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**REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL STATEMENTS OF
RURAL ELECTRIFICATION AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2013**

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RURAL ELECTRIFICATION AUTHORITY

ANNUAL REPORT & FINANCIAL

STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2013

Table of contents

Detail	Page
I. Corporate Information	3
II. Board of Directors	5
III. Chairmans Statement	9
IV. CEO's Report	11
V. Statement of Corporate Governance	15
VI. Corporate Social Responsibility Statement	27
VII. Senior Management Staff	29
VIII. Report of the Directors	30
IX. Statement of Directors Responsibilities	31
X. Auditors Report	32

FINANCIAL STATEMENTS

Statement	Page
i. Statement of Comprehensive Income	33
ii. Statement of Financial Position	34
iii. Statement of Changes in Reserves	35
iv. Statement of Cash-Flows	36
v. Notes to the Financial Statements	37

CORPORATE INFORMATION

General Information

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

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

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

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

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

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

Kenyatta Avenue Branch
NAIROBI

CFC Stanbic Bank Kenya Ltd.
P.O Box, 72833-00200

Auditors

Upper Hill Branch
NAIROBI
Auditor-General
Anniversary Towers
P.O Box 30084-00100 GPO,
NAIROBI

**Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013**

Board of Directors

The Board Members who served during the Financial Year 2012/13 were as follows;

Faisal Abass	Chairman
Josephat M. Githui	Member
Bishop Njoroge Kariuki	Member (Reappointed in July 2011)
Eng. N.S.M Kahiu	Member (Reappointed in July 2011)
Eng. Edwin Wasunna	Member (Reappointed in July 2011)
Cyprian Kirera Riungu	Member (Reappointed in October 2011)
Bertha Joseph Dena	Member (Reappointed in July 2011)
Dr. Betty C. Korir	Member (appointed 2.9.2011)
Joshua Nthenge Musili	Member
PS, Treasury-Joseph Kinyua	Member
Beatrice W. Gathirwa	Alternate- Treasury from March 2011
PS, MOE-Patrick M. Nyoike	Member
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.

Zachary O. Ayieko, CEO

Mr. Zachary Ayieko was appointed Chief Executive of Rural Electrification Authority in August 2007. Prior to his appointment, Mr. Ayieko was the Managing Director of the Kenya Power and Lighting Company. He has experience which spans over 27 years in the power sector. Mr. Ayieko holds a Bachelor of Commerce degree and is also a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

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.

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

**Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013**

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 of Finance and Compliance Manager which post she currently holds. Ms. Dena has also served as a 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.

Eng. Richard J. Muiru, BSc (Eng), MSc(Eng), MIEK

Eng. Richard J. Muiru was appointed to the Board of Rural Electrification Authority as an alternate to the Permanent Secretary Ministry of Energy on 18th July 2008. He is a seasoned Electrical Power Engineer and holds a Bachelor of Science degree in Electrical Engineering from the University of Nairobi and a Masters of Science Degree in Electrical Power Engineering from Aberdeen University, Scotland. He is a registered Engineer and a Corporate Member of the Institution of Engineers of Kenya. He joined the then East African Power and Lighting Company Limited (KPLC) in 1977 as an Apprentice Electrical Engineer and rose to the position of Chief Manager in 2003. He is currently Chief Engineer (Electrical) with the ministry of Energy.

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).

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

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.

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 2013**

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 2013. 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

REA's goal on implementation of rural electrification projects over the last five years (2008/09-2012/13) has been aimed at connecting the three main public facilities i.e. secondary schools, trading centres and health centres.

A survey carried out in June 2013 by REA covering the three main public facilities (secondary schools, trading centres and health centres) established that about 90% of the 25,873 facilities identified across the country have been electrified as show in the table below;

Facilities	Electrified	Non-Electrified	Total
Trading Centres	11,525	2,706	14,231
Secondary Schools	8,195	-	8,091
Health Centres	4,543	-	4,242

Establishment of Regional Offices

REA has established regional offices in Kisumu, Eldoret, Mariakani and Nyeri to serve customers in those areas. In addition, staff have been deployed to the various counties in line with the new constitutional order.

