

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

THE NATIONAL ASSEMBLY
PAPERS

DATE: 07 DEC 2023

DAY: *Thurs*

OF
TABLED BY: *Hon Owen Bayo, CBSMP
Deputy majority leader
IA, Chiraka*

PARLIAMENT
OF KENYA
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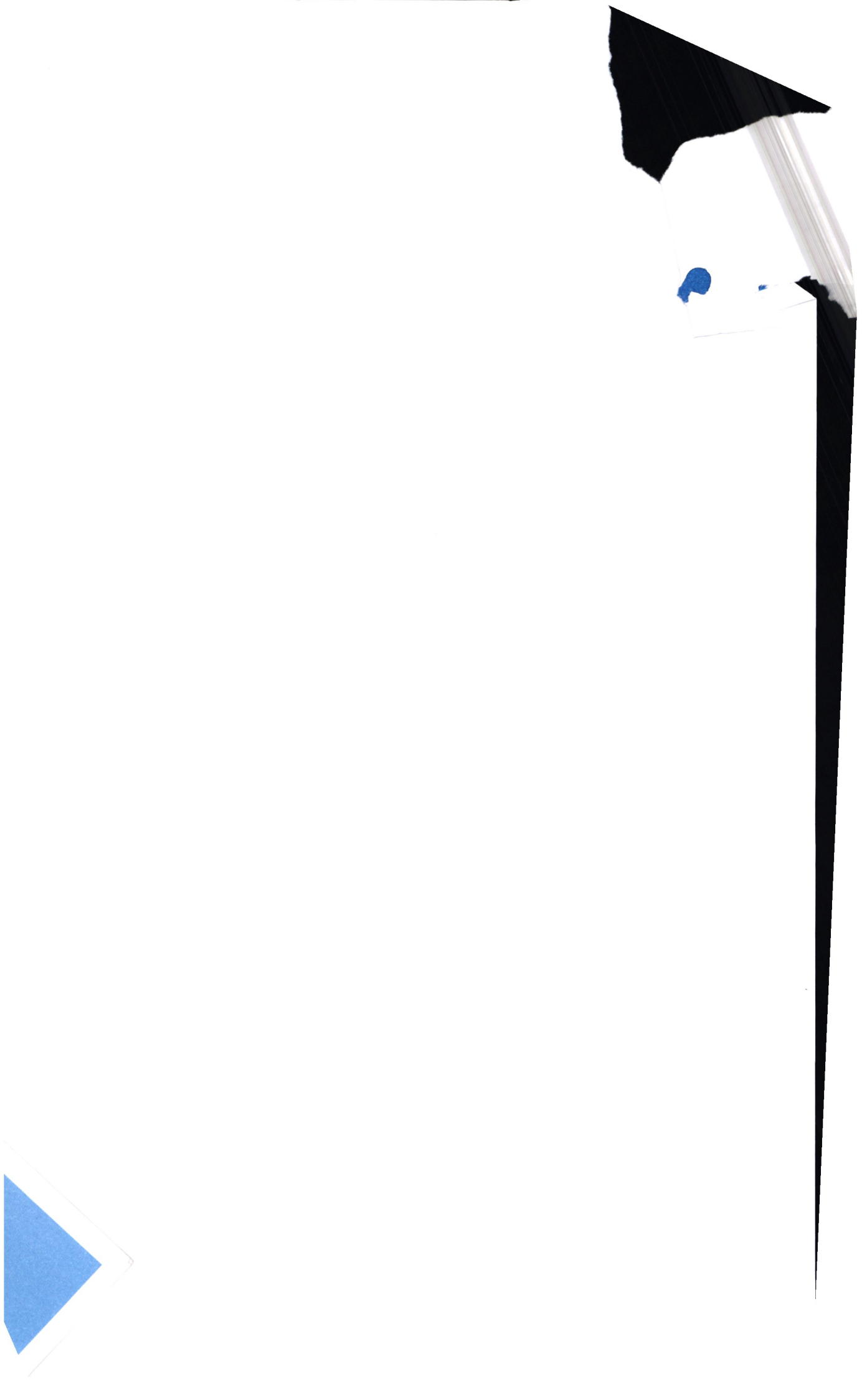
THE AUDITOR-GENERAL

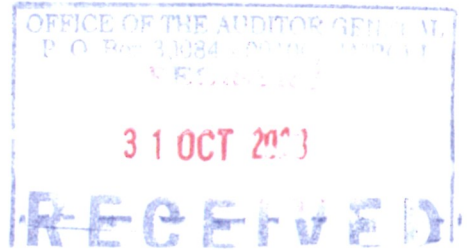
ON

**ETHIOPIA - KENYA ELECTRICITY
HIGHWAY PROJECT
(ADB LOAN NO.2000200003502 - MARIAKANI
SUBSTATION PROJECT ID NO: P-ZI-FA0-162)**

**FOR THE YEAR ENDED
30 JUNE, 2023**

**KENYA ELECTRICITY
TRANSMISSION COMPANY LIMITED**





**PROJECT NAME: SUPPLEMENTARY FINANCING FOR THE ETHIOPIA- KENYA ELECTRICITY
HIGHWAY (MARIAKANI SUBSTATION PROJECT)**

IMPLEMENTING ENTITY: KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

PROJECT GRANT/CREDIT NUMBER: ADB LOAN NO: 2000200003502 P-Z1-FA0-162

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2023

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

Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)

Annual Report and Financial Statements for the financial year ended June 30, 2023

Table Contents	Page
1. Acronyms And Glossary Of Terms	ii
2. Project Information And Overall Performance	iii
3. Statement Of Performance Against Project's Predetermined Objectives	viii
4. Environmental And Sustainability Reporting	ix
5. Statement Of Project Management Responsibilities	xii
6. Report Of The Independent Auditor On Financial Statements For Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project)	xiii
7. Statement Of Receipts And Payments For The Year Ending 30 June 2023	1
8. Statement Of Financial Assets As At 30 June 2023	2
9. Statement Of Cash Flows For The Year Ended 30 June 2023	3
10. Statement Of Comparative Budget And Actual Amounts For Year Ended 30 June 2023	4
11. Significant Accounting Policies	5
12. Notes To The Financial Statements	12
13. Annexes	18

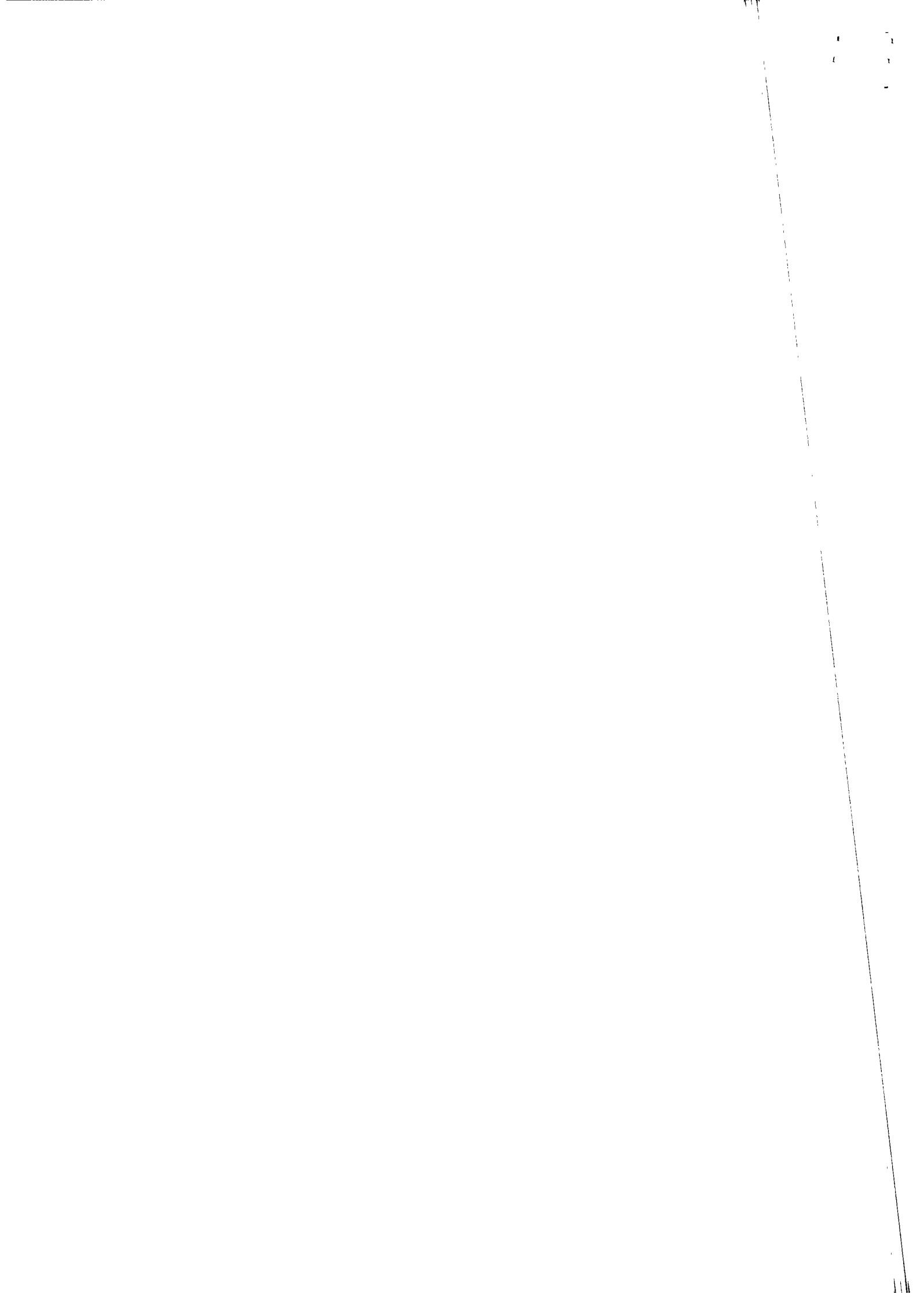


Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2002/0003502 P-Z1-FA0-162)

Annual Report and Financial Statements for the financial year ended June 30, 2023

1. Acronyms and Glossary of Terms

AfD	Agence Francaise de Developement
AfDB	African Development Bank
GOK	Government of Kenya
HVDC	High Voltage Direct Current
IPSAS	International Public Sector Accounting Standards
ICPAK	Institute of Certified Public Accountants of Kenya
ISA	International Standards on Auditing
IDA	International Development Association
KETRACO	Kenya Electricity Transmission Company Limited
KV	Kilovolts
PFSs	Project Financial Statements
RAP	Resettlement Action Plan
UA	Units of Account
USD	United States Dollar
KShs	Kenya Shilling
EUR	Euro
KE	Kenya
CKE	Credit Kenya
OGW	Order of the Golden Warrior
PFM	Public Financial Management Act 2012
PSAB	Public Sector Accounting Standards Board
EACC	Ethics and Anti-Corruption Commission



Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)

Annual Report and Financial Statements for the financial year ended June 30, 2023

2. Project Information and Overall Performance

2.1 Name and Registered Office

Name: The project's official name is Mariakani Substation (Supplementary Financing for the Ethiopia-Kenya Electricity Highway) Project.

Objective: The key objective of the project is to increase electricity access and address the challenges of access and low connectivity.

Address: The project headquarters offices are in Nairobi, Nairobi County, Kenya.

The address of its registered office is:

Mariakani Substation Project
Block B, Kawi House
Off Red Cross Road, South C
P.O/Box 34942 – 00100 Nairobi

Contacts: The following are the project contacts

Telephone: (+254) 20 – 4956000
E-mail: info@KETRACO.co.ke
Website: www.KETRACO.co.ke

Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (200020003502 P-Z1-FA0-162)

Annual Report and Financial Statements for the financial year ended June 30, 2023

Project information and overall performance (continued)

2.2 Project Information

Project Start Date:	The project start date is June 2019
Project End Date:	The project end date is 31 December 2023
Project Manager:	The project manager is Engineer Moses Kerre
Project Sponsor:	The project sponsor is Government of Kenya

2.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of Kenya Electricity Transmission Company Limited
Project number	200020003502 P-Z1-FA0-162
Strategic goals of the project	The strategic goals of the project are as follows: (i) The strategic goal of the project is to evacuate power from planned generation plants and to transmit electricity to areas that are currently not supplied from the national grid.
Summary of Project Strategies for achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) To Strengthen the electricity grid system and Enhance power transfer capacity to the coast region (ii) In 2022/2023 we plan to increase system stability and power transfer capacity between Nairobi and Mombasa load centres
Other important background information of the project	The project will Increase stability of power supply to Mombasa -enabling additional evacuation of power from Olkaria and Loiyangalani
Areas that the project was formed to intervene	The project was formed to intervene in the following problems/gaps: (i) Low electricity access and low connectivity. (ii) Enhance electricity access, availability and reliability of the completed Substations and substations and complete construction of key transmission infrastructure.
Project duration	The project started on 19 June 2019 and is expected to run until 31 December 2023



Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)

Annual Report and Financial Statements for the financial year ended June 30, 2023

Project Information and Overall Performance (Continued)

2.4 Bankers

The following are the bankers for the project:

KCB Bank Limited
Moi Avenue
P. O. Box 30081 – 00100
Nairobi.

2.5 Independent Auditor

Principal Auditor: Auditor General
Office of the Auditor-General
Anniversary Towers, University Way
P. O. Box 30084
Nairobi.

