOTAL | 56,501 | 29,682 |
| 9 Operating Expenses | 2016-2017 | 2015-2016 |
| Training and seminars | 39,002 | 8,291 |
| Postage | 633 | 456 |
| Telephone | 8,799 | 8,368 |
| Obsolete inventory | - | 14,890 |
| Printing and Stationery | 6,236 | 36,097 |
| Tender processing Costs | 3,115 | 350 |
| TOTAL | 57,785 | 68,452 |
| 10 Establishment Expenses | 2016-2017 | 2015-2016 |
| Depreciation | 690,901 | 568,263 |
| Security and surveillance | 13,175 | 12,896 |
| Rent | 6,403 | 4,815 |
| Insurance | 16,645 | 25,037 |
| Office repairs and maintenance | 10,148 | 4,848 |
| licences and subscriptions | 374 | 549 |
| TOTAL | 749,789 | 625,668 |

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | Kshs '000' | Kshs '000' |
|----------------------------------|------------------|------------------|
| | 2016-2017 | 2015-2016 |
| 11 Tax Expenses | | |
| Withholding Tax | 2,084 | 8,221 |
| TOTAL | 2,084 | 8,221 |
| 12 Cash and Bank Balances | 2016-2017 | 2015-2016 |
| Term Deposits | | |
| COOP Bank | 1,700,000 | 100,000 |
| NBK | 1,300,000 | - |
| Equity | 1,300,000 | - |
| | 4,300,000 | 100,000 |
| Call Deposits | | |
| Held with Cooperative Bank | 30,264 | 323,437 |
| Held With Standard Chartered | 20 | 20 |
| | 30,284 | 323,457 |
| Current Accounts | | |
| Cooperative Bank | 1,000 | 1,058 |
| Standard Chartered | 101,103 | 65,354 |
| KCB Main | 205,465 | 155,608 |
| KCB Development | 7 | 12 |
| KCB Escrow Account | 280,000 | - |
| CFC Stanbic | 4,526 | 1,344 |
| Equity Bank | 5,717 | - |
| National Bank | 10,889 | - |
| Citi Bank | 20,000 | - |
| Current Account- KEEP | 49,193 | 197,775 |
| Current Account- KEMP | 129,081 | 1 |
| Current Account- KSSG | 19,998 | 20,002 |
| | 826,979 | 441,155 |
| Cash in Hand | 244 | - |
| Petty Cash | 69 | 132 |
| | 313 | 132 |
| TOTAL | 5,157,575 | 864,744 |

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | Kshs '000' | Kshs '000' |
|--|------------------|------------------|
| 13 Receivables from Exchange Transactions | 2016-2017 | 2015-2016 |
| *Advance to vendors | 838,887 | 29,345 |
| Other Accrued Revenues | 950,897 | 507,588 |
| Prepayments- Others | 1,319 | 1,300 |
| Prepayments- Rent | 442 | - |
| Others-Output VAT | 268 | - |
| Deposits- Rent | 15,127 | 11,266 |
| Deposits- Court Cases | 50,000 | 50,000 |
| TOTAL | 1,856,939 | 599,498 |
| | | |
| *Advance to vendors-Gross Amount | 870,781 | 61,239 |
| Less Provisions for Bad & Doubtful Debt | (31,894) | (31,894) |
| Advance to Vendors-Net Amount | 838,887 | 29,345 |
| | | |
| 14 Receivables from non-exchange Transactions | 2016-2017 | 2015-2016 |
| Interest Receivables | 84,891 | 9,699 |
| Staff Advances | 7,108 | 27,803 |
| TOTAL | 91,999 | 37,502 |
| | | |
| 15 Inventory | 2016-2017 | 2015-2016 |
| Poles | 251,819 | 557,718 |
| Insulators | 279,068 | 275,562 |
| Conductors, Stay Blocks and Wires | 1,017,659 | 1,114,292 |
| Hardware line items | 1,516,173 | 1,389,385 |
| *Transformers | 1,003,988 | 960,990 |
| Surge Diverters Circuit Breakers and Isolators | 435,856 | 443,882 |
| Stationery | 5,171 | 2,844 |
| ICT | 1,381 | 1,381 |
| TOTAL | 4,511,116 | 4,746,055 |
| | | |
| *Transformers-Gross Amount | 1,111,095 | 1,068,098 |
| Less Provision for Obsolete Stock | (107,107) | (107,107) |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | Kshs '000' | Kshs '000' |
|--|-------------------|-------------------|
| 16 Property-Plant and Equipment | 2016-2017 | 2015-2016 |
| Land | 83,967 | 83,967 |
| Building | 24,313 | 24,989 |
| Plant and Machinery | 60,850 | 66,129 |
| Overheard Distribution Lines | 54,439,531 | 40,514,634 |
| Motor Vehicles | 7,775 | 30,417 |
| Furniture & Fittings | 24,602 | 31,115 |
| Office Equipment | 5,450 | 8,074 |
| Computer Equipment | 19,289 | 29,723 |
| Tools Implements & Testing Apparatus | 2,115 | 4,271 |
| WIP | 10,965,748 | 18,717,253 |
| TOTAL | 65,633,640 | 59,510,572 |
| | | |
| 17 Intangible Assets | 2016-2017 | 2015-2016 |
| Opening Balance | 304,375 | 177,778 |
| Additions | 9,439 | 126,597 |
| | | |
| Value at Cost | 313,814 | 304,375 |
| | | |
| Depreciation | | |
| Opening Balance: Acc'Depreciation | (163,655) | (131,662) |
| Charge for the Period | (58,102) | (31,993) |
| Total Depreciation | (221,757) | (163,655) |
| | | |
| Net Book Value | 92,057 | 140,720 |