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.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

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

~~By 2007 when REA was created, only 10% of the country's population had connection to electricity. This number has risen to about 26% which can be attributed to the role played by the work done by the Rural Electrification Authority.~~

During the financial year, the Authority had a budget of Ksh.10,207 million compared to Ksh 6,631 million in 2011/12 financial year, representing a 60% increase. Out of this budget Ksh.4,403 million (43%) was from the Exchequer. During the year, Ksh.1,907 million (19%) was realized from 5% Rural Electrification Programme Levy, an increase of 7% from 2011/12 financial year. The balance totaling Ksh.3,897 million (38%) was from various other sources which include Petroleum Development Levy, Kipevu Oil Storage Facility, Licences & Royalties, Constituency Development Funds as well as external funding.

Future Outlook

The new constitution, through its decentralized and devolved structures offers many 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 and bring on board Primary schools 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 Government for its continued support to REA during the year.

FAISAL ABASS
CHAIRMAN

Chief Executive Officer's Report

2012/13 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 public facilities electrified from about 2,000 in 2004 to about 23,167 in June 2013.

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,
- 4,543 health centres are now offering improved medical services and can be equipped with modern electrical equipments for better health care,
- 10,429 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 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

Rural Electrification Authority

Annual Report & Financial Statements for the period ended 30th June 2013

staff. Construction Materials for the rural electrification projects are procured in bulk and issued to the contractors.

Funding For Rural Electrification

~~Kshs. 11.5 billion is required annually to fully implement the rural electrification programme. However~~ only about Ksh.5 billion is provided annually through budgetary allocations. 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 wayleaves 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. To date, a total of Kshs 68,102 million has been spent on implementing the rural electrification programme since its inception in 1973.

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. Since its inception in 2007, REA has implemented a total of 4,213 projects.

Implementation Strategies

In 2012/13, 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:

- Review of the Authority's five year strategic plan to provide a roadmap to guide the achievements of its objectives.
- 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 2013

- 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.
- 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 top position in the energy sector when the review of 2012/13 performance is concluded. It will continue to build on the results to better its services and enhance efficiency in service delivery.

The benefits for performance contracting for REA include faster and efficient service delivery translating to improved customer satisfaction.

Electricity for Off Grid areas.

One of the major challenges of rural electrification is extending electricity to areas that are far from the National grid. Due to the diverse and sparse nature of human settlements in these areas, REA has adopted a multi-pronged approach to Rural Electrification by combining 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 eleven out of thirty three identified diesel power stations in off-grid areas in North Eastern and Coast.
- Installed solar PVs in over 400 public institutions including secondary schools and health centers for lighting and refrigeration.
- Put in place a feed in policy to encourage small scale power generation using renewable energy sources for sale to the national grid.
- Partnered with local communities to pilot renewable energy projects for community generation and distribution of electricity through mini hydro, wind and biogas

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

Operational Strategies

In 2012/13, we continued to improve our operations to enable us to deliver better services to our customers. The Authority undertook several initiatives to motivate and equip staff to deliver on the promise of lighting up rural Kenya.

REA continued to practice prudent cost management which has positively impacted on the cost of doing projects. Quality management practices have been enhanced through the empowerment of the QMR unit.

In line with its staff motivation and retention policy, the Authority continued to enhance its staff capacity, through training of individual staff and by use of relevant group programmes.

Way Forward

REA's target is to electrify all the remaining 2,706 un-electrified main public facilities by the end of 2013/14 financial year. The new Constitution drastically and substantially changed the governance structure as well as enhanced participation by the citizens in the decision making processes. This necessitated the need to relook the energy sector framework with a view to aligning it with the new constitutional dispensation. Consequently, REA is currently reviewing its mandate as well as the strategic plan to be in line with the new dispensation.

