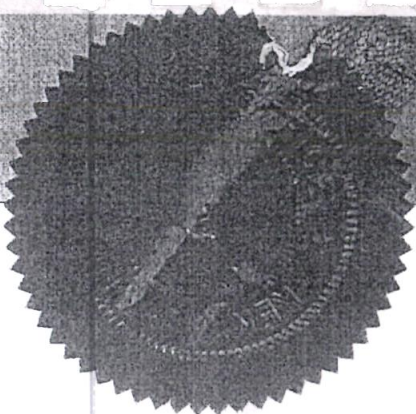




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REPORT  
OF  
THE AUDITOR-GENERAL  
ON  
THE FINANCIAL STATEMENTS OF  
RURAL ELECTRIFICATION AUTHORITY  
FOR THE YEAR ENDED  
30 JUNE 2013

B2



**RURAL ELECTRIFICATION AUTHORITY**

**ANNUAL REPORT & FINANCIAL**

**STATEMENTS**

**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2013**

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## CORPORATE INFORMATION

### General Information

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

### Principal Activities

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

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

**Registered Office** The Chancery, 6<sup>th</sup> Floor  
Valley Road  
P.O Box 34585-00100  
NAIROBI

**Bankers** The Co-operative Bank of Kenya Ltd  
P.O. Box 48231 – 00100  
Nairobi Business Centre  
NAIROBI

Kenya Commercial Bank of Kenya Ltd  
P.O Box 69695-00400  
Milimani Branch  
NAIROBI

Standard Chartered Bank Kenya Ltd  
P.O Box 98683-80100

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Kenyatta Avenue Branch  
NAIROBI

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

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**Auditors**

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

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**Board of Directors**

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

Faisal Abass	Chairman
Josephat M. Githui	Member
Bishop Njoroge Kariuki	Member (Reappointed in July 2011)
Eng. N.S.M Kahiu	Member (Reappointed in July 2011)
Eng. Edwin Wasunna	Member (Reappointed in July 2011)
Cyprian Kirera Riungu	Member (Reappointed in October 2011)
Bertha Joseph Dena	Member (Reappointed in July 2011)
Dr. Betty C. Korir	Member (appointed 2.9.2011)
Joshua Nthenge Musili	Member
PS, Treasury-Joseph Kinyua	Member
Beatrice W. Gathirwa	Alternate- Treasury from March 2011
PS, MOE-Patrick M. Nyoike	Member
Mr. Jackson Barngetuny	Alternate- MOE from April 2012

**Board of Directors Profile**

**Faisal Abass, Chairman REA Board**

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

**Zachary O. Ayieko, CEO**

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

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

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

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

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

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

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

**Eng. Edwin Wasunna, BSc (Eng)**

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

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

Mr. Riungu was appointed a member of the Board of Rural Electrification Authority in 29<sup>th</sup> October 2007. Prior to the appointment Mr. Riungu was a director at Kenyatta International Conference Centre where he was credited with streamlining operations and creation of KICC as a Semi-autonomous Government Agency. Mr. Riungu has a wealth of experience spanning over 30

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years in Public service. He holds a Bachelor of Arts and Master of Science in Construction Management.

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

Ms Bertha Dena Joseph was appointed to the Board of REA on 27<sup>th</sup> July 2007. She has wide experience in the Private Sector of over 29 years holding various senior positions rising to positions of Finance and Compliance Manager which post she currently holds. Ms. Dena has also served as a Company Secretary to Stagecoach International Limited. She has also served as a Director of Kenya Ports Authority between 2001 and 2004. She holds an MBA degree from Maastricht School of Management Netherland

**Eng. Njeri Kahiu**

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

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

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

**Joshua Nthenge Musili, BSc (Hons) Chemistry and Biochemistry**

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

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**Dr. Betty C. Korir**

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

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**Mrs. Beatrice W. Gathirwa**

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

**Mr. Jackson Barngetuny**

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

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

**Chairman's Statement**

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I take great pleasure in presenting to you once again the Annual Report and Financial Statements for Rural Electrification Authority for the year ended 30th June 2013. I am especially pleased to note that the results highlight an extremely successful year.. Some of the milestones I wish to highlight include;

**Implementation of Rural Electrification Projects**

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

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

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

**Establishment of Regional Offices**

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

**Annual Budget**

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

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

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

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

**Future Outlook**

The new constitution, through its decentralized and devolved structures offers many opportunities for the Rural electrification Authority. On its part, REA will increase its efforts in lighting up rural Kenya through both grid extension and renewable energy as well as through strategic partnerships with our stakeholders.

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

**Tribute**

I wish to thank my colleagues in the Board for their support and the staff of the Authority for their efforts during the year that has ensured that the Authority meets its objectives. In addition, I wish to thank the Government for its continued support to REA during the year.

**FAISAL ABASS**  
**CHAIRMAN**

**Chief Executive Officer's Report**

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2012/13 has been another successful year for the Rural Electrification Authority. During the year, the Authority made tremendous strides towards meeting its mandate and in particular attaining the vision 2030 target of connecting all public facilities.

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

Achievements made during the year include a remarkable increase in the number of public facilities electrified from about 2,000 in 2004 to about 23,167 in June 2013.

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

- 8,195 secondary schools are now recording improved education standards as students have extended reading hours and access to information through the internet and TVs,
- 4,543 health centres are now offering improved medical services and can be equipped with modern electrical equipments for better health care,
- 10,429 trading centres are now able to provide employment opportunities within the informal sector to the youth and facilitate creation of small agro industries in addition to enhancing security from installed security lights.
- More than 1 million rural households have access to clean reliable energy and as such enjoy improved social economic benefits associated with electricity.