2.6 Roles and Responsibilities

Names	Title designation	Key qualification	Responsibilities
Dr (Eng) John Mativo, CE	Managing Director	Doctorate (PhD) degree in Civil Engineering from Tokyo Metropolitan University (Japan), a Master's degree in Structural Engineering from Tongji University (China), and a Bachelor's degree in Civil Engineering from the University of Nairobi.	Accounting Officer for KETRACO
CFA Tom Imbo	General Manager, Finance	Master's in Business Administration (Finance, Economics) Certified Public Accountant with ICPAK , Member Services Committee.	General Manager Finance Department in KETRACO
Engineer Moses Kerre	Project Manager	Bachelor of Science (Electrical and Electronic Engineering), Professional Engineer with Engineers Board of Kenya, Corporate Member Institution of Engineers of Kenya	Project Manager
Johnson Muthoka	Senior Manager Wayleaves	Bachelor of Arts Land Economics (Honors), Masters in Urban and Regional Planning (University of Nairobi), full member of Institute of Surveyors Kenya, registered and licensed land economist	Wayleaves acquisition (land economists, land surveyors, social economists, environmental experts)
Micere .M. Nyaga	Project Accountant	Masters in Business Administration(Strategic Management and Finance) Bachelor of Commerce (Finance),	Preparation of project financial reports



**Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)
Annual Report and Financial Statements for the financial year ended June 30, 2023**

2.7 Funding summary

The Project commenced on 19th June 2019 to 31st December 2023 with an approved budget of ADB funding amounting to EUROS 26,510,000 as highlighted in the table below:

Below is the funding summary:

A. Source of Funds

Source of funds	Donor Commitment-		Amount received as at: – (30.06.2023)		Undrawn balance as at: (30.06.2023)	
	EURO (A)	Kshs Equivalent (A')	EURO (B)	Kshs Equivalent (B')	EURO (A)-(B)	Kshs Equivalent (A')-(B')
(i) Grant/Loan ADB	26,510,000	4,064,995,682	14,310,601	1,847,850,354	12,199,399	1,870,633,910
Total	26,510,000	4,064,995,682	14,310,601	1,847,850,354	12,199,399	1,870,633,910

NOTE: The undrawn balance used the EURO rate (as per CBK on 30.06.2023 = 153.3382) while the cumulative amount received as at 30.06.2023 is paid using the spot rate

B. Application of Funds

Application of funds	Amount received to date – (30 Jun 2023)		Cumulative Amount paid to date – (30 June 2023)		Unutilised balance to date (30 Jun 2023)	
	Donor currency- EURO (A)	KShs Equivalent (A')	Donor currency- EURO (B)	KShs Equivalent (B')	Donor currency- EURO (A)-(B)	KShs Equivalent (A')-(B')
(i) Loan						
ADF	14,310,601	1,847,850,354	14,310,601	1,847,850,354	12,199,399	1,870,633,910
Total	14,310,601	1,847,850,354	14,310,601	1,847,850,354	12,199,399	1,870,633,910



Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)

Annual Report and Financial Statements for the financial year ended June 30, 2023

Project information and overall performance (continued)

2.8 Summary of Overall Project Performance:

i) Budget performance against actual amounts for current year and for cumulative to-date

During the period under review, the project received KShs 457,250,000 against a final budget of KShs 454,755,250. Similarly, the project incurred total expenditure of KShs 454,049,405 during the period, representing 99% budget utilization. Cumulative costs for the project amount to Kshs 2,017,565,417.94. The period under review for the Financial Statements as to 30th June 2023.

ii) Physical progress based on outputs, outcomes, and impacts since project commencement.

Mariakani Substation is expected to be completed in December 2023. The physical progress is follows:

Phase	Weights	% Progress against Weight	Physical Progress (%)
Engineering	5	4.98	99
Procurement	60	59.02	98
Construction	30	28	93
Test and Commissioning	5	0	0
Total	100	99.70	97

Physical completion and commissioning is expected to be achieved in December 2023

iii) Absorption rate for each year since the commencement of the project.

Financial Year	Budget	Actual	Absorption rate (%)
	KShs	KShs	
2020/2021	929,177,079	912,870,788	98
2021/2022	1,064,000,000	646,168,025	61
2022/2023	457,250,000	454,755,250	99

iv) Implementation challenges and recommended next steps.

Delays in completion of the project associated with the contractor submitting invoices with incomplete documentation (Tax compliance certificate). This is however being addressed by engaging both the contractors and KETRACO engineers who are fast-tracking design approvals and site inspection, and supervision works.

2.9 Summary of Project Compliance:

The project reporting has complied with the applicable laws and regulations, and essential external financing agreements/covenants.



Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)

Annual Report and Financial Statements for the financial year ended June 30, 2023

3. Statement of Performance against Project's Predetermined Objectives

This project aims to provide reliable and affordable energy from a regional resource base, allowing access to considerable clean regional energy resources, reducing pollution and vulnerability to climate change, thus strengthening environmental resilience. The principal objectives of this project are to:

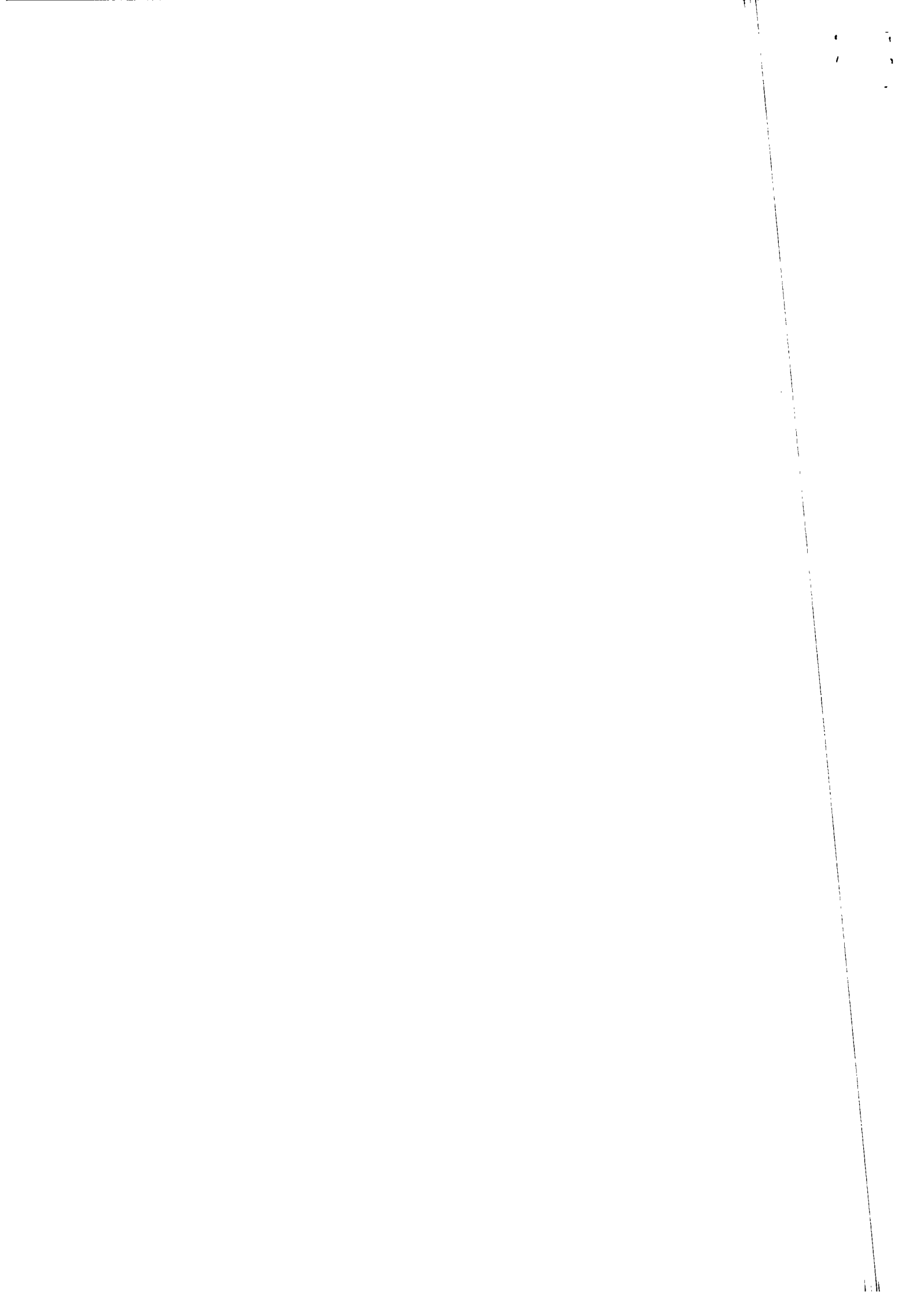
The key development objectives of the projects are to:

- a) Enhance electricity access, availability and reliability of the completed Substations and substations and complete construction of key transmission infrastructure.
- b) Increase electricity supply by completing Substations for evacuating generated power.
- c) Provide a link with the neighbouring countries in order to facilitate power exchange and develop electricity trade in the region

Progress on attainment of strategic development objectives

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement: Below we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
Supplementary Financing For The Ethiopia-Kenya Electricity Highway (Mariakani Substation Project)	To Strengthen the electricity grid system and Enhance power transfer capacity to the coast region	-Increased stability of power supply to Mombasa - enabling additional evacuation of power from Olkaria and Loiyangalani	Completion and Energizing 400/220kV Mariakani substation and upgrading Mombasa-Nairobi Transmission Line to operate at 400kV	In 2022/2023 we plan to increase system stability and power transfer capacity between Nairobi and Mombasa load centres.



4. Environmental and Sustainability reporting

Kenya Electricity Transmission Company Limited (KETRACO) has the obligation to plan, design, construct, own, operate and maintain the country's high voltage electricity grid and regional power interconnectors. This primary objective must, however, be twinned with positive impacts to societies that such businesses operate in. These positive impacts include creation of employment opportunities, provision of goods and services, contribution to the economy by paying taxes, contributing towards development of infrastructure and improvement of quality of life for the people.

KETRACO, being an obliging and proactive company, has mainstreamed corporate social responsibility (CSR) in its operations. Beyond grid matters, the company has expanded its jurisdiction to improve the well-being of humanity and impact society to be better.

This deliberate move is necessary because it is the society that gives us a "license to operate" and their goodwill is necessary for continued security and room to operate long after our transmission projects construction is over.

Below is an outline of the organisation's policies and activities that promote sustainability

1. Sustainability strategy and profile

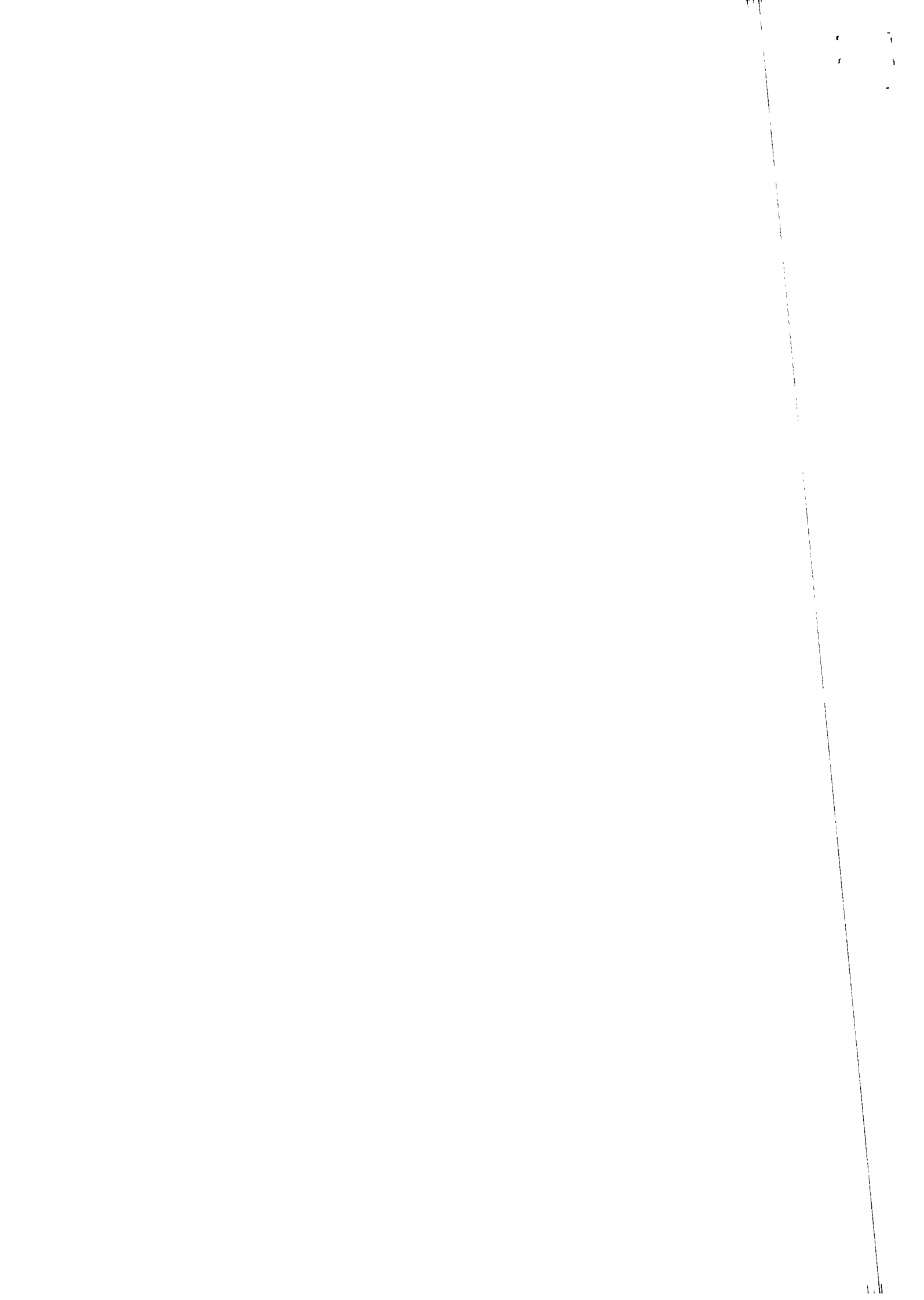
KETRACO ensured that its operations were carried out professionally and in humane manner, considering that construction of transmission projects involves acquisition of land for substations and wayleaves access for the lines. This necessitates compensation and at times resettlement of the Projects Affected Persons (PAPs) hence the need to expedite the process harmoniously. In addition, KETRACO actively participated in several engagements with various stakeholders towards improving their quality of life which translates into creating a better society.

