

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

*Paper Laid
By Hon. A. Duake (Lom)
On Thurs 30.7.2015 (pm)
[Signature]*



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
RURAL ELECTRIFICATION AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2014**



RURAL ELECTRIFICATION AUTHORITY
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014

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

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

Table of Contents	Page
KEY AUTHORITY INFORMATION AND MANAGEMENT	iii
BOARD OF DIRECTORS.....	vii
MANAGEMENT TEAM.....	xi
CHAIRMAN'S STATEMENT	xii
REPORT OF THE CHIEF EXECUTIVE OFFICER	xiv
CORPORATE GOVERNANCE STATEMENT	xviii
CORPORATE SOCIAL RESPONSIBILITY STATEMENT	xxix
REPORT OF THE DIRECTORS.....	xxx i
STATEMENT OF DIRECTOR'S RESPONSIBILITIES.....	xxxii
REPORT OF INDEPENDENT AUDITORS ON RURAL ELECTRIFICATION AUTHORITY	xxxiii
STATEMENT OF FINANCIAL PERFORMANCE	1
STATEMENT OF CHANGES IN NET ASSETS.....	3
STATEMENT OF CASH FLOWS	4
NOTES TO THE FINANCIAL STATEMENTS.....	5

KEY AUTHORITY INFORMATION AND MANAGEMENT

a) Background Information

The Rural Electrification Authority (REA) is a State Corporation established under section 67 of the Energy Act, No.12 of 2006.

b) Principal Activities

- (i) Management of the Rural Electrification Programme Fund
- (ii) Development and updating of the rural electrification programme master plan.
- (iii) Implementing and sourcing of funds for the rural electrification programme.
- (iv) Promotion of use of renewable energy sources including but not limited to small hydros, wind, solar, biomass, geothermal, hybrid systems and oil fired components taking into account specific needs of certain areas including the potential for using electricity for irrigation and in support of off-farm income generating activities.
- (v) Management of the delineation, tendering and award of contracts for licenses and permits for rural electrification

c) Key Management

The day to day management of the Authority is under the following;

- i. Chief Executive Officer
- ii. Chief Managers
- iii. Managers.

d) Fiduciary Management

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

No.	Designation	Name
1	Ag.Chief Executive Officer	Ng'ang'a Munyu
2	Chief Manager Finance	Ken Tarus
3	Chief Accountant	Peter Mbugua

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

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.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

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

The Chancery, 6th Floor
Valley Road
P.O Box 34585-00100
NAIROBI

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

g) Authority's contacts.

Telephone: (254) 4953600

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

i) Independent Auditors

The Auditor-General

Kenya National Audit Office

Anniversary Towers

P.O Box 30084-00100 GPO,

NAIROBI.

j) Principal Legal Adviser.

Rose N. Mkalama

Rural Electrification Authority

P.O Box 34585-00100

NAIROBI

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

BOARD OF DIRECTORS

The Board Members who served during the Financial Year 2013/14 were as follows;

Dr.Simon Gicharu	Chairman(Appointed May 2014)
Faisal Abass	Chairman (Term ended May 2014)
Josephat M. Githui	Member (Term ended September 2013)
Bishop Njoroge Kariuki	Member (Term ended July 2013)
Eng. N.S.M Kahiu	Member (Term ended July 2013)
Eng. Edwin Wasunna	Member (Term ended July 2013)
Cyprian Kirera Riungu	Member (Term ended October 2013)
Bertha Joseph Dena	Member (Term ended July 2013)
Dr. Betty C. Korir	Member (Term ended September 2014)
Joshua Nthenge Musili	Member (Continuing)
PS, Treasury-Joseph Kinyua	Member (Left Ministry in September 2013)
Beatrice W. Gathirwa	Alternate- Treasury from March 2011
PS, MOE-Patrick M. Nyoike	Member (Left Ministry in September 2013)
Mr. Jackson Barngetuny	Alternate- MOE from April 2012

Board of Directors Profile

Faisal Abass, Chairman REA Board

Mr. Faisal Abass was appointed Chairman of the Rural Electrification Authority in 23rd July 2007. He has experience spanning over 20 years having held various senior positions in the private and public sector. He is currently the managing Director, Interpel Investments Limited. He has previously held Director Positions at the Agriculture Development Corporation and the Kenya Electricity Generating Company (KENGEN). He holds a Bachelor of Arts Degree in Economics and is currently pursuing an MBA Degree at Nairobi University. He has over 30 years experience in public service.

Patrick Mwaura Nyoike, BSc (Econ), B.Phil(Math)

Mr. Patrick Nyoike is the Permanent Secretary to the Ministry of Energy. He has over 30 years experience in public service. Prior to his appointment as the Permanent Secretary in 2003, he was the chief economist and coordinator of World Bank funded projects in the Ministry of Energy. He holds Bachelor's degrees in Mathematics and Economics.

Rural Electrification Authority Annual Report & Financial Statements for the period ended 30th June 2014

Joseph Kinyua, BA (Econ), MA(Econ)

Mr. Joseph Kinyua is the Permanent Secretary to the Treasury. Mr. Kinyua has vast experience in financial and public sector management, having worked in senior positions with the International Monetary Fund, the Central Bank of Kenya and in Government. He holds Bachelors and Masters Degrees in Economics.

