

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



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REPORT	
DATE: 09 MAY 2019	DAY: THURSDAY
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THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA POWER AND LIGHTING COMPANY
LIMITED- RURAL ELECTRIFICATION
SCHEME**

FOR THE YEAR ENDED

30 JUNE 2018

**THE KENYA POWER AND LIGHTING COMPANY LIMITED -
RURAL ELECTRIFICATION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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The Kenya Power and Lighting Company Limited - Rural Electrification Scheme
Annual report and financial statements
For the year ended 30 June 2018

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The Kenya Power and Lighting Company Limited - Rural Electrification Scheme
Scheme Information
For the year ended 30 June 2018

REGISTERED OFFICE	- Stima Plaza Kolobot Road P.O. Box 30099 - 00100 Nairobi
SCHEME ADMINISTRATOR	- Principal Secretary Ministry of Energy Nairobi Kenya
SCHEME MANAGER	- Kenya Power & Lighting Company Limited Stima Plaza Kolobot Road P.O. Box 30099 - 00100 Nairobi
SCHEME COORDINATOR	- David Wainaina Acting Scheme Coordinator Kenya Power & Lighting Company Limited Stima Plaza Kolobot Road P.O. Box 30099 - 00100 Nairobi
PRINCIPAL AUDITOR	- The Auditor General Anniversary Towers P.O. Box 30084 - 00100 Nairobi
DELEGATED AUDITOR	- PricewaterhouseCoopers Certified Public Accountants (Kenya) PwC Towers, Waiyaki Way/Chiromo Road Westlands P.O. Box 43963 - 00100 Nairobi

The Scheme Administrator submits his report together with the audited financial statements of the Rural Electrification Scheme ("RES" or "the Scheme") for the year ended 30 June 2018, which disclose the state of affairs of the Scheme.

BACKGROUND

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

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

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

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

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

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

BUSINESS REVIEW

The principal activities of the Scheme are:

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

MANAGEMENT

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

SCHEMES IN OPERATION

For management and administrative purposes, the Scheme is organized into counties. The following RES Schemes were in operation as at 30 June 2018:

1. Nairobi County
Embakasi, Kasarani, Dagoreti, Ruaraka
2. Marsabit County,
Marsabit, Moyale Saku, Laisamis
3. Mandera County,
Lafey, Bannisa, Mandera,
Elwak
4. Wajir County,
Wajir, Habasweni, Eldas, Tarbaj
5. Garissa County,
Garissa, Fafai, Ijara, Daadab,
6. Kiambu County
Limuru, Lari, Kikuyu, Kiambaa,
Githunguri, Chura, Juja, Gatundu
7. Makueni County
Makueni, Kibwezi, Kilome, Kalamba,
Sultan Hamud, Mtiito Andei, Kaiti
8. Machakos County
Machakos, Kathiani, Kangundo,
Makutano, Konza, Changwithya, Yatta,
Mavoko, Mwala,
9. Kajiado County
Kajiado, Ngong, Mashuru, Namanga,
Kajiado Central, Loitokitok
10. Tana River County
Hola, Garsen, Galole, Bura,
11. Lamu County
Lamu, Mpeketoni, Mkowe
12. Kilifi County
Ganze, Bura Kilifi, Magharini, Bahari,
Kaloleni, Rabai, Mambrui, Malindi,
Magarini,
13. Mombasa County
Likoni, Kisauni, Changamwe, Jomvu,
Mvita
14. Kwale County
Msambweni, Kinango, Matunga,
Lungalunga
15. Taita/Taveta County
Taveta, Wundanyi, Voi, Mwatate
16. Nakuru County
Naivasha, Rongai, Bahati, Itherero,
Kinungi, Margishu, Olenguruone, Mangu,
Kiamunyi Molo,
17. Nyandarua County
Kinangop, Oljororok, Kipipiri, Olkalau,
Ndaragua
18. Narok County
Narok, Kilgoris, Nairegi-Enkare, Emurua,
Dikirr
19. Samburu County
Maralal, Baragoi
20. Siaya County
Sawagongo, Awelo, Boro, Bondo,
Ukwala, Gem, Ugunja, Ng'iya, Alego,
Ugenya, Usonga,
21. Kisumu County
Nyando, Maseno, Nyakach, Seme,
Muhoroni
22. Homabay County
Ndhiwa, Mbita, Oyugis, Karachuonyo,
Rangwe,
23. Migori County
Migori, Rongo, Kehancha, Suna, Uriri,
Kuria
24. Kisii County
Bosongo, Ogembo, Irianyi, Marani,
Nyamache, Bobasi, Nyambari, Borabu
25. Nyamira County
Nyamira, Matutu, Ekerenyo, Manga,
Cache, Bomachoge

SCHEMES IN OPERATION (Continued)

- | | |
|--|---|
| 26. Bomet County
Bomet, Buret, Chepalungu, Konoin, Sotik | 37. Tharaka-Nithi County
Nithi, Tharaka, Materi, Chuka, Igamba |
| 27. Kericho County
Londiani, Belgut, Sosiot, Kipkelion, Bureti, | 38. Meru County
Tigania, North Imenti, Central Imenti,
Ntonyiri, Timau, South Imenti, Nkubu,
Kanyakine, Maua, Igembe |
| 28. Bungoma County
Amagoro, Kapsokwany, Webuye,
Kanduyi, Kimilili, Malakisi, Sirisia | 39. Isiolo County
Isiolo, Garbartula, Merti |
| 29. Busia County
Busia, Nambale, Butula, Bunyala, Teso,
Matayos, Funyula, Budalangi | 40. Laikipia County
Marmanet, Rumuruti, Mkongondo |
| 30. Kakamega County
Lurambi, Lugari, Kabras, Shinyalu,
Butere, Mumias, Ikolomani, Malava,
Likuyani, | 41. Baringo County
Eldama Ravine, Tenges, Margat,
Kabartonjo, Makutano, Kabarnet, Mogotio |
| 31. Vihiga County
Vihiga, Hamisi, Emuhaya, Lugulu,
Luanda, Sabatia | 42. Elgeyo Marakwet County
Kapsowar, Kapkenda, Chepkorio,
Tambach, Kaptagat, Iten, Keiyo,
Marakwet |
| 32. Nyeri County
Kieni West, Tetu, Othaya, Mathira, Kieni
East, Mukurueni | 43. Uasin Gishu County
Ainabkoi, Turbo, Soy, Moi's Bridge,
Lessos, Moiben, Kesses |
| 33. Kirinyaga County
Ndia, Mwea, Gichugu, Kimunye, Kirinyaga
central | 44. Nandi County
Aldai, Mosop, Tinderet, Moiben,
Timboroa, Chesumei, Emgwen |
| 34. Muranga County
Makuyu, Kigumo, Kangema, Kiharu,
Gatanga, Kandara, Maragua, Mathioya | 45. Turkana County
Lodwar, Loima, Turkana |
| 35. Kitui County
Kitui, Mwingi | 46. West Pokot County
Kapenguria, Kachiliba, Sigor, Pokot |
| 36. Embu County
Gachoka, Runyenjes, Karurumo, Siakago,
Ishiara, Manyatta, Mbeere North | 47. Trans Nzoia County
Cheranganyi, Saboti, Kwanza, Kiminini,
Endebess |