This was evident in key areas such as education, health and environmental conservation. In addition, KETRACO offered youth internship opportunities to fresh graduates and industrial attachments to ongoing University students for the purpose of transferring skills and future career preparation.

2. Environmental performance

KETRACO's environmental and social impact assessment plans are anchored on environmental laws, regulations, standards and best practices. The Company ensures compliance with all relevant national and international environmental and other statutory regulatory provisions that apply to its projects to ensure sound environmental management practice. The Company undertakes annual environmental audits and has valid permits and licenses for its operations. The Company is guided by the following environmental and social management laws and regulations in its execution of its projects:

The Environmental Management and Coordination Act, Cap 387;The Environmental Impact (Assessment and Auditing) Regulations, 2003;Environmental Management and Coordination (Environmental Impact Assessment and Audit) Regulations, 2003;Environmental Management and Coordination (Water Quality) Regulations of 2006;Environmental Management and Coordination (Waste Management) Regulations of 2006 ; Environmental Management and Co-ordination (Controlled Substances) Regulations, 2007;The Environmental Management and Co-ordination (Conservation of biological diversity and resources, and access to genetic resources and benefits sharing) Regulations, 2006;The Environmental Management and Coordination (Wetlands, Riverbanks, Lakeshores and seashores management) Regulations, 2009;Environmental Management and Coordination (Noise and Excessive Vibration Pollution Control) Regulations, 2009;Environmental Management and Coordination (Air Quality) Regulations, 2008;Occupational Safety and Health Act (OSHA 2007) ;Wildlife Management and Conservation Act, 2013;Forest Act 2015 ;Public Health Act (Cap. 242) 36;The Environment and Land Court Act, 2011;Water Act, 2002.



3. Employee welfare

During the period, KETRACO undertook a skill gap analysis exercise and submitted a report detailing priority training needs to the Human Resource Advisory Committee for consideration. Several staff members were trained in various identified areas.

In addition, the Company achieved the following in regard to employee welfare;

1. KETRACO deployed Azure Multifactor Authentication to all users in the organization to mitigate against technological hazards. This is to provide an extra layer of security to minimize unauthorized log-ins in KETRACO network. 110 Critical Infrastructure Protection Unit (CIPU) officers were deployed on various substations.
2. A nine-member gender mainstreaming committee was reconstituted and trained in the year. The gender policy was finalized and submitted to the Ministry of Energy and State Department for Gender for review, and later circulated to staff. Staff were also sensitized on gender mainstreaming.
3. KETRACO staff attended an online sensitization on disability mainstreaming conducted by National Council for Persons with Disability (NCPWD). National Council for Persons with Disability (NCPWD) undertook an accessibility and usability audit of KETRACO HQ offices.
4. In the year, an alcohol and drug abuse policy was developed, approved by the Board of Directors and circulated to staff. About 100 Employees were sensitized online on the findings of a baseline survey that was undertaken in the previous financial year by the Alcohol and Drug Abuse prevention committee. In addition, 7 committee members were trained on workplace-based prevention measures

The company drafted a road safety policy and circulated it to all staff. Road safety committee was reconstituted with the appointment of 10 members. In addition, 20 drivers were trained on defensive driving by the AA of Kenya.

4. Market place practices-

KETRACO continues to comply with the Treasury Circular No. 09/2015 on creation of the Government Advertising Agency (GAA) to coordinate public sector advertising; and Office of the President Circular No. OP/CAB.58/4A on establishment of MyGov publication. In addition, we are guided by the Company's core values and endeavor to responsibly update our stakeholders on our mandate through various Information, Education and Communication (IEC) materials published in print, broadcast and / or electronic media.

a) Responsible Supply chain and supplier relations

On matters procurement, we endeavor to comply with 30% of access to government procurement opportunities (AGPO) requirement by ensuring that youth, women and persons with disabilities supplied goods and services. Further, KETRACO complied with 40% Government requirement on local content procurement where goods and services were procured locally by the Company. These procurement opportunities have created diverse financial benefits for the special groups as well as enhancing the KETRACO corporate image and reputation.

b) Responsible ethical practices

During this Financial Year the Company revised its integrity and ethics instruments namely: Corruption and Fraud Prevention Policies, Whistle Blowing Policy and the Gifts and Benefit policy. A sensitization exercise was conducted via Microsoft teams to all staff to enlighten them on the need to promote an ethical culture within and outside the organization. The policies were also uploaded to the companies SharePoint for ease of reference on any matter of interest. These policies shall also be uploaded to the Company's website for public viewing and reference.

As part of the signed performance contract on corruption prevention the company updated the Corruption Risk Assessment and mitigation plan which is shared with the Ethics and Anti-Corruption Commission (EACC). On a

Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (200200003502 P-Z1-FA0-162)

Annual Report and Financial Statements for the financial year ended June 30, 2023

quarterly basis the corruption prevention committee held update meetings and reported on implementation status with supporting documents to EACC.

On a continuous basis the corruption reporting channels remain operational for use by all. They include a dedicated email address and phone number all uploaded in the Company website. The Company has also installed corruption reporting boxes on each floor at its headquarters in KAWI House.

c) Regulatory impact assessment

The Company continued implementing corruption prevention measures as identified in the corruption risk assessment and mitigation plan. In addition, Integrity Committee quarterly meetings were held and quarterly reports of the corruption risk assessment reports and the implementation of the mitigation plans were prepared and submitted to EACC.

5. Community Engagements

KETRACO has remained committed to engaging with local communities in project affected areas, the general public, sector partners and other stakeholders aiming at cultivating their goodwill, cooperation and amicable association. In this regard, KETRACO ensured that all corporate social responsibility projects were implemented through a consultative process with stakeholders' right from the initial project planning through to commissioning.

In addition, the host communities in the areas where the projects traverses have benefited from employment opportunities by KETRACO and its contractors. This has boosted the living standards of the communities in the project areas.



5. Statement of Project Management responsibilities

The Chief Executive Officer of KETRACO and the Project Coordinator for the Mariakani Substation Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on 30th June 2023. This responsibility includes (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; selecting and applying appropriate accounting policies; and (v) making accounting estimates that are reasonable in the circumstances.

The Chief Executive Officer of KETRACO and the Project Coordinator for the Mariakani Substation Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Chief Executive Officer of KETRACO and the Project Coordinator for the Mariakani Substation Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended 30th June 2023, and of the Project's financial position as at that date. Chief Executive Officer of KETRACO and the Project Coordinator for the Mariakani Substation Project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

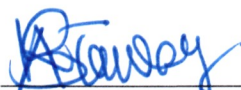
The Chief Executive Officer of KETRACO and the Project Coordinator for the Mariakani Substation Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements


The Project financial statements were approved by Chief Executive Officer of KETRACO and the Project Coordinator for the Mariakani Substation Project on 30.06.2023 and signed by them.



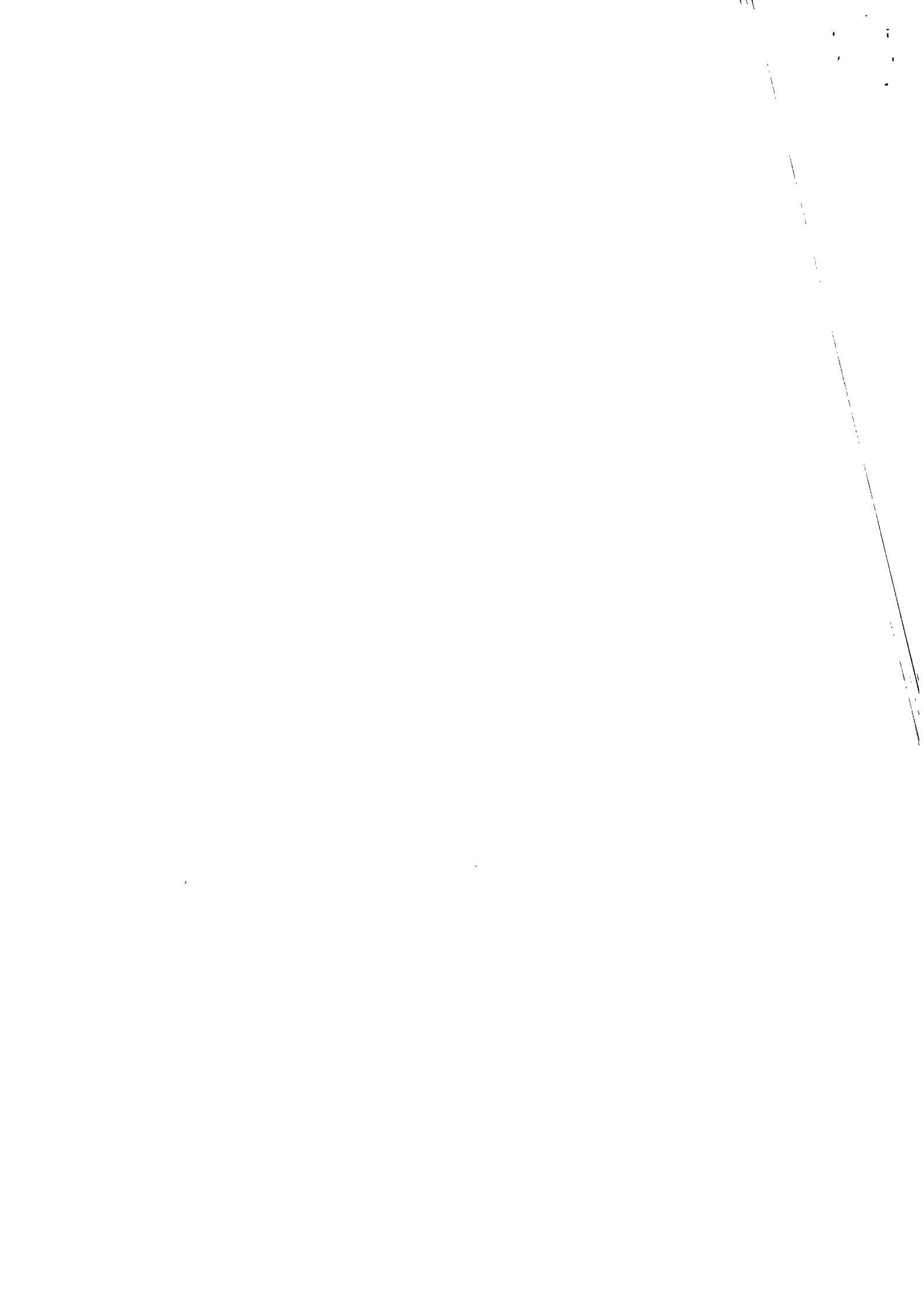
Chief Executive Officer
DR(ENG) John Mativo, CE



Project Coordinator
Eng Anthony Wamukota,



General Manager Finance
Tom Imbo
ICPAK Member Number: 7039



REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON ETHIOPIA - KENYA ELECTRICITY HIGHWAY PROJECT (ADB LOAN NO.2000200003502 - MARIAKANI SUBSTATION PROJECT ID NO: P-ZI-FA0-162) FOR THE YEAR ENDED 30 JUNE, 2023 - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Ethiopia – Kenya Electricity Highway Project (ADB Loan No.2000200003502 - Project ID No: P-ZI-FA0-162 - Mariakani Substation)

Report of the Auditor-General on Ethiopia - Kenya Electricity Highway Project (ADB Loan No.2000200003502 - Mariakani Substation Project ID No: P-ZI-FA0-162) for the year ended 30 June, 2023 - Kenya Electricity Transmission Company Limited

set out on pages 1 to 20, which comprise of the statement of financial assets and liabilities as at 30 June, 2023, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the period then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Ethiopia - Kenya Electricity Highway Project as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Loan Agreement No.2000200003502 P-ZI-F0-162) dated 19 June, 2019 between the African Development Fund (ADF) and the Republic of Kenya, the Subsidiary Agreement between The Government of the Republic of Kenya and Kenya Electricity Transmission Company dated 18 August, 2020 and the Public Finance Management Act, 2012.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. I have determined that there were no key audit matters to report in the year under review.

Other Matter

1. Pending Bills - Supply of Goods

The Project Management entered into contracts for works and supply of goods amounting to Kshs.4,064,995,682 as disclosed in Annex 3A. The amount paid as at 30 June, 2023 amounted to Kshs.1,847,850,354. Though Management had cleared all the pending bills at the time of audit in October, 2023, a contractor made interest claims as penalties for delayed payments amounting to Kshs.4,611,496.

In the circumstances, failure to settle bills in the year they relate to may adversely affects the budgetary provisions in the subsequent years.

2. Low Absorption of Funds

The project implementation timeline was expected to be three and half years commencing June, 2019 and expected completion date of December, 2023 with total funding of

Euro 26,510,000 equivalent to Kshs.4,064,995,682. However, as at 30 June, 2023, only Kshs.1,847,350,354 had been drawn leaving a balance of Kshs.1,870,633,910 or 45% of the project funding undrawn with only six months remaining. The Project may not absorb all its funds denying citizens the benefits of the project.

In the circumstances, the Project may not absorb all its funds and the public may not obtain value for money from the resources already spent on the Project.