Bishop Njoroge Kariuki, LL.B, Dip in Law (KSL), Advocate of the High Court of Kenya

Bishop Njoroge was appointed to the Board of Rural Electrification Authority in 27th July 2007. Bishop Njoroge has over 26 years experience ministering for the church and holding key positions within the Anglican and Episcopal churches. He also has experience in Public service having served as a commissioner Constitution of Kenya Review Commission from 2000 to 2005. Bishop Njoroge is an Advocate of the High Court of Kenya and is currently a managing partner, Tobiko Njoroge and Company Advocates. He holds a Master of Theology from Aberdeen University Scotland and Bachelor of Laws from London University.

Eng. Edwin Wasunna, BSc (Eng)

Mr. Edwin Wassunna was appointed to the Rural Electrification Authority Board of Directors on 27th July 2007. He has over 30 years experience in the Power sector. Mr. Wasunna previously worked in senior management positions in KPLC until 1997, when he was appointed Managing Director of Kenya Electricity Generating Company Limited (KenGen), a position held until 2002. He holds a Bachelor of Science in Electrical Engineering.

Cyprian Kirera Riungu, B.A. (LE). Msc, HSC

Mr. Riungu was appointed a member of the Board of Rural Electrification Authority in 29th October 2007. Prior to the appointment Mr. Riungu was a director at Kenyatta International Conference Centre where he was credited with streamlining operations and creation of KICC as a Semi-autonomous Government Agency. Mr. Riungu has a wealth of experience spanning over 30 years in Public service. He holds a Bachelor of Arts and Master of Science in Construction Management.

Bertha Joseph Dena, B.Com (Hons), MBA, CPA(K), CPS (K)

Ms Bertha Dena Joseph was appointed to the Board of REA on 27th July 2007. She has wide experience in the Private Sector of over 29 years holding various senior positions rising to positions

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

Company Secretary to Stagecoach International Limited. She has also served as a Director of Kenya Ports Authority between 2001 and 2004. She holds an MBA degree from Maastricht School of Management Netherland

Eng. Njeri Kahiu

Eng. Njeri Kahiu was appointed to the Board of Rural Electrification Authority in 27th July 2007. Prior to her appointment, Eng. Kahiu was the Chair SAFI WORLD a community based organization focusing on promoting renewable energy and training in solid waste management from 2002 to 2005. Eng. Kahiu has over 23 years of experience in both Public and Private sectors where she held various senior positions. She holds a Masters Degree in Engineering and is currently pursuing PhD at Jomo Kenyatta University of Agriculture and technology.

Joshua Nthenge Musili, BSc (Hons) Chemistry and Biochemistry

Mr. Musili was appointed to the Rural Electrification Authority Board on 13th July 2009. He holds a Bachelor of Science degree in Chemistry and Biochemistry. He has a wide range of experience both in Public and Private Sector. Prior to his appointment, Mr. Musili was a director with National Oil Corporation of Kenya. (NOCK).

Dr. Betty C. Korir

Dr. Korir was appointed to the Rural Electrification Authority Board on 2nd September, 2011. She holds a Postgraduate Degree in D.Phil (Biostatistics); M.Phil (Biostatics) and Bachelor of Science Degree. She has a wide range of experience as a Lecturer at Moi University.

Mrs. Beatrice W. Gathirwa

Mrs. Gathirwa was appointed to the Rural Electrification Authority Board on 7th March, 2011 as an Alternate to the Permanent Secretary, Ministry of Finance. She holds an MBA (Strategic Management), CPA (K) (Member of ICPAK), B. Com; (Accounting Option) from the University of Nairobi. She has as a wide range of experience in Accounting in the Civil Service. She is currently working as Department of Government Investment and Public Enterprises and an Ag. Director of Investment the Acting Director, Investment.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

Mr. Jackson Barngetuny

Mr. Barngetuny was appointed to the Rural Electrification Authority Board on 6th April, 2012 as an Alternate to the Permanent Secretary, Ministry of Energy. He holds a Masters Degree Major in Accounting. He has a wide range of experience in Accounting in the Civil Service. He is currently working as the Senior Principal Finance officer in the Ministry of Energy.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

MANAGEMENT TEAM

Ng'ang'a Munyu	Ag.Chief Executive Officer
Dr.Rose Mkalama	Authority Secretary
CPA.Ken Tarus	Chief Manager Finance
Eng. Simon Mwangi	Chief Manager Operations
Eng.David Rogoncho	Chief Manager Design
Eng.Esther Ruto	Manager, Construction
Wilfred Oduor	Manager, Procurement and Supplies
Elizabeth Onoka	Manager, Human Resource & Admin
Wangari Githii	Manager, Communications
Erick Jaoko	Manager, ICT
Joan Riitho	Manager, Internal Audit

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

CHAIRMAN'S STATEMENT

I take great pleasure in presenting to you once again the Annual Report and Financial Statements for Rural Electrification Authority for the year ended 30th June 2014. I am especially pleased to note that the results highlight an extremely successful year. Some of the milestones I wish to highlight include;

Implementation of Rural Electrification Projects

As at 30th June 2014 the five main public facilities had the electrification status as shown in the table below;

Facilities	Electrified	Non-Electrified	Total
Trading Centres	9,174	2,868	12,042
Secondary Schools	8,195	19	8,214
Health Centres	4,673	-	4,673
Primary Schools	15,157	6,065	21,222
Water projects/Boreholes	1967	1,784	3,751

Annual Budget

REA's mandate is based on VISION 2030 that envisages provision of a high quality of life for all citizens by 2030. As highlighted in Vision 2030, provision of basic infrastructure in the rural areas is an important factor in the achievement of the anticipated social transformation that will make Kenya a newly industrialized nation.