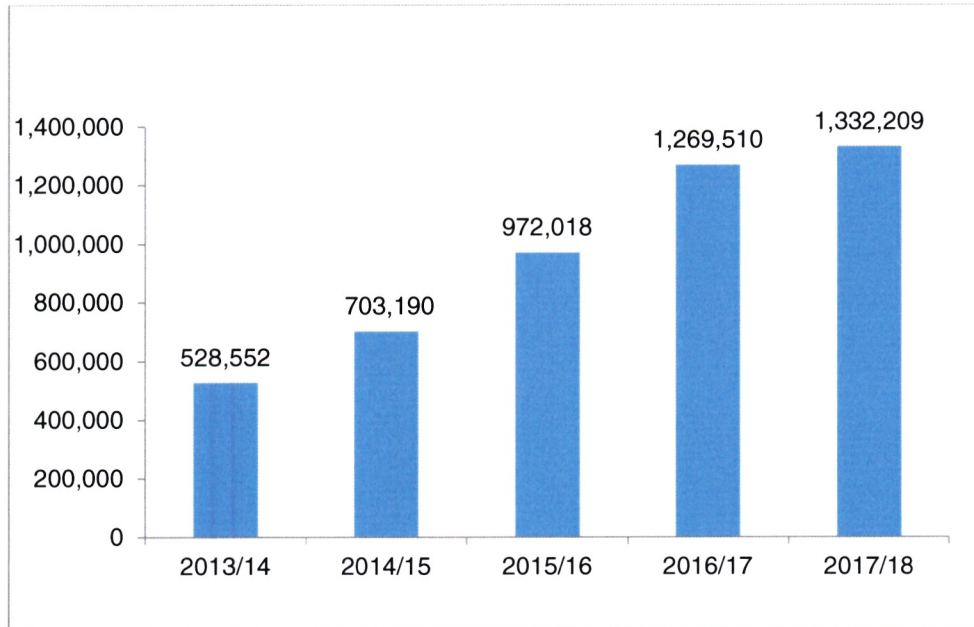
The Kenya Power and Lighting Company Limited - Rural Electrification Scheme
 Report of the Scheme Administrator
 For the year ended 30 June 2018

Five years financial and statistical information

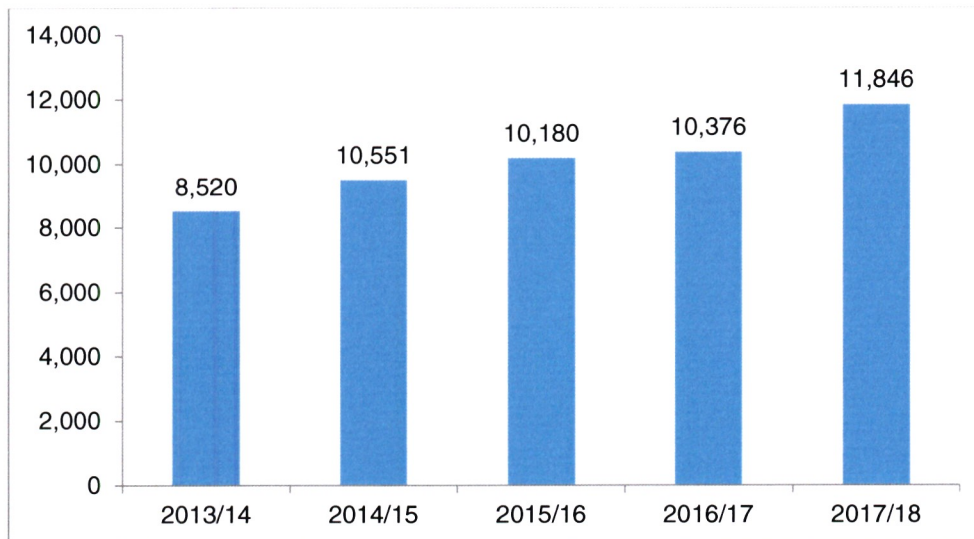
Year	2014	2015	Restated 2016	Restated 2017	2018
Units sold (GWh) Millions					
National Grid	421	471	497	549	565
Off-Grid Stations	33	36	30	28	33
Total units sold	454	507	527	577	598
Number of customers	528,552	703,190	972,018	1,269,510	1,332,209
% Increase in customers per year	17%	33%	38%	31%	4.7%
Summarised financial statements					
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Revenue	8,519,831	10,550,797	10,179,646	10,376,263	11,845,821
Operating expenses	(10,760,568)	(12,382,942)	(12,668,940)	(14,363,641)	(16,746,033)
Deficit for the year	(2,240,737)	(1,832,145)	(2,489,294)	(3,987,378)	(4,900,212)
CAPITAL EMPLOYED					
Fixed assets net of depreciation	21,456,084	23,356,550	23,278,656	32,302,416	42,054,470
Due from KPLC	-	643,602	817,598	3,743,116	6,106,984
Other receivables	3,581,581	1,157,368	966,977	1,454,054	893,935
	25,037,665	25,157,520	25,063,231	37,499,586	49,055,389
FINANCED BY					
Scheme balances	39,695,193	41,348,793	42,382,016	55,527,286	67,630,166
Accumulated deficit	(15,329,923)	(17,162,068)	(19,651,363)	(23,638,741)	(28,538,953)
Current liabilities	672,395	970,795	2,332,578	5,611,041	9,964,174
	25,037,665	25,157,520	25,063,231	37,499,586	49,056,387