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

16. Property Plant and Equipment Schedule in Ksh.'000'

| | Land | Building | Plant and Machinery | Overhead Distribution Lines | Motor Vehicles | Furniture & Fittings | Office Equipment | Computer Equipment | Tools & Testing Apparatus | WIP | Total |
|----------------------------------|--------|----------|---------------------|-----------------------------|----------------|----------------------|------------------|--------------------|---------------------------|-------------|-------------|
| Balance as at 1st July 2015 | 83,967 | 22,813 | 142,057 | 26,429,552 | 292,951 | 33,242 | 20,564 | 164,721 | 24,657 | 22,931,284 | 50,145,809 |
| Additions | - | 4,235 | 893 | 15,310,705 | - | 21,645 | 5,847 | 5,403 | - | 640,130 | 15,988,858 |
| Disposals/Capitalization | - | - | - | - | - | - | - | - | - | 4,854,161 | (4,854,161) |
| Balance as at 30th June 2016 | 83,967 | 27,049 | 142,950 | 41,740,257 | 292,951 | 54,888 | 26,411 | 170,124 | 24,657 | 18,717,253 | 61,280,506 |
| Depreciation | - | 1,428 | 59,404 | 799,638 | 212,774 | 17,234 | 14,470 | 113,668 | 15,048 | - | 1,233,664 |
| Accum depre as at 30th June 2015 | - | 632 | 17,417 | 425,984 | 49,760 | 6,540 | 3,868 | 26,733 | 5,337 | - | 536,270 |
| Charge for the period | - | 2,060 | 76,821 | 1,225,622 | 262,534 | 23,774 | 18,338 | 140,401 | 20,385 | - | 1,769,934 |
| Total Acc Dep | - | 2,060 | 76,821 | 1,225,622 | 262,534 | 23,774 | 18,338 | 140,401 | 20,385 | - | 1,769,934 |
| Net book value | 83,967 | 24,989 | 66,129 | 40,514,634 | 30,417 | 31,113 | 8,074 | 29,723 | 4,271 | 18,717,253 | 59,510,572 |
| As at 30th June 2016 | 83,967 | 21,386 | 82,653 | 25,629,914 | 80,177 | 16,008 | 6,095 | 51,053 | 9,608 | 22,931,284 | 48,912,145 |
| Balance as at 1st July 2016 | 83,967 | 27,049 | 142,950 | 41,740,257 | 292,951 | 54,888 | 26,411 | 170,124 | 24,657 | 18,717,253 | 61,280,506 |
| Additions | - | - | 10,918 | 14,484,631 | - | - | 423 | 14,399 | - | 172,922 | 14,683,293 |
| Disposals/Capitalization | - | - | - | - | - | - | - | - | - | (7,924,428) | (7,924,428) |
| Balance as at 30th June 2017 | 83,967 | 27,049 | 153,868 | 56,221,888 | 292,951 | 54,888 | 26,834 | 184,523 | 24,657 | 10,965,747 | 68,036,372 |
| Depreciation | - | 2,060 | 76,821 | 1,225,622 | 262,534 | 23,774 | 18,338 | 140,401 | 20,385 | - | 1,769,934 |
| Accum depre as at 30th June 2016 | - | 676 | 16,197 | 556,734 | 22,642 | 6,512 | 3,048 | 24,834 | 2,156 | - | 632,799 |