The Vision has identified energy as an enabler to the realization of this objective and has associated electricity with high quality of life.

During the financial year, the Authority had a budget of Ksh.10,757 Million compared to Ksh 6,631 million in 2012/13 financial year, representing a 60% increase. Out of this budget Ksh.6,660 million (62%) was from the Exchequer, Ksh.1,830 Million (5% REP Levy), Ksh.687 Million (Petroleum Development Levy), Ksh.134 Million (KOSF), and the balance of Ksh.1,446 Million were from other sources including; IDA, CDF, Interest income, Licences, Connection fees among others.

**Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014**

A total of Ksh.9.3 Billion was received during the year being 86% of the projected amount of Ksh.10.7 Billion. Consequently, the Authority had outstanding commitments at the end of the year.

Future Outlook

As highlighted in the previous year, through the decentralized and devolved structures, lies great opportunities for the Rural electrification Authority. On its part, REA will increase its efforts in lighting up rural Kenya through both grid extension and renewable energy as well as through strategic partnerships with our stakeholders.

REA's target is to electrify the remaining public facilities in the rural areas in order to facilitate achievement of national development goals as articulated in the vision 2030. I have no doubt with continued support from the Government to REA, this will be achieved.

Tribute

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 National and County Governments for their continued support and partnership during the year.


Dr. SIMON GICHARU, CBS
CHAIRMAN

REPORT OF THE CHIEF EXECUTIVE OFFICER

2013/14 has been another successful year for the Rural Electrification Authority. During the year, the Authority made tremendous strides towards meeting its mandate and in particular attaining the vision 2030 target of connecting all public facilities.

Provision of electricity to all public facilities is aimed at providing the necessary infrastructure to facilitate the country as it moves towards being a newly industrialized country and in supporting the different social economic activities to spur the establishment of developmental infrastructures. To this end, majority of the economic activities within the rural areas are slowly being transformed to both service and processing sectors in addition to improving the living conditions of the rural population.

Achievements made during the year include a remarkable increase in the number of primary schools electrified from about 10,157 in June 2013 to about 15,157 in June 2014.

This increase in the number of electrified public facilities is largely attributed to REA's intervention which means that an additional;

- 8,195 secondary schools are now recording improved education standards as students have extended reading hours and access to information through the internet and TVs,
- 4,673 health centres are now offering improved medical services and can be equipped with modern electrical equipments for better health care,
- 9,174 trading centres are now able to provide employment opportunities within the informal sector to the youth and facilitate creation of small agro industries in addition to enhancing security from installed security lights.
- More than 1.5 million rural households have access to clean reliable energy and as such enjoy improved social economic benefits associated with electricity.

Project Implementation Modalities

This is carried out through grid extension, off-grid systems and renewable systems. It involves identification of projects, design of projects and actual construction.

While identification, prioritization and design of projects is done internally by REA staff, construction of the projects is contracted out to pre-qualified labour and transport contractors who are supervised by REA staff. Construction Materials for the rural electrification projects are procured in bulk and issued to the contractors.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

Funding For Rural Electrification

A total of Ksh.10,757 Million was provided for in the year under review from various sources i.e Exchequer Ksh.6,660 Million, KOSF Ksh.134 Million, PDL Ksh.687 Million, 5% REP Levy Ksh.1,830 Million, External Funding Ksh.1,179 Million, CDF Ksh.125 Million, and Ksh.197 Million from other sources. However, 91% (Ksh.9,305 Million) of this allocation was realized during the year. To address funding issues, REA has continued to lobby for increased budgetary allocations, partnered with communities to access CDF funds and also to get free way leaves making it cheaper to implement our projects. REA is also partnering with various Development partners for financial and technical support in the implementation of rural electrification projects.

Implementation of Rural Electrification Projects

REA carries out its mandate of enhancing rural electrification in the country through sourcing of funds, grid extension and promotion and development of renewable energy sources. During the year under review, electrification of primary schools was the main focus. To this end, a total of 5,000 primary schools out of the targeted 11,065 were connected. Connection of the 6,065 primary schools outstanding at year-end is expected to be effected by the end of 2014/15 FY.

Implementation Strategies

In 2013/14, the Authority managed to keep on track and meet set targets by enhancing the innovative strategies to guide its activities. These strategies ensured that core activities were monitored and evaluated on an ongoing basis making it possible to surpass our performance targets.

Some of the strategies adopted to achieve the high connectivity rate in the rural areas as envisaged by Vision 2030 include:

- Partnering with local communities in the entire project implementation process from the identification of projects, acquisition of wayleaves and reduction of vandalism of transformers. This strategy has enabled the Authority to save millions of shillings through the acquisition of free wayleaves. A total of Kshs 1,111.8 million has so far been saved through this partnership. These funds have been utilized to construct additional projects in all constituencies this financial year.

Rural Electrification Authority

Annual Report & Financial Statements for the period ended 30th June 2014

- Matching Facility through which REA works together with the Constituency Development Fund to identify and implement electrification projects that don't require a large capital outlay. The Authority has set aside funds through which it REA matches a constituency's contribution up to a maximum of 5million shillings. More than Kshs 600 million has been raised through this initiative.
- Engaging county Governments on technical support programs to fast track t electrification.
- Forward planning is undertaken to ensure procurement of project materials, since most of the items used for line construction have a long production lead time.
-

Performance Contracting

The Authority is expected to maintain its exemplary performance in the energy sector when the review of 2013/14 performance is concluded. It will continue to build on the results to better its services and enhance efficiency in service delivery.