Appreciation

All the above accomplishments would not have been possible without the selfless commitment, passion and dedication of the 153 staff members who have tirelessly ensured that they at all times achieve and even surpass set targets. Any form of achievement can only be made through commitment, hard work and self-sacrifice. I wish to take this opportunity to appreciate the entire Rural Electrification Authority staff for their high level of professionalism, commitment and teamwork. My sincere gratitude also goes out to the Rural Electrification Authority Board of Directors for the continued unconditional support they have accorded us throughout this process. We are also indebted to the Government and the Ministry of Energy for their continued support that has ensured successful implementation of the Authority mandate.



NG'ANGA MUNYU

AG.CHIEF EXECUTIVE OFFICER

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

Statement of Corporate Governance

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

Rural Electrification Authority Annual Report & Financial Statements for the period ended 30th June 2013

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 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 implementation

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

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

Board Manual

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

Board Charter

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

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

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.

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.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

The Roles And Responsibilities Of The Board

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

The Directors who served during the year under review were, 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. Kahiu, 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

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

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

The Roles Of The Authority Secretary

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

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

open and constructive discussions during the meetings. During the year under review, the Board held seven (7) Board meetings. The average attendance to Board meetings by Directors recorded during the year was about 80%. This good attendance made it possible for crucial decisions and approvals to be given and hence Management was able to implement Board decisions in good time. The board is allowed to obtain outside independent professional advice from qualified individuals if they consider it necessary. The costs for such services are met by the Authority. To ensure involvement of Directors in Board matters, Directors are allowed to propose Agenda items during Board meetings.

Committees Of The Board

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

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

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

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

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

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;

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.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

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.

~~The Committee members who served during the year are Eng. N.S.M. Kahi (Chairperson), Cyprian Riungu, Bertha Joseph Dena, Mrs. Beatrice Gathirwa and Zachary O. Ayieko (CEO). The Committee held a total of five (5) meetings during the year under review and the attendance recorded was 100%.~~

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

The Committee members who served during the year under review are as follows; Prof. Wilson A. K. Kipng'eno (Chairperson – upto 1st Aug. 2011), Joshua N. Musili (w.e.f. 1st Aug. 2011), Eng. Richard Muiro (Alt to PS, Energy – upto April 2012), Dr. Betty C. Korir (w.e.f. 1st Aug. 2011) Jackson Bargetung (w.e.f. April 2012) and Zachary O. Ayieko (CEO). The Committee held a total of six (6) meetings during the year and the attendance recorded was 90%

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;

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

- (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.

The Committee members who served during the year under review are as follows; Bishop N. Kariuki (Chairperson), Patrick M. Nyoike (PS, MOE), Prof. Wilson A.K. Kipng'eno (upto 7th Aug. 2011), Dr. Betty C. Korir, (w.e.f. 7th Aug. 2011), Eng N.S.M. Kariuki, Josephat M. Githui and Zachary O. Ayieko (CEO). The Committee held a total of seven (7) meetings during the year under review and the attendance recorded was 85%.

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;

Rural Electrification Authority

Annual Report & Financial Statements for the period ended 30th June 2013

- (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.

The Committee members who served during the year under review are as follows; Bertha Joseph Dena (Chairperson), Patrick M. Nyoike (PS, MOE), Joshua N. Musili, Eng. Edwin D. Wasunna, Josephat M. Githui and Zachary O. Ayieko (CEO). The Committee held a total of seven (7) meetings during the year under review and the attendance recorded was 85%.

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.

**Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013**

The Committee members who served during the year under review are as follows; Eng. Edwin D. Wasunna (Chairperson), Eng. Richard J. Muiro (Alt to PS, Energy – upto April 2012), Jackson Bargetung, (w.e.f. April 2012), Bishop Njoroge Kariuki, Cyprian Kirera Riungu, Zachary O. Ayieko (CEO). The Committee held a total of ten (10) meetings during the year under review and the attendance recorded was 90%.

