

REPUBLIC OF KENYA



Enhancing Accountability

REPORT NATIONAL ASSEMBLY

DATE: 24 NOV 2022

BY: LOM
E. Nginyo

THE AUDITOR-GENERAL

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ON

RURAL ELECTRIFICATION SCHEME

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

**KENYA POWER AND LIGHTING
COMPANY PLC**



THE KENYA POWER AND LIGHTING COMPANY PLC
RURAL ELECTRIFICATION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

The Kenya Power and Lighting Company Plc - Rural Electrification Scheme
Annual Report and Financial Statements
For the year ended 30 June 2021

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REGISTERED OFFICE

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Kolobot Road, Parklands
P. O. Box 30099 - 00100
Nairobi, Kenya

SCHEME ADMINISTRATOR

Principal Secretary
Ministry of Energy
Nairobi, Kenya

The position is currently held by Maj. Gen (Rtd). Gordon O Kihalangwa.

SCHEME MANAGER

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SCHEME COORDINATOR

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DELEGATED AUDITOR

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Off Ragati Road
P. O. Box 44286 - 00100
Nairobi, Kenya

The Scheme Administrator submits his report together with the audited financial statements of the Rural Electrification Scheme ("RES" or "the Scheme") for the year ended 30 June 2021, which disclose the state of affairs of the Scheme.

BACKGROUND

The Rural Electrification Scheme was established in 1973 by the Government of Kenya following an agreement between the Government and East African Power & Lighting Company, now The Kenya Power and Lighting Company Plc ("KPLC"). The Scheme was established with the specific objective of extending electricity to the rural areas.

The above agreement followed a previous agreement between the Government of Kenya and the Government of Sweden whereby the Government of Sweden agreed to finance rural electrification in Kenya while the Government of Kenya required to establish a Rural Electrification Fund. The Rural Electrification Fund was to be used to finance investments in new sub-economic rural electrification schemes and the operating losses of such schemes.

Currently, RES is funded by several donors through the Government of Kenya. Any property acquired by RES remains the property of the Government of Kenya. KPLC only acts as a management agent for schemes financed by the Rural Electrification Fund, on behalf of the Government.

The Fund account is maintained by the Principal Secretary, Ministry of Energy and does not form any part of these financial statements. These financial statements only account for direct government contributions to the Scheme and contributions through KPLC on behalf of the Government.

The schemes of RES are generally referred to as sub-economic because their operational and maintenance costs exceed the revenues derived from them. This is because the activities are undertaken in the rural areas where income is low. The Government embarks on these activities to further its development plan.

At the outset of the agreement, it was stipulated that once a scheme ceases to be sub-economic, KPLC may, with consent from the Ministry of Energy, acquire the scheme for consideration as specified in the agreement. KPLC has not acquired any scheme to date.

BUSINESS REVIEW

The principal activities of the Scheme are:

- i) designing and construction of electricity lines from existing public electricity network comprising grid and isolated diesel systems;
- ii) installation of transformers and switchgears; and
- iii) service distribution to potential customers that include rural trade and production centers, social institutions, rural industries and peripheral domestic settlements.

MANAGEMENT

The Principal Secretary, Ministry of Energy is charged with the responsibility of overseeing the activities of RES while KPLC has been mandated as the management agent on behalf of the Ministry of Energy.

SCHEMES IN OPERATION

For management and administrative purposes, the Scheme is organized into Counties. The RES Schemes are further clustered into constituencies as detailed below:

1. Nairobi County
Dagoretti North, Dagoretti South, Embakasi Central, Embakasi East, Embakasi North, Embakasi South, Embakasi West, Kamukunji, Kasarani, Kibra, Langata, Makadara, Mathare, Roysambu, Ruaraka, Westlands, Starehe.
2. Marsabit County
Laisamis, Moyale, North Horr, Saku.
3. Mandera County
Banissa, Lafey, Mandera East, Mandera North, Mandera South, Mandera West.
4. Wajir County
Eldas, Tarbaj, Wajir East, Wajir North, Wajir South, Wajir West.
5. Garissa County
Balambala, Daadab, Fafi, Garissa Township, Ijara, Lagdera.
6. Kiambu County
Gatundu North, Gatundu South, Githunguri, Juja, Kabete, Kiambaa, Kiambu, Kikuyu, Lari, Limuru, Ruiru, Thika Town.
7. Makueni County
Kaiti, Kibwezi East, Kibwezi West, Kilome, Makueni, Mbooni.
8. Machakos County
Kangundo, Kathiani, Machakos Town, Masinga, Matungulu, Mavoko, Mwala, Yatta.
9. Kajiado County
Kajiado Central, Kajiado East, Kajiado North, Kajiado South, Kajiado West.
10. Tana River County
Bura, Galore, Garsen.
11. Lamu County
Lamu East, Lamu West,
12. Kilifi County
Ganze, Kaloleni, Kilifi North, Kilifi South, Magarini, Malindi, Rabai.
13. Mombasa County
Changamwe, Jomvu, Kisauni, Likoni, Mvita, Nyali.
14. Kwale County
Kinango, Lungalunga, Matuga Msambweni.
15. Taita Taveta County
Mwatate, Taveta, Voi, Wundanyi.
16. Nakuru County
Bahati, Gilgil, Kuresoi North, Kuresoi South, Molo, Naivasha, Nakuru Town East, Nakuru Town West, Njoro, Rongai, Subukia.
17. Nyandarua County
Kinangop, Kipipiri, Ndaragwa, Ol Jorok, Olkalau,
18. Narok County
Emurua Dikirr, Kilgoris, Narok East, Narok North, Narok South, Narok West.
19. Samburu County
Samburu East, Samburu North, Samburu West
20. Siaya County
Alego Usonga, Bondo, Gem, Rarienda, Ugenya, Ugunja
21. Kisumu County
Kisumu Central, Kisumu East, Kisumu West, Muhoroni, Nyakach, Nyando, Seme,
22. Homa Bay County
Homa Bay Town, Kabondo, Karachuonyo, Kaspul, Mbita, Ndhiwa, Rangwe, Suba.
23. Migori County
Awendo, Kuria East, Kuria West, Nyatike, Rongo, Suna East, Suna West, Uriri.

SCHEMES IN OPERATION (continued)

24. Kisii County
Bobasi, Bomachoge Borabu, Bomachoge Chache, Bonchari, Kitutu Chache North, Kitutu Chache South, Nyaribari Chache, Nyaribari Masaba, South Mugirango.
25. Nyamira County
Borabu, Kitutu Masaba, North Mugirango, West Mugirango.
26. Bomet County
Bomet Central, Bomet East, Chepalungu, Konoin, Sotik
27. Kericho County
Ainamoi, Belgut, Bureti, Kipkelion East, Kipkelion West, Sigowet/Soin.
28. Bungoma County
Bumula, Kabuchai, Kanduyi, Kimilili, Mt. Elgon, Sirisia, Tongaren, Webuye East, Webuye West.
29. Busia County
Budalangi, Butula, Funyula, Matayos, Nambale, Teso North, Teso South
30. Kakamega County
Butere, Ikolomani, Khwisero, Likuyani, Lugari, Lurambi, Malava, Matungu, Mumias East, Mumias West, Nvakholo, Shinyalu.
31. Vihiga County
Emuhaya, Hamisi, Luanda, Sabatia, Vihiga
32. Nyeri County
Kieni, Mathira, Mukurweini, Nyeri Town, Othaya, Tetu.
33. Kirinyaga County
Gichugu, Kirinyaga Central, Mwea, Ndia.
34. Muranga County
Gatanga, Kandara, Kangema, Kigumo, Kiharu, Maragua, Mathioya
35. Kitui County
Kitui Central, Kitui East, Kitui Rural, Kitui south, Kitui West, Mwingi Central, Mwingi North, Mwingi West.
36. Embu County
Manyatta, Mbeere North, Mbeere South, Runyenjes.
37. Tharaka-Nithi County
Chuka/ Igambangombe, Maara, Tharaka.
38. Meru County
Buuri, Central Imenti, Igembe Central, Igembe North, Igembe South, North Imenti, South Imenti, Tigania East, Tigania West.
39. Isiolo County
Isiolo North, Isiolo West.
40. Laikipia County
Laikipia East, Laikipia North, Laikipia West
41. Baringo County
Baringo Central, Baringo North, Baringo South, Eldama Ravine, Mogotio, Tiaty.
42. Elgeyo Marakwet County
Keiyo North, Keiyo South, Marakwet East, Marakwet West
43. Uasin Gishu County
Ainabkoi, Kapseret, Kesses, Moiben, Soy, Turbo
44. Nandi County
Aldai, Chesumei, Emgwen, Mosop, Nandi Hills, Tinderet
45. Turkana County
Loima, Turkana Central, Turkana East, Turkana North, Turkana South, Turkana West.
46. West Pokot County
Kacheliba, Kapenguria, Pokot South, West Pokot, Sigor.
47. Trans Nzoia County
Cherangany, Endebess, Kiminini, Kwanza, Saboti.