| Charge for the period | - | 2,736 | 93,018 | 1,782,356 | 285,176 | 30,286 | 21,386 | 165,235 | 22,541 | - | 2,402,733 |
| Total | - | 2,736 | 93,018 | 1,782,356 | 285,176 | 30,286 | 21,386 | 165,235 | 22,541 | - | 2,402,733 |
| Net book value | 83,967 | 24,313 | 60,850 | 54,439,532 | 7,775 | 24,601 | 5,449 | 19,288 | 2,115 | 10,965,747 | 65,633,639 |
| As at 30th June 2017 | 83,967 | 24,989 | 66,129 | 40,514,634 | 30,417 | 31,113 | 8,074 | 29,723 | 4,271 | 18,717,253 | 59,510,571 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | Kshs '000' | Kshs'000' |
|---------------------------------------|------------------|------------------|
| 18 Trade and Other Payables | 2016-2017 | 2015-2016 |
| Trade-Creditors invoiced | 2,087,821 | 2,832,899 |
| Trade-Creditors not invoiced | 1,131,344 | 1,736,126 |
| Trade-KPLC Metre Deposits | 716 | 716 |
| Refund to Vendors-VAT Deducted | 16,637 | - |
| | 3,236,518 | 4,569,741 |
| Staff | | |
| Payroll Liabilities | 4,360 | (131) |
| Staff Welfare | 0 | (100) |
| | 4,360 | (231) |
| TOTAL | 3,240,878 | 4,569,510 |
| 19 Trade-Refundable Deposits | 2016-2017 | 2015-2016 |
| Customer deposits for bonded wares | 200 | 200 |
| 20 Provisions | 2016-2017 | 2015-2016 |
| Gratuity | 4,515 | 2,414 |
| Accrued Leave Days | 35,569 | 22,703 |
| Audit Fees | 6,062 | 3,000 |
| Director's fees | 16,306 | 11,026 |
| Theft & Pilferage-Geowan | 4,170 | 4,170 |
| TOTAL | 66,623 | 43,312 |
| 21 Defferred Income | 2016-2017 | 2015-2016 |
| Discount on bonds investment | 280,000 | - |
| 22 Current Tax Payable | 2016-2017 | 2015-2016 |
| Tax payable- Customs Duty | - | 380 |
| Tax payable- Witheld Tax on Prof.fees | 1,007 | 957 |
| Tax payable- Witheld Vat | 8,324 | 13,540 |
| Tax payable- Witheld Tax 3% Agency | 1,995 | 2,253 |
| Value Added Tax (Output) | - | (41) |
| TOTAL | 11,468 | 17,039 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | Kshs '000' | Kshs '000' |
|--|-------------------|-------------------|
| 23 Reserves | 2016-2017 | 2015-2016 |
| Capital Reserves | 53,596 | 53,596 |
| Development Reserves | 32,712,658 | 25,311,043 |
| Retained Earnings | 40,977,904 | 35,904,406 |
| TOTAL | 73,744,157 | 61,269,045 |
| 24 Adjustments on Reserves | 2016-2017 | 2015-2016 |
| Write back of Repaired Faulty Transformers | - | 54,903 |
| Write back of unpaid Leave days | 22,703 | 20,344 |
| Receipt from Equity on Fraud case | - | 1,332 |
| Recovered materials | - | 10,349 |
| TOTAL | 22,703 | 86,928 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. Financial Risk Management