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 endeavour 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 2013

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 2013

Senior Management Staff

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

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013
Report of the Directors for the Year Ended 30th June 2013

The Directors submit their report and audited financial statements for the year ended 30th June 2013 which disclose the state of affairs of the Authority.

Incorporation

The Rural Electrification Authority (REA) is a State Corporation established under section 66 of the Energy Act, No.12 of 2006. The address of the registered office is set out on page 9

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 Comprehensive Income as set out on page..

Directors

The Directors who served during the year are as shown in page 5

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 2013

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

Statement of Director's Responsibilities on the Financial Statements for the Year Ended 30th June 2013

The Energy Act, 2006, Section 77 stipulates that the Board of Directors shall cause to be kept proper books and records of accounts of the income and expenditure and assets of the Authority. Such books and records shall give a true and fair view of the state of affairs of the Authority Fund as at the end of the financial year and of the operating results for that year.

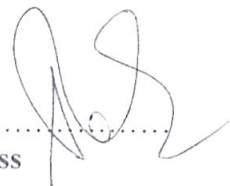
The Directors accept the responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, consistent with industry usage and in conformity with International Financial Reporting Standards, the requirements of Energy Act, 2006 and the States Corporation Act, Cap 446 as set out on page 36 to 49.

The Directors are of the opinion that the financial statements herein give a true and fair view of the state of financial affairs of the Authority as at 30th June 2013 and of its operating results for the year ended. The Directors further confirm accuracy and completeness of the Accounting records maintained by the Authority which have been relied upon in the preparation of the Financial Statements, as well as on the adequacy of the systems of Internal financial controls.

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.

Approved by the Board of Directors on 30th September 2013 and signed on its behalf by:


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


.....
Faissal Abbass
Chairman.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

Report of the Auditor-General on the Financial Statements

REPUBLIC OF KENYA



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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 THE RURAL ELECTRIFICATION AUTHORITY FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the financial statements of the Rural Electrification Authority set out on pages 33 to 51, which comprise the Statement of financial position as at 30 June 2013 and statement of comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with 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.

The Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The Board is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Sections 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 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. 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 misstatements.

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 judgement, 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 Board, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

1. Inventory

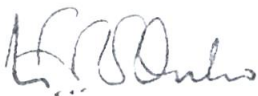
The statement of financial position as at 30 June 2013 reflects inventory balance of Kshs.3,618,807,000 which however differed with the adjusted ledger balance of Kshs.3,583,006,449 and the physical stock balance of Kshs.3,573,079,828. Although the Authority has attributed the variances to delays in 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 June 2013 could not be ascertained.

2. Damaged Wood Poles

During the year under review, wood poles totalling 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. Consequently, it has not been possible to confirm that public resources were managed efficiently, economically and in an effective manner.

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 2013, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Energy Act, 2006.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

28 May 2014

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

Statement of Comprehensive Income

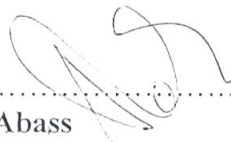
Revenues	Note	2012/13 (Kshs.'000')	2011/12 (Kshs.'000')
GOK Grants	3	502,444	665,000
Levies	4	3,296,771	3,122,307
External Funding	5	527,487	149,185
Other Income	6	579,631	436,966
Total		4,906,333	4,373,458
Expenses			
Employee Costs	7	242,458	334,948
Administrative Expenses	8	107,590	131,391
Board Expenses	9	25,366	25,011
Operating Expenses	10	92,278	115,014
Establishment Expenses	11	402,340	372,004
Total		870,032	978,368
Operating Surplus(Deficit)		4,036,301	3,395,090
Finance Costs	12	738	24,231
Surplus Before Taxes		4,035,563	3,370,859
Tax Expenses	13	23,060	7,681
Net Surplus for the Period		4,012,504	3,363,178