Electricity for Off Grid areas.

Extending electricity to areas that are far from the National grid remains a challenge due to the diverse and sparse nature of human settlements in these areas, REA has tried to mitigate these challenges through the combination of conventional power (mainly hydro and fossil based electricity) with solar and wind systems to ensure that these areas are also electrified.

So far REA has

- Constructed thirteen out of thirty three identified diesel power stations in off-grid areas in North Eastern and Coast.
- Installed solar PVs in over 669 public institutions out which 605 relate to primary schools and 64 were mainly health facilities.
- Partnered with local communities to pilot renewable energy projects for community generation and distribution of electricity through mini hydro, wind and biogas

Way Forward

REA's target is to electrify all the remaining 6,065 primary schools by the end of 2014/15 financial year and the un-electrified public facilities by the end of 2016/17 financial year.

Rural Electrification Authority

Annual Report & Financial Statements for the period ended 30th June 2014

Appreciation

My heart goes out to all the staff members who have tirelessly ensured that they at all times achieve and even surpass set targets. The commitment, teamwork and passion demonstrated during the year cannot be over emphasized.. My sincere gratitude also goes out to the Rural Electrification Authority Board of Directors for the unwavering support and wise counsel accorded to us throughout the year. We remain indebted to the Government and the Ministry of Energy and Petroleum for their continued support that has ensured successful implementation of the Authority's mandate.



NG'ANG'A MUNYU

AG.CHIEF EXECUTIVE OFFICER

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 are 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 (5) years and may be re-appointed for one further term of five (5) years. Directors are appointed

Rural Electrification Authority Annual Report & Financial Statements for the period ended 30th June 2014

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

Rural Electrification Authority Annual Report & Financial Statements for the period ended 30th June 2014

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 are expected to conduct themselves when handling matters relating to the Authority.

Rural Electrification Authority Annual Report & Financial Statements for the period ended 30th June 2014

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 Mr. Faisal A. Abass. 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

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

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, Mr. Faisal A. Abass (Chairman), Mr. Patrick M. Nyoike, (PS, MOE), Eng. Edwin D. Wasunna, Eng. Richard J. Muiro (Alternate to PS-MOE - upto April 2012), Mr. Jackson Barngetung (w.e.f. April 2012), Bishop N. Kariuki, Mr. Cyprian K. Riungu, Eng. N.S.M. Kahi, Ms. Bertha J. Dena, Prof. Wilson A.K. Kipng'eno (upto 7th Aug. 2011), Dr. Betty C. Korir (w.e.f. 7th Aug. 2011), Mrs. Beatrice Gathirwa and Mr. Joshua Nthenge Musili.

The Roles and Responsibilities of the Chief Executive Officer

The Chief Executive Officer (CEO) who served during the year under review was Mr. Zachary O. Ayieko. 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 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.

**Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014**

The Roles of the Authority Secretary

Mrs. 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.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

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 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 advise 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;

Rural Electrification Authority

Annual Report & Financial Statements for the period ended 30th June 2014

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;

- (x) Support the Board of Directors in reviewing the effectiveness of the Authority's processes of Corporate Governance;
- (xi) Review the annual financial statements and consider whether they are complete, consistent and reflect appropriate accounting principles and make appropriate recommendations for necessary action
- (xii) Recommending financial statements to the Board for approval before submission to the Controller and Auditor General for audit;
- (xiii) Review the result of the audit on the financial statements by the External Auditor or any other inspector or investigator engaged by REA;
- (xiv) Consider the effectiveness of the REA internal control systems established by management to ensure compliance with policies, laws and regulations;
- (xv) Review the risk management framework and assess policies and controls developed by Management for risk assessment and risk management;
- (xvi) Review and approve the internal audit plan, charter and manual.
- (xvii) Review the activities, organizational structure and qualifications of the internal auditors;
- (xviii) 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;

Rural Electrification Authority

Annual Report & Financial Statements for the period ended 30th June 2014

- (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

The Committee members who served during the year under review are as follows; Mr. Joshua Musili, Jackson Barngetuny (Alternate to PS, MOE) , Dr. Betty C. Korir, Ms Beatrice Gathirwa (Alternate to PS, Treasury) and Ng'ang'a Munyu (Ag.CEO).

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 herebelow;

- (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.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

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 summarised herebelow;

- (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 have 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.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

- (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.

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.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

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

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

**Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014**

REPORT OF THE DIRECTORS

The Directors submit their report and audited financial statements for the year ended 30th June 2014 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 2

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, 2003.

By Order of the Board

**Rose N. Mkalama
Authority Secretary**

30th September 2014

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.