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 else 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

1. Project Commitment without Funding

As previously reported, according to the Project's work plan attached to the subsidiary agreement, procurement in respect of the project was done on 25 January, 2016 which is also indicated as the contract commencement date. Further, review of the financing agreement and implementation agreement indicates that they were signed on 19 June, 2019 and 18 August, 2020 respectively. It is therefore apparent that the procurement for the Project was done way before the financing agreement was signed which is contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act, 2015. The section requires that all procurement processes be within the approved budget of the procuring entity and be planned by the procuring entity concerned through an annual procurement plan.

In the circumstances, Management was in breach of the law.

2. Lack of Reconciliation on Mariakani Project Financing

Review of records revealed that since inception the project has been funded from two sources; advance payment made from the Ethiopia - Kenya Highway Project savings and all additional payments being made from receipts from the supplementary loan. However, Management has not provided for audit verification a statement reconciling the funds received and the account balances from the two sources of financing.

In addition, the project funds were commingled with other projects funds in a single bank account and in the cashbooks that were maintained for processing and recording financial transactions for the Project. This is contrary to Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015, which provides that, "For the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at the Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept and such an account shall

be known by the name of the Project for which it is opened and each project shall maintain only one bank account.”

In the circumstances, Management was in breach of the law.

3. Delay in Project Deliverables

Review of project deliverables revealed that the Project was behind schedule with respect to the completion of the engineering at 99%, procurements at 98%, construction at 93% and testing and commissioning at 0%.

As at 30 June, 2023 the activities executed were valued at Kshs.2,194,361,772 compared to the donor commitment of Kshs.4,064,995,682 or 54% of the committed funding. This was despite having the completion date reviewed to December, 2023.

In the circumstances, delays in completion of the Project may result in escalation of projected costs or expiry and withdrawal of funding by project financiers.

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 about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Automation of the Financial Reporting Process

As previously reported, review of the financial reporting process of the Project revealed significant manual interventions. Although the sub ledgers are extracted from SAP system through the Business Intelligence Reporting Module, the processing of the trial balance and financial statements was done manually on excel worksheets.

In the circumstances, the manual intervention could result in errors in the preparation of financial statements.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective

processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Project or to cease operations.

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

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

Those charged with governance are responsible for overseeing the Project's financial reporting process, reviewing the effectiveness of how Management monitors 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 that 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 audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that 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 controls 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 controls would not necessarily disclose all matters in the internal controls that 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 that 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 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 that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue to sustain its services. 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 Project to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

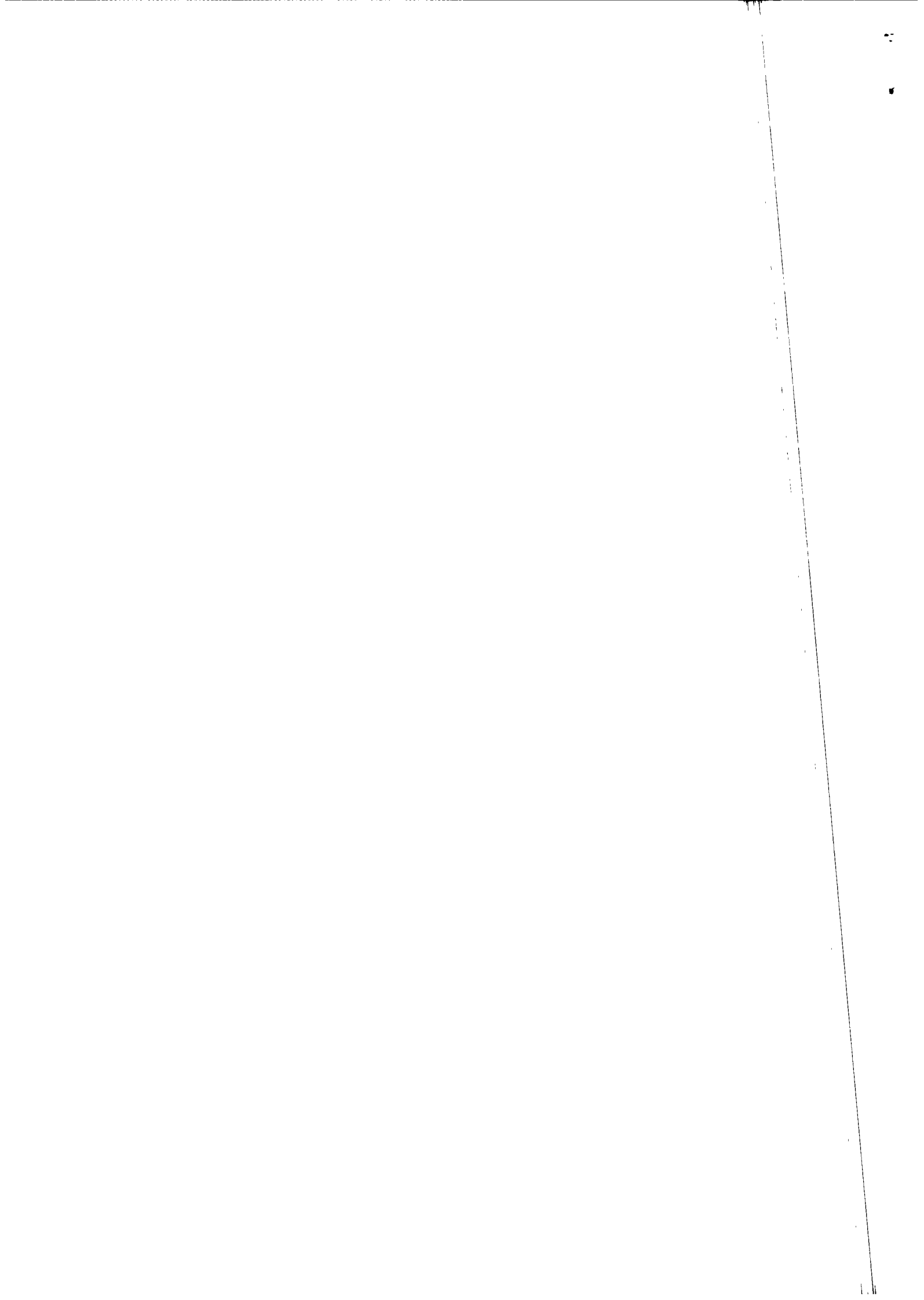
I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

10 November, 2023



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
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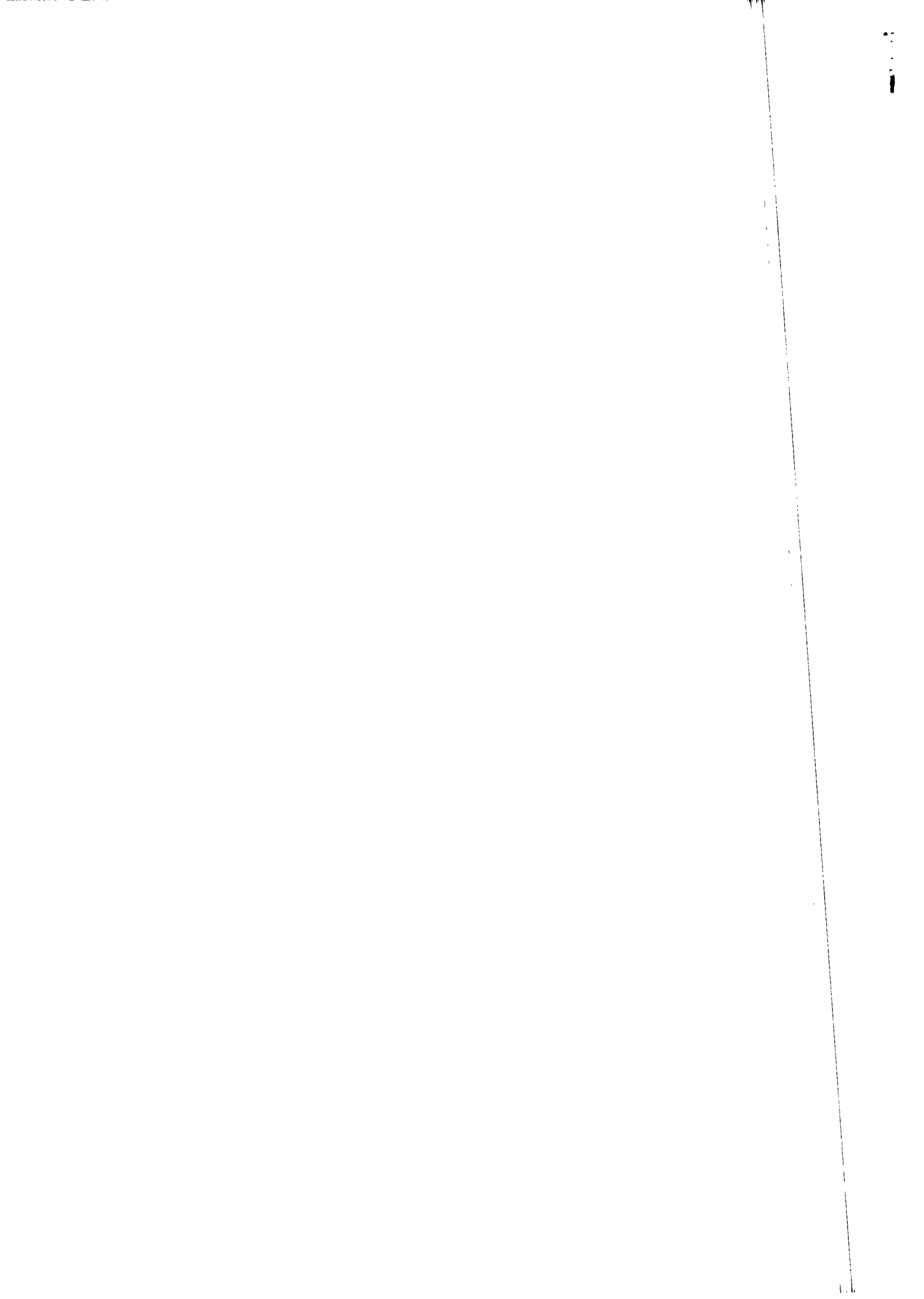
I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

10 November, 2023



**Supplementary Financing For The Ethiopia-Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)
Annual Report and Financial Statements for the financial year ended June 30, 2023**

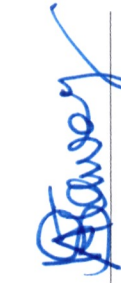
7. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDING 30 JUNE 2023

	Note	FY 2022/2023			FY 2021/2022			Cumulative to date
		Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payments controlled by the entity	Payments made by third parties		
		KShs	KShs	KShs	KShs	KShs	KShs	KShs
RECEIPTS								
Transfer from Government entities	1	6,250,000			0		182,250,000	
Loans from external development partners	2	0	448,505,250	448,505,250	0	646,168,025	1,847,850,354	
TOTAL RECEIPTS		6,250,000	448,505,250	454,755,250	0	646,168,025	2,030,100,354	
PAYMENTS								
Purchase of goods and services	3	5,544,155		5,544,155	4,477,200		46,652,657	
Acquisition of non-financial assets	4		448,505,250	448,505,250		646,168,025	1,970,912,761	
TOTAL PAYMENTS		5,544,155	448,505,250	454,049,405	4,477,200	646,168,025	2,017,565,418	
SURPLUS FOR THE PERIOD				705,845	(4,477,200)	-	12,534,936	

The accounting policies and explanatory notes to these project financial statements form an integral part of the project financial statements. The project financial statements were approved on 31.07.2023 and signed by:



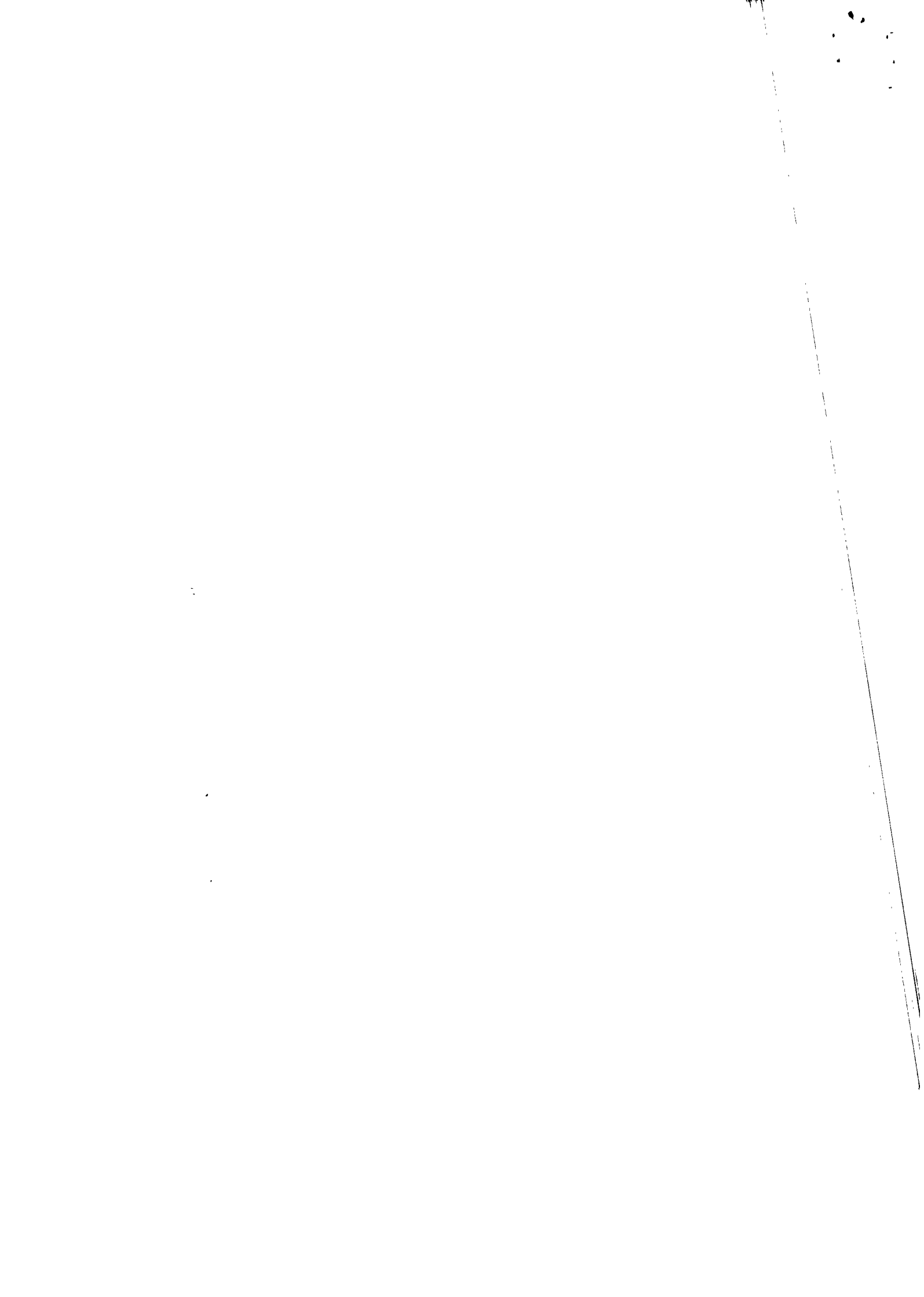
Chief Executive Officer
DR (ENG) John Mativo, CE