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

Statement of Financial Position

ASSETS	Note	2012/13 (Kshs.'000')	2011/12 (Kshs.'000')
Non-Current Assets			
Property Plant and Equipment	14	22,524,643	16,113,021
Intangible Assets	15	10,920	19,556
Total Non-Current Assets		22,535,564	16,132,577
Investments			
Treasury Bonds & Fixed Deposits	16	200,000	200,000
Total Investments		200,000	200,000
Current Assets			
Inventory	17	3,614,807	4,657,103
Trade and Other Receivables	18	670,146	570,536
Cash and Bank Balances	19	2,082,532	760,759 *
Total Current Assets		6,367,485	5,988,398
Total Assets		29,103,048	22,320,975
RESERVES & LIABILITIES			
Reserves			
Capital Reserve		53,596	53,595
Development Reserve		5,745,532	3,107,792
Retained Earnings		22,548,518	18,524,135
Accumulated Reserves		28,347,645	21,685,522
Current Liabilities			
Trade & Other Payables	20	701,437	591,369 *
Provisions	21	53,966	44,083
Items in Transit	22	-	-
Total Liabilities		755,403	635,452
Total Reserves and Liabilities		29,103,048	22,320,975


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


.....
Faissal Abass
Chairman.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

Statement of Changes in Reserves

	Capital Reserves (Kshs'000')	Development Reserves (Kshs'000')	Retained Earnings (Kshs'000')	Total
As at 1st July 2011	53,596	1,242,000	15,160,957	16,456,553
Surplus for the Year			3,363,178	3,363,178
Development Grant		1,865,792		1,865,792
As at 30th June 2012	53,596	3,107,792	18,524,135	21,685,523
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

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

Statement of Cash Flows for the Year Ended 30th June 2013

	<u>2012/13</u>	<u>2011/12</u>
Cash Flow From Operating Activities		
Surplus for the Period	4,012,504	3,363,178
Adjust for Depreciation	270,261	271,226
Working Capital Changes		
Decrease(Increase) in Inventory	1,042,297	(783,142)
Decrease(Increase) in Receivables	(99,609)	(288,561)
Increase (Decrease) in Payables	119,950	(754,176) *
Net Cash from Operating Activities	<u>5,345,402</u>	<u>1,808,526</u>
Investing Activities		
Purchase of Fixed Assets	(6,673,249)	(3,809,104)
Disposal of Long Term Bonds		300,000
Net Cash used in Investing Activities	<u>(6,673,249)</u>	<u>(3,509,104)</u>
Financing Activities		
Development Fund Appropriation	2,637,740	1,865,792
Refund of Overcharge	11,879	
Net Cash from Financing Activities	<u>2,649,619</u>	<u>1,865,792</u>
Net Increase(Decrease) in Cash and Cash Equivalents	<u>1,321,773</u>	<u>165,214</u>
Cash and Cash Equivalents 30.06.2012	760,759	595,546
Cash and Cash Equivalents 30.06.2013	<u>2,082,532</u>	<u>760,759</u> *
Cash & Cash Equivalents as per Statement of Financial Position	2,082,532	760,759 *
Less: Overdraft	-	-
Cash and Cash Equivalents 30.06.2013	<u>2,082,532</u>	<u>760,759</u>

1. Summary of Significant Accounting Policies

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

Basis of preparation

The Financial Statements are prepared in compliance with International Financial Reporting Standards (IFRSs). The Financial Statements are presented in functional currency, Kenya Shillings (Ksh) and are prepared in accordance with the measurement prescribed by IFRSs and on historical cost basis.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Authority's policies

The estimates and underlying are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Comparatives

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

Revenue Recognition

Revenue is recognized upon receipt for all sources of funds except for 5% REP Levy which is recognized on accrual basis. Donations are accounted for as other revenue.

Notes to the Financial Statements Continued;

Fixed Assets

Property, plant and equipment are stated at acquisition costs less depreciation and impairment losses.

Subsequent Costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Authority and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in the statement of comprehensive income as incurred.

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.