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

| | Total amount Kshs | Fully performing Kshs | Past due Kshs | Impaired Kshs |
|--|------------------------------|----------------------------------|--------------------------|--------------------------|
| At 30 June 2017 | | | | |
| Receivables from exchange transactions | 1,856,939 | 1,856,939 | | |
| Receivables from non exchange transactions | 99,999 | 99,999 | | |
| Bank balances | 5,157,575 | 5,157,575 | | |
| Total | 7,106,513 | 7,106,513 | NIL | NIL |
| At 30 June 2016 | | | | |
| Receivables from exchange transactions | 599,498 | 599,498 | | |
| Receivables from non exchange transactions | 37,502 | 37,502 | | |
| Bank balances | 864,744 | 864,744 | | |
| Total | 1,501,745 | 1,501,745 | NIL | NIL |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(i) Credit risk (Continued)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from KPLC

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| | Less than 1 month | Between 1-3 months | Over 5 months | Total |
|-------------------------------|-------------------|--------------------|----------------|------------------|
| | Kshs | Kshs | Kshs | Kshs |
| At 30 June 2017 | | | | |
| Trade payables | 3,219,164 | | 21,714 | 3,240,878 |
| Current portion of borrowings | | | | |
| Provisions | 66,623 | | | 66,623 |
| Deferred income | | | 280,000 | 280,000 |
| Employee benefit obligation | | | | |
| Total | 3,285,787 | | 301,714 | 3,587,501 |
| At 30 June 2016 | | | | |
| Trade payables | 4,569,025 | | 486 | 4,569,510 |
| Current portion of borrowings | | | | |
| Provisions | 43,312 | | | 43,312 |
| Deferred income | | | | |
| Employee benefit obligation | | | | |
| Total | 4,612,337 | | 486 | 4,612,823 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Risk Management (Continued)

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

The entity manages foreign exchange risk from future commercial transactions and recognized assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

(iii) Market risk (continued)

| | Ksh | Other currencies | Total |
|--|------------------|---------------------|------------------|
| | Kshs | Kshs | Kshs |
| At 30 June 2017 | | | |
| Financial assets(investments, cash ,debtors) | 5,157,575 | | 5,157,575 |
| Liabilities | | | |
| Trade and other payables | 3,240,878 | | 3,240,878 |
| Borrowings | | | |
| Net foreign currency asset/(liability) | 1,916,697 | | 1,916,697 |

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavored to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs Nil (2016: KShs Nil). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs Nil (2012 – KShs Nil)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Risk Management (Continued)

Capital Risk Management

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

| Description | 2016-2017 | 2015-2016 |
|--|----------------------|----------------------|
| Revaluation reserve | - | - |
| Retained earnings | 32,766,253.00 | 25,364,638.00 |
| Capital reserve | 40,978,156.00 | 35,904,406.00 |
| Total funds | 73,744,409.00 | 61,269,044.00 |
| Total borrowings | - | - |
| Less: cash and bank balances | - 5,157,575.00 | - 864,744.00 |
| Net debt/(excess cash and cash equivalents) | 68,586,834.00 | 60,404,300.00 |

26. Related Party Balances

a) Nature of related party relationships

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The entity is related to

- i) The National Government;
- ii) The Parent Ministry.
- iii) Kenya Power Limited.
- iv) Key management.
- v) Board of directors.

b) Related party transactions

| | 2017 Kshs | 2016 Kshs |
|---------------------------------|-----------------|---------------|
| Transfers from related parties' | 4,858,844,662.3 | 4,914,798,000 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. Related Party Balances (continued)

c) Key management remuneration

| | 2017 | 2016 |
|-----------------------------|----------------|---------------|
| | Kshs '000' | Kshs'000' |
| Directors' | 56,501 | 29,682 |
| Key management compensation | 75,401 | 60,905 |
| | 131,902 | 90,587 |

d) Due from related parties

| | | |
|-----------------------------|----------------|----------------|
| Due from Ministry Of Energy | 38,000 | |
| Due from KPLC | 912,897 | 507,588 |
| | 950,897 | 507,588 |

e) Due to related parties

| | | |
|---------------------------|----------------|----------------|
| Due to Ministry Of Energy | - | - |
| Due to KPLC | 716,716 | 716,716 |
| | 716,716 | 716,716 |

28. Segment information

The Authority does not operate in different geographical regions or in departments.