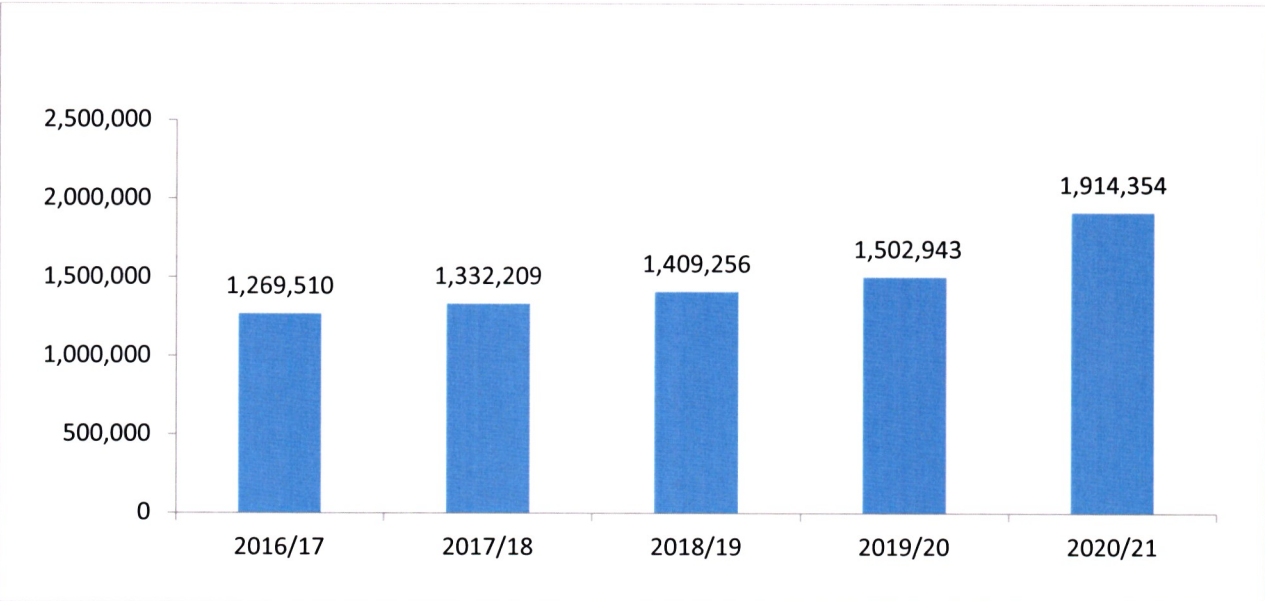
The Kenya Power and Lighting Company Plc- Rural Electrification Scheme
 Report of the Scheme Administrator (Continued)
 For the year ended 30 June 2021

Five years' financial and statistical information

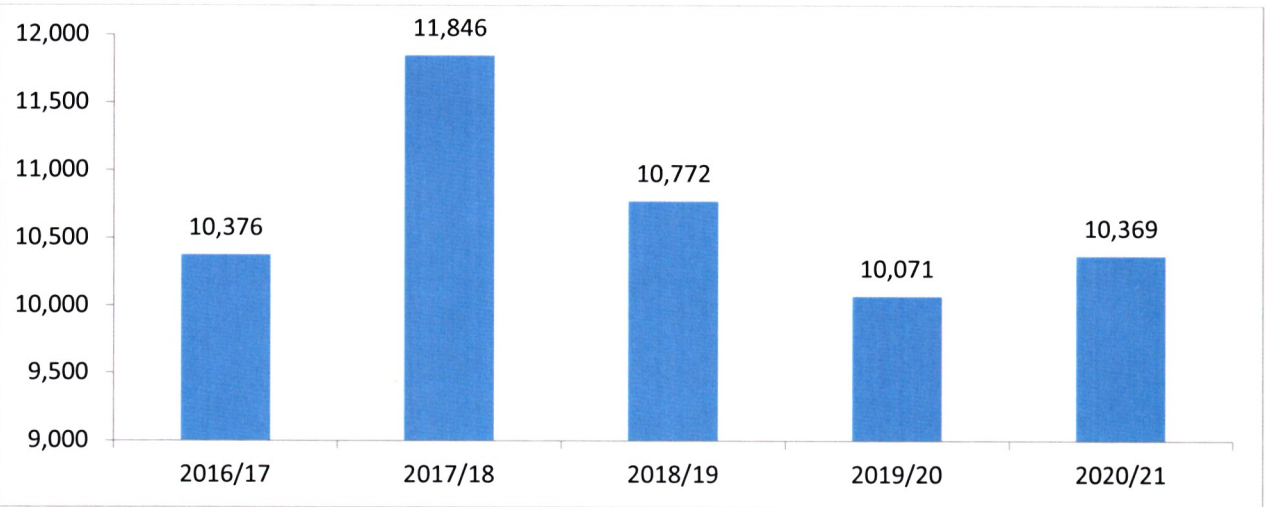
Year	2017	2018	2019	2020	2021
Units sold (GWh) Millions					
National Grid	549	565	554	556	581
Off-Grid Stations	<u>28</u>	<u>33</u>	<u>41</u>	<u>46</u>	<u>50</u>
Total units sold	<u>577</u>	<u>598</u>	<u>595</u>	<u>602</u>	<u>631</u>
Number of customers	1,269,510	1,332,209	1,409,256	1,502,943	1,914,354
% Increase in customers per year	30.6%	4.9%	5.8%	6.6%	27.37%
Summarised financial statements	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
Revenue	10,376,263	11,845,821	10,771,956	10,071,402	10,369,255
Operating expenses	<u>(14,363,641)</u>	<u>(16,746,033)</u>	<u>(15,869,268)</u>	<u>(16,059,194)</u>	<u>(16,943,224)</u>
Deficit for the year	<u>(3,987,378)</u>	<u>(4,900,212)</u>	<u>(5,097,312)</u>	<u>(5,987,792)</u>	<u>(6,573,969)</u>
CAPITAL EMPLOYED					
Fixed assets net of depreciation	32,302,416	42,054,470	53,792,861	63,972,880	71,509,120
Due from KPLC	3,743,116	6,106,984	5,518,654	4,442,539	3,074,696
Inventory	-	-	-	-	6,584
Other receivables	<u>1,454,054</u>	<u>893,933</u>	<u>3,626,080</u>	<u>6,707,094</u>	<u>10,420,957</u>
	<u>37,499,586</u>	<u>49,055,387</u>	<u>62,937,595</u>	<u>75,122,513</u>	<u>85,011,357</u>
FINANCED BY					
Scheme balances	55,527,286	67,630,166	80,196,860	89,103,433	95,796,908
Accumulated deficit	<u>(23,638,741)</u>	<u>(28,538,953)</u>	<u>(33,636,265)</u>	<u>(39,624,055)</u>	<u>(43,698,024)</u>
Current liabilities	<u>5,611,041</u>	<u>9,964,174</u>	<u>16,377,000</u>	<u>25,643,135</u>	<u>32,912,473</u>
	<u>37,499,586</u>	<u>49,055,387</u>	<u>62,937,595</u>	<u>75,122,513</u>	<u>85,011,357</u>

Five years financial and statistical information (continued)

Customer base

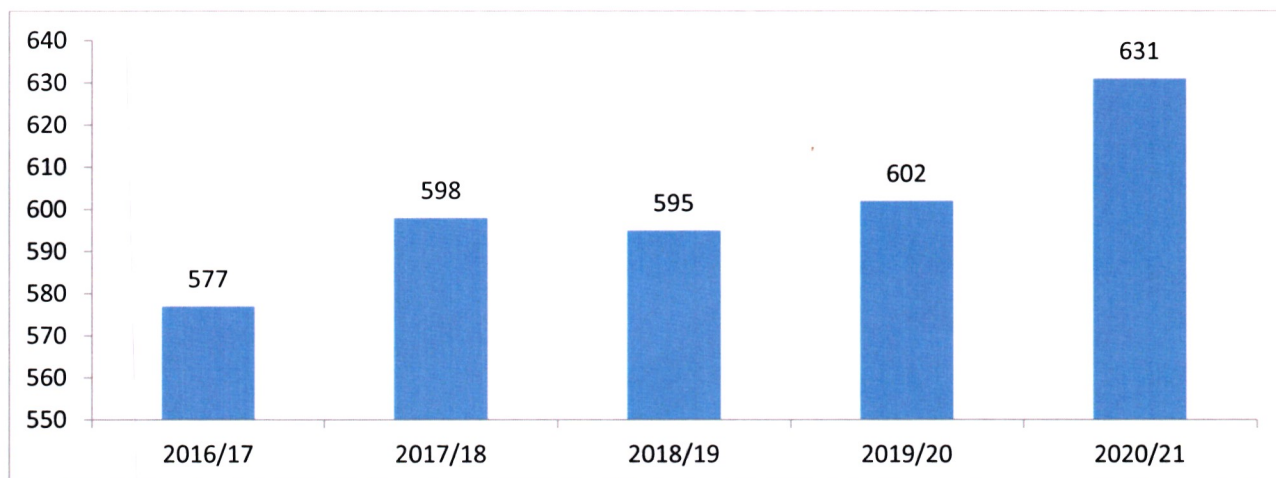


Revenue Million (KShs)