Inventories

Inventories are valued at the lower of cost and net-realizable value. Cost is determined on a weighted average basis and comprises expenditure incurred in the normal course of business including direct material cost and labor. Net realizable value is the price at which the stock can be realized in the normal course of business after allowing for the cost of realization. Provision is made for obsolete, slow moving and defective stocks. **For the purposes of this Financial Statements, the inventories have been valued at cost.**

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.

Notes to the Financial Statements Continued;

Computer Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives.

Current liabilities

Current liabilities are those to be settled within the Authority's normal operating cycle or due within twelve months or those held for trading or those which the Authority does not have unconditional right to defer payment beyond 12 months.

Provisions

Provisions are recognized when the Authority 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 will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Retirement benefit costs/Gratuity

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

Notes to the Financial Statements Continued;

The Authority has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all the employees the benefits relating to employee service in the current and prior periods.

The Authority and its employees also contribute to the National Social Security Fund, a statutory defined contribution pension scheme.

The Authority's contributions in respect of retirement benefit costs are charged to the profit and loss in the year to which they relate.

Contract Gratuity

The Authority has a fixed term service contract with some of the employees. A contract gratuity of 31% of the basic pay earned over the contract period is paid at the end of the contract. The monetary liability is accrued at the end of each year based on the completed period of service.

Bonus Scheme

The Authority operates a bonus scheme for its employees. The bonus is payable based on achievement of annual performance targets.

Provision for staff leaves pay

The monetary value of the unutilized annual leave by staff at year end is carried in the accruals as a payable and the movement in the year is debited/credited to the statement of comprehensive income.

Grants

The Government grants have been recognized under the Income approach (IAS 20) in which they have been treated as income and dealt with in the statement of comprehensive income.

Notes to the Financial Statements Continued;

Reporting currency

The Financial Statements are presented in Kenya Shillings, which is the Authority's functional and reporting currency. Foreign transactions during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the reporting date, which are expressed in foreign currencies, are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation of foreign currencies are dealt with in the Statement of comprehensive income with the exception of those differences relating to foreign currency borrowings. These are dealt with in the Statement of Changes in Equity as foreign Currency Translation Reserve.

2. Statement of Compliance

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and interpretation of those standards.

3	GOK Grants	2012/13	2011/12
	Exchequer Recurrent	502,444	665,000
	TOTAL	502,444	665,000
4	Levies	2012/13	2011/12
	5% REP Levy	1,906,972	1,779,183
	Kipevu oil storage facility	167,200	120,000
	Petroleum Development	525,145	679,000
	Royalties & Licences	697,454	544,124
	TOTAL	3,296,771	3,122,307
5	External Funding	2012/13	2011/12
	World bank	527,487	149,185
	France	-	-
	Spain	-	-
	TOTAL	527,487	149,185

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

Notes to the Financial Statements Continued;

6	Other Income	2012/13	2011/12
	Connection fees	100,042	52,870
	Constituency Development Fund	287,323	244,674
	Interest Income	152,823	81,628
	Interest Income-Discourt on Bonds	21,961	22,017
	Licences	6,198	19,824
	Sale of Tenders	11,285	6,052
	Donations	-	-
	Sale of Scrap	-	9,901
	TOTAL	579,631	436,966
7	Employee Costs	2012/13	2011/12
	Gratuity	2,083	2,083
	Other Staff Costs	17,594	16,076
	Salaries and Wages	222,781	316,789
	TOTAL	242,458	334,948
8	Administrative Expenses	2012/13	2011/12
	Advertisement and Promotions	32,768	56,801
	Audit fees	2,640	2,000
	Bank Charges and commissions	2,771	3,279
	Computer Expenses	16,767	20,401
	Legal and professional fees	15,114	24,214
	Office Cleaning	2,703	1,306
	Office Refreshments	10,732	5,549
	Social Responsibility costs	1,600	200
	Strategic Operational costs	3,861	8,231
	Vehicle Running Expenses	16,479	9,410
	Research and Development	2,155	-
	TOTAL	107,590	131,391
9	Board Expenses	2012/13	2011/12
	Director's Allowances	25,366	25,011
	TOTAL	25,366	25,011