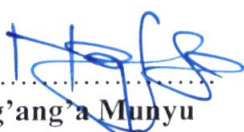
The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 Financial Reporting Standards (IFRS), 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, 2014, 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 _____ 2014 and signed on its behalf by:


.....
Ng'ang'a Munyu
Ag.Chief Executive Officer


.....
Joshua N. Musili
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

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON RURAL ELECTRIFICATION AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Rural Electrification Authority set out on pages 1 to 17, which comprise the statement of financial position as at June 30, 2014, and the statement of financial performance, statement of changes in net assets and statement of cash flows 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 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 14 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing (ISA). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating

the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Property, Plant and Equipment

The statement of financial position balance of property, plant and equipment of Kshs.30,366,778,000.00 includes items of work-in-progress (WIP) of Kshs.9,736,172,000. Included in work-in-progress is an amount of Kshs.54,218,400.00 (VAT) inclusive relating to the award of tender for the supply, installation and commissioning of diesel generators and associated boards at Kiunga and Hulugho towns in Lamu East and Ijara Constituencies. The 5 months contract has since been terminated by the issuing bank. The 5 months contract was to be completed by March 2011 and as at 30 October, 2014, the project was still incomplete.

Consequently, the carrying values of Property Plant and Equipment as stated in the financial statements as at 30 June 2014, could not be confirmed.

2. Receivables from Exchange transaction

As disclosed in note 15 to the financial statements, included in the statement of financial position, receivables from exchange transaction balance of Kshs.16,670,363,000.00 is an advance of vendors balance of Kshs.446,951,000.00 which has amounts totaling Kshs.228,136,000.00 outstanding for more than eleven months. Any provision that would have been necessary in relation to this uncertainty has not been incorporated in this financial statement.

3. Inventory

The statements of financial position inventories, balance of Kshs.5,114,280,000.00 include an amount of Kshs.10,227,652.30 relating to faulty transformers that were identified during the stock take exercise conducted in the previous year.

Under the circumstance, it was not possible to confirm the inventories figure is fairly stated in the financial statements.

4. Inaccuracies in Financial Statements

There were unreconciled differences between the financial statements and the general ledger in respect of the following account balances.

Item	Balance as per F/S	Balance as per G/L	Difference
	Kshs.'000'	Kshs.'000'	Kshs.'000'
Advance to Vendors	446,951	432,315	14,636
Invoice Creditors	716,434	694,338	22,096
Non-Invoiced Creditors	650,383	657,513	(1,130)
Total	1,813,768	1,784,166	29,602

Consequently, it was not possible to ascertain the accuracy of these account balances as reflected in the financial statements.

Qualified Opinion

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

Other Matters

Matters of Governance

For the financial year end 30 June 2014, the Authority's Board of Directors was not properly constituted as it only had a chairman, two Principal Secretaries in charge of Energy & Petroleum and the National Treasury and one other member. It was further noted that the fiduciary responsibility of the Authority's financial management was performed by the Finance Committee. Both the Board, Audit Committee and Procurement Oversight Committee had no quorum/members and, therefore never met during the period under review. All these contravened section 68(1) of the energy Act, 2012.

In the absence of a properly constituted Board and the Audit and Procurement Oversight Committees, it was not possible to ascertain whether there was sufficient fiduciary oversight over operations of the Authority during the year. My opinion is not qualified in respect to this matter.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

7 April 2015

STATEMENT OF FINANCIAL PERFORMANCE

	Note	2013/14 (Kshs.'000')	2012/13 (Kshs.'000')
Revenue from Non-Exchange Transactions			
GOK Grants	3	630,000	502,444
Levies	4	3,217,375	3,296,771
External Funding	5	490,552	527,487
Other income	6	140,624	293,521
		4,478,551	4,620,223
Revenue from Exchange Transactions			
Connection fees	7	137,705	100,042
Interest Income	7	39,437	174,784
Sale of Tenders	7	1,257	11,285
Sale of Scrap	7	280	-
		178,679	286,110
Total Revenue		4,657,230	4,906,333
Expenses			
Employee Costs	8	222,872	285,424
Administrative Expenses	9	87,457	107,590
Remuneration of Directors	10	11,774	25,366
Operating Expenses	11	108,352	72,371
Establishment Expenses	12	423,643	402,340
Finance Costs	13	40	738
Total Expenses		854,137	893,829
Surplus for the Period		3,803,093	4,012,504

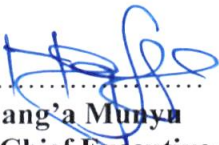
Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014


REPORT OF INDEPENDENT AUDITORS ON RURAL ELECTRIFICATION AUTHORITY


Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

STATEMENT OF FINANCIAL POSITION

Assets	Note	2013/14 (Kshs.'000')	2012/13 (Kshs.'000')
Current Assets			
Cash and Cash Equivalents	14	1,438,722	2,082,532
Receivables from Exchange Transactions	15	1,670,363	638,744
Receivables from Non-Exchange Transactions	16	24,294	31,401
Inventories	17	5,114,280	3,614,807
Investments	18	-	200,000
		8,247,660	6,567,485
Non-Current Assets			
Property Plant and Equipment	19	30,366,778	22,524,643
Intangible Assets	20	18,715	10,920
		30,385,493	22,535,564
Total Assets		38,633,152	29,103,048
Liabilities			
Current Liabilities			
Trade and Other payables from Exchange Transactions	21	1,367,218	648,637
Refundable Deposits from Customers	23	810	928
Provisions	24	10,800.00	53,965.83
Deferred Income	25	0.00	35,130.55
Taxation	26	17,017	16,741
		1,395,844	755,403
Non Current Liabilities			
		-	-
Total Liabilities		1,395,844.07	755,402.86
Net Assets		37,237,308	28,347,645
Reserves		10,885,698	5,799,128
Accumulated Surplus		26,351,611	22,548,518
Total Net Assets and Liabilities		38,633,152	29,103,048