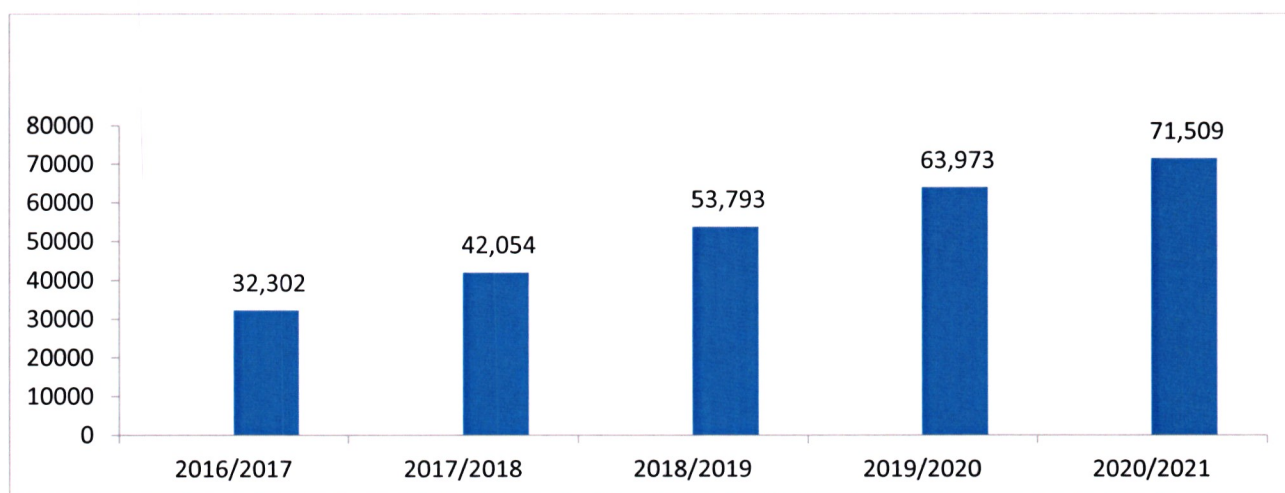


Five years financial and statistical information (continued)

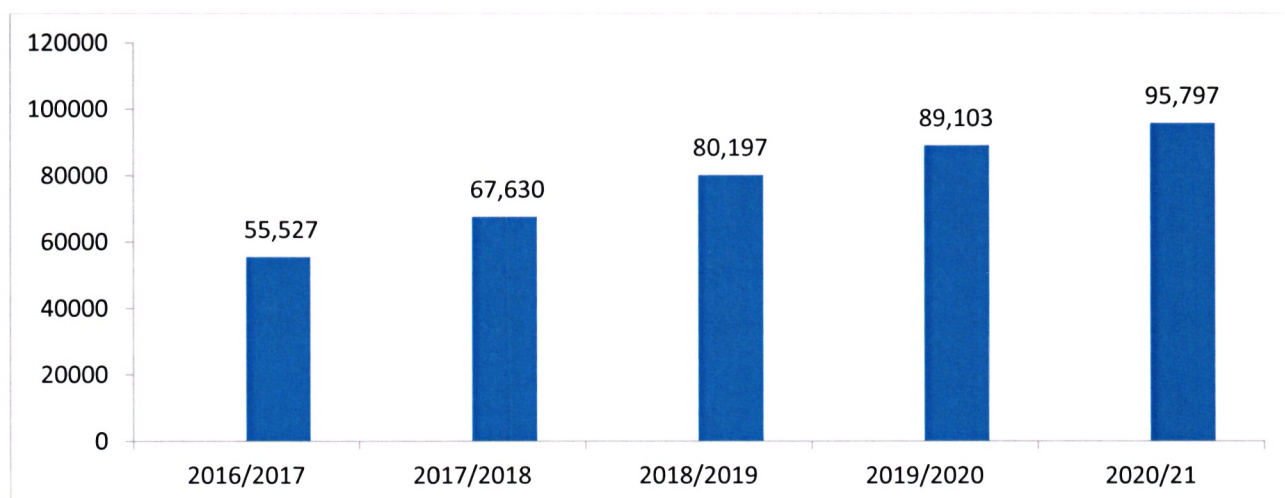
Units Sold in Million (Gwh)



Fixed Assets Net of Depreciation in Millions (KShs)



Scheme Balances (Equity) in Million (KShs)



RESULTS FOR THE YEAR

	2021 KShs'000	2020 KShs'000
Deficit for the year	<u>6,573,969</u>	<u>5,987,792</u>

PERFORMANCE REVIEW

The deficit for the year increased due to an increase in the RES network mainly through the Last Mile connectivity initiative.

CAPITAL EXPENDITURE

During the year, a total of KShs 9,435,282,000 (2020: KShs 11,557,967,000) was spent on capital works. The capital work-in progress as at 30 June 2021 amounted to KShs 32,374,447,000 (2020: KShs 24,583,902,000).

SCHEME ADMINISTRATOR

The Principal Secretary, Ministry of Energy. The position is currently held by Maj. Gen (Rtd). Gordon O Kihalangwa.

SCOPE OF THE FINANCIAL STATEMENTS

The financial statements only cover the Scheme's operations managed by KPLC. All cash related transactions are handled by KPLC through the intercompany current account or directly by the donor. Consequently, no statement of cash flows has been prepared under the Scheme's financial statements.

TERMS OF APPOINTMENT OF THE AUDITOR

The Auditor-General is responsible for the statutory audit of the Scheme's financial statements in accordance with section 35 of the Public Audit Act, 2015. Section 23 (1) of the Act empowers the Auditor-General to appoint other auditors to carry out the audit on his behalf. Accordingly, Ernst & Young LLP were appointed to carry out the audit for the year ended 30 June 2021 and report to the Auditor-General.

By Order of the Scheme Administrator
Principal Secretary, Ministry of Energy



24/11

2021

The Kenya Power and Lighting Company Plc - Rural Electrification Scheme
Statement of Scheme Administrator's and KPLC's Responsibilities
For the year ended 30 June 2021

It is the responsibility of the Scheme Administrator to prepare financial statements for each financial year, which give a true and fair view of the financial position of the Scheme as at the end of the financial year and of its financial performance for that year. Under the 1973 agreement, this responsibility was delegated to KPLC. This responsibility is based on the recommendations contained in the Mercado's report, the formula of which was adopted by KPLC Board of Directors during its meeting held on 19 August 2010 under minute No. SCS12/10.

The Scheme Administrator and KPLC are responsible for ensuring that the Scheme keeps proper accounting records that are sufficient to show and explain the transactions of the Scheme; disclose with reasonable accuracy at any time the financial position of the Scheme; and that enables them to prepare financial statements of the Scheme that comply with prescribed financial reporting standards. They are also responsible for safeguarding the assets of the Scheme and for taking reasonable steps for the prevention and detection of fraud and other irregularities.


The Scheme Administrator and KPLC have accepted responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards. They also accept responsibility for:

- i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- ii) Selecting suitable accounting policies and then applying them consistently; and
- iii) Making judgements and accounting estimates that are reasonable in the circumstances.

In preparing the financial statements, the Scheme Administrator and KPLC have assessed the Scheme's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation in note 2(a) of the financial statements.

The Scheme Administrator and KPLC acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Scheme Administrator and KPLC on 24/11 2021 and signed on their behalf by:



Maj. Gen (Rtd). Gordon O Kihalangwa
Principal Secretary
Ministry of Energy



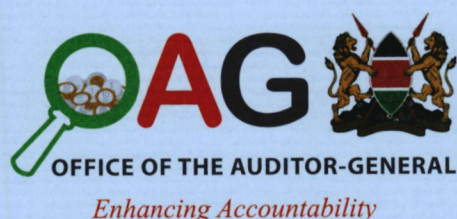
Mrs. Eng. Rosemary Oduor
Ag. Managing Director & CEO
The Kenya Power and Lighting Company Plc



Mr. Stephen Vikiru
Ag. General Manager, Finance
The Kenya Power and Lightning Company Plc

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REPORT OF THE AUDITOR-GENERAL ON RURAL ELECTRIFICATION SCHEME FOR THE YEAR ENDED 30 JUNE, 2021 – KENYA POWER AND LIGHTING COMPANY PLC

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

The accompanying financial statements of Rural Electrification Scheme set out on pages 13 to 33, which comprise the statement of financial position as at 30 June, 2021 and the

Report of the Auditor-General on Rural Electrification Scheme for the year ended 30 June, 2021 – Kenya Power and Lighting Company PLC

statement of comprehensive income, statement of changes in scheme balances and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Ernst and Young LLP, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, except for the effect of the matters 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 Scheme as at 30 June, 2021, and of its financial performance for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property and Equipment

The statement of financial position as at 30 June, 2021 reflects property and equipment valued at Kshs.71,509,120,000. The assets values are carried at cost less recognised impairment loss. However, during the year under review, the Management did not carry out an impairment assessment of the scheme's fixed assets which has an impact on the values of those assets.

