

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 18 FEB 2021 THURSDAY

TABLED BY: Majority Whip
Hon. Wangwe

CLERK-AT: Anne Musandu

REPORT

OF

THE AUDITOR-GENERAL

ON

**POWER TRANSMISSION SYSTEM
IMPROVEMENT PROJECT (ADF LOAN
NO.2100150023752)**

**FOR THE YEAR ENDED
30 JUNE, 2020**

**KENYA ELECTRICITY TRANSMISSION
COMPANY LTD**

3



POWER TRANSMISSION SYSTEM IMPROVEMENT PROJECT

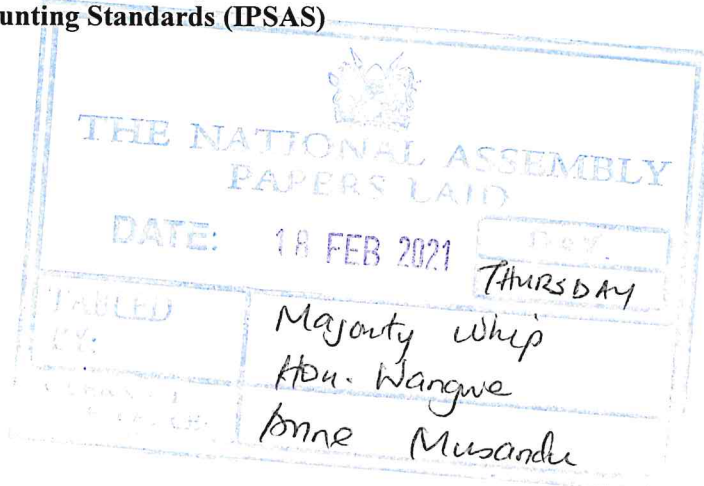
KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED (KETRACO)

PROJECT CREDIT NUMBER: ADF LOAN NO. 2100150023752

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
30 JUNE 2020**

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



ABBREVIATIONS

ADF	African Development Fund
GAAP	Generally Accepted Accounting Principles GOK Government of Kenya
HVDC	High Voltage Direct Current
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
KETRACO	Kenya Electricity Transmission Company Limited
KV	Kilovolts
PFSs	Project Financial Statements
RAP	Resettlement Action Plan
SORE	Statement of Receipts and Expenditure
UA	Units of Account
US\$	United States Dollar
PFM	Public Financial Management Act 2012

10

10

10

10

10

10

CONTENTS	PAGE
1. PROJECT INFORMATION AND OVERALL PERFORMANCE	1
2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVE.....	7
3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING.....	8
4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES	11
5. REPORT OF THE INDEPENDENT AUDITORS ON THE POWER TRANSMISSION SYSTEM IMPROVEMENT PROJECT.....	12
6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2020	15
7. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2020	16
8. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020	17
9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS.....	18
10. NOTES TO THE FINANCIAL STATEMENTS	19
11. OTHER IMPORTANT DISCLOSURES	26
12. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS.....	27

1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and Registered Office

Name: The project's official name is Power Transmission System Improvement Project.

Objective: The key objective of the project is to contribute to the delivery of adequate and reliable power supply, which will catalyse the growth, and competitiveness of the rural economy and the development of social institutions such as schools and hospitals.

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

The address of its registered office is:

Power Transmission System Improvement 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

1.2 Project Information

Project Start Date:	The project start date is 16 April 2013
Project End Date:	The project end date is 30 June 2021
Project Manager:	The project manager is Eng. Justin Muna
Project Sponsor:	The project sponsor are Government of Kenya and African Development Fund

1.3 Project Overview

	The project is under the supervision of the Kenya Electricity Transmission Company Limited, a state corporation under the State Department of Energy.
Project number	2100150023752
Strategic goals of the project	The strategic goal of the project is to contribute to the delivery of adequate and reliable power supply.
Achievement of strategic goals	<p>The project management aims to achieve the goals through the following means:</p> <ul style="list-style-type: none">➤ Construction of 431km of 132 KV lines, the extension of six substations and the construction of eight new substations that will contribute to the capacity of Kenya to increase the number of new connections by 200,000 annually as well as the rural electricity connectivity rate from the current 23% to 40% by 2021