Five years financial and statistical information (continued)

Customer base

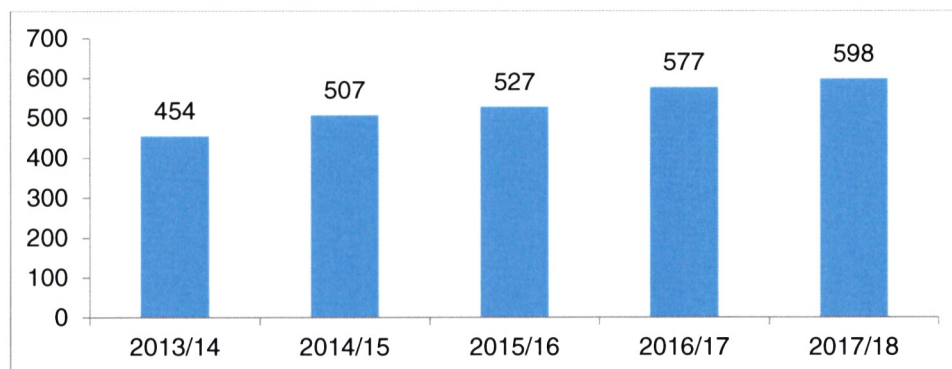


Revenue Million (Shs)

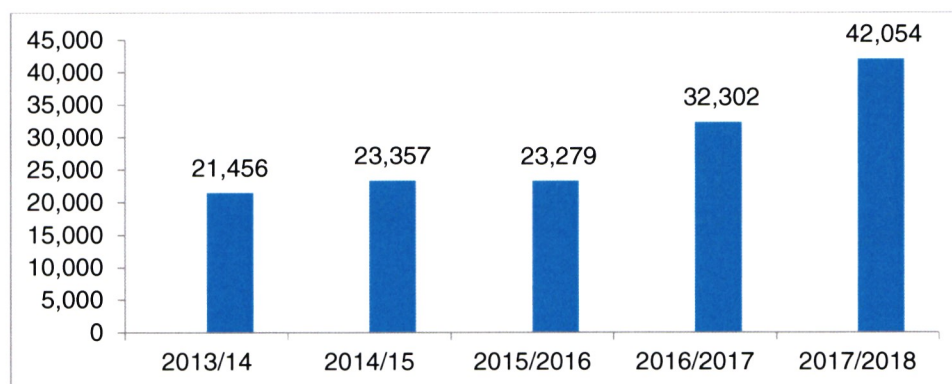


Five years financial and statistical information (continued)

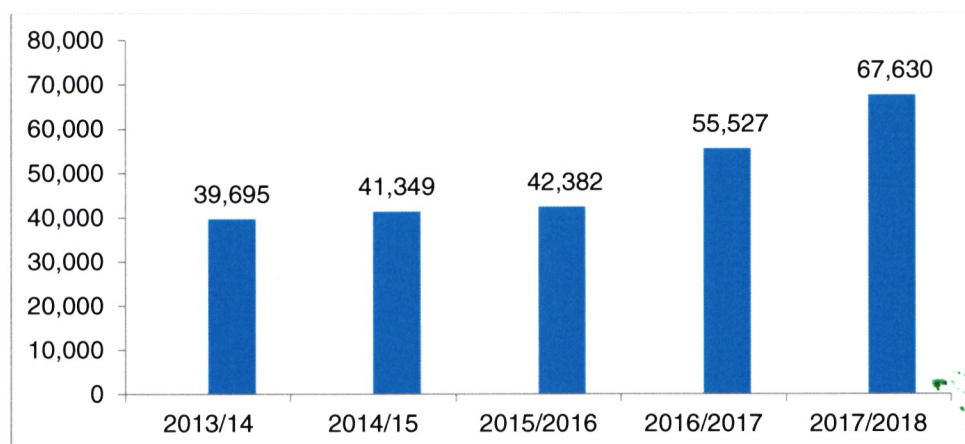
Units Sold in Million (Shs)



Fixed Assets Net of Depreciation in Millions (Shs)



Scheme Balances (Equity) in Million (Shs)



RESTATEMENT OF PRIOR YEAR RESULTS

The Scheme's financial statements include a restatement of the opening balances at 1 July 2016 and the statement of profit or loss and other comprehensive income figures for the year ended 30 June 2017 to correct prior period errors. These are covered in note 16 of the financial statements.

RESULTS FOR THE YEAR

	2018	2017
	Shs'000	Restated Shs'000
Deficit for the year	(4,900,212)	(3,987,378)

PERFORMANCE REVIEW

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

CAPITAL EXPENDITURE

During the year, a total of Shs 10,971,731,000 (2017: Shs 10,169,528,000) was spent on capital works. The capital work-in progress as at 30 June 2018 amounted to Shs 17,333,331,000 (2017: Shs 9,959,937,000).

SCHEME ADMINISTRATOR

Eng. Dr Joseph Njoroge, Principal Secretary, Ministry of Energy is the Scheme Administrator.

SCHEME CO-ORDINATOR

David Wainaina, Ag. Scheme Coordinator.

SCOPE OF THE FINANCIAL STATEMENTS

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

AUDITORS

The Auditor-General is responsible for the statutory audit of the Scheme's financial statements in accordance with section 35 of the Public Audit Act, 2015. Section 23 (1) of the Act empowers the Auditor-General to appoint other auditors to carry out the audit on his behalf. Accordingly, PricewaterhouseCoopers (PwC) were appointed to carry out the audit for the year ended 30 June 2018 and report to the Auditor-General.