Further the property and equipment value of Kshs.71,509,120,000 includes several assets which were fully depreciated as reflected in the fixed assets register, including staff quarters houses and power station buildings. According to the Management, the buildings were demolished to pave way for construction of Kenya Power and Lighting Company PLC (KPLC) substations. However, no details or evidence was provided for audit review to indicate how many buildings were demolished and when the demolitions took place.

In addition, the scheme owns two buildings valued at Kshs.5,354,000 and Kshs.52,581,000 respectively built on land that lacks documentation of ownership by the Scheme. The scheme also owns furniture and equipment with a cost of Kshs.489,482,000 and book value of Kshs.91,471,000 whose details such as location and condition were not provided.

In the circumstances, the accuracy, validity and completeness of property and equipment value of Kshs.71,509,120,000 reflected in the financial statements as at 30 June, 2021 could not be confirmed.

2. Accumulated Deficit

The statement of financial position reflects an accumulated deficit amounting to Kshs.43,698,024,000 which, as disclosed in note 16 to the financial statements, includes an amount of Kshs.10,001,789,000 indicated as irrecoverable deficit from the Government. According to the Management, the amount relates a reimbursement claim by the scheme from the National Government which was not honored. However, the

source from which the deficit was financed which is commensurate to the assets or expenditure already paid for was not explained.

Consequently, continued inclusion of the amount in the financial statements misstates the financial position of the scheme.

3. Unpaid Labour & Transport Contract Costs

The statement of financial position reflect trade and other payables amounting to Kshs.12,367,937,000 which includes Kshs.891,154,000 described as other payables in Note 12 of the financial statements. The other payables amount relates to labour and transport contract costs billed by contractors who undertook projects on behalf of the scheme in 2017, but their contracts were terminated due to flawed procurement process leading to court cases. Although the management indicated that some of the projects were already complete and possibly paid for, contracts documents used by the contractors in execution and billing for the work done, amounts billed and paid in respect of these projects, the date of contract cancellation and the percentage of work done compared to the project works were not provided for audit verification.

In the circumstances, it was not determined whether the Scheme received value for money paid for the projects. Further, the exposure to the Scheme from the ongoing cases could not be established. In addition, the accuracy and validity of other payables amounting to Kshs.891,154,000 reflected in the financial statements could not be confirmed.

4. Unproportionate Movement in Customers and Revenue Realized

The statement of comprehensive income reflects electricity sales amounting to Kshs.7,164,237,000 (2020 – Kshs.7,141,016,000). The Management of the Scheme indicated in the five years financial and statistical information that during the year under review, connections increased from 1,502,943 customers to 1,914,354 representing growth of 411,411 or 27.4% whilst the units consumed increased by 31Gwh representing 5.1% growth and an increase in revenue by Kshs.23,221,000 equivalent to 3%. Although the Management explained the growth in new connection was as a result of meter separation, no data was provided to show the proportion of actual growth in new customers. Further the unproportionate growth in the three parameters was not explained, casting doubt on the accuracy of the reported electricity sales.

5. Unrelated Accounts Payable

The statement of financial position reflects amount due to Kenya Power and Lighting Company (KPLC) totalling Kshs.20,544,536,000, as disclosed in Note 17(d) of the financial statements. The payable amount includes Kshs.248,564,000 due to KPLC current account - Rural Electrification Authority. According to the Scheme Management, the Government had instructed KPLC to connect electricity to some schools and invoice Rural Electrification and Renewable Energy Corporation (REREC), formerly Rural Electrification Authority the cost of connection. However, since KPLC did not have an intercompany balance account with REREC, the amount was captured under the Rural Electrification Scheme (RES).

In view of the above, the liability do not belong to the Scheme and therefore, wrongly reflected in the financial statement as a payable.

6. Work In Progress

Note 14 to the financial statements reflects capital work in progress amounting to Kshs.32,374,447,000 as at 30 June, 2021.

Review of the works revealed the following anomalies;

- i. The cost of work in progress reflected in the financial statements amounting to Kshs.32,374,447,000 is made up of 3404 projects including 145 projects costing Kshs.43,894,923 which were indicated as closed, implying that they had been completed and commissioned as at 30 June, 2021. However, the complete projects were not capitalized and depreciated. Consequently, the net book value of property and equipment are misstated.
- ii. The work in progress includes 124 projects with negative additions amounting to Kshs.8,345,974 which effectively reduced their carrying costs by a similar amount. The Management did not provide explanations for the negative additions to work in progress.
- iii. The works include Kshs.637,062,004 additions to work in progress during the year in respect of projects that commenced between 1 July, 2015 and 30 June, 2020 but had no booked costs within that period, more than a year later. No explanation was provided for the anomaly given that financial statements are prepared on accrual basis.
- iv. A total of 183 projects did not have movement either in additions or transfers from work in progress during the year, an indication that they may have stalled. However, no impairment provision was made in respect of those projects. Consequently, the work in progress amount is misstated, and the Company may not have obtained value for money in respect of the stalled projects.
- v. Work in progress costing Kshs.1,605,696,482 had exceeded their budget allocation of Kshs.1,550,446,778 by Kshs.55,249,703. However, the source of extra funding and the remaining cost to completion was provided or explained.

Under the circumstances, the accuracy, valuation and existence of work in progress amounting to Kshs.32,374,447,000 as at 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Rural Electrification Scheme Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

Material Uncertainty Related to Sustainability of Services

Note 2(a) to the financial statements indicates that the Scheme recorded a loss of Kshs.6,573,969,000 (2020: Kshs.5,987,792,000) leading to a total accumulated deficit amounting to Kshs.43,698,024,000 as at 30 June, 2021 as reflected in the statement of changes in net assets. Further, the current assets of the Scheme as at 30 June, 2021 totalled to Kshs.13,240,215,000 while its current liabilities as at the same date were Kshs.32,912,473,000, therefore, the current liabilities exceeded the current assets by Kshs.19,672,258,000. This indicated that the Scheme was technically insolvent and may not be able to meet its current financial obligations as and when they fall due. Inability of the Scheme to meet its current financial obligations as and when they fall due may result to the Scheme's inability to continue with its operations.

Further, the Scheme reported a negative working capital for six (6) consecutive years. As disclosed in the current and past financial statements, the Scheme is funded by the Government of Kenya which secures financing through budgetary allocation and other International Development Partners. However, unless the trend is reversed, the Scheme will continue to experience liquidity challenges.

These conditions indicate existence of material uncertainty which may cast significant doubt on the Scheme's ability to continue as a going concern.

My opinion is not qualified in respect of the effects of this matter.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. Lack of Update of the Cost Sharing Formula (Mercados Formula)

Costs incurred by KPLC in managing the entire electrical grid including connection to Rural Electrification Scheme customers are allocated to the Scheme based on the Mercados Formula which was adopted by the KPLC Board of Directors on 19 August, 2010. However, changes that have occurred in the operations between 2010 and 2021 had therefore, not been factored in the formula. For example, the Mercados Formula does not explicitly cover the foreign currency adjustments, wheeling charges and finance costs of KPLC to the Scheme. In addition, the wheeling charges, which were introduced in 2013, payable by KPLC to Kenya Electricity Transmission Company Limited (KETRACO) are also not explicitly covered by the formula. The Management of the Company exercises judgement in recharging the above but basis is not based on an agreed upon formula. This judgemental recharge of expenditure without an agreed basis may lead to misstatement of the costs allocated to Rural Electrification Scheme as a result to ineffective internal controls and governance by the Managers.

2. Customers with Illegal Connections

During the audit, there were instances of meter tampering noted which ranged from direct connection from Last Mile Connectivity Project (LMCP) poles and changing of live and neutral wire to distort flow of electricity. This indicates that Scheme loses revenue through illegal connections by customers which points to lack of an effective internal controls to detect instances of meter tampering and illegal connections.

No	Meter No	Location	Customer ID
1	37196736948	Kerora	Details not availed
2	37167038399	Rioter	Details not availed
3	37169050640	Nyandarua	Details not availed
4	Details not availed	Sabambe	61672222

The Management did not avail information to show the actions taken against customers with illegal connections.

3. Weaknesses in the Information Technology Systems

Review of Information Technology general controls revealed lack of regular review of Information Communication Technology (ICT) Policies, weakness in the SAP system

change transport process and lack of post Implementation review of SAP and INCMS system changes. In addition, the Scheme was using generic administrative accounts on INCMS system. Other weakness identified included inadequate user monitoring and security settings on INCMS, lack of documented and approved user role matrices, active accounts belonging to exited staff on SAP and INCMS and inappropriate privileged accounts with access to the SAP application and database. There were also missing system backup logs and gaps within the backup restoration and testing procedures. All the above-mentioned ICT weaknesses indicate that the Scheme does not have effective ICT controls.