Other important background information of the project	<p>The project is implemented by Kenya Electricity Transmission Company Limited (KETRACO), which was incorporated on 2 December 2008 and registered under the Companies Act, Cap 486 pursuant to Sessional Paper No. 4 of 2004 on Energy. The Company was established to develop new high voltage electricity transmission infrastructure that will form the backbone of the National Transmission Grid, in line with Kenya Vision 2030. Its core business is to plan, design, build and maintain new electricity transmission lines and associated substations. These new lines will include 132KV, 220KV, 400KV and 500KV High Voltage Direct Current (HVDC). In carrying out this mandate, the Company is expected to develop a new and robust grid system in order to:</p> <ul style="list-style-type: none"> (i) Improve quality and reliability of electricity supply throughout the country; (ii) Transmit electricity to areas that are currently not supplied from the national grid; (iii) Evacuate power from planned generation plants; and (iv) Provide a link with the neighbouring countries in order to facilitate power exchange and develop electricity trade in the region. <p>The project is being financed by African Development Fund (ADF) and the Government of Kenya through the Ministry of Energy and Petroleum and The National Treasury.</p> <p>As the owner of the project, KETRACO provides the organizational set up for the activities, qualified staff and basic office infrastructure for efficient execution of the project.</p> <p>The Power Transmission System Improvement project was designed for the construction of 431km of 132 KV lines, the extension of six substations and the construction of eight new substations that will contribute to the capacity of Kenya to increase the number of new connections by 200,000 annually as well as the rural electricity connectivity rate from the current 23% to 40% by 2020. The Project, by contributing to the delivery of adequate and reliable power supply will catalyse the growth and competitiveness of the rural economy and the development of social institutions such as schools and hospitals.</p> <p>Key Data: Power Transmission System Improvement Project Contracts.</p> <p>Consultants <i>Scope:</i> Project Supervision and Management <i>Consultant:</i> SMEC International <i>Loan No:</i> P-KE-FAO-004 <i>Contract Signed On:</i> 3 February 2012 <i>Contract Price:</i> The quoted price is in two currencies USD 3,196,614 and Ksh 174,929,956 <i>Contract Completion:</i> 31 December 2017</p>
---	---

	<p><u>Transmission Line Contractors (Contact terminated for non-performance)</u> <i>Scope:</i> Design, Manufacture, Test, Deliver, Install, Complete & Commission 132KV double circuit Transmission Lines for;</p> <ul style="list-style-type: none"> ▪ Lot 1: Bomet - Sotik. Nanyuki – Nyahururu, Olkaria – Narok, Lessos - Kabarnet. ▪ Lot 2: Ishiara -Kieni, Mwingi- Kitui – Wote - Sultan Hamud. <p><i>Contractor:</i> Jyoti Structures Limited <i>Project No:</i> P-KE-FAO-004 <i>Contract Signed On:</i> 16 April 2013 <i>Contract Price:</i> The Contract price for both Lot 1 & Lot 2 is in two currencies</p> <ul style="list-style-type: none"> ▪ Lot 1: USD 15,191,617.89 and KSH 547,699,840.98 ▪ Lot 2: USD 10,028,916.10 and KSH 403,309,135.14 <p><i>Expected Completion Date:</i> 30 June 2019 (Their contract was terminated for non- performance and the contract given to China CAMCE Company Limited).</p> <p><u>Substation Contractors</u> <i>Scope:</i> Design, Manufacture, Test, Deliver, Install, Complete & Commission 132/33KV Substations and 132KV Line bay extensions as follows;</p> <ul style="list-style-type: none"> ▪ Lot 3A: 132/33 KV Substation (Bomet, Nyahururu, Narok, Kabarnet.) 132 KV Line Bay Extensions (Olkaria, Sotik, Lessos, & Nanyuki) ▪ Lot 3B: 132/33 KV Substation (Kieni, Mwingi, Wote Sultan Hamud) 132 KV Line Bay Extensions (Ishiara & Mwingi) <p><i>Contractor:</i> China CAMC Engineering Company Limited (CAMCE) <i>Project No:</i> P-KE-FAO-004 <i>Contract Signed On:</i> 16 April 2013 <i>Contract Price:</i> The Contract price for both Lot 1 & Lot2 is in two currencies</p> <ul style="list-style-type: none"> ▪ Lot 3A: USD 14,273,214.76 and KSH 18,480,440.00 ▪ Lot 3B: USD 15,506,935.74 and KSH 18,480,440.00 <p><i>Expected Completion Date:</i> 30 June 2019</p> <p>The contractor Jyoti Structures Limited was terminated due to financial reasons and incapacity.</p> <p>There has been appointed a new contractor China CAMCE Company Limited to complete the Transmission Lines from where Jyoti Structures Limited had reached Olkaria Narok Lessos Kabarnet Mwingi Kitui Wote Sultan Hamud Nanyuki Nyahururu</p> <p>The contract is expected to be completed in June 2020, the contract Amounts Are USD 7,173,395 and Ksh 163,678,363.</p>
--	--

Current situation that the project was formed to intervene	Inadequate and unreliable power supply.
Project duration	The project started on 16 th April 2013 and is expected to run until 30 June 2021

1.4 Bankers

The following are the bankers for the current year:

- (i) Co-operative Bank of Kenya Limited
Upper Hill
P. O. Box 48281 - 00100
Nairobi

1.5 Auditors

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

Delegated Auditor: Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P. O. Box 40092 - 00100 GPO
Nairobi

1.6 Roles and Responsibilities

Below is a list of the different people involved with the project:

Names	Title designation	Key qualification	Responsibilities
Eng. Justin Muna	Project Manager	MSc GIS, BSc Civil Engineering	Project coordinator
Johnson Muthoka	Senior Manager Wayleaves	BA Land Econ (Hons), MA (urban and regional planning (UON), Full member of ISK, registered and Licensed land economist	Wayleaves Acquisition (Land Economists, Land surveyors, Social Economists, Environmental Experts)
David Matolo	Project Accountant	MBA(Finance), Bachelor of Business Management, CPA(K)	Preparation of project financial reports

1.7 Funding summary

The Project financing from Africa Development Fund is for a duration of 6 years from 2013 to 2017 with an approved budget of UA 46,700,000, equivalent to KShs 6,547,807,000 (1 UA: KShs140.21 - June 2020) and Government counterpart funding of KShs 3,067,314,100 as highlighted in the table below. The funding period from Africa Development Fund lapsed in July 2017, the project is currently funded by the Government of Kenya.