Project Coordinator
Eng. Anthony Wamukota



General Manager Finance
Tom Imbo
ICPAK Member Number:7039



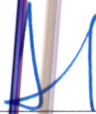
Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)

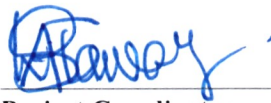
Annual Report and Financial Statements for the financial year ended June 30, 2023


8. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2023

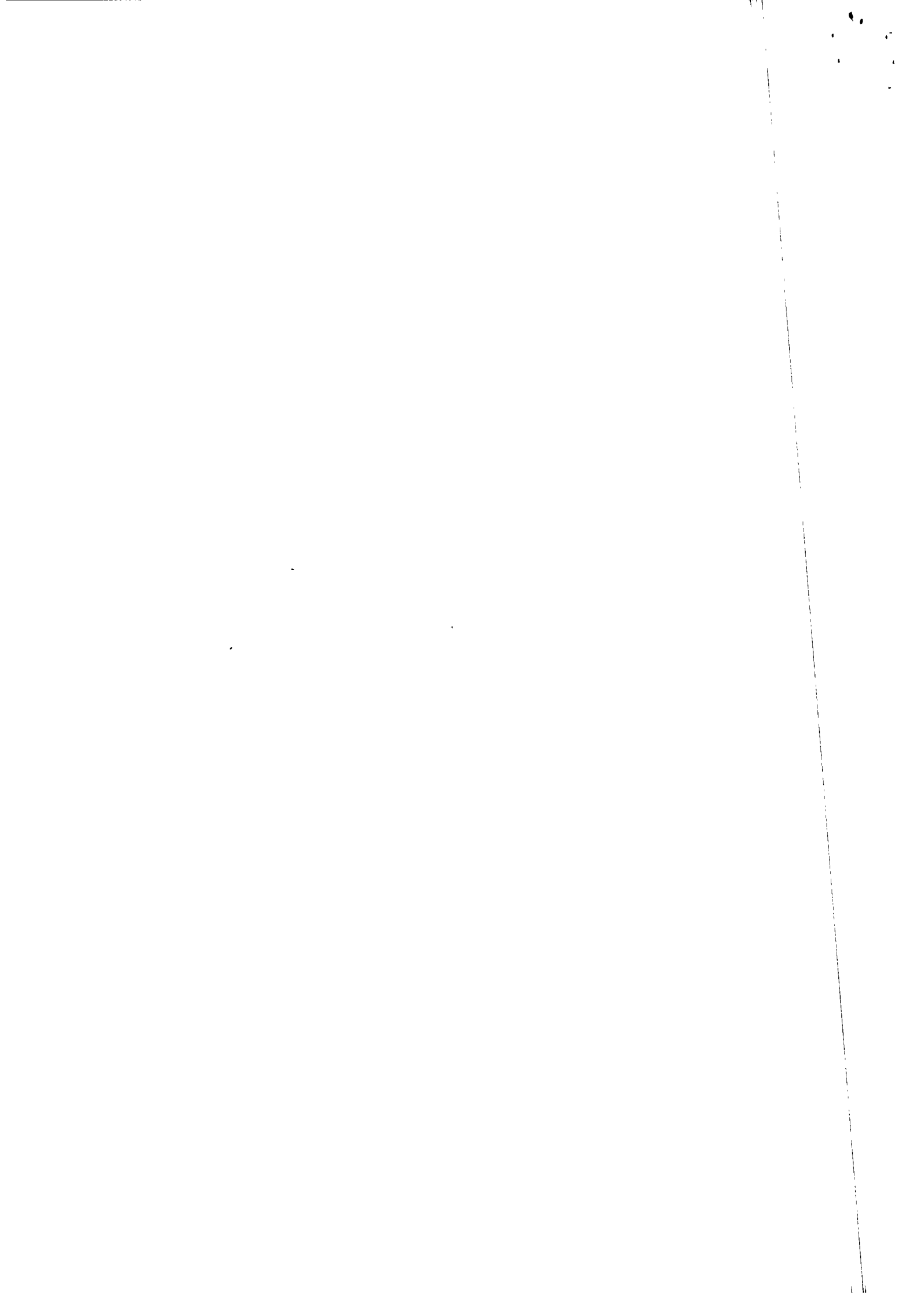
	NOTE	FY 2022/2023 KShs	FY 2021/2022 KShs
Bank Balances	5	12,534,936	11,829,091
Cash and cash equivalents	6		
TOTAL FINANCIAL ASSETS		12,534,936	11,829,091
Represented by			
Fund balance b/fwd		11,829,091	16,306,291
Surplus/Deficit for the period		705,845	(4,477,200)
NET FINANCIAL POSITION		12,534,936	11,829,091

The accounting policies and explanatory notes to these project financial statements form an integral part of the project financial statements. The project financial statements were approved on 29.10.2023 and signed by:


Chief Executive Officer
DR (ENG) John Mativo, CE


Project Coordinator
Eng. Anthony Wamukota


General Manager Finance
Tom Imbo
ICPAK Member Number:7039



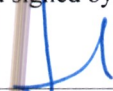
Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)


Annual Report and Financial Statements for the financial year ended June 30, 2023


9. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2023

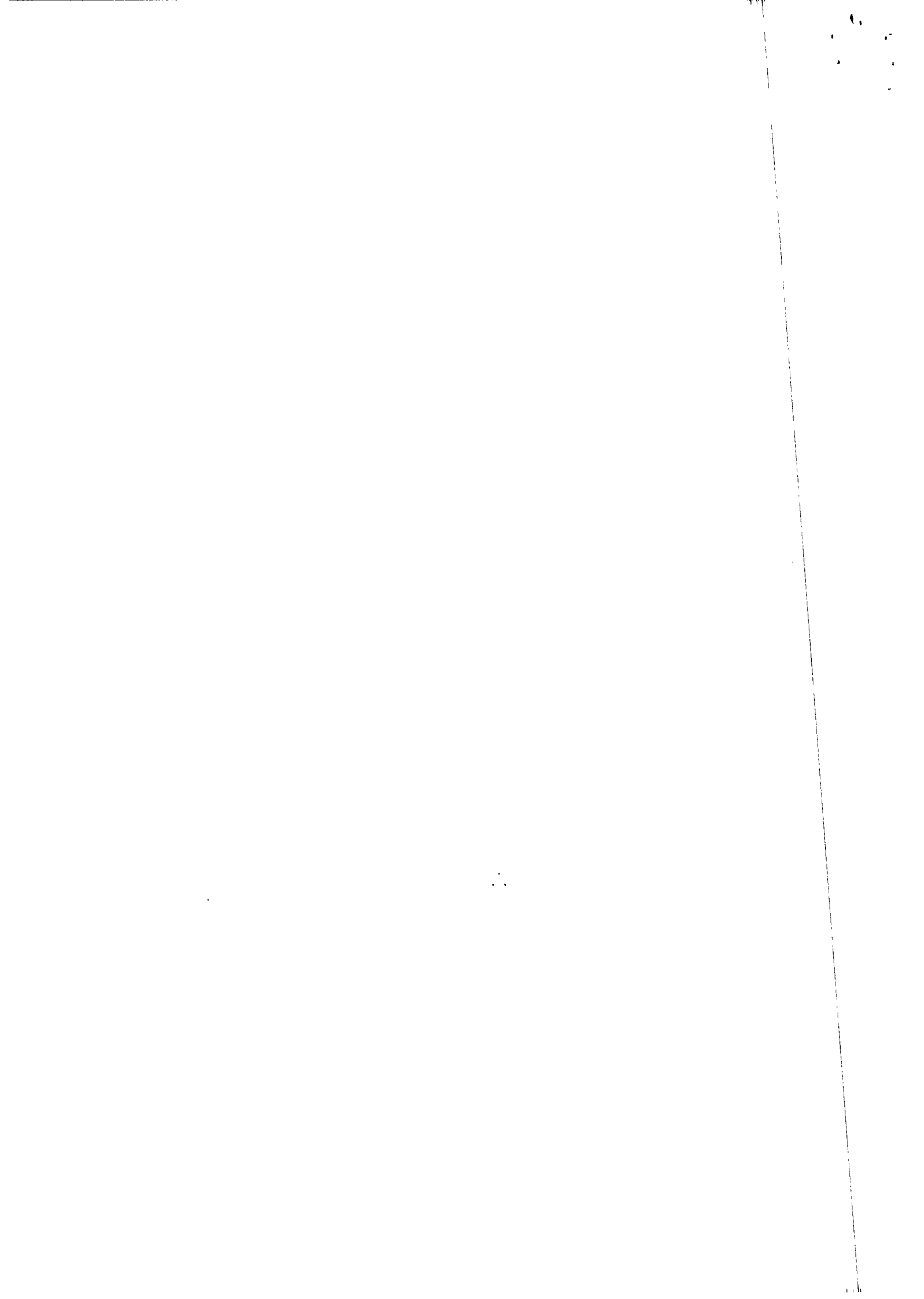
	NOTES	FY 2022/2023	FY 2021/2022
		KShs	KShs
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts for operating income			
Transfers from Government entities	1	6,250,000	
Payments for operating expenses			
Purchase of goods and services	3	(5,544,155)	(4,477,200)
Net cash flows generated from operating activities		705,845	(4,477,200)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of non-financial assets	4	(448,505,250)	(646,168,025)
NET CASH FLOWS FROM FINANCING ACTIVITIES			
Loan from external development partners	2	448,505,250	646,168,025
NET INCREASE IN CASH AND CASH EQUIVALENTS		705,845	(4,477,200)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		11,829,091	16,306,291
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		12,534,936	11,829,091

The accounting policies and explanatory notes to these project financial statements form an integral part of the project financial statements. The project financial statements were approved on 30/10/2023 and signed by


 Chief Executive Officer
 DR (ENG) John Mativo, CE


 Project Coordinator
 Eng. Anthony Wamukota


 General Manager Finance
 Tom Imbo
 ICPAK Member Number: 7039



Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)
Annual Report and Financial Statements for the financial year ended June 30, 2023

10. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS FOR YEAR ENDED 30 JUNE 2023

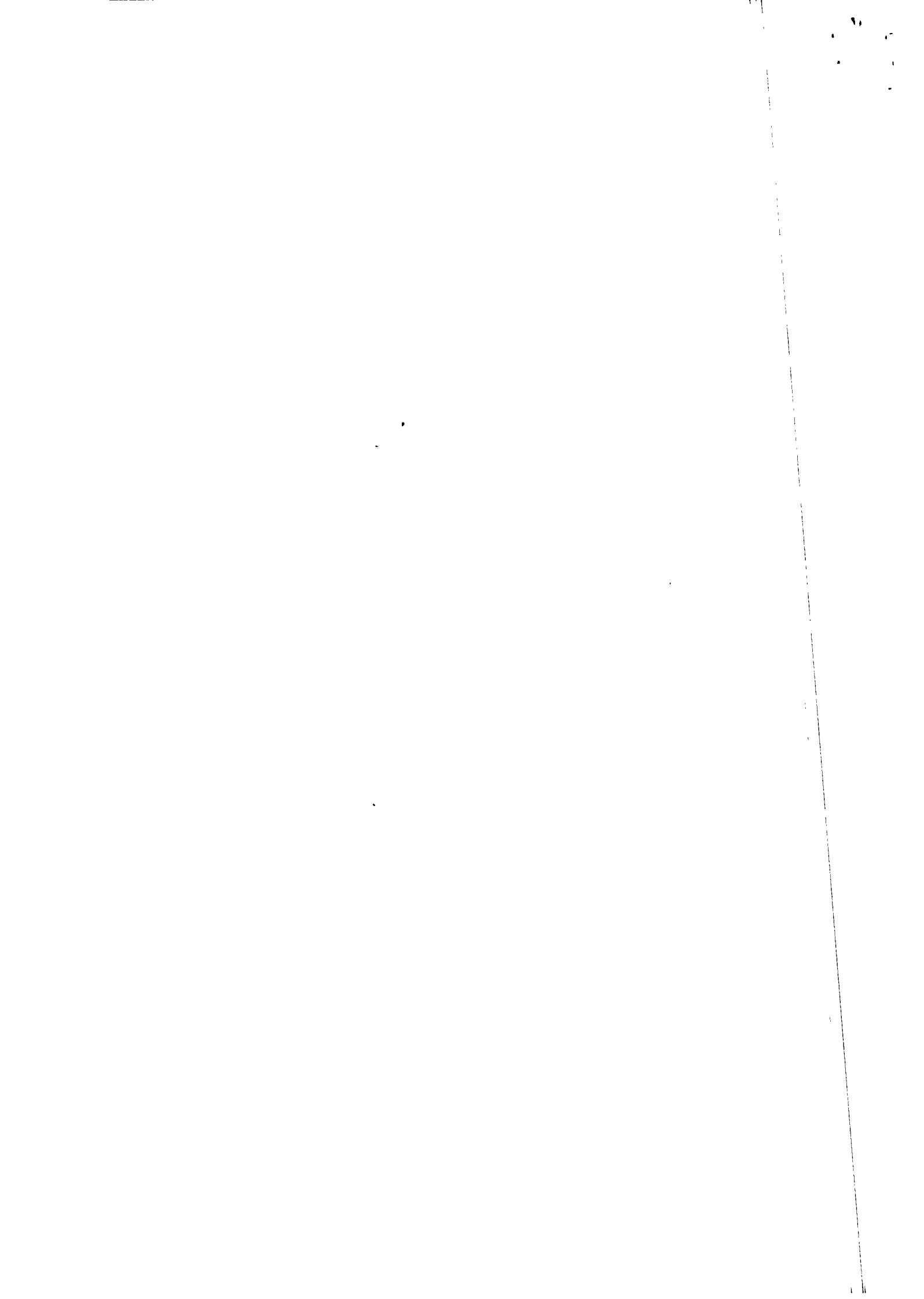
Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable basis	Budget Utilization Difference	Variance
	a	b	c= a+b	d	e= c-d	f= d/c %
	KShs	KShs	KShs	KShs	KShs	KShs
Receipts						
Transfer from Government entities	6,250,000	0	6,250,000	0	6,250,000	0
Transfer from development Partners	448,505,250	0	448,505,250	454,049,405	(5,544,155)	101
Total receipts	454,755,250	0	454,755,250	454,049,405	705,845	100
Payments						
Purchase of goods and services	5,544,155	0	5,544,155	5,544,155	0	0
Acquisition of non-financial assets	448,505,250		448,505,250	448,505,250	0	0
Total payments	454,049,405	0	454,049,405	454,049,405	0	0