29. Contingent assets and contingent liabilities

The Authority did not have contingent assets or liabilities by the end of the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. Capital Commitments

| Capital commitments | 2016-2017 | 2015-2016 |
|-------------------------------|-------------------|-------------------|
| | Kshs | Kshs |
| Authorised for | 23,988,396 | 15,252,850 |
| Authorised and contracted for | Nil | Nil |
| Total | 23,988,396 | 15,252,850 |

31. Events after the reporting period

There were no material adjusting and non- adjusting events after the reporting period.

32. Ultimate and Holding Entity

The entity is a State Corporation/ or a Semi- Autonomous Government Agency under the Ministry of Energy. Its ultimate parent is the Government of Kenya.

33. Currency

The financial statements are presented in Kenya Shillings (Kshs).

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

I. 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.

| Ref No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--------------------------------------|---|---|--|-----------------------------------|--|
| Qualification 1 | Property Plant & Equipment | There were old donor funded projects not capitalized but the list has since been obtained from the consultant and the capitalization is in progress. | Eng. Esther Ruto Chief Manager Construction | Not Resolved | 31.12.2018 |
| Qualification 2 | Unremitted Taxes | The funds are due to the suppliers hence reclassified awaiting vendors to claim | CPA M.A Gichana Ag. Manager Finance | Not Resolved | 30.09.2018 |
| Emphasis of matter 1 | Delay in completion of diesel Power Stations | Six out of the seven projects are complete and commissioned and the other one will be commissioned before 30.09.2018. | Eng. David Rogoncho Chief Manager Design and Special Projects | Not resolved | 30.09.2018 |
| Emphasis of matter 2 | Unrecovered duty Paid to Kenya Revenue Authority (KRA) on Behalf of Vendors | On 25.01.2018, the vendor requested for 6 months to resolve the matter. It is hoped that the same will be resolved amicably before the said deadline, failure to which REA shall file suit. | CS. Lucky Rono Ag. Head of Legal Department | Not resolved | 31.07.2018 |

Guidance Notes:

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

CPA. Peter K. Mbugua

Chief Executive Officer

Date.....


Prof. Simon Gicharu

Chairman of the Board

Date.....

II. Appendix 1: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the State Corporation/ SAGA Funded by development partners

The list of donor funded projects is attached.

Status of Projects completion

The list of projects is hereby attached

III. Appendix 2: INTER-ENTITY TRANSFERS

| ENTITY NAME: | | | |
|---|----------------------------|----------------------|--|
| Break down of Transfers from the Ministry of Energy | | | |
| FY 16/17 | | | |
| a Recurrent Grants | | | |
| | <u>Bank Statement Date</u> | <u>Amount (KShs)</u> | <u>Indicate the FY to which the amounts relate</u> |
| | September 2016 | 119,680 | 2016/2017 |
| | November 2016 | 119,680 | 2016/2017 |
| | February 2017 | 119,680 | 2016/2017 |
| | June 2017 | 119,680 | 2016/2017 |
| | Total | 478,720 | |
| Petroleum Development Levy From The Ministry | | | |
| | December 2017 | 343,500 | 2016/2017 |
| | April 2017 | 343,500 | 2016/2017 |
| | Total | 687,000 | |
| Kipevu Oil Storage | June 2017 | 38,000 | 2016/2017 |
| | Total | 38,000 | |
| Escrow Account Grants-Deferred Income | | | |
| | July 2016 | 280,000 | 2016/2017 |
| | Total | 280,000 | |
| Development Grants for 2015/2016 | July 2016 | 188,738 | 2015/2016 |
| | | 188,738 | |
| REP LEVIES(From KPLC) | | | |
| | August 2016 | 340,175 | 2016/2017 |
| | September 2016 | 283,747 | 2016/2017 |
| | October 2016 | 316,807 | 2016/2017 |
| | December | 281,511 | 2016/2017 |