Below is the funding summary:

Source of funds	Donor Commitment-		Amount received as at: – (30.06.2020)		Undrawn balance as at:	
					(30.06.2020)	
	<i>Donor currency (UAC)</i>	<i>KShs</i>	<i>Donor currency</i>	<i>KShs</i>	<i>Donor currency</i>	<i>KShs</i>
	<i>(A)</i>	<i>(A')</i>	<i>(B)</i>	<i>(B')</i>	<i>(A)-(B)</i>	<i>(A')-(B')</i>
(i) Loan						
African Development Fund	46,700,000	6,547,807,000	43,648,387	5,881,919,739	3,051,613	665,887,261
(ii) Counterpart funds						
Government of Kenya	-	3,148,564,100	-	3,148,564,100	-	-
Miscellaneous receipts	-	174,872,038	-	174,872,038	-	-
Total	46,700,000	9,871,243,138	43,648,387	9,205,355,877	3,051,613	665,887,261

1.8 Summary of Overall Project Performance:

1.8.1 Budget Performance Against Actual Amounts

During the period under review, the project received KShs 543,250,000, the amounts earned an interest of KShs 5,393,715 totalling to KShs 548,643,715 against a final budget of KShs 462,000,000. Similarly, the project incurred total expenditure of KShs 150,604,931 during the year, against a final budget of KShs 462,000,000 representing 32% budget utilization. The project's cumulative receipts and payments to-date amounts to KShs 9,205,355,877 and KShs 8,408,076,134 respectively.

1.8.2 Physical Progress and Achievements of the Project

The project construction progress for Power Transmission System Improvement Project which include; Transmission line was being undertaken by Jyoti Structures Limited, but the contract was terminated and awarded to China CAMCE Company Limited and Consultant was SMEC International Pty Limited. The Substation works were completed in June 2016. The consultant also concluded his contractual works in December 2017. However, the new Contractor for the Transmission Line is due for completion in June 2020.

All the substations are completed and awaiting commissioning on completion of the respective Transmission Lines except for Ishiara Kieni and Bomet Sotik Transmission Lines which have already been commissioned.

The status of the remaining works as at 30 June 2020 is as follows;

1. Olkaria-Narok Foundations: 86% Erections: 54.70% Stringing: 0%	2. Lessos-Kabarnet Foundations: 96% Erections: 73.10% Stringing: 0%
3. Nanyuki-Rumuruti (overhead) Foundations: 99.60% Erections: 99.10% Stringing: 66%	4. Sultan Hamud-Wote-Kitui-Mwingi Foundations: 72.60% Erections: 70.67% Stringing: 56.49%

Jyoti Structures Limited was slow in completing the project due to financial constraints, this affected the expected completion timelines and caused time extensions to the expected 30 June 2019, Jyoti's contract was terminated and awarded to China CAMCE Company Limited who is able to complete the remaining works on the four transmission Lines (Lessos Kabarnet, Nanyuki Nyahururu, Olkaria Narok & Mwingi Kitui Wote Sultan Hamud).

A portion of the Nanyuki Nyahururu Transmission Line which is passing through Nanyuki Air Base has to be done as underground cable, which is expensive and require additional funding.

The financing for the project was cancelled and therefore the government has to finance the balance of the project, it is important to note that the counterpart funding has been minimal hence compensation payment to persons affected by project has been slow.

1.9 Summary of Project Compliance:

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

2. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVE

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The key development objectives of the project's 2018-2022 are to:

- a) Enhance electricity access, availability and reliability of the completed transmission lines and substations and complete construction of key transmission infrastructure.
- b) Increase electricity supply by completing transmission lines for evacuating generated power.
- c) Provide a link with the neighbouring countries 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
Power Transmission Systems Project	To Strengthen the electricity grid system and Enhance power transfer capacity	Increased stability of power supply - enabling additional distribution systems improvement of power across the country	No. of substations and transmission lines complete.	In FY 2019/20 we increased system stability and power transfer capacity by completing and Energizing Mwingi Kitui and Wote Sultan Hamud Transmission lines

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

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.

Our approach

KETRACO's approach towards CSR is focused on identifying and formulating projects guided by its CSR policy and in response to specific needs that go towards solving a problem that members of the concerned community assess as a priority. To this end, the Company consulted widely internally and beyond on best practices in order to make corporate social responsibility an integral part of its undertakings. During the financial year under review, social, economic and environmental issues were addressed.

Below is a brief highlight of our achievements in each pillar.