By Order of the Scheme Administrator



Principal Secretary, Ministry of Energy

20 December 2018

The Kenya Power and Lighting Company Limited - Rural Electrification Scheme
Statement of Scheme Administrator's and KPLC's Responsibilities
For the year ended 30 June 2018

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

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

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

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

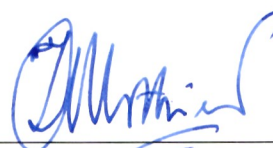
In preparing the financial statements, the Scheme Administrator and KPLC have assessed the Scheme's ability to continue as a going concern and disclosed, as applicable, the matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the Scheme Administrator and KPLC to indicate that the Scheme will not remain a going concern for at least the next twelve months from the date of this statement.

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

Approved by the Scheme Administrator and KPLC on 20 December 2018 and signed on their behalf by:



Principal Secretary
Ministry of Energy



Ag. Managing Director & CEO,
The Kenya Power and Lighting Company Limited



Ag. General Manager, Finance
The Kenya Power and Lightning Company Limited

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA POWER AND LIGHTING COMPANY LIMITED - RURAL ELECTRIFICATION SCHEME FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Kenya Power and Lighting Company Limited - Rural Electrification Scheme set out on pages 13 to 36, which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income and statement of changes in scheme balances for the year ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Power and Lighting Company Limited - Rural Electrification Scheme as at 30 June 2018, 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.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Power and Lighting Company Limited - Rural Electrification Scheme in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

Report of the Auditor-General on the Financial Statements of Kenya Power and Lighting Company Limited - Rural Electrification Scheme for the year ended 30 June 2018

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance to ISSAI 1315 and 1330. The standards require that I plan and perform the audit to obtain assurance on whether effective processes and systems of internal control, risk management and governance, were operating effectively, in all material respects. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the Scheme's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the management is either intends to liquidate the Scheme or cease its operations, or have no realistic alternative but to do so.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions which may cast significant doubt on the Scheme's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Scheme to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and

other matters which may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

15 March 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2018 Shs'000	2017 Restated Shs'000
Revenue			
Electricity sales		7,414,557	7,043,959
Fuel cost charge		2,466,055	1,502,155
Recoveries from KPLC	8	1,258,749	1,269,262
Foreign exchange adjustment		706,460	560,887
		<hr/>	<hr/>
		11,845,821	10,376,263
		<hr/>	<hr/>
Power purchase costs			
Non-fuel costs	6	4,564,987	4,301,456
Fuel costs	6	3,358,392	3,186,953
		<hr/>	<hr/>
		7,923,379	7,488,409
		<hr/>	<hr/>
Gross profit		3,922,442	2,887,854
		<hr/>	<hr/>
Net operating expenses			
Administration	7	4,235,043	2,444,135
Commercial services	7	1,870,180	2,060,241
Network management	7	2,717,431	2,370,856
		<hr/>	<hr/>
		8,822,654	6,875,232
		<hr/>	<hr/>
Operating deficit		(4,900,212)	(3,987,378)
Other comprehensive income		-	-
		<hr/>	<hr/>
Total comprehensive loss		(4,900,212)	(3,987,378)
		<hr/>	<hr/>

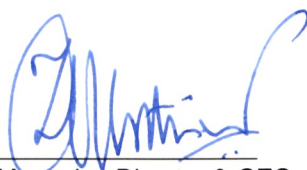
STATEMENT OF FINANCIAL POSITION

	Note	2018 Shs'000	2017 Restated Shs'000	2016 Restated Shs'000
ASSETS				
Non-current assets				
Property and equipment	13	42,054,470	32,302,416	23,278,656
Due from KPLC	15(d)	182,697	172,498	-
		<hr/>	<hr/>	<hr/>
		42,237,167	32,474,914	23,278,656
Current assets				
Receivables	10	893,933	1,454,054	966,977
Due from KPLC	15(d)	5,924,287	3,570,618	817,598
		<hr/>	<hr/>	<hr/>
		6,818,220	5,024,672	1,784,575
Total assets				
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
		49,055,387	37,499,586	25,063,231
Scheme balances and liabilities				
Scheme balances				
Government, donor and customer contributions	12	67,630,166	55,527,286	42,382,016
Accumulated deficit	14	(28,538,953)	(23,638,741)	(19,651,363)
Net scheme balances				
		<hr/>	<hr/>	<hr/>
		39,091,213	31,888,545	22,730,653
Current liabilities				
Trade and other payables	11	612,116	587,891	524,675
Due to KPLC	15(d)	9,352,058	5,023,150	1,807,903
Total current liabilities				
		<hr/>	<hr/>	<hr/>
		9,964,174	5,611,041	2,332,578
Total scheme balances and liabilities				
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
		49,055,387	37,499,586	25,063,231

The financial statements on pages 13 to 31 were approved for issue by the Board of Directors on 20 December 2018 and signed on its behalf by:



Principal Secretary
Ministry of Energy



Ag. Managing Director & CEO
The Kenya Power & Lighting Co Ltd



Ag. General Manager, Finance
The Kenya Power & Lighting Co Ltd

STATEMENT OF CHANGES SCHEME BALANCES

	Note	Government contributions Shs'000	Accumulated deficit Shs'000	Total Shs'000
At 30 June 2016 - as previously reported		42,382,016	(18,901,297)	23,480,719
Restatement	16	-	(750,066)	(750,066)
30 June 2016 - restated		42,382,016	(19,651,363)	22,730,653
Year ended 30 June 2017				
30 June 2016 - restated		42,382,016	(19,651,363)	22,730,653
Government, donor and customer contribution	12	13,145,270	-	13,145,270
Total comprehensive loss		-	(3,987,378)	(3,987,378)
30 June 2017 - restated		55,527,286	(23,638,741)	31,888,545
Year ended 30 June 2018				
At 30 June 2017 – as previously reported		55,527,286	(22,336,372)	33,190,914
Restatement	16	-	(1,302,369)	(1,302,369)
At 30 June 2017 - restated		55,527,286	(23,638,741)	31,888,545
Government, donor and customer contribution	12	12,102,880	-	12,102,880
Total comprehensive loss		-	(4,900,212)	(4,900,212)
At 30 June 2018		67,630,166	(28,538,953)	39,091,213



NOTES

1 General information

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

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

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

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Scheme administrator and KPLC to exercise judgement in the process of applying the Scheme's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

The financial statements are presented in Kenya Shillings thousands (Shs '000), the Scheme's Functional and Presentation currency.