**Project Implementation Modalities**

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

While identification, prioritization and design of projects is done internally by REA staff, construction of the projects is contracted out to pre-qualified labour and transport contractors who are supervised by REA

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

### **Funding For Rural Electrification**

~~Kshs. 11.5 billion is required annually to fully implement the rural electrification programme. However~~ only about Ksh.5 billion is provided annually through budgetary allocations. To address funding issues, REA has continued to lobby for increased budgetary allocations, partnered with communities to access CDF funds and also to get free wayleaves making it cheaper to implement our projects. REA is also partnering with various Development partners for financial and technical support in the implementation of rural electrification projects. To date, a total of Kshs 68,102 million has been spent on implementing the rural electrification programme since its inception in 1973.

### **Implementation of Rural Electrification Projects**

REA carries out its mandate of enhancing rural electrification in the country through sourcing of funds, grid extension and promotion and development of renewable energy sources. Since its inception in 2007, REA has implemented a total of 4,213 projects.

### **Implementation Strategies**

In 2012/13, the Authority managed to keep on track and meet set targets by enhancing the innovative strategies to guide its activities. These strategies ensured that core activities were monitored and evaluated on an ongoing basis making it possible to surpass our performance targets.

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

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

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

### **Performance Contracting**

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

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

### **Electricity for Off Grid areas.**

One of the major challenges of rural electrification is extending electricity to areas that are far from the National grid. Due to the diverse and sparse nature of human settlements in these areas, REA has adopted a multi-pronged approach to Rural Electrification by combining conventional power mainly hydro and fossil based electricity with solar and wind systems to ensure that these areas are also electrified.

So far REA has

- Constructed eleven out of thirty three identified diesel power stations in off-grid areas in North Eastern and Coast.
- Installed solar PVs in over 400 public institutions including secondary schools and health centers for lighting and refrigeration.
- Put in place a feed in policy to encourage small scale power generation using renewable energy sources for sale to the national grid.
- Partnered with local communities to pilot renewable energy projects for community generation and distribution of electricity through mini hydro, wind and biogas

**Rural Electrification Authority**  
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**Operational Strategies**

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

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

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

**Way Forward**

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

**Appreciation**

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



**NG'ANGA MUNYU**

**AG.CHIEF EXECUTIVE OFFICER**

**Rural Electrification Authority**  
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**Statement of Corporate Governance**

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**Introduction**

The Rural Electrification Authority (REA) was established under Section 66 of the Energy Act No. 12 of 2006. The Authority's mandate is set out under section 67 of the Act which states that the Authority is set up to:

- a) Manage the Rural Electrification Programme Fund;
- b) Develop and update the rural electrification master plan;
- c) Implement and source additional funds for the rural electrification programme;
- d) Promote the use of renewable energy sources;
- e) Manage the delineation, tendering and award of Contracts for licenses and permits for rural electrification; and
- f) Perform such other functions as the Board may direct.

**Corporate Governance Practices**

Corporate governance refers to the manner in which the power of any organization is exercised in the stewardship of the organization's total portfolio of assets and resources with the objective of maintaining and increasing the satisfaction of the stakeholders, in the context of the corporate Vision and mission. The Board of directors and Management of REA acknowledge that the Authority, as an agent of Government, manages public funds while electrifying rural areas which require a high degree of accountability. In order to achieve its mandate, and to properly report back to the owners on how well it has utilized public resources, the Authority has developed and embraced the ethos of good corporate governance. To this end, the Authority has taken deliberate measures to ensure that levels of governance in the Authority are in line with accepted good governance standards. The main corporate Governance practices and structures are set out in this statement.

**Appointment Of Directors**

The Board of Directors of the Authority are appointed pursuant to Section 68(1) of the Energy Act 2006. This section also sets out mandatory qualifications that individuals must possess to qualify for

## **Rural Electrification Authority**

### **Annual Report & Financial Statements for the period ended 30<sup>th</sup> June 2013**

appointment as directors. The chairman is appointed by the President of the Republic of Kenya to serve for five (5) years and may be re-appointed for one further term of five (5) years. Directors are appointed by the Minister of Energy for a three (3) year term but can subsequently be re-appointed for a further term of three years.

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The Board consists of eleven (11) directors. Two are drawn from Government that is, the Permanent Secretary, Ministry of Energy and the Permanent Secretary, Ministry of Finance. The chairman of the Board and the other eight (8) directors are drawn from both the private and public sector. This provides the necessary mix of skills, experience and expertise to the Board that are required to propel the Authority towards meeting its Legal mandate of electrifying rural areas which will eventually spur economic and social development in the country.

#### **Interfaces between the Authority and Government**

The Authority is a State Corporation pursuant to the State Corporations Act. It is a body corporate, governed by the principles of Corporate Governance but being a State Corporation established by an Act of Parliament, it does not have shareholders as defined in the Companies Act, Chapter 486. The equivalent to shareholders is the Government, which under the State Corporations Act, has the ultimate legal authority over State Corporations. To ensure proper linkages with Government and proper information flow, the Permanent Secretary, Ministry of Finance and the Permanent Secretary, Ministry of Energy are Board members while the Inspector General (Corporations), Inspectorate of State Corporations, attends Board and Committees meetings on invitation. The three are able to give policy direction to the Board to ensure decisions made by the Board are in tandem with Government policy. The Board also, in keeping with Government policy, consults widely with Treasury and the State Corporations Advisory Committee (SCAC) through the parent ministry from time to time and is keen to implement guidelines that are issued by Government from time to time through circulars.

#### **Board Manual, Board Charter And Code Of Ethics**

The Board acknowledges that it is the custodian of good corporate governance in the Authority, and it has the responsibility to ensure that proper Governance Structures are developed and properly implementation