Note: The significant budget utilisation/performance differences in the last column are explained in Annex 2 to these financial statements.

Chief Executive Officer
DR(ENG) John Mativo ,CE

Project Coordinator
Eng Anthony Wamukota

General Manager Finance
Tom Imbo
ICPAK Member Number:7039



11. SIGNIFICANT ACCOUNTING POLICIES

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

a) Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of accounting, as prescribed by the PSASB and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

b) Reporting entity

The financial statements are for the Supplementary Financing For the Ethiopia Kenya (Mariakani Substation Project) under the National Government of Kenya.. The financial statements are for the reporting entity as required by Section 81 of the PFM Act, 2012 .

c) Reporting currency

The financial statements are presented in Kenya Shillings (Kshs), which is the functional and reporting currency of the Project and all values are rounded to the nearest Kenya Shilling.

d) Recognition of receipts

The Project recognises all receipts from the various sources when the event occurs, and the related cash has been received.

i) Transfers from the Exchequer

Transfer from Exchequer is recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.



SIGNIFICANT ACCOUNTING POLICIES (continued)

ii) External Assistance

External assistance is monies received through grants and loans from multilateral and bilateral development partners.

iii) Other receipts

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements at the time associated cash is received.

iv) Donations and grants

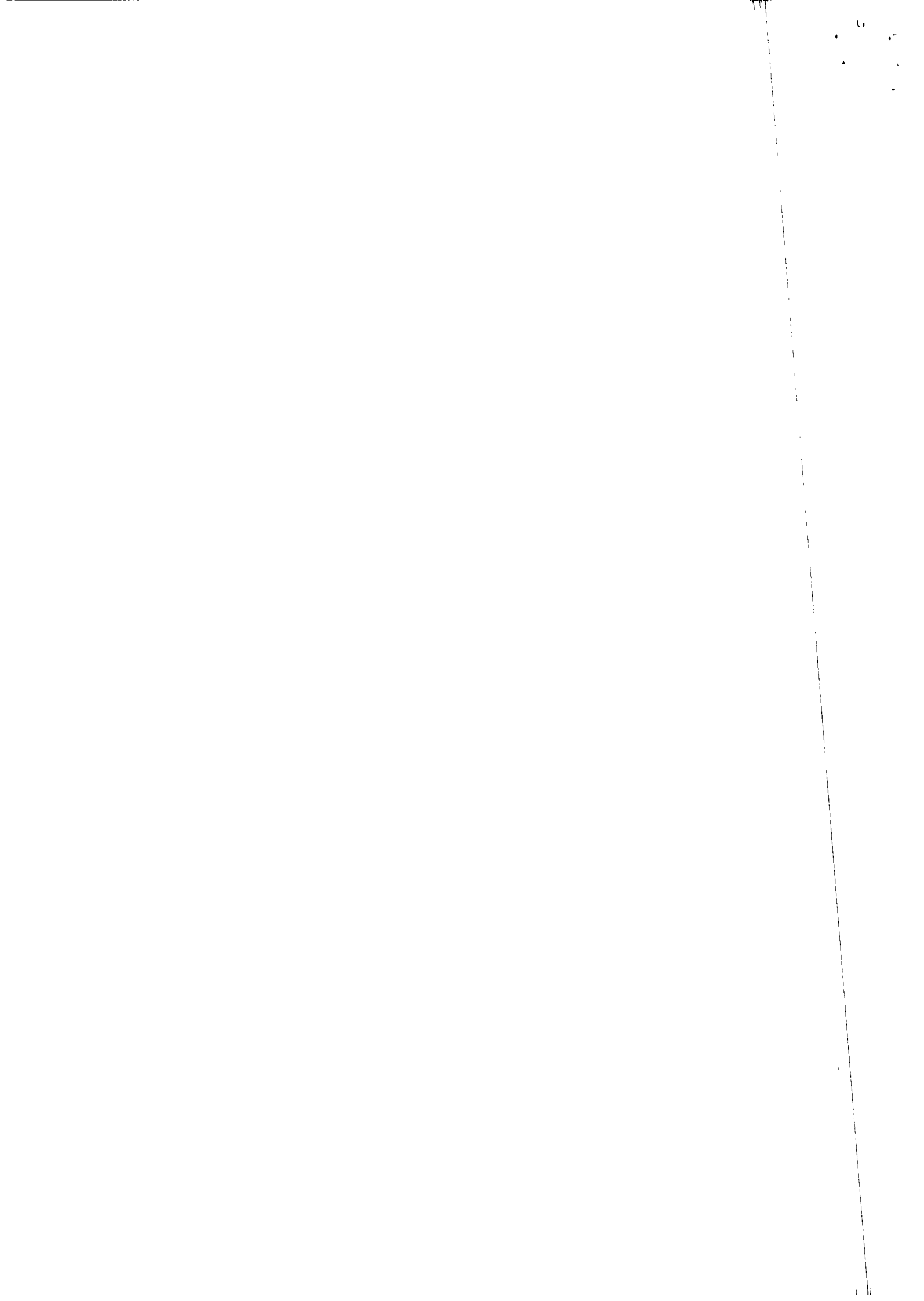
Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

v) Proceeds from borrowing.

Borrowing includes external loans acquired by the Project or any other debt the Project may take and will be treated on cash basis and recognized as a receipt during the year they were received.

vi) Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary.



Significant Accounting Policies (continued)

e) Recognition of payments

The Project recognises all payments when the event occurs, and the related cash has been paid out by the Project.

i) Compensation to employees

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

ii) Use of goods and services

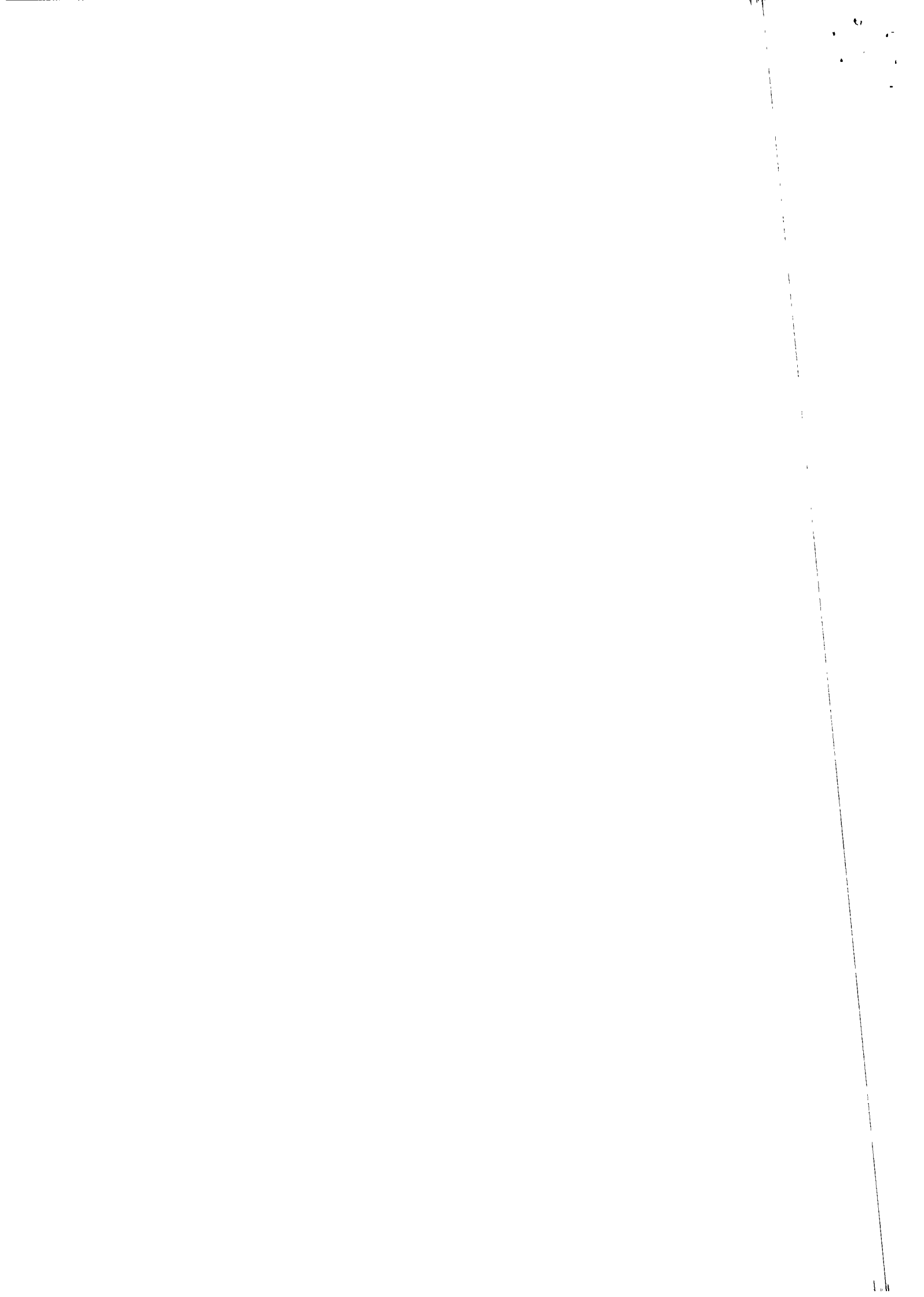
Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

iii) Interest on borrowing

Borrowing costs that include interest are recognized as payment in the period in which they incur and paid for.

iv) Repayment of borrowing (principal amount)

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.



SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Acquisition of fixed assets

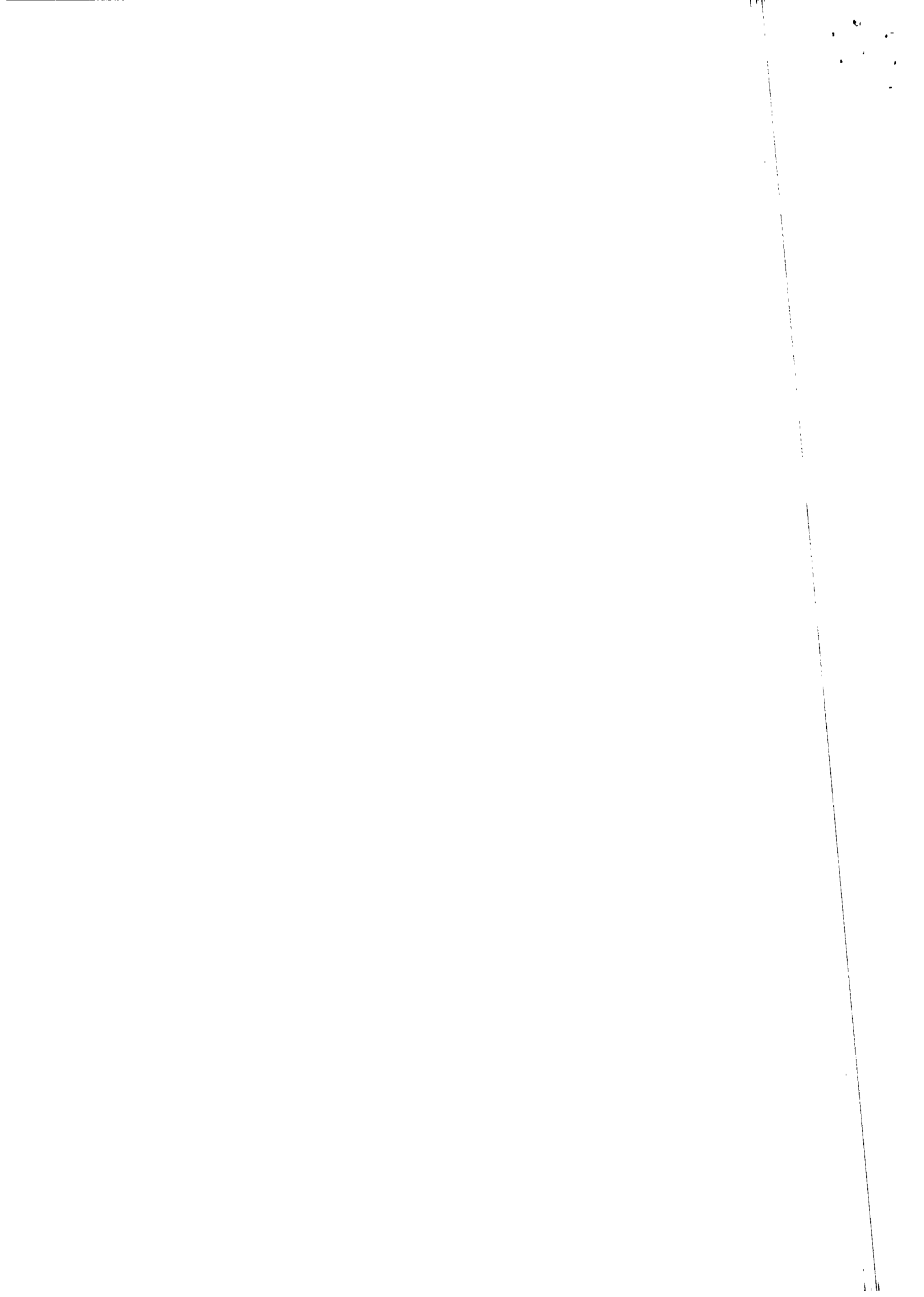
The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment. A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

f) In-kind donations

In-kind contributions are donations that are made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Project includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.