1. Social 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:

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (Continued)

2. Environmental performance (Continued)

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

Competence Management

During the year ended 30 June 2020, the Company procured Strathmore University to undertake Skill Gap Analysis among staff, in order to develop a plan that can improve employee performance. The Company also paid professional fees to professional bodies and facilitated trainings and conferences for staff members. Further, Knowledge Management Gap Analysis conducted by Kenyatta University and staff performance appraisal was undertaken. This has been of great importance in improvement of KETRACO project's work execution.

Safety and Security Measures

During the year ended 30 June 2020, the Company organized for safety and security awareness sensitization sessions for craftsmen and technicians deployed at various projects and substations across the country. In addition, the company procured services of security providers and deployed them at all KETRACO project substations to ensure safety of company's infrastructure projects. Further, Internal audit of the Information Security Management System (ISMS) and backups for the data centre were also undertaken in the period.

4. Market place practices

During the year KETRACO complied 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.

In addition, contractors/suppliers were sensitised on SAP Ariba Sourcing Strategy & Access to e-government procurement opportunities. Through the SAP Ariba Developer portal procurement processes have been eased.

3. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (Continued)

4. Market place practices (Continued)

The Company continued implementing corruption prevention measures as identified in the corruption risk assessment and mitigation plan. The Integrity Committee quarterly meetings were held. 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 CSR projects were implemented through a consultative process with stakeholders' right from the initial project planning through to commissioning.

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.

During the year, KETRACO developed a customer relationship management system on Integrated Location Intelligence System (ILIS) platform, which is aimed at enhancing handling of customer complaints and access to information by various stakeholders especially in wayleave acquisition grievance recording and resolution.

4. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Chief Executive Officer of KETRACO and the Project Coordinator for the Power Transmission System Improvement 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 30 June 2020. 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 statements, and ensuring that they are free from material misstatements, whether due to error or fraud (iv) safeguarding the assets of the Project (v) selecting and applying appropriate accounting policies and (vi) making accounting estimates that are reasonable in the circumstances.

The Chief Executive Officer of KETRACO and the Project Coordinator for the Power Transmission System Improvement 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 Power Transmission System Improvement 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 30 June 2020, and of the Project's financial position as at that date. The Chief Executive Officer of KETRACO and the Project Coordinator for the Power Transmission System Improvement 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 Power Transmission System Improvement 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 the Chief Executive Officer of KETRACO and the Project Coordinator for the Power Transmission System Improvement Project on 6th June 2021 and signed by them.



Chief Executive Officer
FCPA Fernandes Barasa, OGW



Project Coordinator
Antony Wamukota



Ag. General Manager - Finance
CPA Tom Imbo
ICPAK Member Number: 7039

5. REPORT OF THE INDEPENDENT AUDITORS ON THE POWER TRANSMISSION SYSTEM IMPROVEMENT PROJECT

To the Auditor General

Opinion

We have audited the accompanying financial statements of Power Transmission Improvement Project set out on pages 15 to 32 which comprise the statement of financial assets as at 30 June 2020, and the statement of receipts and payments, statement of cash flows, and statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position of Power Transmission Improvement Project as at 30 June 2020, and of its financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS) financial reporting framework under the cash basis of accounting.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Project in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Chief Executive Officer of KETRACO and the Project Coordinator are responsible for the other information. The other information comprises the information included in the financial statements but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

5. REPORT OF THE INDEPENDENT AUDITORS ON THE POWER TRANSMISSION SYSTEM IMPROVEMENT PROJECT (Continued)

Responsibility of the Project Management for the financial statements

The Chief Executive Officer of KETRACO and the Project Coordinator are responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPSAS) financial reporting framework under the cash basis of accounting and for such internal control as the management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive Officer of KETRACO and the Project Coordinator are responsible for assessing the Project's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the Chief Executive Officer of KETRACO and the Project coordinator either intend to terminate the Project, or have no realistic alternative but to do so.

Auditor's Responsibilities for the audit of the Project financial statements

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement 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.


As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We 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 our 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Chief Executive Officer of KETRACO and the Project Coordinator's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue sustaining its services. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease sustaining its services.

5. **REPORT OF THE INDEPENDENT AUDITORS ON THE POWER TRANSMISSION SYSTEM IMPROVEMENT PROJECT (Continued)**

- 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.

We communicate with the Chief Executive Officer of KETRACO and the Project Coordinator regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



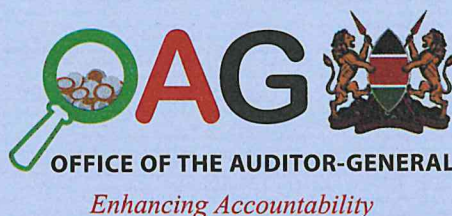
Certified Public Accountants (Kenya)
Nairobi

7 January 2021

CPA Fred Aloo, Practicing certificate No. 1537
Signing partner responsible for the independent audit

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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

REPORT OF THE AUDITOR-GENERAL ON POWER TRANSMISSION SYSTEM IMPROVEMENT PROJECT (ADF LOAN NO.2100150023752) FOR THE YEAR ENDED 30 JUNE, 2020 - KENYA ELECTRICITY TRANSMISSION COMPANY LTD

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Power Transmission System Improvement Project (ADF Loan No. 2100150023752) set out on pages 15 to 28, which comprise the statement of financial assets as at 30 June, 2020 and the statement of receipts and payments, statement of cash flows and statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte and Touche, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Power Transmission System Improvement Project as at 30 June, 2020, 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 Loan Agreement No. 2100150023752 dated 23 March, 2011 between the African Development Fund (ADF) and the Republic of Kenya 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 Power Transmission System Improvement 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. There were no key audit matters to report in the year under review.