(i) Going concern

The Scheme reported a deficit of Shs 4,900,212,000 (Restated 2017: Shs 3,987,376,000) and was also in a net current liability position of Shs 3,145,954,000 (Restated 2017: Shs 586,369,000). However, the Scheme has significant positive net Scheme balances of Shs 39,091,213,000 (Restated 2017: Shs 31,888,545,000). The Scheme is currently funded by several donors through the Government of Kenya. Nothing has come to the attention of the Scheme Administrator and KPLC to indicate that the Scheme will not remain a going concern for at least the next twelve months from the date of this statement.

(ii) Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Scheme

Standard	Effective date	Executive summary
Amendment to IAS 12 – Income taxes	Annual periods beginning on or after	The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.
Recognition of deferred tax assets for unrealised losses.	1 January 2017	

NOTES (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) Changes in accounting policy and disclosures (continued)

New and amended standards adopted by the Scheme (continued)

Standard	Effective date	Executive summary
Amendment to IAS 12 – Income taxes Recognition of deferred tax assets for unrealised losses.	Annual periods beginning on or after 1 January 2017	The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.
Amendment to IAS 7 – Cash flow statements	Annual periods beginning on or after 1 January 2017	The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The above amendments have no impact on the Scheme's financial statements
Statement of cash flows on disclosure initiative		

New and amended standards not yet adopted by the Scheme

Standard	Effective date	Executive summary
IFRS 9 – Financial Instruments (2009 & 2010)	Annual periods beginning on or after 1 January 2018	'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities and introduces new rules for hedge accounting.
<ul style="list-style-type: none"> • Financial liabilities • Derecognition of financial instruments • Financial assets 		<p>The complete version of IFRS 9 was issued in July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurements model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.</p> <p>The basis of classification depends on the entity's model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to changes in fair value in OCI without recycling.</p>
General hedge accounting		

NOTES (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) Changes in accounting policy and disclosures (continued)

New and amended standards not yet adopted by the Scheme (continued)

Standard	Effective date	Executive summary
<p>IFRS 9 – Financial Instruments (2009 & 2010)</p> <ul style="list-style-type: none"> • Financial liabilities • Derecognition of financial instruments • Financial assets 	<p>Annual periods beginning on or after</p> <p>1 January 2018</p>	<p>There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.</p> <p>For financial liabilities there are no changes to the classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.</p>
<p>General hedge accounting</p>		<p>IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.</p> <p>Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.</p> <p>This standard will be applicable to the Company's financial statements for the year ending 30 June 2019. The standard requires that an assessment is performed to determine the impact of the standard on the financial statements. Management has not performed this assessment</p>
<p>IFRS 15 – Revenue from contracts with customers.</p>	<p>Annual periods beginning on or after</p> <p>1 January 2018</p>	<p>'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations.</p> <p>This standard will be applicable to the Company's financial statements for the year ending 30 June 2019.</p>

NOTES (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) Changes in accounting policy and disclosures (continued)

New and amended standards not yet adopted by the Scheme (continued)

IFRS 15 – Revenue from contracts with customers.	Annual periods beginning on or after 1 January 2018	The standard requires that an assessment is performed to determine the impact of the standard on the financial statements. Management has not performed this assessment.
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IFRS 16 – Leases	Annual periods beginning on or after 1 January 2019 – earlier application permitted if IFRS 15 is also applied.	This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.
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For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

This standard will be applicable to the Scheme's financial statements for the year ending 30 June 2020

Management has not performed this assessment.

NOTES (continued)

2 Summary of significant accounting policies (continued)

(b) Revenue recognition

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

(i) Electricity sales

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

(ii) Fuel cost charge

The Scheme recovers fuel costs from customers in line with the gazetted tariffs. The amounts are billed to customers in the subsequent month as a charge per KWh after approval by the Energy Regulatory Commission.

(iii) Foreign exchange adjustment

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

The recovery of fuel costs and the foreign exchange costs is based on supplier invoices and factors in the ERC's target loss factor in transmission and distribution. For the year ended 30 June 2018, the target loss factor was 15.9%.

(iv) Recoveries from KPLC

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

(c) Power purchase costs

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

(i) Non-fuel costs

These include capacity charges, energy cost and steam charges.

(ii) Fuel costs

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

NOTES (Continued)

2 Summary of significant accounting policies (continued)

(d) Net operating expenses

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

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

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

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

(e) Funding

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

(f) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment loss. Gains and losses on disposals are determined by comparing disposal proceeds with the carrying amount of the asset and are included in the operating surplus or loss.

Depreciation is calculated in accordance with the requirements of the Electric Power Act which provides for the write down of the cost of property and equipment to residual values by equal annual installments over their expected useful lives. The annual depreciation rates are as follows:

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

Capital work in progress

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

NOTES (Continued)

2 Summary of significant accounting policies (continued)

(g) Foreign currency

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

(h) Financial instruments

Financial assets and financial liabilities are recognised when the Scheme becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Scheme's financial assets all fall under the 'loans and receivables' category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

NOTES (Continued)

2 Summary of significant accounting policies (continued)

(h) Financial Instruments (continued)

Impairment of financial assets (continued)

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Scheme's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Scheme derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Scheme neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Scheme recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Scheme retains substantially all the risks and rewards of ownership of a transferred financial asset, the Scheme continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset other than in its entirety (e.g. when the Scheme retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Scheme retains control), the Scheme allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. Income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised.

NOTES (Continued)

2 Summary of significant accounting policies (continued)

(h) Financial Instruments (continued)

Financial liabilities

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Scheme derecognises financial liabilities when, and only when, the Scheme's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting of financial instruments

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

(i) Trade and other payables

Trade payables are stated at their nominal value.

(j) Comparatives

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

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Scheme's accounting policies, which are described in note 2 above, the Scheme Administrator and KPLC are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

There are no significant judgements applied by the Scheme Administrator and KPLC in applying the Scheme's accounting policies.

NOTES (Continued)

4 Financial risk management objectives and policies

The Scheme's activities expose it to a variety of financial risks; liquidity, market and operational risks.