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

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Scheme's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the applicable basis of accounting unless Management is aware of the intention to terminate the Scheme or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions which may cast significant doubt on the Project's ability to continue 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 Scheme 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 which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Scheme to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

20 June, 2022

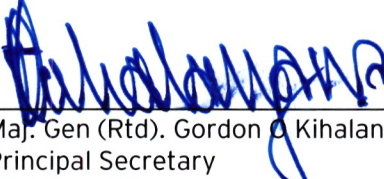
The Kenya Power and Lighting Company Plc - Rural Electrification Scheme
Statement of Comprehensive Income
For the Year Ended 30 June 2021

	Notes	2021 KShs'000	2020 KShs'000
Revenue			
Electricity sales	9	7,164,237	7,141,016
Fuel cost charge	9	1,515,781	1,588,017
Recoveries from KPLC	9	1,283,783	1,280,340
Foreign exchange adjustment	9	405,454	62,029
		<u>10,369,255</u>	<u>10,071,402</u>
Power purchase costs			
Non-fuel costs	7	6,107,693	5,642,149
Fuel costs	7	822,652	816,407
		<u>6,930,345</u>	<u>6,458,556</u>
Gross profit		<u>3,438,910</u>	<u>3,612,846</u>
Net operating expenses			
Administration	8(a)	3,337,515	3,004,886
Commercial services	8(b)	2,481,707	2,511,988
Network management	8(c)	4,193,657	4,083,764
		<u>10,012,879</u>	<u>9,600,638</u>
Total deficit for the year		<u>(6,573,969)</u>	<u>(5,987,792)</u>


The Kenya Power and Lighting Company Plc - Rural Electrification Scheme
Statement of Financial Position
As At 30 June 2021

	Notes	2021 KShs'000	2020 KShs'000
Assets			
Non-current assets			
Property and equipment	14	71,509,120	63,972,880
Due from KPLC	17(d)	<u>262,022</u>	<u>237,634</u>
		<u>71,771,142</u>	<u>64,210,514</u>
Current assets			
Inventory	15	6,584	-
Trade and other receivables	11	10,420,957	6,707,094
Due from KPLC	17(d)	<u>2,812,674</u>	<u>4,204,905</u>
		<u>13,240,215</u>	<u>10,911,999</u>
Total Assets		<u>85,011,357</u>	<u>75,122,513</u>
Scheme Balances and Liabilities			
Scheme balances			
Government, donor and customer contributions	13	95,796,908	89,103,433
Accumulated deficit	16	<u>(43,698,024)</u>	<u>(39,624,055)</u>
Net Scheme Balances		<u>52,098,884</u>	<u>49,479,378</u>
Current liabilities			
Trade and other payables	12	12,367,937	8,830,878
Due to KPLC	17(d)	<u>20,544,536</u>	<u>16,812,257</u>
		<u>32,912,473</u>	<u>25,643,135</u>
Total Scheme Balances and Liabilities		<u>85,011,357</u>	<u>75,122,513</u>

The financial statements on pages 13 to 33 were approved and authorised for issue by the Board of Directors on 24/11 2021 and signed on its behalf by:


Maj. Gen (Rtd). Gordon O. Kihalangwa
Principal Secretary
Ministry of Energy


Mrs. Eng. Rosemary Oduor
Ag. Managing Director & CEO
The Kenya Power and Lighting Company Plc


Mr. Stephen Vikiru
Ag. General Manager, Finance
The Kenya Power and Lighting Company Plc

The Kenya Power and Lighting Company Plc - Rural Electrification Scheme
Statement of Changes in Scheme Balances
For the Year Ended 30 June 2021

	Notes	Government contributions KShs'000	Accumulated deficit KShs'000 Note 16	Total KShs'000
Year ended 30 June 2020				
Balance as at 1 July 2019		80,196,860	(33,636,263)	46,560,597
Government, donor and customer contribution	13	8,906,573	-	8,906,573
Total comprehensive deficit for year		<u>-</u>	<u>(5,987,792)</u>	<u>(5,987,792)</u>
At the end of the year		<u>89,103,433</u>	<u>(39,624,055)</u>	<u>49,479,378</u>
Year ended 30 June 2021				
Balance as at 1 July 2020		89,103,433	(39,624,055)	49,479,378
Government, donor and customer contribution	13	6,693,475	-	6,693,475
Recurrent Deficit receipt from Government	16	-	2,500,000	2,500,000
Total comprehensive deficit for year		<u>-</u>	<u>(6,573,969)</u>	<u>(6,573,969)</u>
At the end of the year		<u>95,796,908</u>	<u>(43,698,024)</u>	<u>52,098,884</u>

1 General information

The Rural Electrification Scheme (RES) was established in 1973 by the Government of Kenya following an agreement between the Government and East African Power & Lighting Company (now The Kenya Power and Lighting Company Plc (KPLC)). The Scheme was established with the specific objective of extending electricity connectivity to the rural areas.

The address of the Scheme's registered office is as follows:

Stima Plaza
Kolobot Road, Parklands
P. O. Box 30099 - 00100, Nairobi, Kenya

2. Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS). They are presented in Kenya Shillings, which is also the functional currency (see Note 3 (f) below), rounded to the nearest thousand (KSh's'000). The financial statements comprise statement of Comprehensive Income, statement of financial position, statement of changes in scheme balances and the notes to the financial statements.

(a) Going concern assessment

The Scheme recorded a loss of KShs 6.574 billion (2020: KShs 5.988 billion) and its current liabilities exceed the current assets by KShs 19.672 billion (2020: KShs 14.731 billion). These conditions indicate that a material uncertainty exists that may cast significant doubt on the Scheme's ability to continue as a going concern as it may not meet its short-term obligations as and when they fall due. However, the Scheme is 100% funded by the Government of Kenya which secures financing for various projects for implementation by KPLC from the exchequer through budgetary allocation and other Donors. The Scheme's Administrator, therefore, is confident of continued support from the Government of Kenya and other development partners for the foreseeable future. Consequently, the financial statements have been prepared on the basis of accounting applicable to a going concern.

(b) Changes in accounting policy and disclosures

(i) New standards, amendments, interpretations and improvements

The Scheme applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 July 2020. The Scheme has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective. A list of the standards and amendments is below:

Effective for annual periods beginning on or after 1 January 2021:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform - Phase 2

The nature and the impact of the new standards, amendments and interpretations which are relevant to the Scheme are described below:

2. Basis of preparation (Continued)

(b) Changes in accounting policy and disclosures (Continued)

(i) *New standards, amendments, interpretations and improvements (Continued)*

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the financial statements of the Scheme. The Scheme intends to use the practical expedients in future periods if they become applicable.

Standards that are not yet effective and have not been early adopted

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Scheme's financial statements are listed below. The Scheme intends to adopt these standards, if applicable, when they become effective:

Effective for annual periods beginning on or after 1 April 2021 (*Earlier application is permitted, including in financial statements not yet authorised for issue at 31 March 2021*)

- Covid-19-Related Rent Concessions beyond 30 June 2021-Amendments to IFRS 16

Effective for annual periods beginning on or after 1 January 2022

- Reference to the conceptual framework -Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16
- Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37
- AIP IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter
- AIP IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities
- AIP IAS 41 Agriculture - Taxation in fair value measurements

Effective for annual periods beginning on or after 1 January 2023

- Classification of Liabilities as Current or Non-current - Amendments to IAS 1
- IFRS 17 Insurance Contracts
- Definition of Accounting Estimates - Amendments to IAS 8
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

Effective date postponed indefinitely

- Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

None of the standards and interpretations listed above are expected to have a significant impact on the Scheme's financial statements when they become effective.

3. Summary of significant accounting policies

(a) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Scheme and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or receivable taking into account contractually defined terms of payment and net of Value Added Tax and other Government levies. The following specific recognition criteria must be met before revenue is recognised:

(i) Electricity sales

Electricity sales revenue is recognised when customers on post-paid metering are billed for the power consumed. The billing is done for each monthly billing cycle based on the units consumed as read on the customers' electricity meters and the approved consumer tariffs. Electricity sales revenue for customers on prepaid metering is recognised when customers purchase electricity units and then adjusted for the estimated amount of unconsumed power based on the consumption rate over a period of time.

(ii) Fuel cost charge

The scheme recognises revenue relating to fuel costs charge in the month of approval by the Energy and Petroleum Regulatory Authority (EPRA). The billing to customers is based on their individual consumption in the month and applied as a charge per KWh. Fuel costs recoveries comprise the actual amounts billed to the customers.

(iii) Foreign exchange adjustment

Foreign exchange payments, arising from exchange rate differences not factored in the retail tariffs, are recognised and charged to the consumers of power to recover the losses in the foreign exchange rates. The net foreign currency costs are passed on to the customers as a charge per KWh, which is approved each month by the EPRA.

The recovery of fuel costs and the foreign exchange costs is based on supplier invoices and factors in the EPRA's target loss factor in transmission and distribution. For the year ended 30 June 2021, the target loss factor was 19.9%.

(iv) Deferred Revenue

The scheme has used a weighted average approach to determine the amount of revenue to defer and recognise in the subsequent period(s). Historical value of transactions and the current month's value of transactions is obtained over each day of the current month. The historical data is then used to obtain the average number of tokens purchased in a month that is to be applied to the current month's (June 2021) data to obtain the revenue to be deferred.