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

| | | | | |
|---|---|----------------------------|----------------------|--|
| | | 2016 | | |
| | | December 2016 | 303,968 | 2016/2017 |
| | | January 2017 | 301,345 | 2016/2017 |
| | | March 2017 | 324,758 | 2016/2017 |
| | | April 2017 | 312,760 | 2016/2017 |
| | | May 2017 | 277,159 | 2016/2017 |
| | | July 2017 | 347,995 | 2016/2017 |
| | | August 2017 | 260,308 | 2016/2017 |
| | | September 2017 | 300,396 | 2016/2017 |
| | | Totals | 3,650,927 | |
| b | Development Grants | | | |
| | | <u>Bank Statement Date</u> | <u>Amount (KShs)</u> | <u>Indicate the FY to which the amounts relate</u> |
| | | September 2016 | 1,567,904 | 2016/2017 |
| | | October 2016 | 1,567,904 | 2016/2017 |
| | | February 2017 | 1,267,904 | 2016/2017 |
| | | April 2017 | 2,667,904 | 2016/2017 |
| | | May 2017 | 1,130,000 | 2016/2017 |
| | | June 2017 | (800,000) | 2016/2017(refund to Ministry) |
| | | Total | 7,401,615 | |
| c | Direct Payments | | | |
| | | <u>Bank Statement Date</u> | <u>Amount (KShs)</u> | <u>Indicate the FY to which the amounts relate</u> |
| | KEEP(Paid to Suppliers directly by Treasury) | 12.07.2017 | 140,785 | 2016/2017 |
| | BADEA(Paid directly to suppliers by Treasury) | 04.02.2017 | 670,160 | 2016/2017 |

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

| | | | | |
|---|---|----------------------------|----------------------|--|
| | CHINA EXIM BANK(Paid directly to suppliers by Treasury) | 15.05.2017 | 275,551 | 2016/2017 |
| | Total | | 1,086,496 | |
| d | Donor Receipts | | | |
| | | <u>Bank Statement Date</u> | <u>Amount (KShs)</u> | <u>Indicate the FY to which the amounts relate</u> |
| | KEMP | 15.08.2016 | 129,084 | 2016/2017 |
| | KEEP | 02.03.2017 | 93,317 | 2016/2017 |
| | Total | | 222,401 | |

The above amounts have been communicated to and reconciled with the parent Ministry
Margaret A. Gichana

Ag. Finance Manager
REA

Sign -----

Head of Accounting Unit
Ministry Of Energy

Sign-----

Rural Electrification Authority
Reports and Financial Statements
For the year ended June 30, 2017

IV. Appendix 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

| Name of the MDA/Donor Transferring the funds | Date received | Nature: Recurrent/Development/Others | Total Amount - KES | Where Recorded/recognized | | | | | Tot Transfers during the Year |
|--|----------------------|--------------------------------------|--------------------|------------------------------------|------------------|-----------------|----------------|----------------------------|-------------------------------|
| | | | | Statement of Financial Performance | Capital Fund | Deferred Income | Receivables | Other s - must be specific | |
| Ministry of Energy(Recurrent) | See Appendix 2 above | Recurrent | 478,720 | 478,720 | | | | | |
| Ministry of Energy(Petroleum Levies) | See Appendix 2 above | Recurrent | 687,000 | 687,000 | | | | | |
| Ministry of Energy(Kipevu Funds) | See Appendix 2 above | Recurrent | 38,000 | 38,000 | | | | | |
| Ministry of Energy(Development) | See Appendix 2 above | Development | 7,401,615 | | 7,401,615 | | | | 800,000 |
| REP Levies | See Appendix 2 above | Recurrent | 3,650,927 | 3,650,927 | | | 908,699 | | |
| Donor Funds | See Appendix 2 above | Donor Fund | 222,401 | 222,401 | | | | | |
| Direct Payments | | Donor Fund | 1,084,496 | 1,084,496 | | | | | |
| Total | | | 13,563,159 | 6,161,544 | 7,401,615 | | 908,699 | | 800,000 |