Other Matters

1. Pending Bills – Goods and Services

According to Note 11.1 and 11.2 to the financial statements, the Project had pending accounts payables totalling Kshs.727,729,026 (2019: Kshs.596,443,793) as at 30 June, 2020. During the year under review, the Project Management made payments totalling Kshs.74,802,466 while accumulating bills totalling Kshs.206,087,699. Management has not explained why the bills were not settled during the year in which they occurred. The Project is at risk of incurring significant interest costs and penalties with the continued delay in payment.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

2. Budget Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2020 reflects actual receipts of Kshs.548,643,715 against budgeted receipts of Kshs.462,000,000 resulting in an excess of Kshs.86,643,715. Further, actual expenditure for the year amounted to Kshs.150,604,931 against the actual receipts of Kshs.462,000,000 resulting to under absorption of Kshs.311,395,069, for which Management attributed to slow implementation of work plans between February and June 2020.

3. Long Outstanding Wayleave Compensation

As reported in the previous year, the expected compensation to landowners for wayleaves acquired since inception of the Project on 16 April, 2013, amounted to Kshs.2,292,467,699, as disclosed in Annex 2B. The amounts certified as payable amounted to Kshs.1,979,064,986, out of which Kshs.1,680,742,722 was paid leaving an unpaid balance of Kshs.298,322,264. The Management has attributed failure to pay the amount due to lack of budgetary allocation from The National Treasury and lengthy land valuation negotiations due to absentee land owners and various court injunctions on disputed cases.

4. Delay in Project Implementation

Review of completion status of the Project revealed completion status of the various Lots, as detailed below:

Line	Foundations	Erections	Stringing
Olkaria - Narok	86.0%	54.7%	0.0%
Lessos - Kabarnet	96.0%	73.1%	0.0%
Nanyuki - Rumuruti	99.6%	99.1%	66%
Sultan Hamud – Wote – Kitui – Mwingi	72.6%	70.7%	56.5%

This Project, whose expected completion date was 30 June, 2019, was re-scheduled to April, 2020, following the engagement of another contractor for the remaining works on the Project, which were significant. Further, it was observed that the Project funding from the African Development Bank (AfDB) was terminated, when the main contractor was declared insolvent in his home country.

Consequently, this Project may not be completed within schedule, resulting in delayed provision of expected services to the stakeholders.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities which govern them. I believe that the 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 matter(s) 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 governance were not effective.

Basis for Conclusion

Automation of the Financial Reporting Process

Review of the financial reporting process for the Project revealed significant manual interventions. Although the sub-ledgers are extracted from the SAP system through the Business Intelligence Reporting Module, the processing of the trial balance and financial statements is done manually on excel worksheets.

Consequently, the manual intervention may result to errors in the Project financial statements.

The audit was conducted in accordance to ISSAI 2315 and 2330. The standards require that I plan and perform the audit to obtain assurance on whether effective processes and systems of internal control, risk management and 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 which are free from material misstatement, whether due to fraud or error, and for assessment of the effectiveness of the internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the 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 Management's systems for monitoring compliance with relevant legislative and regulatory requirements, ensuring that effective

processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions which may cast significant doubt on the 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 which 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 which are identified during the audit.

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi


31 December, 2020

Kenya Electricity Transmission Company Limited
Power Transmission System Improvement Project
Report and Financial Statements
For the Year Ended 30 June 2020


6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2020

	Notes	FY 2019/20			FY 2018/19			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	Total	
		KShs	KShs	KShs	KShs	KShs	KShs	KShs
Receipts								
Transfer from Government entities	10.3	543,250,000	-	543,250,000	743,750,000	-	743,750,000	3,148,564,100
Loans from External Development Partners	10.4	-	-	-	-	-	-	-
Miscellaneous receipts	10.5	5,393,715	-	5,393,715	3,835,968	-	3,835,968	5,881,919,739
Total Receipts		548,643,715	-	548,643,715	747,585,968	-	747,585,968	174,872,038
Payments								
Purchase of goods and services	10.6	75,802,465	-	75,802,465	66,181,980	-	66,181,980	428,933,873
Acquisition of non-financial assets	10.7	74,802,466	-	74,802,466	306,941,991	-	306,941,991	7,979,142,261
Total Payments		150,604,931	-	150,604,931	373,123,971	-	373,123,971	8,408,076,134
Surplus		398,038,784	-	398,038,784	374,461,997	-	374,461,997	797,279,743

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 6th January 2021 and signed by:


Chief Executive Officer
FCPA Fernandes Barasa, OGW



Project Coordinator
Antony Wamukota

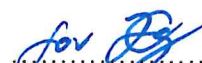

Ag. General Manager – Finance
CPA Tom Imbo
ICPAK Member Number: 7039


7. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2020

	Notes	FY 2019/20 KShs	FY 2018/19 KShs
Financial Assets			
Cash and cash equivalents			
Bank balances	10.8	797,279,743	399,240,959
Total Financial Assets		<u>797,279,743</u>	<u>399,240,959</u>
Represented by:			
Fund balance b/fwd		399,240,959	24,778,962
Surplus for the year		398,038,784	374,461,997
Net Financial Position		<u>797,279,743</u>	<u>399,240,959</u>

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 6th January 2021 and signed by:


.....
Chief Executive Officer
FCPA Fernandes Barasa, OGW


.....
Project Coordinator
Antony Wamukota


.....
Ag. General Manager Finance
CPA Tom Imbo
ICPAK Member Number: 7039

Kenya Electricity Transmission Company Limited
Power Transmission System Improvement Project
Report and Financial Statements
For the Financial Year Ended 30 June 2020


9. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payment item	Original budget a Kshs	Adjustments b Kshs	Final budget c=a+b Kshs	Actual on Comparable Basis d Kshs	Budget Utilization Difference e=c-d Kshs	% of Utilization f=d/c%
Receipts						
Transfer from Government entities	616,000,000	(154,000,000)	462,000,000	543,250,000	(81,250,000)	118%
Miscellaneous receipts	-	-	-	5,393,715	(5,393,715)	
Total Receipts	616,000,000	(154,000,000)	462,000,000	548,643,715	(86,643,715)	
Payments						
Purchase of goods and services	97,956,116	-	97,956,116	75,802,465	22,153,651	77%
Acquisition of non-financial assets	518,043,884	(154,000,000)	364,043,884	74,802,466	289,241,418	21%
Total Payments	616,000,000	(154,000,000)	462,000,000	150,604,931	311,395,069	


*The budget reduced mainly because the amount was revised downward during the December mid-term review.

Note: The absorption rate of 21% was necessitated by the fact that the contractor slowed down significantly from the Month of February to June 2020. However there has been significant strides in execution of works going forward. The budget utilisation/performance differences in the last column are explained in **Annex 1** to these financial statements.

The project financial statements were approved on.....2021 and signed by:


Chief Executive Officer
FCPA Fernandes Barasa, OGW


Project Coordinator
Antony Wamukota


Ag. General Manager – Finance
CPA Tom Imbo
ICPAK Member No: 7039

10. NOTES TO THE FINANCIAL STATEMENTS

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

10.1. BASIS OF PREPARATION

10.1.1. 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.

10.1.2. Reporting entity

The financial statements are for the Kenya Power Transmission System Improvement Project. The financial statements encompass the reporting entity as specified in the relevant legislation Public Financial Management Act 2012.

10.1.3. 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.

10.2. SIGNIFICANT ACCOUNTING POLICIES

a) Recognition of receipts

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

- **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.

- **External Assistance**

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

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.

10.2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Recognition of receipts

- **External Assistance**

Proceeds from borrowing

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

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

- **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 the time associated cash is received.

b) Recognition of payments

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

- **Purchase 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.

- **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.

10.2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) 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.

d) 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 authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

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.

e) Accounts receivable

For the purposes of these financial statements, imprests and advances to authorized 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.

f) 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 are recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Project at the end of the year. 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.

g) 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.

10.2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Budget (Continued)

The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognized 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.

h) 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. During the year no amount of loan disbursements were received in form of direct payments from third parties.

i) 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 recognized in the statements of receipts and payments.

j) 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.

k) 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 30 June 2020

l) Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. Restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

10.3. RECEIPTS FROM GOVERNMENT OF KENYA

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

	FY 2019/20	FY 2018/19	Cumulative to-date
	KShs	KShs	KShs
Counterpart funding through State Department of Energy			
Counterpart funds Quarter 1	81,250,000	281,250,000	1,153,086,037
Counterpart funds Quarter 2	308,000,000	281,250,000	707,606,294
Counterpart funds Quarter 3	154,000,000	181,250,000	665,538,233
Counterpart funds Quarter 4*	-	-	622,333,536
Total	543,250,000	743,750,000	3,148,564,100

10.4. LOANS FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2020, the project did not receive funds from external development partners, the table below show the position as at 30/6/202-

Name of Partner	Date received	Amount received in partner currency	Loan received in cash	Loan received as direct payment*	Total amount	
					FY 2019/20	FY 2018/19
		UA	KShs	KShs	KShs	KShs
Loans Received from Multilateral Donors						
African Development Fund	July 2017- June 2018	43,648,387	-	5,881,919,739	-	-
Total		43,648,387	-	5,881,919,739	-	-

* The loans received as direct payment represent payments for goods and services done directly by the partner on behalf of the project. Projects should ensure that there are adequate documents requested from the donors to support this loan. It should be noted the ADB Loan was terminated in July 2017. Therefore, going forward the project is financed by GOK.