Significant Accounting Policies (Continued)

h) Restriction on cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits.

i) Imprests and Advances

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

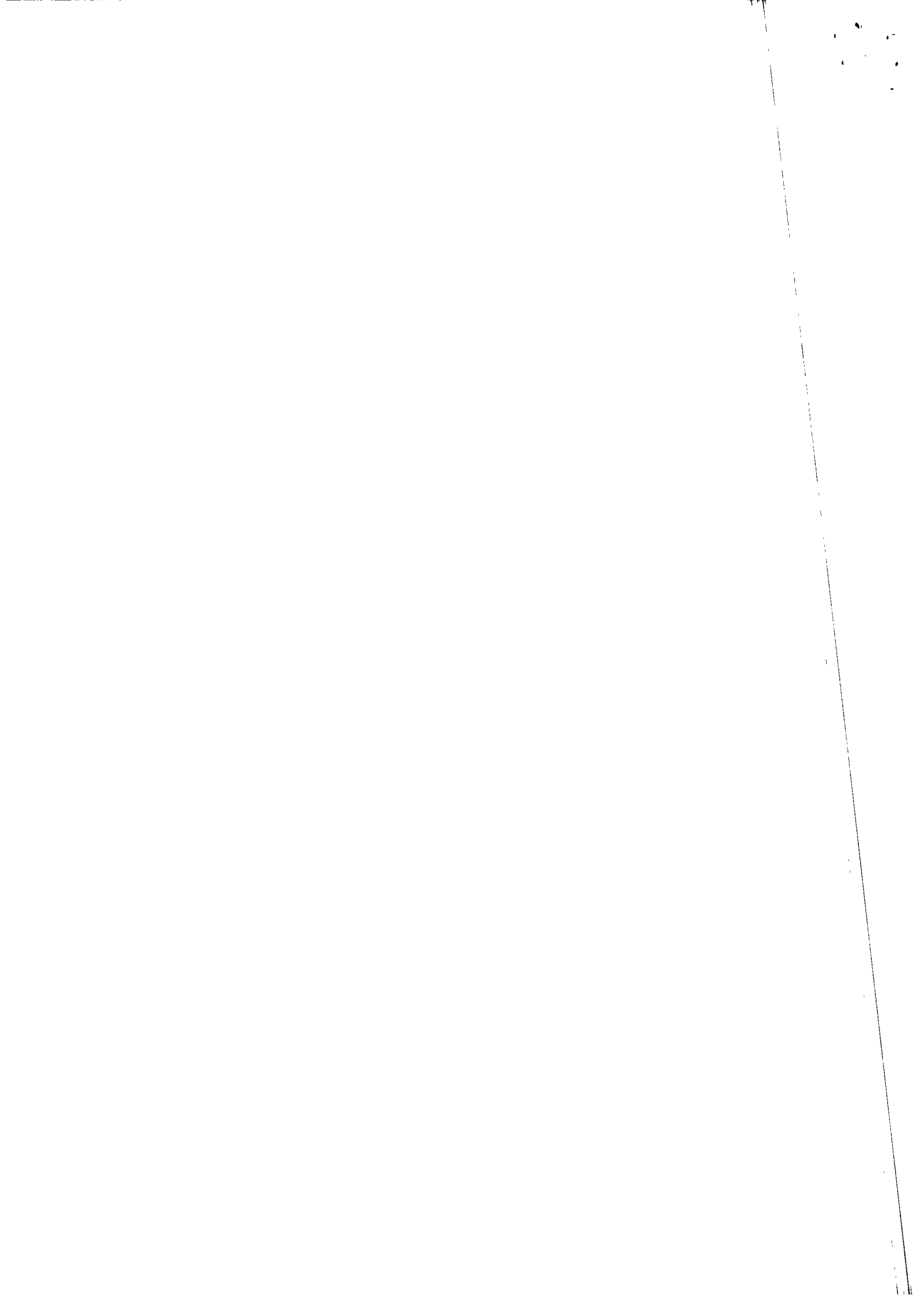
j) Contingent Liabilities

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) A present obligation that arises from past events but is not recognised because:
 - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - ii) The amount of the obligation cannot be measured with sufficient reliability.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships,

The Entity does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. **Annex 6** of this financial statement is a register of the contingent liabilities in the year.



Significant Accounting Policies (Continued)

k) Contingent Assets

(The Entity) does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of *(the Entity)* in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

l) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

m) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation. A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been *included in an annex to these financial statements*.

n) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments. and are disclosed in the payment to third parties' column in the statement of receipts and payments.

o) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates (Kenya Shillings). Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the



translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

p) Comparative figures

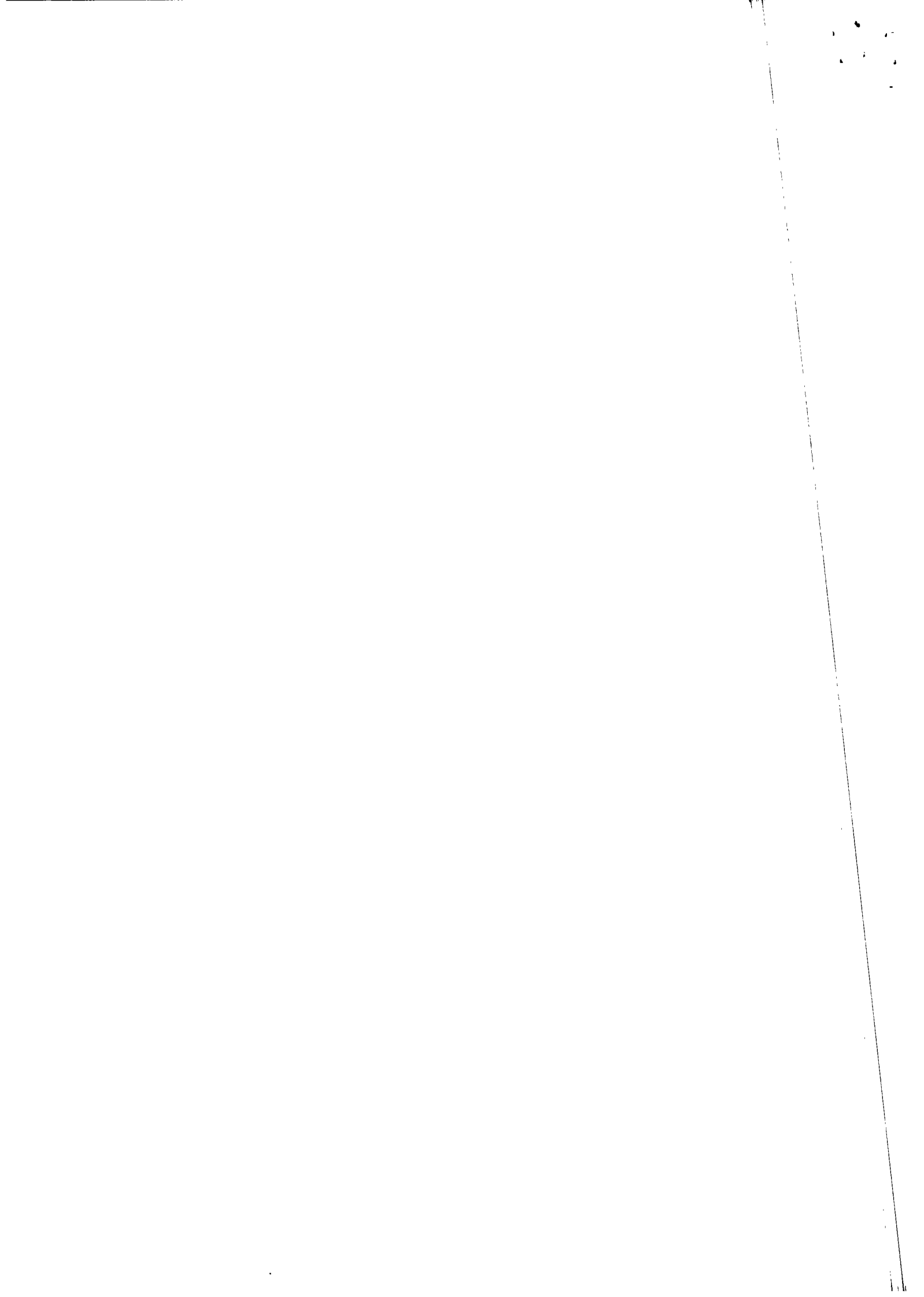
Where necessary comparative figures for the previous financial year/period have been amended or reconfigured to conform to the required changes in financial statement presentation.

q) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended June 30, 2023

r) Prior period adjustments

Prior period adjustments relate to errors and other adjustments noted arising from previous year(s). Explanations and details of these prior period adjustments are presented in Annex 1 of these financial statements.



Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)

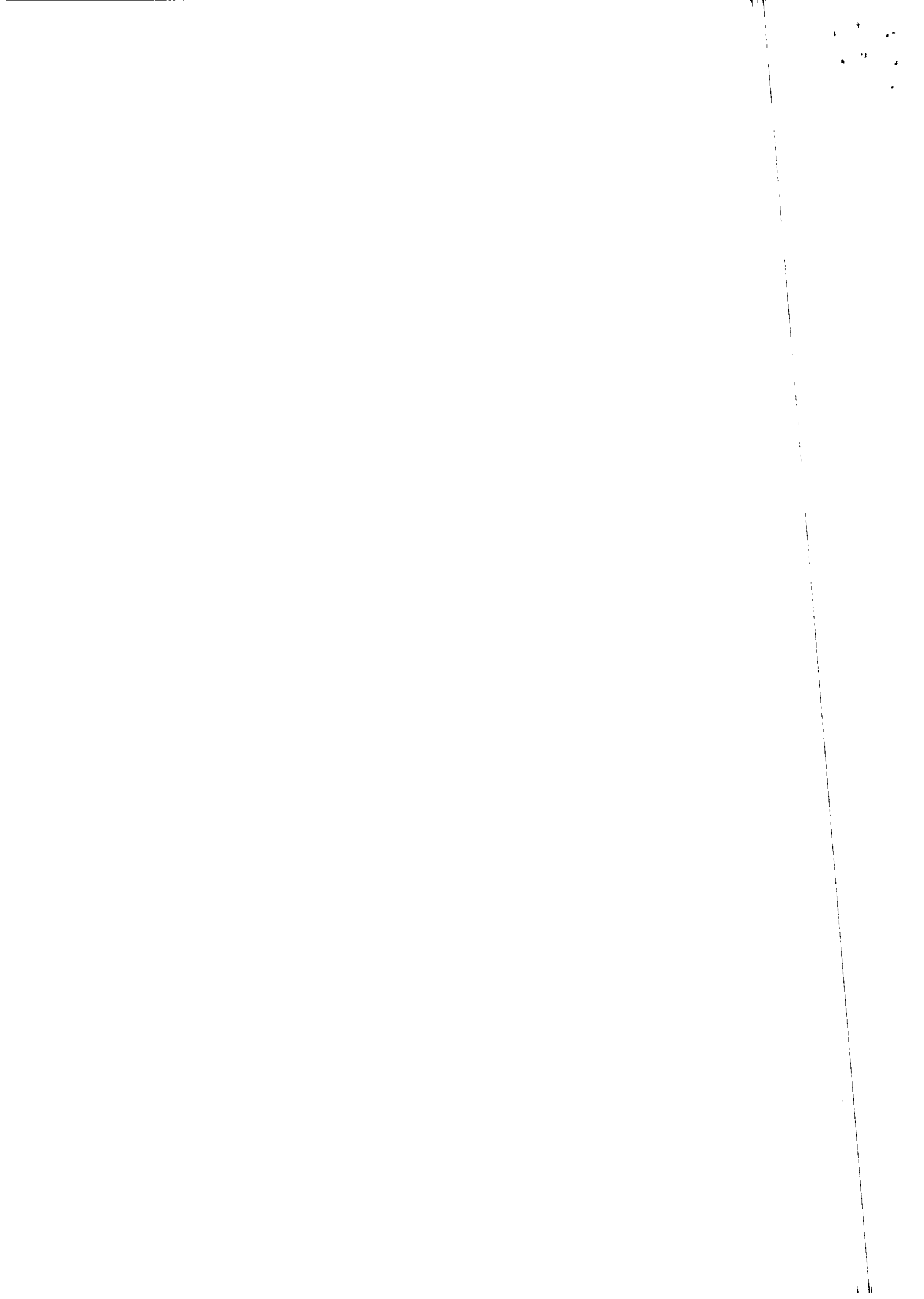
Annual Report and Financial Statements for the financial year ended June 30, 2023