 Ng'ang'a Munya
 Ag.Chief Executive Officer


 Joshua N. Musili
 Board Member


 Dr. Simon Gicharu, CBS
 Chairman.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

STATEMENT OF CHANGES IN NET ASSETS

	<u>Capital Reserves (Kshs'000')</u>	<u>Development Reserves (Kshs'000')</u>	<u>Accumulated Surplus (Kshs'000')</u>	<u>Total</u>
As at 1st July 2012	53,596	3,107,792	18,524,135	21,685,523
Surplus for the Year			4,012,504	4,012,504
Development Grant		2,637,740		2,637,740
Refunds			11,879	11,879
As at 30th June 2013	53,596	5,745,532	22,548,518	28,347,646
As at 1st July 2013	53,596	5,745,532	22,548,518	28,347,646
Surplus for the Year			3,803,093	3,803,093
Development Grant		5,086,570		5,086,570
Refunds				-
As at 30th June 2014	53,596	10,832,102	26,351,611	37,237,309

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

STATEMENT OF CASH FLOWS

	<u>2012/14</u>	<u>2012/13</u>
Cash Flow From Operating Activities		
Surplus for the Period	3,803,093	4,012,504
Adjust for Depreciation	326,538	270,261
Write-off of bond discount on sale	9,138	
Working Capital Changes		
Decrease(Increase) in Inventory	(1,499,473)	1,042,297
Decrease(Increase) in Receivables	(1,024,512)	(99,609)
Increase (Decrease) in Payables	675,572	119,950
Net Cash from Operating Activities	<u>2,290,355</u>	<u>5,345,402</u>
Investing Activities		
Purchase of Fixed Assets	(8,176,467)	(6,673,249)
Disposal of Long Term Bonds	155,732	
Net Cash used in Investing Activities	<u>(8,020,735)</u>	<u>(6,673,249)</u>
Financing Activities		
Development Fund Appropriation	5,086,570	2,637,740
Refund of Overcharge		11,879
Net Cash from Financing Activities	<u>5,086,570</u>	<u>2,649,619</u>
Net Increase(Decrease) in Cash and Cash Equivalents	<u>(643,810)</u>	<u>1,321,773</u>
Cash and Cash Equivalents 30.06.2013	2,082,532	760,759
Cash and Cash Equivalents 30.06.2014	<u>1,438,722</u>	<u>2,082,532</u>
Cash & Cash Equivalents as per Statement of Financial Position	1,438,722	2,082,532
Less: Overdraft		-
Cash and Cash Equivalents 30.06.2013	<u>1,438,722</u>	<u>2,082,532</u>

NOTES TO THE FINANCIAL STATEMENTS

1. 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 (Ksh000). 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.

2. 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.

**Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014**

Notes to the Financial Statements Continued;

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 – IPSAS 24

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.

c) 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%)

Notes to the Financial Statements Continued:

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.

d) Intangible assets – IPSAS 31

Intangible assets acquired separately are initially recognized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

e) Inventories – IPSAS 12

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

After initial recognition, inventory is measured at the lower of cost and current replacement cost.

f) Provisions – IPSAS 19

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.

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

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

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.

g) 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.

h) Changes in accounting policies and estimates – IPSAS 3

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.

i) Employee benefits – IPSAS 25

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

j) Related parties – IPSAS 20

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.

k) Cash and Cash Equivalents

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.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

Notes to the Financial Statements Continued

l) Comparative Figures

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

m) Significant judgments and sources of estimation uncertainty – IPSAS 1

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

n) Subsequent events – IPSAS 14

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

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

Notes to the Financial Statements Continued

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

Note	Description	2013/14	2012/13
		2013/14	2012/13
		(Kshs.'000')	(Kshs.'000')
3	GOK Grants		
	Exchequer Recurrent	630,000	502,444
	TOTAL	630,000	502,444
		2013/14	2012/13
		(Kshs.'000')	(Kshs.'000')
4	Levies		
	5% REP Levy	2,426,055	1,906,972
	Kipevu oil storage facility	96,000	167,200
	Petroleum Development	687,000	525,145
	Royalties & Licences	8,320	697,454
	TOTAL	3,217,375	3,296,771
		2013/14	2012/13
		(Kshs.'000')	(Kshs.'000')
5	External Funding		
	World bank	490,552	527,487
	France	-	-
	Spain	-	-
	TOTAL	490,552	527,487
		2013/14	2012/13
		(Kshs.'000')	(Kshs.'000')
6	Other Income		
	Licences	12,670	6,198
	Donations	-	-
	Public private partnerships	4	-
	Constituency Development Fund	127,950	287,323
		140,624	293,521
		2013/14	2012/13
		(Kshs.'000')	(Kshs.'000')
7	Exchange Transactions		
	Connection fees	137,705	100,042
	Interest Income	42,828	152,823
	Interest Income-Discourt on Bonds	- 3,391	21,961
	Sale of Tenders	1,257	11,285
	Sale of Scrap	280	-
	TOTAL	178,679	286,110
		2013/14	2012/13
		(Kshs.'000')	(Kshs.'000')
8	Employee Costs		
	Gratuity	347	2,083
	Other Staff Costs	36,637	17,594
	Salaries and Wages	381,251	222,781
	External Travelling	15,921	9,533
	Local Travelling	38,701	33,434
	TOTAL	472,857	285,424
	Less: Project Related Costs	(249,985)	-
	TOTAL	222,872	285,424