10.5. MISCELLANEOUS RECEIPTS

	FY 2019/20			FY 2018/19	Cumulative to- date
Receipts controlled by the entity in cash	Receipts controlled by the entity	Receipts controlled by third parties	Total receipts		
	Kshs	Kshs	Kshs	Kshs	Kshs
Interest income	5,393,715	-	5,393,715	3,835,968	174,872,038
Total	5,393,715	-	5,393,715	3,835,968	174,872,038

10.6. PURCHASE OF GOODS AND SERVICES

	FY 2019/20			FY 2018/19	Cumulative to- date
	Payments made by the entity in cash	Payments made by third parties	Total payments		
	Kshs	Kshs	Kshs	Kshs	Kshs
Other project costs	60,302,746	-	60,302,746	53,138,502	330,287,965
Audit fees	-	-	-	-	1,437,975
Site travel and accommodation	15,499,719	-	15,499,719	13,043,479	97,207,933
Total	75,802,465	-	75,802,465	66,181,981	428,933,873

10.7. ACQUISITION OF NON-FINANCIAL ASSETS

	FY 2019/20			FY 2018/19	Cumulative to- date
	Payments made by the entity in cash	Payments made by third parties	Total payments		
	Kshs	Kshs	Kshs	Kshs	Kshs
Consultancy fees	-	-	-	15,353,098	661,705,089
Powerline (transmission Equipment)	-	-	-	160,034,497	5,636,694,450
Wayleaves	74,802,466	-	74,802,466	131,554,396	1,680,742,722
Total	74,802,466	-	74,802,466	306,941,991	7,979,142,261

10.8. CASH AND CASH EQUIVALENTS

	FY 2018/19	FY 2018/19
	KShs	KShs
Bank Balance	797,279,743	399,240,959
Total	797,279,743	399,240,959

The project has two project accounts spread within the project implementation area managed by KETRACO as listed below:

Local Currency Accounts	FY 2019/20	FY 2018/19
	Kshs	Kshs
Co-operative Bank of Kenya Limited – Upper Hill [A/c No 01136160914101]	72,453,341	142,749,479
KCB Bank Kenya Limited [A/c No 1111251622]	724,826,402	256,491,480
Total Bank Balance	797,279,743	399,240,959

11. OTHER IMPORTANT DISCLOSURES

11.1 PENDING BILLS (Annex 2A)

Description	Balance b/f	Additions for the period	Paid during the year	Balance c/f
	FY 2018/19			FY 2019/20
	KShs	KShs	KShs	KShs
Supply of goods	294,923,199	133,487,627	-	428,410,826
Supply of services	995,936	-	-	995,936
Total	295,919,135	133,487,627	-	429,406,762

*The amount brought forward, initially contractual and committed amounts, has been adjusted to reflect only the open and certified amount payable at the beginning of the year.

11.2 OTHER PENDING PAYABLES (Annex 2B)

	Balance b/f	Additions for the period	Paid during the year	Balance c/f
	FY 2018/19			FY 2019/20
	KShs	KShs	KShs	KShs
Project Affected Persons	300,524,658	72,600,072	(74,802,466)	298,322,264
Total	300,524,658	72,600,072	(74,802,466)	298,322,264

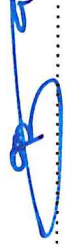
12. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS


The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

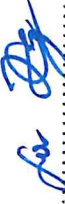
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status	Timeframe
1	As disclosed in Annex 2A, the project management has contracted works and services amounting to Ksh 7,942,138,556. The amounts certified as payable totalled to Ksh 6,594,318,673 out of which Ksh 6,298,399,539 was paid leaving an outstanding pending bill of Kshs 292,919,135. The unpaid bills are likely to lead to penalties or litigation with the consequent risk of wasteful expenditure.	The balance is part of retained earnings to Jyoti structures limited who was declared insolvent and contract terminated. A final account preparation is in progress, but has not been completed because the contractor has an insolvency matter pending in court.	Project Manager	Ongoing	June-21
2	As disclosed in Annex 2B, the expected compensation to landowners amounted to Ksh 2,219,867,628 for wayleaves acquired since inception of the project on 16th April 2013. The amounts certified as payable totalled to Ksh 1,906,194,914 out of which Ksh 1,605,940,256 was paid leaving an unpaid balance of Kshs 300,524,658. The Management has attributed failure to pay the amount due to lack of budgetary allocation from the National Treasury and lengthy land valuation negotiations due to absentee landowners and various court injunctions on disputed cases	Progress has been done and the pending wayleave is currently at 298.3 Million There are teams appointed to handle all matters of pending documentation including wayleave officers, land economists and surveyors to Fastrack the payments of wayleave.	General manager - Project Development Services and General Manager, Finance	Ongoing	June-21
3	The transmission lines under Lot 1 (Nanyuki - Nyahururu, Olkaria-Narok, Lessos - Kabarnet) and	The new contractor China CAMCE Co. Limited was	Project Manager	Closed	Closed

Kenya Electricity Transmission Company Limited
Power Transmission System Improvement Project
Report and Financial Statements
For the Period ended 30 June 2020