The principal financial instruments comprise receivables and payables. These instruments arise directly from its operations. The Scheme does not enter into derivative transactions. The Scheme Administrator has overall responsibility for the establishment and oversight of the Schemes' risk management framework.

i) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The objective of market risk management is to manage and control market risk exposure within acceptable levels, while optimizing on the return on the risk.

ii) Interest rate risk

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. The Scheme is not exposed to interest rate risks as it has no borrowings or cash and cash equivalents.

iii) Foreign Currency exchange risk

Foreign exchange risk arises from recognized financial assets and liabilities. The Scheme operates wholly within Kenya and its assets and liabilities are denominated in Kenya shillings. The Scheme has limited transactions in foreign currency. The Scheme Administrator believes there is minimal risk of significant losses due to exchange rate fluctuations.

iv) Credit risk

The Scheme has exposure to credit risk which is the risk that a counter party will be unable to pay amounts in full when they fall due. Credit risk arises mainly from trade receivables. The exposure to credit risk is monitored on an ongoing basis to ensure that the Scheme's exposure to bad debts is minimised.

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

NOTES (continued)

4 Financial risk management objectives and policies (continued)

iv) Credit risk (continued)

	Fully performing Shs '000	Past due but not impaired Shs '000	Impaired Shs '000	Total Shs '000
At 30 June 2018				
Trade receivables	893,933	-	2,940,397	3,834,330
Less impairment allowance	-	-	(2,940,397)	(2,940,397)
	893,933	-	-	893,933
At 30 June 2017				
Trade receivables	1,454,054	-	929,465	2,383,519
Less impairment allowance	-	-	(929,465)	(929,465)
	1,454,054	-	-	1,454,054

The impaired balances are fully provided for.

The customers under the fully performing categories are paying their debts as they fall due. Past due amounts are those beyond the established credit period. Past due receivable balances continue to be serviced even though this is not done on contractual dates and the Scheme through KPLC (the managing agent) follows up these receivables. There were no past due but not impaired amounts as at 30 June 2018 (2017: Shs nil).

Customer deposits collateral held by the Scheme as security amounted to Shs 185,474,000 (2017: Shs 206,908,000).

v) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Scheme's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation. The Scheme is fully funded by the Government and donor agencies and therefore faces minimal liquidity exposure.

NOTES (continued)

4 Financial risk management objectives and policies (continued)

v) Liquidity risk (continued)

The table below summarizes the maturity profiles of the Scheme's financial liabilities based on the remaining period using 30 June 2018 as the base period to the contractual maturity date:-

	2018	2017
	Shs '000	Shs '000
	On demand	On demand
Trade and other payables		
Customer deposits	185,475	206,908
Customer credit balances	355,109	348,091
Audit fee and other payables	24,959	32,892
Other deposit refunds	46,573	-
	<hr/>	<hr/>
	612,116	587,891
	<hr/>	<hr/>

vi) Fund management

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

5 Taxation

The Scheme is exempt from taxation on all its income for the purposes of these financial statements since the Scheme plus other schemes under the Ministry of Energy are consolidated and reported as one consolidated Scheme.

6 Power purchase costs

	2018	2017
	Shs'000	Restated Shs'000
Non fuel costs:		
Recharge from KPLC	4,322,804	4,015,840
Off-grid costs	342,183	285,616
Government subsidy	(100,000)	-
	<hr/>	<hr/>
	4,564,987	4,301,456
	<hr/>	<hr/>
Fuel costs:		
Recharge from KPLC	3,358,392	3,186,953
	<hr/>	<hr/>
	7,923,379	7,488,409
	<hr/>	<hr/>

NOTES (continued)

7 Net operating expenses	2018	2017
	Shs'000	Restated Shs'000
<i>(a) Administration</i>		
Bad debts provision	2,010,933	236,815
Depreciation	1,219,678	1,145,768
Non-meter reading and billing (recharge from KPLC)	1,000,834	1,058,119
Auditor remuneration	3,598	3,433
	4,235,043	2,444,135
<i>(b) Commercial services</i>		
Recharge from KPLC: Meter reading and billing	1,870,180	2,060,241
<i>(c) Network management expenses</i>		
Recharge from KPLC: HV Lines-costs	1,146,765	1,033,079
LV Lines-costs	1,570,666	1,337,778
	2,717,431	2,370,856

8 Recharges from KPLC

The Scheme continued to be managed by the Kenya Power and Lighting Company (KPLC) on behalf of the Government of Kenya.

	2018	2017
	Shs'000	Restated Shs'000
Revenue allocation		
Revenue	10,587,072	9,107,001
Recoveries from KPLC*	1,258,749	1,269,262
	11,845,821	10,376,263

*Included in the electricity tariff to KPLC customers is an amount that goes towards funding the Scheme's activities. This amount represents collection from KPLC customers.

NOTES (continued)

8 Recharges from KPLC (continued)

	2018	2017
	Shs'000	Restated Shs'000
Cost allocation		
Power purchase costs	7,923,379	7,488,409
Net operating expenses	5,588,495	5,489,216
	<u>13,511,874</u>	<u>12,977,625</u>

9 Capital commitments

	2018	2017
	Shs'000	Shs'000
Net capital commitments on the various incomplete schemes	24,702,583	12,834,338
	<u>24,702,583</u>	<u>12,834,338</u>

10 Receivables

Electricity receivables gross	3,820,909	2,383,519
VAT recoverable	13,421	-
Allowance for doubtful receivables	(2,940,397)	(929,465)
	<u>893,933</u>	<u>1,454,054</u>

As at 30 June 2018, electricity receivables totaling to Shs 2,940,397,000 (2017: Shs 929,465,000) were fully impaired and provided for. Movements in the allowance for doubtful receivables were as follows:

	2018	2017
	Shs'000	Shs'000
At start of year	(929,465)	(692,650)
Increase in provision for bad debts	(2,008,272)	(236,815)
Bad debts written off	(2,660)	-
	<u>(2,940,397)</u>	<u>(929,465)</u>
At end of year	<u>(2,940,397)</u>	<u>(929,465)</u>