(v) Recoveries from KPLC

The electricity tariff rates billed to KPLC customers include a portion of revenue that goes towards funding the Scheme's activities. This is normally collected from KPLC customers and remitted to the Scheme.

(b) Power purchase costs

Power purchase costs comprise the actual costs of the isolated power stations operated by the Scheme. In addition, KPLC power purchase costs are apportioned to the Scheme based on units purchased by the Scheme's customers. These comprise:

(i) *Non-fuel costs*

These include capacity charges, energy cost and steam charges.

(ii) *Fuel costs*

These comprise the cost of fuel incurred in the generation of electricity and invoiced by suppliers.

3. Summary of significant accounting policies (continued)

(c) Net operating expenses

The Scheme's expenses are computed as a percentage of KPLC costs based on the provisions contained in the agreement of 1973 between KPLC and the Government of Kenya and the Mercados report of 2008. The main expenditure categories are:

(i) Administrative expense

The expense relates to costs directly incurred by the Scheme such as depreciation, audit fees and provision for doubtful debt.

(ii) Commercial expenses

The expense is calculated as a proportion of RES metered customers to total number of metered customers countrywide.

(iii) Network management

The expense is calculated based on 2% and 4% of the total high voltage and low voltage assets, respectively, in the books of the Scheme and Rural Electrification and Renewable Energy Corporation at the close of the financial year.

(d) Funding

Currently, the Scheme is funded by several donors through the Government of Kenya. Any property acquired by the Scheme remains the property of the Government. KPLC only acts as a management agent on behalf of the Government. Movements in the Government contributions account are accounted for in the statement of changes in Scheme balances. Contributions are accounted for on a receipts basis, either in cash or kind, where contributions in kind relate to capital costs contributed directly to the Scheme by a donor.

(e) Property and equipment

All property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation on other assets is calculated to write down their cost to their residual values, on a straight-line basis, over their expected useful lives. The depreciation rates used are as follows:

Buildings	The greater of 2% and the unexpired period of the lease
Distribution lines	2.5 - 20%
Motor vehicles	25%
Furniture, equipment & fittings	6.66 - 20%
Computer equipment	30%

The assets' residual values, estimated useful lives and methods of depreciation are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for prospectively. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the recognition of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset at the disposal date) is included in profit or loss for the year. This does not apply to assets acquired by the scheme on sale and leaseback transactions.

3. Summary of significant accounting policies (continued)

(e) Property and equipment (continued)

Properties in the course of construction for production, supply or administrative purposes are carried at cost less any recognised impairment loss. Cost includes professional fees and for qualifying assets, borrowing costs capitalised in accordance with the Scheme's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Capital work in progress

Capital work-in-progress is included under property and equipment and comprises costs incurred on ongoing capital works. The ongoing works are for the Last Mile electrification program funded directly by The Government of Kenya and by the donors. These costs include material, transport and labour costs incurred.

(f) Functional currency

The financial statements are presented in Kenya shillings (KShs), which is the Scheme's Functional and Presentation currency. Transactions in foreign currencies are initially recognized at amounts arrived at using the Functional currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the Functional currency using the rate of exchange ruling at the reporting date. Transactions during the year are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with in the surplus or deficit for the year.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

(g) Financial instruments

The Scheme assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI. The Scheme recognises a loss allowance for such losses at each reporting date.

The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Impairment of financial assets

The Scheme always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Scheme's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Scheme recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Scheme measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

3 Summary of significant accounting policies (continued)

(g) Financial Instruments (continued)

Impairment of financial assets (continued)

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) *Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Scheme compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Scheme considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

(ii) *Definition of default*

The Scheme considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Scheme, in full (without taking into account any collateral held by the Scheme).

Except for amounts where the counterparty is the Government or related public sector entities or Government Business Entities, the Scheme considers that default has occurred when a financial asset is more than 90 days past due.

The Scheme writes off debt only when there is objective evidence that the debt will not be recovered and after it has exhausted its collection avenues.

(iii) *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Scheme in accordance with the contract and all the cash flows that the Scheme expects to receive, discounted at the original effective interest rate.

The Scheme recognises an impairment gain or loss in profit or loss or other comprehensive income for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

3 Summary of significant accounting policies (continued)

(g) Financial Instruments (continued)

Financial liabilities (Continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(h) Provisions

Provisions are recognised when the scheme has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

(i) Impairment of non-financial assets

The Scheme reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss at reporting date, or when there are indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated, and an impairment loss is recognised in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's (CGU's) fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Where it is not possible to estimate the recoverable amount of an individual asset, the Administrator estimate the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment of transmission and distribution lines

A decline in the value of the transmission and distribution lines could have a significant effect on the amounts recognised in the financial statements. Management assesses the impairment of the lines whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that are considered important which could make an impairment review necessary include the following:

- (i) Significant decline in the market value beyond that which would be expected from the passage of time and normal use.
- (ii) Evidence from internal reporting which indicates that the performance of the asset is, or will be, worse than expected.
- (iii) Significant changes with adverse effect on the Scheme have taken place during the period, or will take place in the near future, in the technology or market environment in which the Scheme operates, or in the market to which an asset is dedicated.
- (iv) Evidence is available of the obsolescence or physical damage of an asset.
- (v) Significant changes with an adverse effect on the Scheme have taken place during the period or are expected to take place in the near future, which impact the manner or the extent to which an asset is used. These changes include plans to discontinue or restructure.
- (vi) the operation to which an asset belongs or an asset is disposed before the previously expected date.

3 Summary of significant accounting policies (continued)

(i) Impairment of non-financial assets (continued)

Impairment of transmission and distribution lines (continued)

In management's judgment, the impaired carrying values of the lines and substations are reinforced, replaced or upgraded under the Energy Sector Recovery Project, after considering the above key indicators of impairment.

(j) Payables

Payables are stated at their nominal value.

(k) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

4 Critical accounting judgements and key sources of estimation uncertainty

a) Critical Accounting Judgements

In the process of applying the accounting policies adopted by the Scheme, the Administrator makes certain judgements and estimates that may affect the amounts recognised in the financial statements. Such judgements and estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. However, actual results may differ from those estimates. The judgements and estimates are reviewed at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available, and any revisions to such judgements and estimates are recognised in the year in which the revision is made.

The effects of COVID-19 have resulted in certain judgements and estimates being significant in the current period. This is due to the uncertainty introduced by the effects of the pandemic, such as collection risk for customers which would then have an effect on impairment losses on trade and other receivables.

b) Key sources of estimation uncertainty

The key assumptions about the future, and other sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year include;

Deferred prepaid revenue

Revenue from prepaid customers is recognised when the customer purchases the tokens, before the customer actually consumes the electricity. The amount of unused tokens to be adjusted at year end is estimated based on historical customer trends.

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

b) Key sources of estimation uncertainty (Continued)

Impairment losses on receivables

When measuring expected credit losses (ECL), the Scheme uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Scheme would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Provisions

The Scheme faces exposure to claims and other liabilities. The claims and other liabilities normally take time to be determined and therefore significant judgement is required in assessing the likely outcome and the potential liabilities for such matters.

Useful lives of Property and equipment

The Scheme management determines the estimated useful lives and related depreciation charges for its property and equipment. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down obsolete items of property and equipment that have been abandoned or sold.

5. Financial risk management objectives and policies

The Scheme has an integrated risk management framework. The Scheme's approach to risk management is based on risk governance structures, risk management policies, risk identification, measurement and reporting. Three types of risks are reported as part of the risk profile, namely operational, strategic and business continuity risks.

For the Scheme, a strategic risk is a significant unexpected or unpredictable change or outcome beyond what was factored into the Scheme's strategy and business model which could have an impact on the Scheme's performance.

Business continuity risks are those events, hazards, variances and opportunities which could influence the continuity of the Scheme.

One of the key risks for the Scheme, identified both under the operational and strategic risk categories, is financial sustainability of the Scheme. The financial risks, as defined by IFRS 7, and the management thereof, form part of this key risk area.

One of the Administrator's responsibilities is to review risk management strategies in order to ensure business continuity and survival. Most of the financial risks arising from financial instruments are managed in the centralised finance function of the Scheme.

The Scheme's exposure to risk, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated.

5. Financial risk management objectives and policies (continued)

The Scheme has exposure to the following risks as a result of its financial instruments:

a) Credit risk

The Scheme has exposure to credit risk which is the risk that a counter party will be unable to pay amounts in full when they fall due. Credit risk arises mainly from electricity and other trade receivables.

Counterparty risk is the risk that a counterparty is unable to meet its financial and/or contractual obligations during the period of a transaction. Delivery or settlement risk is the risk that counterparty does not deliver on its contractual commitment on maturity date (including the settlement of money and delivery of securities).

Management assesses the credit quality of each counterparty, taking into account its financial position, past experiences and other factors. Individual risk limits are set based on internal ratings in accordance with limits set by management. The utilisation of credit limits is regularly monitored.