Notes to the Financial Statements Continued;

10	Operating Expenses	2012/13	2011/12
	Bad debts expense	-	2,393
	External Travelling	9,533	25,138
	Local Travelling	33,434	31,073
	Postage	186	160
	Printing and Stationery	7,999	29,491
	Telephone	9,277	7,158
	Training and seminars	31,849	19,600
	TOTAL	92,278	115,014
11	Establishment Expenses	2012/13	2011/12
	Depreciation	270,261	271,226
	Electricity	1,505	1,000
	Insurance	23,861	11,079
	licences and subscriptions	559	313
	licences and subscriptions		
	Office repairs and maintenance	5,168	10,619
	Rent	72,921	53,126
	Security and surveillance	28,065	24,641
	TOTAL	402,340	372,004

12. Finance Costs

A total of Ksh.738 (*In Kshs'000'*) has been charged to the statement of Comprehensive Income as interest on overdrawn bank accounts.

13. Tax Expenses

Tax expenses of Ksh.23,060 (*In Kshs'000'*) relates to withholding Tax on Interest income from deposits held in fixed and call accounts during the year. An total of Ksh.7,681 (*In Kshs'000'*) was incurred in the year 2011/12

 **Rural Electrification Authority**
Annual Report & Financial Statements for the period ended 30th June 2013

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

	Land	Building	Plant and Machinery	Overhead Lines	Motor Vehicles	Furniture & Fittings	Office Equipment	Computer Equipment	Tools Implements & Testing Apparatus	WIP	Total
Balance as at 1st July 2011	24,644	4,474	60,740	502,713	70,478	18,628	4,705	61,025	3,308	10,029,567	10,780,282
Additions	10,117	2,495	1,598	1,868,125	69,927	10,138	4,434	20,662	-	3,674,007	5,661,502
Disposals/Capitalization	-	-	-	5,516,068	-	-	-	-	-	5,516,068	-
Balance as at 30th June 2012	34,761	6,969	62,338	7,886,906	140,404	28,765	9,139	81,687	3,308	8,187,506	16,441,784
Depreciation											
Accum depre as at 30th June 2011	-	108	12,163	9,770	32,773	2,639	1,377	29,847	467	-	89,144
Charge for the period	-	142	7,604	184,605	19,658	2,743	1,829	21,936	1,102	-	239,619
Total	-	250	19,767	194,375	52,431	5,382	3,206	51,783	1,569	-	328,763
Disposals											
Net book value											
As at 30th June 2012	34,761	6,719	42,570	7,692,531	87,973	23,383	5,933	29,905	1,740	8,187,506	16,113,021
As at 30th June 2011	24,644	4,366	48,577	492,943	37,704	15,988	3,328	31,179	2,841	10,029,567	10,691,138
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	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	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	-	328,763
Charge for the period	-	263	10,387	173,947	48,050	3,816	3,029	17,967	4,167	-	261,625
Total	-	512	30,155	368,321	100,481	9,199	6,235	69,749	5,736	-	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	10,252,482	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	8,187,506	16,113,021

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

Notes to the Financial Statements Continued;

15	Intangible Assets	2012/13	2011/12
	Opening Balance	106,622	90,895
	Additions	-	15,727
	Disposals/Capitalization	-	-
	Value at Cost	106,622	106,622
	Depreciation		
	Opening Balance: Acc'Depreciation	87,066	55,458
	Charge for the Period	8,636	31,608
	Disposals	-	-
	Total Depreciation	95,702	87,066
	Net Book Value	10,920	19,556
16	Investments	2012/13	2011/12
	Treasury Bonds (20YR)	200,000	200,000
		200,000	200,000
17	Inventory	2012/13	2011/12
	Conductors, Stay Blocks and Wires	1,481,904	2,375,752
	Hardware line items	647,192	764,456
	ICT	1,252	744
	Insulators	120,832	191,137
	Poles	506,666	266,013
	Stationery	12,206	4,535
	Surge Diverters Circuit Breakers and Isolators	317,983	252,461
	Transformers	526,772	802,005
	TOTAL	3,614,807	4,657,103