11 Trade and other payables

Customer deposits	185,475	206,908
Customer credit balances	355,109	348,091
Other deposits	46,573	-
Other payables	21,098	29,449
Audit fees	3,861	3,443
	<u>612,116</u>	<u>587,891</u>

NOTES (continued)

12 Government, donor and customer contribution–cumulative

	2018	2017
	Shs'000	Shs'000
Direct government contributions	34,594,224	35,218,549
Government Contribution – Last mile	11,418,337	6,775,000
African Development Bank Contribution – Last Mile	8,568,841	5,701,180
Spanish credit programme	3,269,502	3,269,502
World Bank Kemp IDA Last Mile	3,580,403	-
African Development Bank Contribution II – Last Mile	1,508,417	-
Nordic Development Bank-NDF Solar Lanterns	127,387	-
Kenya Power and Lighting Company (2% contribution)	1,901,057	1,901,057
French credit programme	842,419	842,419
Interest on CIDA transmission lines loan	470,900	470,900
CIDA Kipevu Rehabilitation*	68,000	68,000
Token capital contributions	368,043	368,043
Finnish materials grant	269,808	269,808
Interest on Finnish loan	31,396	31,396
Stabex Development funds	266,893	266,893
Danish materials grant	155,306	155,306
SIDA material grant**	66,838	66,838
Overseas Development Agency	48,335	48,335
NCCCK Project IV***	34,975	34,975
Norwegian material grant	25,733	25,733
Canadian material grant	13,352	13,352
	<hr/>	<hr/>
	67,630,166	55,527,286
	<hr/> <hr/>	<hr/> <hr/>
At start of year	55,527,286	42,383,016
New contribution	12,102,880	13,145,260
	<hr/> <hr/>	<hr/> <hr/>
At end of year	67,630,166	55,527,286
	<hr/> <hr/>	<hr/> <hr/>

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

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

* CIDA – Canadian International Development Agency

**SIDA – Swedish International Development Agency

***NCCCK – National Council of Churches of Kenya

NOTES (continued)

13 Property and equipment

	Land and buildings	Distribution lines	Furniture and equipment	Motor vehicles	Work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cost						
At 1 July 2016	52,581	29,561,518	489,481	-	1,180,260	31,283,840
Work in progress additions	-	-	-	-	10,169,528	10,169,528
Transfer from work in progress	-	1,345,904	-	43,947	(1,389,851)	-
At 30 June 2017	52,581	30,907,422	489,481	43,947	9,959,937	41,453,368
Depreciation						
At 1 July 2016	45,094	7,608,468	351,622	-	-	8,005,184
Charge for the year	427	1,119,227	22,818	3,296	-	1,145,768
At 30 June 2017	45,521	8,727,695	374,440	3,296	-	9,150,952
Net Book Value at 30 June 2017	7,060	22,179,727	115,041	40,651	9,959,937	32,302,416
Cost						
At 1 July 2017	52,581	30,907,422	489,481	43,947	9,959,937	41,453,368
Work in progress additions	-	-	-	-	10,971,731	10,971,731
Transfer from work in progress	-	3,600,335	-	-	(3,600,335)	-
At 30 June 2018	52,581	34,507,757	489,481	43,947	17,331,333	52,425,099
Depreciation						
At 1 July 2017	45,521	8,727,695	374,440	3,296	-	9,150,952
Charge for the year	427	1,186,587	22,776	9,888	-	1,219,678
At 30 June 2018	45,948	9,914,282	397,216	13,184	-	10,370,630
Net Book Value at 30 June 2018	6,633	24,593,475	92,265	30,763	17,331,333	42,054,469

NOTES (continued)

14 Accumulated deficit

	Accumulated recoverable deficit- government Shs'000	Accumulated irrecoverable deficit Shs'000	Accumulated recoverable deficit-Tariff Shs'000	Total Shs'000
At 30 June 2016 – as previously reported	9,259,607	1,978,019	7,663,671	18,901,297
Reclassification - depreciation	-	6,027,165	(6,027,165)	-
Restatement	-	-	750,066	750,066
30 June 2016 – restated	9,259,607	8,005,184	2,386,572	19,651,363
Year ended 30 June 2017				
30 June 2016 – restated	9,259,607	8,005,184	2,386,572	19,651,363
Depreciation charge for the year	-	1,145,768	(1,145,768)	-
Total comprehensive loss	-	-	3,987,378	552,303
30 June 2017 – restated	9,259,607	9,150,952	5,228,182	23,638,741
Year ended 30 June 2018				
At 30 June 2017 - restated	9,259,607	9,150,952	5,228,182	23,638,741
Depreciation charge for the year	-	1,219,678	(1,219,678)	-
Total comprehensive loss	-	-	4,900,212	4,900,212
At 30 June 2018	9,259,607	10,370,630	8,908,716	28,538,953

- (i) Recoverable deficit – Government comprises all expenditure net of revenue recoverable from the Government of Kenya under the previous cost recovery formula prior to 30th June 2008.
- (iii) Irrecoverable deficit comprises depreciation charged on the Scheme assets and is only recoverable when the respective asset is disposed of. The amount relates to accumulated depreciation since 30 June 2008 before the Mercados calculated costs formula came into effect.
- (iv) Recoverable deficit – tariff charges comprises all expenditure net of revenue recoverable if the actual operation and maintenance costs for RES exceed the current available revenue as a result of the accelerated rural electrification programme. These balances are deemed recoverable on the basis that they can be offset against the Government, donor and customer contributions.

NOTES (continued)

15 Related party disclosures

The Scheme is a program within the Ministry of Energy. It was established in 1973 by the Government of Kenya following an agreement between the Government and East Africa Power & Lighting Scheme (now The Kenya Power and Lighting Company Limited).