At the reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is analysed as follows:

	Fully performing KShs '000	Past due but not impaired KShs '000	Impaired KShs '000	Total KShs '000
At 30 June 2021				
Electricity receivables and last mile debtors	<u>10,420,957</u>	<u>-</u>	<u>3,426,828</u>	<u>13,847,785</u>
At 30 June 2020				
Electricity receivables and last mile debtors	<u>6,707,094</u>	<u>-</u>	<u>3,101,913</u>	<u>9,809,007</u>

The customers under the fully performing categories are paying their debts as they fall due. Past due amounts are those beyond the established credit period. Past due receivable balances continue to be serviced even though this is not done on contractual dates and the Scheme through KPLC (the managing agent) follows up these receivables.

Customer deposits collateral held by the Scheme as security amounted to KShs 1.490 Billion (2020: KShs 1.502 Billion).

b) Liquidity risk

Liquidity risk is the risk the Scheme will not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows from revenue and capital and operational outflows. The Scheme's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation. The Scheme is fully funded by the Government and donor agencies and therefore faces minimal liquidity exposure.

The Scheme's financial liabilities disclosed under Note 12 are all due within one year based on the remaining period using 30 June 2021 as the base period to the contractual maturity date.

5. Financial risk management objectives and policies (continued)

c) Market risk

Market risk is the risk that the fair value or future cash flow of financial instruments will fluctuate because of changes in foreign exchange rates, commodity prices and interest rates. The objective of market risk management policy is to protect and enhance the statement of financial position and statement of comprehensive income by managing and controlling market risk exposures within acceptable parameters and to optimise the funding of business operations and facilitate capital expansion. The Scheme is exposed to the following risks:

i) Commodity or price risk

Commodity or price risk arises from the fuel that is used for the generation of electricity. Exposure due to commodity risk is managed by passing the cost of fuel used in generation to customers. In addition, the Scheme has well-established credit control procedures that monitor activity on customer accounts and allow for remedial action should the customer not comply with payment terms. These procedures include the issue of a notice of disconnection of supply, an internal collection process; follow up of the customer by telephone or in person, negotiations of mutually acceptable payment arrangements and letters of demand. Non-payment will result in disconnection of supply and the customer's account being closed. The legal collection process is pursued thereafter.

The decision to impair overdue amounts is assessed on the probability of recovery based on the customer's credit risk profile.

ii) Interest rate risk

Interest rate is the risk that the Schemes financial condition may be adversely affected as a result of changes in the market interest rates levels. The Scheme is not exposed to interest rate risks as it has no borrowings or cash and cash equivalents.

iii) Currency exchange risk

Currency risk arises primarily from purchasing imported goods and services directly from overseas or indirectly via local suppliers and foreign borrowings. The Scheme operates wholly within Kenya and its assets and liabilities are denominated in Kenya shillings. The Scheme has limited transactions in foreign currency. The Scheme Administrator believes there is minimal risk of significant losses due to exchange rate fluctuations.

d) Fund management

The primary objective of the Scheme's fund management is to ensure that it is able to implement projects as they are projected and in line with the Government policy on rural electrification. To achieve this, the Scheme's Administrator ensures that all costs allocation is done as per Mercados report. Any excess losses are recovered from the Government.

6 Taxation

The Government established the Rural Electrification Programme in 1973 for purposes of subsidizing electricity supply in the rural areas for purposes of supporting the socio-economic development of the country. KPLC was appointed as a contractor for planning, implementation, operation and maintenance of rural electrification schemes under the programme. The Government through MOE took responsibility of sourcing for funds and coordinating the implementation of the programme. Hence, RES is not an independent entity which can be subjected to corporate tax. All other taxes are accounted for by KPLC.

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7 Power purchase costs	2021 KShs'000	2020 KShs'000
Non fuel costs:		
Recharge from KPLC	<u>6,107,693</u>	<u>5,642,149</u>
	<u>6,107,693</u>	<u>5,642,149</u>
Fuel costs:		
Recharge from KPLC	<u>822,652</u>	<u>816,407</u>
	<u>6,930,345</u>	<u>6,458,556</u>

The increase of KShs 472 million in power purchase costs is as a result of rise in overall power purchase costs and units purchased attributable to RES.

8 Net operating expenses	2021 KShs'000	2020 KShs'000
(a) Administration		
(Decrease)/Increase in expected credit losses	329,429	311,686
Write offs	24	4,539
Depreciation	1,899,041	1,377,949
Non-meter reading and billing (recharge from KPLC)	1,103,837	1,305,612
Auditor remuneration	<u>5,184</u>	<u>5,100</u>
	<u>3,337,515</u>	<u>3,004,886</u>
(b) Commercial services		
Recharge from KPLC:		
Meter reading and billing	<u>2,481,707</u>	<u>2,511,988</u>
(c) Network management expenses		
Recharge from KPLC:		
HV Lines-costs	1,401,224	1,371,351
LV Lines-costs	<u>2,535,954</u>	<u>2,454,979</u>
	3,937,178	3,826,330
Off-grid cost non fuel	<u>256,479</u>	<u>257,434</u>
	<u>4,193,657</u>	<u>4,083,764</u>

The rise in network management costs of KShs 110 million was due to additional network cost capitalized during the year of KShs 3.52 billion in both RES (KShs 1.57 billion) and REREC (KShs 1.95 billion) books.

9 Recharges from KPLC

The Scheme continued to be managed by the KPLC on behalf of the Government of Kenya.

Revenue allocation	2021 KShs'000	2020 KShs'000
Tariff	7,164,237	7,141,016
Fuel	1,515,781	1,588,017
Forex	405,454	62,029
Recoveries from KPLC*	<u>1,283,783</u>	<u>1,280,340</u>
	<u>10,369,255</u>	<u>10,071,402</u>

9 Recharges from KPLC (continued)

Revenue allocation (continued)

*Included in the electricity tariff to KPLC customers is an amount that goes towards funding the Scheme's activities. This amount is reallocated based on the percentage of KPLC's revenue to total revenue collected applied to the units recoverable from KPLC, currently fixed at KShs 1,364,000,000.

10 Capital commitments	2021 KShs'000	2020 KShs'000
Net capital commitments on the various incomplete schemes	<u>11,210,679</u>	<u>17,461,312</u>

The capital commitments relate to the ongoing capital projects which have been approved and were at various stages of implementation as at 30 June 2021.

11 Receivables	2021 KShs'000	2020 KShs'000
Electricity receivables	4,602,822	4,311,365
Expected credit losses	<u>(3,426,828)</u>	<u>(3,101,913)</u>
Net electricity receivables	1,175,994	1,209,452
VAT recoverable	-	24,505
Last Mile Pre-paid debtors	<u>9,244,963</u>	<u>5,473,137</u>
	<u>10,420,957</u>	<u>6,707,094</u>
Movement in the expected credit losses for trade receivables		
At start of year	(3,126,323)	(2,814,637)
Decrease/(Increase) in provision for trade receivables	(329,429)	(311,686)
Write offs adjustments	<u>28,924</u>	<u>-</u>
At end of year	<u>(3,426,828)</u>	<u>(3,126,323)</u>

12 Payables

Customer deposits	1,472,224	1,496,586
Customer credit balances	400,809	406,917
Other deposits	353,173	186,157
Other payables	891,154	1,258,912
Audit fees	5,458	5,525
Last Mile Pre-Paid Creditors	<u>9,245,119</u>	<u>5,476,781</u>
	<u>12,367,937</u>	<u>8,830,878</u>

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13 Government, donor and customer contribution cumulative	2021 KShs'000	2020 KShs'000
Direct government contributions	34,999,650	34,929,569
Government Contribution - Last mile	14,862,870	14,210,837
African Development Bank Contribution - Last Mile	11,643,993	11,372,226
Spanish credit programme	3,269,502	3,269,502
World Bank Kemp IDA Last Mile	13,328,348	11,128,491
African Development Bank Contribution II - Last Mile	12,974,340	9,474,603
Nordic Development Bank-NDF Solar Lanterns	155,151	155,151
KPLC (2% contribution)	1,901,057	1,901,057
French credit programme	842,419	842,419
Interest on CIDA transmission lines loan	470,900	470,900
CIDA Kipevu Rehabilitation*	68,000	68,000
Token capital contributions	368,043	368,043
Finnish materials grant	269,808	269,808
Interest on Finnish loan	31,396	31,396
Stabex Development funds	266,893	266,893
Danish materials grant	155,306	155,306
SIDA material grant**	66,838	66,838
Overseas Development Agency	48,335	48,335
NCCK Project IV***	34,974	34,974
Norwegian material grant	25,733	25,733
Canadian material grant	<u>13,352</u>	<u>13,352</u>
	<u>95,796,908</u>	<u>89,103,433</u>
At start of year	89,103,433	80,196,860
New contribution	<u>6,693,475</u>	<u>8,906,573</u>
At end of year	<u>95,796,908</u>	<u>89,103,433</u>

Government contributions comprise the funds either in cash or in materials that the government releases to the Scheme to fund the rural electrification programme. Contributions to the Scheme are not regarded as revenue since the Scheme is a program of the Government and hence the Government invests its own resources to fund the rural electrification activities.