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

Notes to the Financial Statements Continued;

		2013/14 (Kshs.'000')	2012/13 (Kshs.'000')
9	Administrative Expenses		
	Advertisement and Promotions	16,050	32,768
	Audit fees	2,640	2,640
	Bank Charges and commissions	3,292	2,771
	Computer Expenses	24,946	16,767
	Legal and professional fees	13,443	15,114
	Office Cleaning	2,095	2,703
	Office Refreshments	6,558	10,732
	Social Responsibility costs	601	1,600
	Strategic Operational costs	240	3,861
	Vehicle Running Expenses	12,312	16,479
	Research and Development	1,142	2,155
	Thefts pilferages and obsolescence	4,140	-
	TOTAL	87,457	107,590
		2013/14 (Kshs.'000')	2012/13 (Kshs.'000')
10	Board Expenses		
	Director's Allowances	11,774	25,366
	TOTAL	11,774	25,366
		2013/14	2012/13
11	Operating Expenses		
	Bad debts expense	-	-
	Postage	418	186
	Printing and Stationery	6,621	7,999
	Telephone	7,666	9,277
	Training and seminars	23,565	31,849
	Withholding Tax on Interest Income	70,082	23,060
	TOTAL	108,352	72,371
		2013/14 (Kshs.'000')	2012/13 (Kshs.'000')
12	Establishment Expenses		
	Depreciation	326,538	270,261
	Electricity	1,296	1,505
	Insurance	27,833	23,861
	licences and subscriptions	695	559
	Office repairs and maintenance	4,614	5,168
	Rent	24,340	72,921
	Security and surveillance	38,328	28,065
	TOTAL	423,643	402,340

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

Notes to the Financial Statements Continued;

		2013/14	2012/13
		(Kshs.'000')	(Kshs.'000')
13	Finance Costs		
	Interest on overdraft	40	738
	Interest on loans	-	-
	TOTAL	40	738
		2013/14	2012/13
		(Kshs.'000')	(Kshs.'000')
14	Cash and Bank Balances		
	Deposits		
	Term Deposits		
	KCB Fixed Deposits	-	850,000
	Call Deposits		
	Call Deposit at Cooperative Bank	1,000,000	820,000
	Call Account- CFC	0	617
	Cash at Bank		
	Cooperative Bank Current Account	- 48,672	1,000
	Standard Chartered Current Account	- 203,363	1,000
	Cooperative Bank Call Account	142,649	29,098
	Standard Chartered Bank Call Account	20	97,518
	Current Account- CFC	202	367
	Current Account- KCB Development	21	20
	Current Account- KCB Main	531,335	246,969
	Current Account- KEEP	16,500	35,805
	Cash in Hand		
	Cash Held for Banking	-	-
	Petty Cash	30	139
	TOTAL	1,438,722	2,082,532

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

Notes to the Financial Statements Continued;

		2013/14	2012/13
15	Receivables from Exchange Transactions	(Kshs.'000')	(Kshs.'000')
	Advance to vendors	446,951	350,351
	Other Accrued Revenues	1,194,023	238,724
	Prepayments- Insurance	241	21,303
	Prepayments- Others	800	820
	Prepayments- Rent	14,803	14,002
	Others	-	-
	Deposits- Rent	13,545	13,545
	Deposits- Container	-	-
	Deposits- KPLC Deposits	-	-
	TOTAL	1,670,363	638,744
		2013/14	2012/13
16	Receivables from Non-Exchange Transactions	(Kshs.'000')	(Kshs.'000')
	Interest Receivables	18,137	25,860
	Staff Advances	6,157	5,424
	VAT Receivables	-	118
		24,294	31,401
		2013/14	2012/13
17	Inventory	(Kshs.'000')	(Kshs.'000')
	Conductors, Stay Blocks and Wires	1,417,677	1,481,904
	Hardware line items	954,564	647,192
	ICT	1,381	1,252
	Insulators	104,422	120,832
	Poles	1,848,307	506,666
	Stationery	18,114	12,206
	Surge Diverters Circuit Breakers and Isolators	369,634	317,983
	Transformers	400,180	526,772
	TOTAL	5,114,280	3,614,807
		2013/14	2012/13
18	Investments	(Kshs.'000')	(Kshs.'000')
	Treasury Bonds (20YR)	-	200,000
		-	200,000