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

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

	2018 Shs'000	2017 Restated Shs,000
(i) Government of Kenya Contributions	4,745,727	7,204,329
(ii) World Bank Kemp IDA Last Mile	3,580,403	-
(iii) AfDB Last Mile- Contributions	2,867,661	5,701,180
(iv) AfDB II Last mile- Contributions	1,508,417	-
(v) Nordic Development Bank- NDF Solar	127,387	-
(vi) MoE receipts for repairs in Marsabit Power	100,000	-
	12,929,595	12,905,509
KPLC:-		
Cost allocations	13,511,874	12,977,625
Revenue and recoveries from KPLC	11,845,821	10,376,233

- (i) Direct Government contributions comprise the amount of funds provided directly by the Government to fund the Scheme's activities in the year.
- (ii) These are contributions by The African Development Bank (AfDB) I towards the Last Mile Electrification Program based on a loan signed between the Republic of Kenya and the African Development Fund. The loan is to be repaid by the Government of Kenya after a 5 years grace period dated Dec 18, 2014.
- (iii) These are contributions by World Bank KEMP IDA towards the Last Mile Electrification Program based on a Grant signed between the Government of Kenya and KPLC dated June 29, 2015.
- (iv) These are contributions by The African Development Bank (AfDB) II towards the Last Mile Electrification Program based on a loan signed between the Republic of Kenya and the African Development Bank. The loan is to be repaid by the Government of Kenya after a 5year grace period dated Oct 17, 2016.
- (v) These are contributions by Nordic Development Bank - NDF towards the supply, installation and commissioning of solar lanterns in arid and semi-arid areas on a Grant signed between the Government of Kenya and Nordic Development Fund dated Oct 06, 2012

NOTES (continued)

15 Related party disclosures (continued)

(c) Recording of transfers from other government entities

Name of Donor transferring the funds	Date as per bank statement	Nature	Total amount	Capital fund	Total transfers
			Shs'000	Shs'000	Shs'000
MoE*	05.07.2017	Last Mile	425,000	425,000	425,000
MoE*	23.10.2017	Last Mile	1,425,000	1,425,000	1,425,000
		Grid Extension	14,589	14,589	14,589
MoE*	19.02.2018	Last Mile	1,425,000	1,425,000	1,425,000
MoE*	28.02.2018	Grid Extension	31,138	31,138	31,138
MoE*	04.04.2018	Last Mile	1,425,000	1,425,000	1,425,000
AfDB I	Various	Donor	2,867,661	2,867,661	2,867,661
AfDB II		Last Mile	1,508,417	1,508,417	1,508,417
World Bank Kemp IDA			3,580,403	3,580,403	3,580,403
Nordic Development Bank NDF		Solar Lanterns	127,387	127,387	127,387
Total			12,829,595	12,829,595	12,829,595

*MoE – Ministry of Energy

An amount of Shs 692,500,000 for 2017/2018 financial year was received by KPLC from the Government of Kenya on 3rd July 2018 on account of last mile connectivity Program.

(d) Outstanding balances with the Kenya Power and Lighting Company Limited:

	2018	2017
	Shs'000	Restated Shs'000
Due from KPLC		
KPLC current account	182,697	172,498
KPLC current account – Last Mile GOK	5,839,520	3,570,618
KPLC current account – Last Mile AfDB II	20,549	-
KPLC current account World Bank Kemp IDA Last Mile	64,218	-
	6,106,984	3,743,116
Due to KPLC		
KPLC current account – Rural Electrification Authority	248,564	167,110
KPLC Inter-company	9,103,494	4,856,040
	9,352,058	5,023,150

NOTES (continued)

16 Prior year adjustments

The prior year adjustments arose from 1) the restatement of KPLC's power purchase costs and other expenses which are recharged to RES based on the Mercados formula, and 2) errors in the computation of the RES recharges in the past. The prior year adjustments relate to:

(a) Prior year error in accounting for unrealised foreign exchange differences on borrowings in KPLC

KPLC (/the "Company") bills its customers on a monthly basis the sum of foreign currency costs incurred by the Company, in accordance with the Schedule of tariffs approved by the Energy Regulatory Commission (ERC). In the past, the Company has recognised a Recoverable foreign exchange adjustment asset being the unrealised exchange loss on borrowings on the basis that the loss will be billed and recovered from customers when realised (in line with the approved tariff described above). On the same basis, the unrealised exchange loss arising from translation of the borrowings at year-end has not been recognised in profit or loss. The above accounting treatment was not in line with IAS 21 'The effects of changes in foreign exchange rates'.

In the year ended 30 June 2018, KPLC management has processed adjustments to 1) derecognise the previously recognised asset and 2) recognise unrealised exchange differences on borrowings in profit or loss. Correction of the prior period error has been applied retrospectively in line with IAS 8 'Accounting policies, change in accounting estimates and errors'.

(b) Prior year error in accounting for fuel costs in KPLC

KPLC incurs fuel costs from the generation of electricity using thermal power plants. In the past, KPLC has incorrectly recognised fuel costs in the month subsequent to the month they relate to resulting in late recognition of power purchase costs. As a result, June 2016 fuel cost invoices totalling Shs 802,762,000 were incorrectly recognised in the year ended 30 June 2017 and June 2017 fuel cost invoices totalling Shs 2,893,546,000 were incorrectly excluded from power purchase costs for the year ended 30 June 2017.

(c) Prior year error relating to capitalised borrowing costs in KPLC

The Company has a policy of capitalising borrowing costs directly attributable to the construction of transmission and distribution assets that necessarily take a substantial period of time to get ready for their intended use. KPLC's financial statements have been restated to correct errors in the computation of capitalised borrowing costs.

We have summarised the impact of the restatements in KPLC affecting the costs recharges to RES below:

Total impact on accumulated deficit as at 30 June 2016

	2016 Restated Shs'000
As previously reported	18,901,297
Restatements:	
Power purchase costs recharge	439,803
Commercial services recharge	310,263
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As restated	19,651,363
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NOTES (continued)

15 Prior year adjustment (continued)

Due to KPLC	2017 Restated Shs'000	2016 Restated Shs'000
As previously reported	3,720,781	1,057,837
Restatement:		
Power purchase costs recharge (2016)	439,803	439,803
Commercial services recharge (2016)	310,263	310,263
Power purchase costs recharge (2017)	551,009	-
Commercial services recharge (2017)	1,294	-
	<hr/>	<hr/>
As restated	5,023,150	1,807,903
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The 'due from KPLC' balance represents the amount received by KPLC for execution of the Schemes activities. The due to KPLC balance represents amounts owed to KPLC on account of the Scheme's activities executed on its behalf.

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