Notes to the Financial Statements Continued;

18	Trade and Other Receivables	2012/13	2011/12
	Advance to vendors	350,351	207,304
	Interest Receivables	25,860	19,683
	Other Accrued Revenues	238,724	324,265
	Prepayments- Insurance	21,303	205
	Prepayments- Others	820	-
	Prepayments- Rent	14,002	8,341
	Staff Advances	5,424	1,250
	VAT Receivables	118	-
	Deposits- Rent	13,545	9,489
	TOTAL	670,146	570,537

Considered as receivables, is money owed to REA by Kenya Revenue Authority, amounts due from monies held in fixed deposits as well as amount due from Kenya Power and Lighting company as 5% Rural Electrification programme levy for the month of June 2011.

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

Notes to the Financial Statements Continued;

19	Cash and Bank Balances	2012/13	2011/12
	Deposits		
	Term Deposits		
	KCB Fixed Deposits (8.9%)	850,000	-
	Call Deposits		
	Call Deposit at Cooperative Bank (8.5%)	820,000	-
	Call Account- CFC	617	310,689
	Cash at Bank		
	Cooperative Bank Current Account	1,000	1,000 *
	Standard Chartered Current Account	1,000	1,000 *
	Cooperative Bank Call Account	29,098	66,302
	Standard Chartered Bank Call Account	97,518	44,888
	Current Account- CFC	367	223
	Current Account- KCB Development	20	22
	Current Account- KCB Main	246,969	336,634
	Current Account- KEEP	35,805	-
	Cash in Hand		
	Cash Held for Banking	-	-
	Petty Cash	139	1
	TOTAL	2,082,532	760,759

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. The negative cashbook position in Standard Chartered Bank represents a disbursement float i.e (payments pending release to the bank upon availability of cash).

Rural Electrification Authority
Annual Report & Financial Statements for the period ended 30th June 2013

Notes to the Financial Statements Continued;

20	Trade and Other Payables	2012/13	2011/12
	Trade-Creditors invoiced	648,134	534,290 *
	Trade-Creditors not invoiced	0	-
	Trade-KPLC Metre Deposits	928	963
	Trade-Refundable Deposits	500	500
	Current Tax Payable		
	Tax payable- Customs Duty	-	-
	Tax payable- Withheld Tax on Prof.fees	105	1,720
	Tax payable- Withheld Vat	16,637	16,637
	Staff		
	Payroll Liabilities	3	-
	Staff Welfare	-	-
	Deffered Income	35,131	37,260
	TOTAL	701,437	591,369
21	Provisions	2012/13	2011/12
	Gratuity	5,902	3,819
	Accrued Leave Days	39,605	32,877
	Audit Fees	2,320	2,000
	Director's fees	6,139	5,387
	TOTAL	53,966	44,083

Considered as payables, is monies owed by the Authority to staff and third parties.

	Gratuity (Kshs'000')	Accrued Leave Days (Kshs'000')	Director,s fees (Kshs'000')	Audit fees (Kshs'000')
As at 30.06.2011	3,819	32,877.40	5,387	2,000
Additions	2,083	14,431.44	5,320	2,320
Usage/Realization	-	(7,704.08)	(4,568)	(2,000)
Adjustments	-	-	-	-
As at 30.06.2011	5,902	39,604.76	6,139	2,320

Notes to the Financial Statements Continued;

Provisions are recognized when the Authority 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 will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

22. Employees

The number of staff employed by the Authority on permanent basis as at 30th June was 153

23. Revaluation Reserves

No reserves were revalued during the year.

24. Related Party Transactions

The Authority did not have any related party transactions during the year.