12. NOTES TO THE FINANCIAL STATEMENTS

1. Transfers from Government entities

These represent counterpart funding and other receipts from government as follows:

	2022/2023	2021/2022	Cumulative to-date
Counterpart funding through State Department of Energy	Kshs	KShs	KShs
Counterpart funds Q1	6,250,000	0	182,250,000
Counterpart funds FY 2022/2023		0	0
Total	6,250,000	0	182,250,000



**Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)
Annual Report and Financial Statements for the financial year ended June 30, 2023**

Notes to the Financial Statements (Continued)

2.Loan from External Development Partners

During the financial period to 30 June 2023, we received funding from development partners in form of loans negotiated by the ~~National Treasury~~ as detailed in the table below:

Name of Donor	Date Received	Amount in Loan currency	Loan received in actual amount	Loans Received as Direct Payment*	Total Amount in KES		Cumulative to Date
					FY 2022/2023	FY 2021/2022	
ADB	30.06.2023						
		EUROs	KShs	KShs	KShs	KShs	Kshs
Grants/Loan Received from Multilateral Donors (International Organisations) ADB:2000200003502 - P-Z1-FA0-162	1,847,850,354	26,510,000	4,064,995,682	448,505,250	448,505,250	646,168,025	1,847,850,354
Total	1,847,850,354	26,510,000	4,064,995,682	448,505,250	448,505,250	646,168,025	1,847,850,354



Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)
 Annual Report and Financial Statements for the financial year ended June 30, 2023

Notes to the Financial Statements (Continued)

3. Purchase of Goods and Services

	FY 2022/2023		FY 2021/2022		Cumulative to Date
	Payments made in cash	Payments made by third parties	Total payments	Payments made in cash	
	KShs	KShs	KShs	KShs	KShs
Other operating costs	5,544,155	0	5,544,155	4,477,200	12,345,405
Total	5,544,155	0	5,544,155	4,477,200	12,345,405

Notes to the Financial Statements (Continued)

4.Acquisition of Non-Financial Assets

	FY 2022/2023			FY 2021/2022			Cumulative to date	
	Payments made by the entity in cash KShs	Payments made by third parties KShs	Total payments KShs	Payments made by the entity in cash KShs	Payments made by third parties KShs	Total payments KShs	Total Payments KShs	Total Payments KShs
Consultancy fees	0	-	-	0	-	0	123,062,407	
Powerlines	0	448,505,250	448,505,250	-	646,168,025	646,168,025	1,847,850,355	
Total		448,505,250	448,505,250	0	646,168,025	646,168,025	1,970,912,762	

Notes to the Financial Statements (Continued)

5. Cash And Cash equivalents

	2022/2023	2021/2022
	Kshs	Kshs
Bank accounts balances (Note 11.A)	12,534,936	11,829,091
Total	12,534,936	11,829,091

6. A Bank Accounts

Project Bank Accounts

	2022/2023	2021/2022
	KShs	KShs
Local Currency Accounts	-	
Kenya Commercial Bank	12,534,936	11,829,091
Total bank account balances	12,534,936	11,829,091

10
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14

Other Important Disclosures

1. Pending Payable (See Annex 3a)

Description	Balance b/f 21/22	Additions for the period		Paid during the year	Balance c/f 22/23
	Kshs	Kshs	Kshs	Kshs	KShs
Supply of goods	494,378,218	448,505,250	448,505,250	448,505,250	296,731,355
Total	494,378,218	448,505,250	448,505,250	448,505,250	296,731,355

10
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13

Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)
Annual Report and Financial Statements for the financial year ended June 30, 2023

13. Annexes

Annex 1: Prior Year Auditor General's Recommendations

NO.	AUDIT MATTER	ISSUE/OBSERVATIONS FROM AUDITOR	MANAGEMENT COMMENTS	STATUS	TIMEFRAME
1	Delay in Project Deliverables	Review of project deliverables revealed that the project was behind schedule with respect to the completion of the Engineering at 99%, Procurement at 98%, Construction at 82% and testing and Commissioning at 0%. As at 30 June 2022 the activities executed were valued at Kshs 1,893,723,322 compared to the contract sum of Kshs 3,357,298,517 or 56%. This is despite having the completion date reviewed to December 2022. Consequently, delays in completion of the Project may result in escalation of projected costs or expiry and withdrawal of funding of project financiers.	There was a global delay in the shipment of critical items such as the Shunt Reactor due to the COVID- 19 Pandemic. There has since been an ease in shipments and materials have been delivered to site. The Project is due to be commissioned in December 2022. As at 30 June 2023 the project was at 92% complete and is expected to be completed by December 2023 The Management has put in place measure to monitor implementation of the project and ensure completion.	Ongoing	31 st December 2023
2	Budgetary Performance and Control.	The statement of comparison of budget and actual amounts reflects a total income budget of actual Ksh 911,765,710 against actual receipts of Kshs 646,168,025 resulting in underfunding of Ksh 265,597,685. The statement also reflects a total expenditure budget balance of Kshs 650,645,225 which differed with the	The implementation of the project was delayed due to procurement challenges because of the COVID-19 pandemic. This has been majorly due to the delay in manufacturing and shipment of the Shunt Reactor which is critical to the project completion. The shunt reactor	Ongoing	31 st December 2023



Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)
Annual Report and Financial Statements for the financial year ended June 30, 2023

		income budget of Kshs 911,765,710 resulting in an unbalanced budget of Kshs 261,120.485	has since been delivered to site. Management has put in place contingent measures to monitor the project milestones and ensure completion of the project by December 2023.	
3	Pending Goods and Services	The Project Management contracted works and services amounting to Kshs 3,357,298,517 as disclosed in Annex 2A. The amount certified as payable amounted to Kshs 1,893,723,322 out of which Kshs 1,399,345,104 was paid during the year leaving a balance of Kshs 494,378,218 as pending bills. The unpaid bills are likely to attract interest and penalties and or litigation and related legal expenses which are wasteful expenditure. Failure to settle bills during the year in which they relate to distorts the Financial Statements and adversely affects the budgetary provisions in the subsequent years	The pending bills amounting to 494M were outstanding due to the contractor's inability to pay Withholding tax within the stipulated time. Subsequently the withholding tax was paid in the financial year 2022/2023 and invoices have been forwarded to The National Treasury as of July 2023	Contractual Invoices forwarded for payment.
				Ongoing

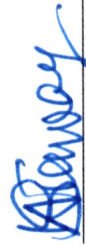


**Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)
Annual Report and Financial Statements for the financial year ended June 30, 2023**

4	<p>Low Absorption of Funds</p>	<p>The Project duration of three and a half years starting June 2019 and expected completion date of December 2022 with total funding of Euro 26,510,000 equivalent of Kshs 3,199,086,297. As at 30 June 2022, only Kshs 1,297,514,976 had been drawn down leaving a balance of Kshs 1,901,571,321 or 59% undrawn with only six months remaining. It is now clear that the project may not absorb all its funds denying the citizens the benefits of the loan.</p>	<p>The shipments relating to the project were adversely affected by the global COVID-19 pandemic. With shipments having now almost regaining normalcy, materials are now being delivered to site. Management is ensuring all outstanding invoices are cleared by December 2023.</p>	<p>Contractual Invoices forwarded for payment</p>	<p>Ongoing</p>
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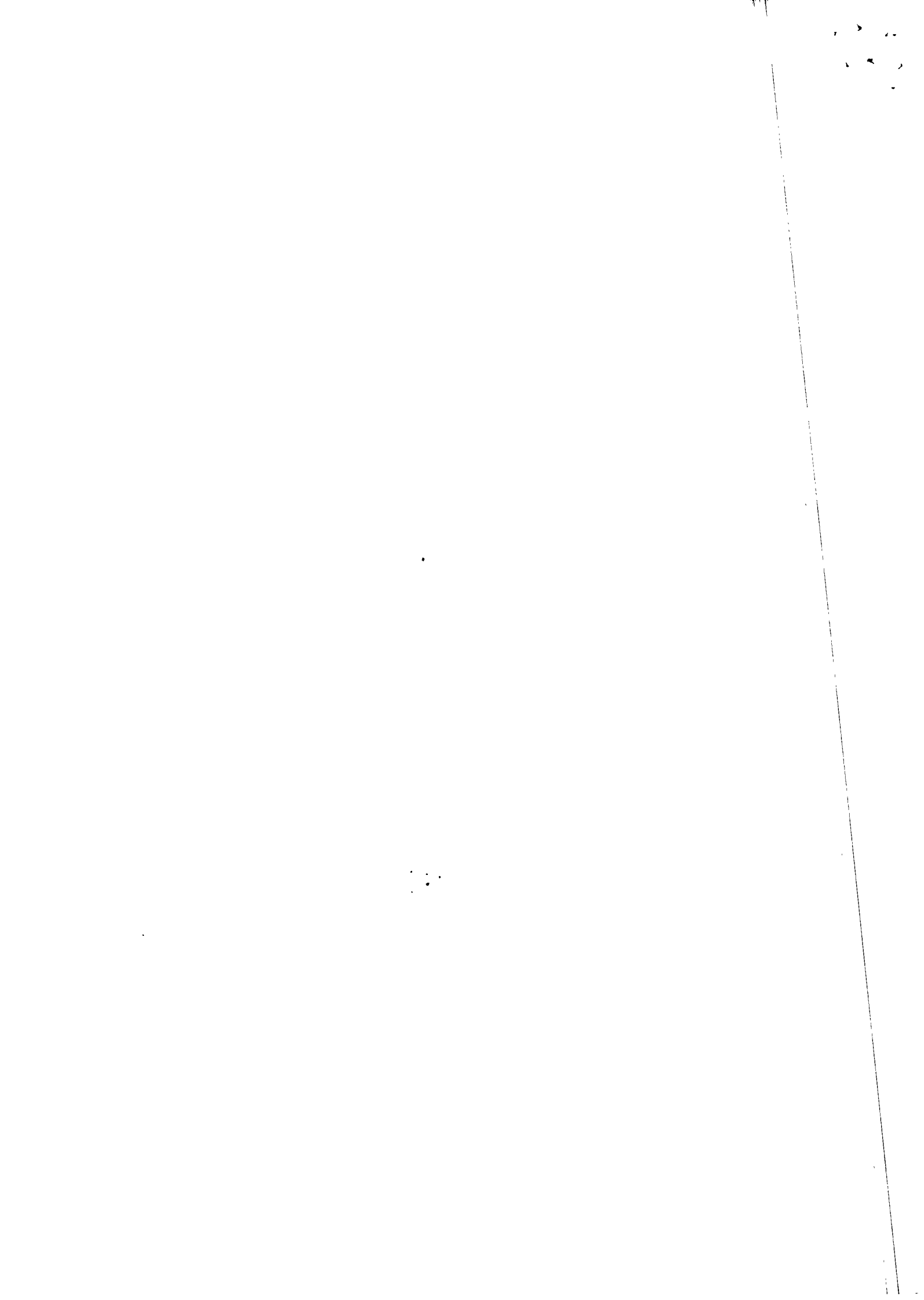
**Chief Executive Officer
DR(ENG) John Mativo, CE**



**Project Coordinator
Eng Anthony Wamukota**



**General Manager Finance
Tom Imbo
ICPAK Member Number: 7039**



Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)

Annual Report and Financial Statements for the financial year ended June 30, 2023

Annex 2: Variance explanations - Comparative Budget and Actual amounts for Current FY

Receipts/Payments Item	Final Budget	Actual on Comparable basis	Budget Utilization Difference	Variance	Comments on Variance
	a	b	c=a-b	d=b/a%	
Receipts	KShs	KShs	KShs	KShs	KShs
Transfer from Government entities	6,250,000	6,250,000	0	100%	
Transfer from development Partners	448,505,250	448,505,250	0		
Total receipts	454,755,250	448,505,250	6,250,000		
Payments					
Purchase of goods and services	5,544,155	5,544,155	0	0	
Acquisition of non-financial assets	448,505,250	448,505,250	0	0	
Total payments	454,049,405	454,049,405	0	0	

10

Annex 3a: Analysis of Pending Bills

Supplier of Goods or Services	Date Contracted	Original Amount	Amount Paid To-Date	Outstanding Balance FY 22/23	Outstanding Balance FY 21/22
Supply of goods		KShs	KShs	KShs	KShs
China CAMC Engineering	2019	4,064,995,682	1,847,850,354	296,731,355	494,378,218
Grand Total		4,064,995,682	1,847,850,354	296,731,355	494,378,218

11

Supplementary Financing For The Ethiopia- Kenya Electricity Highway (Mariakani Substation Project (2000200003502 P-Z1-FA0-162)
Annual Report and Financial Statements for the financial year ended June 30, 2023

Annex 4: Summary of Fixed Assets Register

Asset class	Opening Cost		*Purchases/additions in the year		Closing Cost	
	KShs		KShs		KShs	
	01-Jul-22	(a)	2022/2023	(b)	30-Jun-23	(c)= (a)+ (b)
Infrastructure Assets Powerline Transmission Equipment	1,522,407,511		448,505,250		1,970,912,761	
Total	1,522,407,511		448,505,250		1,970,912,761	

Notes

* Purchases/Additions in the year reconciled to the amount in Statement of Receipts and Payments

** The disposal amount to be disclosed in this register is the cost that the asset was acquired at and not the price at which it has been sold.

11