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

19. Property Plant and Equipment in Ksh.'000'

	Land	Building	Plant and Machinery	Overhead Distribution Lines	Motor Vehicles	Furniture & Fittings	Office Equipment	Computer Equipment	Tools Implements & Testing Apparatus	Intangible Assets	WIP	Total
	0.00%	2.50%	12.50%	2.50%	25.00%	12.50%	22.50%	33.33%	22.50%	33.33%	0.00%	
Balance as at 1st July 2012	34,761	6,969	62,338	7,886,906	140,404	28,765	9,139	81,687	3,308	106,622	8,187,506	16,441,784
Additions	46,884	6,554	33,349	4,340,986	134,723	3,190	9,922	17,307	15,356	-	2,064,976	6,673,248
Disposals/Capitalization	-	-	-	-	-	-	-	-	-	-	-	-
Balance as at 30th June 2013	81,645	13,522	95,687	12,227,892	275,128	31,956	19,061	98,994	18,665	106,622	10,252,482	23,115,032
Depreciation												
Accum depre as at 30th June 2012	-	250	19,767	194,375	52,431	5,382	3,206	51,783	1,569	87,066	-	328,763
Charge for the period	-	263	10,387	173,947	48,050	3,816	3,029	17,967	4,167	8,636	-	261,625
Total	-	512	30,155	368,321	100,481	9,199	6,235	69,749	5,736	95,701	-	590,388
Disposals												
Net book value												
As at 30th June 2013	81,645	13,010	65,532	11,859,571	174,647	22,757	12,826	29,244	12,929	10,920	10,252,482	22,524,643
As at 30th June 2012	34,761	6,719	42,570	7,692,531	87,973	23,383	5,933	29,905	1,740	19,556	8,187,506	16,113,021
Balance as at 1st July 2013	81,645	13,522	95,687	12,227,892	275,128	31,956	19,061	98,994	18,665	106,622	10,252,482	23,115,032
Additions	1,915	563	1,900	8,661,356	-	-	1,046	5,720	-	-	8,145,046	16,817,545
Disposals/Capitalization	-	-	-	-	-	-	-	-	-	-	(8,661,356)	(8,661,356)
Balance as at 30th June 2014	83,560	14,085	97,587	20,889,248	275,128	31,956	20,107	104,714	18,665	106,622	9,736,172	31,271,221
Depreciation												
Accum depre as at 30th June 2013	-	512	30,155	368,321	100,481	9,199	6,235	69,749	5,736	95,701	-	590,388
Charge for the period	-	345	11,834	213,966	58,466	3,995	4,335	17,179	3,936	12,483	-	314,055
Total	-	857	41,989	582,287	158,947	13,193	10,571	86,928	9,672	108,184	-	904,443
Disposals												
Net book value												
As at 30th June 2014	83,560	13,228	55,598	20,306,961	116,181	18,763	9,536	17,786	8,993	1,562	9,736,172	30,366,778
As at 30th June 2013	81,645	13,010	65,532	11,859,571	174,647	22,757	12,826	29,244	12,929	10,920	10,252,482	22,524,643

ural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

Notes to the Financial Statements Continued;

20	Intangible Assets	2013/14	2012/13
	Opening Balance	106,622	106,622
	Additions	20,277	-
	Disposals/Capitalization	-	-
	Value at Cost	126,899	106,622
	Depreciation		
	Opening Balance: Acc'Depreciation	95,702	87,066
	Charge for the Period	12,483	8,636
	Disposals	-	-
	Total Depreciation	108,184	95,702
	Net Book Value	18,715	10,920
21	Trade and Other Payables from Exchange Transactions	2013/14	2012/13
	Trade		
	Invoice Creditors	716,434	648,134
	Non-Invoiced Creditors	650,383	0
	Refundable Deposits	400	500
	Other payables		
	Payroll Liabilities	-	3
	Staff Welfare	-	-
	Staff claims payable	-	-
		1,367,218	648,637
22	Refundable Deposits from Customers		
	KPLC Metre Deposits	810	928
23	Provisions	2013/14	2012/13
	Gratuity	-	5,902
	Accrued Leave Days	-	39,605
	Audit Fees	2,640.00	2,320
	Director's fees	8,160.00	6,139
	TOTAL	10,800.00	53,966

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2014

Notes to the Financial Statements Continued;

24	Deferred Income	2013/14	2012/13
	Un-earned portion of discount on Bond Investment	-	35,131
		0	
25	Taxation	2013/14	2012/13
	Tax payable- Customs Duty	380	-
	Tax payable- Withheld Tax on Prof.fees	0	105
	Tax payable- Withheld Vat	16,637	16,637
		17,017	16,741

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.

Referen ce No.	Observation from Auditor	<i>Management Comments</i>	Person to Resolve	Status	Timefram e
1	The Statement of or why Financial Position as at 30 th June 2013 reflects inventory balance of Kshs.3,618,807,000 which however differed with the adjusted ledger balance of kshs.3,583,006,449 and the physical stock balance of Kshs.3,573,079,828. Although the Authority has attributed the variances to delays in updating records, stock miscount due to uneven stacks approximation errors, system data capture errors, rejected materials, stolen materials, materials returned from field and materials belonging to third parties, it is not clear why proper record keeping is not maintained at all times or why the three balances have not been reconciled. Under the circumstances the completeness and accuracy of stock balance of kshs.3,618,807,000 as at 30 th June 2013 could not be ascertained.	It is true that at the time of the audit, there were some items with variances between the physical and SAP balances due to the various reasons as highlighted by the Auditor. As a way forward, in order to eliminate variances caused by errors and omissions, the management has since approved a paper to address the said issues. In addition, effective controls incorporating regular stock take and reconciliation are also in place and all variances are explained and supported by relevant documents.	Justine Musau	Ongoing	Ongoing

Rural Electrification Authority

Annual Report & Financial Statements for the period ended 30th June 2014

2	Wood poles totaling 2,310 and valued at Kshs.30,177,506 were stored in open spaces on the ground at both Makuyu and Mariakani Substations thus being exposed to adverse weather conditions and were therefore damaged beyond reasonable use.	The Authority is expediting the construction of permanent warehouses and to this end, the tenders for construction of the warehouses have been floated and it is expected that the facilities will be in place by December 2014.	Wilfred Oduor	Not Resolved	30 th June 2015
---	--	--	---------------	--------------	----------------------------