Contributions are accounted for on a receipt basis, either in cash or kind, where contributions in kind relate to capital costs contributed directly to the Scheme by a sponsor. These are accounted for through Scheme balances.

* CIDA - Canadian International Development Agency

**SIDA - Swedish International Development Agency

***NCCK - National Council of Churches of Kenya

14 Property and equipment

	Land and buildings	Distribution lines	Furniture and equipment	Motor vehicles	Work in progress	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost						
At 1 July 2019	52,581	34,981,183	489,482	43,947	29,906,292	65,473,485
Work in progress additions	-	-	-	-	11,557,967	11,557,967
Transfer from work in progress	-	16,880,358	-	-	(16,880,358)	-
At 30 June 2020	<u>52,581</u>	<u>51,861,541</u>	<u>489,482</u>	<u>43,947</u>	<u>24,583,901</u>	<u>77,031,452</u>
Depreciation						
At 1 July 2019	46,375	11,191,185	419,991	23,072	-	11,680,623
Charge for the year	426	1,344,859	22,776	9,888	-	1,377,949
At 30 June 2020	<u>46,801</u>	<u>12,536,044</u>	<u>442,767</u>	<u>32,960</u>	<u>-</u>	<u>13,058,572</u>
Net Book Value at 30 June 2020	<u>5,780</u>	<u>39,325,497</u>	<u>46,715</u>	<u>10,987</u>	<u>24,583,901</u>	<u>63,972,880</u>
Cost						
At 1 July 2020	52,581	51,861,541	489,482	43,947	24,583,901	77,031,452
Work in progress additions	-	-	-	-	9,435,282	9,435,282
Transfer from work in progress	-	1,568,207	76,529	-	(1,644,736)	-
At 30 June 2021	<u>52,581</u>	<u>53,429,748</u>	<u>566,011</u>	<u>43,947</u>	<u>32,374,447</u>	<u>86,466,734</u>
Depreciation						
At 1 July 2020	46,801	12,536,044	442,767	32,960	-	13,058,572
Charge for the year	426	1,860,251	31,773	6,592	-	1,899,042
At 30 June 2021	<u>47,227</u>	<u>14,396,295</u>	<u>474,540</u>	<u>39,552</u>	<u>-</u>	<u>14,957,614</u>
Net Book Value at 30 June 2021	<u>5,354</u>	<u>39,033,453</u>	<u>91,471</u>	<u>4,395</u>	<u>32,374,447</u>	<u>71,509,120</u>

15 Inventory

	2021 KShs'000	2020 KShs'000
Inventory	<u>6,584</u>	<u>-</u>

16 Accumulated deficit

	Accumulated irrecoverable deficit- government KShs'000	Accumulated irrecoverable deficit KShs'000	Accumulated recoverable deficit-Tariff KShs'000	Total KShs'000
Year ended 30 June 2020				
At start of year	9,259,607	11,680,624	12,696,032	33,636,263
Depreciation charge for the year	-	1,377,949	(1,377,949)	-
Reallocations from recoverable	742,182	-	(742,182)	-
Total comprehensive deficit for the year	-	-	<u>5,987,792</u>	<u>5,987,792</u>
At end of year	<u>10,001,789</u>	<u>13,058,573</u>	<u>16,563,693</u>	<u>39,624,055</u>
Year ended 30 June 2021				
At start of year	10,001,789	13,058,573	16,563,693	39,624,055
Depreciation charge for the year	-	1,899,041	(1,899,041)	-
Recurrent Deficit receipt from Government	-	-	(2,500,000)	(2,500,000)
Total comprehensive deficit for the year	-	-	<u>6,573,969</u>	<u>6,573,969</u>
At end of year	<u>10,001,789</u>	<u>14,957,614</u>	<u>18,738,621</u>	<u>43,698,024</u>

- (i) Irrecoverable deficit - Government comprises all expenditure net of revenue recoverable from the Government of Kenya under the previous cost recovery formula prior to 30th June 2008. The Government refuted the amount and recommended it to be reclassified. As at 30th June 2020 KShs 10.001Billion was reclassified from recoverable deficit to irrecoverable deficit as per the MOE Letter Ref No ME/CONF/2/1/1 dated April 06, 2020.
- (ii) Irrecoverable deficit comprises depreciation charged on the Scheme assets and is only recoverable when the respective asset is disposed. The amount relates to accumulated depreciation since inception of the Scheme.
- (iii) Recoverable deficit - tariff charges comprises all expenditure net of revenue recoverable if the actual operation and maintenance costs for RES exceed the current available revenue as a result of the accelerated rural electrification programme.
- (iv) The Recurrent Deficit receipt from Government amounting to KShs 2.500 billion was received from government of Kenya to repay part of the accumulated recoverable deficit incurred by the scheme over the years.

17 Related party disclosures

During the year, the following transactions were carried out with related parties:

- (a) The Scheme had no individually significant transactions carried out on non-market terms.
(b) Other transactions that are collectively significant are detailed as follows:

	2021 KShs'000	2020 KShs'000
(i) Government of Kenya Contributions	722,114	1,953,448
(ii) AfDB Last Mile- Contributions	271,767	446,607
(iii) World Bank Kemp IDA Last Mile Contributions	2,199,856	3,169,808
(iv) AfDB II Last mile- Contributions	<u>3,499,738</u>	<u>3,336,710</u>
	<u>6,693,475</u>	<u>8,906,573</u>
(c) Transactions with KPLC during the year		
Power Purchase	6,930,345	6,548,556
Administration and Customer service	3,585,544	3,817,600
Operating Expenses	<u>4,193,657</u>	<u>4,083,764</u>
	<u>14,709,546</u>	<u>14,449,920</u>
Revenue and recoveries from KPLC	<u>1,283,783</u>	<u>1,280,340</u>

- (i) Government of Kenya contributions comprise the amount of funds provided directly by the Government to fund the Scheme's activities in the year.
- (ii) These are contributions by The African Development Bank (AfDB) Phase I towards the Last Mile Electrification Program based on a loan signed between the Republic of Kenya and the African Development Fund dated 18 December 2014. The loan is to be repaid by the Government of Kenya after a 5 years grace period.
- (iii) These are contributions by World Bank KEMP IDA towards the Last Mile Electrification Program based on a Grant signed between the Government of Kenya and KPLC dated 29 June 2015.
- (iv) These are contributions by The African Development Bank (AfDB) phase II towards the Last Mile Electrification Program based on a loan signed between the Republic of Kenya and the African Development Bank dated 17 October 2016. The loan is to be repaid by the Government of Kenya after a 5-years grace period.

17 Related party disclosures (continued)

(d) Recording of transfers from other government entities

Name of Donor transferring the funds	Date as per bank statement	Nature	Total amount KShs'000	Capital fund KShs'000	Total transfers KShs'000
MoE*	27.09.2020	Grid Extension	40,351	40,351	40,351
MoE*	23.09.2020	Last Mile	250,678	250,678	250,678
MoE*	22.10.2020	Grid Extension	29,730	29,730	29,730
MoE*	24.04.2021	Last Mile	401,355	401,355	401,355
MoE*	27.04.2021	Recurrent Deficit receipt from Government	2,500,000	2,500,000	2,500,000
AfDB I	Various	Donor Last Mile	271,767	271,767	271,767
AfDB II		Mile	3,499,738	3,499,738	3,499,738
World Bank Kemp IDA			2,199,856	2,199,856	2,199,856
Total			<u>9,193,475</u>	<u>9,193,475</u>	<u>9,193,475</u>

*MoE - Ministry of Energy

KShs 150,677,500 was received on 06.07.2021 by KPLC from the Government of Kenya for the financial year 2020/2021 on account of last mile connectivity Program. This amount is not included in the schedule of transfers above.

(e) Outstanding balances with The Kenya Power and Lighting Company Plc

	2021 KShs'000	2020 KShs'000
Due from KPLC		
Non-Current:		
KPLC current account - Capital	<u>262,022</u>	<u>237,634</u>
Current:		
KPLC current account - Last Mile GOK	2,491,066	3,824,511
KPLC current account - Last Mile AfDB II	127	127
KPLC current account World Bank Kemp IDA Last Mile	321,481	116,145
KPLC Inter-company	-	<u>264,122</u>
	<u>2,812,674</u>	<u>4,204,905</u>
	<u>3,074,696</u>	<u>4,442,539</u>
Due to KPLC		
KPLC current account - Rural Electrification Authority (REA)	248,564	248,564
KPLC Inter-company	1,557,351	-
KPLC current account - Recurrent Deficit	<u>18,738,621</u>	<u>16,563,693</u>
	<u>20,544,536</u>	<u>16,812,257</u>

The 'due from KPLC' balance represents the amount received by KPLC for execution of the Schemes activities. The due to KPLC balance represents amounts owed to KPLC on account of the Scheme's activities executed on its behalf.

18. Subsequent events

The Administrator is not aware of any material events after the reporting date that would require adjustment to, or disclosure in, these financial statements.