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status	Timeframe
	Lot 2 (Mwingi Kitui Wote Sultan Hamud) were behind schedule 87%and 85% completion rate with an outstanding balance of Ksh 33,583,689 and 55,578,800 respectively as a result of the main contractors insolvency. These works , whose completion was scheduled for 30th June, 2019 were re-scheduled to April 2020. following the engagement of another contractor to complete the remaining works. which are quite significant.	engaged to complete the works. However the Covid-19 slowed down the completion of work, it is projected that the remaining works will be completed by May 2021.			
4	The Project has budgeted receipts of Ksh 825,000,000 but actual receipts amounted to Ksh 747,585,968 or 91% of the budgeted receipts while actual expenditure amounted to Ksh 373,123,971 which was approximately 45% of the budgeted expenditure of Ksh 825,000,000. Further, the project made payments of Ksh 66,181,980 for the purchase of goods and services which was not budgeted. In view of the above, the Projects expenditure budget for 2018/2019 was largely not implemented which may lead to delay in achieving the planned activities of the Project.	The under absorption was majorly because of insolvency of the Contractor handling the transmission lines and the time it took to procure another contractor. Effort are being made to accelerate the remaining works with the new contractors	Project Manager	Closed	Closed


.....
Chief Executive Officer
FCPA Fernandes Barasa, OGW


.....
Project Coordinator
Antony Wamukota
06/01/2021
.....
Date


.....
Project Coordinator
Antony Wamukota
06/01/2021
.....
Date

ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payment item	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance
	c=a+b	d	e=c-d	f=d/c%	
	KShs	KShs	KShs		
Receipts					
Transfer from Government entities	462,000,000	543,250,000	(81,250,000)	118%	(i)
Miscellaneous Receipts	-	5,393,715	(5,393,715)		
Total Receipts	462,000,000	548,643,715	(86,643,715)		
Payments					
Purchase of goods and services	97,956,116	75,802,465	22,153,651	77%	(ii)
Acquisition of non-financial assets	364,043,884	74,802,466	289,241,418	21%	(ii)
Total Payments	462,000,000	150,604,931	311,395,069		

Explain all variances (% of utilization) below 90% and above 100%

Explanations: -

- (i) The 4th Quarter transfer from Government for FY 2018/19 of KShs. 81,250,000 was received in the current fiscal year.
- (ii) The initial Contractor for Transmission Line Jyoti Structures Limited was terminated in September 2018. The process of procuring a new contractor was completed on 15th April 2019 when a new contractor China CAMC Engineering CO. LTD was assigned to complete the Transmission Lines. In addition, the low absorption of 21% was also attributed to the impact of the Covid-19 pandemic which caused the contractor to stop works from February. However the contractor has since resumed works and the contract is expected to end in June 2021.

ANNEX 2A - ANALYSIS OF PENDING BILLS

Supplier of Goods or Services	Original Amount	Date Contracted	Amount for Certified Work To- Date	Amount Paid To Date	Outstanding Balance 2020 e=c-d	Outstanding Balance 2019
Supply of goods	a	b	c	d		
Lot 1: 132kV TLKPTSIP	1,535,112,988	16-Apr-13	1,261,402,441	1,171,045,131	90,357,310	90,357,310
JYOTI STRUCTURES LTD	547,699,841	16-Apr-13	488,538,396	454,954,707	33,583,689	33,583,689
Lot 2: 132kV TL KPTSIP	1,013,421,972	16-Apr-13	962,905,184	847,501,784	115,403,401	115,403,400
JYOTI STRUCTURES LTD	403,309,135	16-Apr-13	318,432,134	262,853,334	55,578,800	55,578,800
Lot 3A: 132 kV TL KPTSIP	1,376,742,055	16-Apr-13	1,376,742,055	1,376,742,055	-	-
CHINA CAMCE CO. LTD	18,480,440	16-Apr-13	18,480,440	18,480,440	-	-
Lot 3B: 132 kV TL KPTSIP	1,495,281,574	16-Apr-13	1,495,281,574	1,495,281,573	-	-
CHINA CAMCE CO. LTD	18,480,440	16-Apr-13	18,480,440	18,480,440	-	-
Lot 1 KPTSIP -CAMCE	731,686,296	15-Apr-19	244,335,783	120,547,190	123,788,593	-
Lot 2 KPTSIP -CAMCE	163,678,363	15-Apr-19	42,223,280	32,524,247	9,699,033	-
Sub-Total	7,303,893,104		6,226,821,727	5,798,410,901	428,410,826	294,923,199
Supply of services						
SMEC Int. PTY Ltd USD	326,054,608	03-Feb-12	326,054,608	326,054,608	-	-
SMEC Int. Pty Ltd KSH	174,929,965	03-Feb-12	174,929,965	173,934,030	995,936	995,936
Sub-Total	500,984,573		500,984,573	499,988,638	995,936	995,936
Grand Total	7,804,877,677		6,727,806,300	6,298,399,539	429,406,762	295,919,135

Note:

The Contract to Jyoti Structures Limited was terminated, and a new contract awarded to China CAMCE CO. Limited. The new contractor will finish up the remaining works of the transmission lines. The balances due to Jyoti Structures Limited are not payable except for the retention amounts and invoices which were pending as at the time of Contract termination amounting to KShs 294,923,199.

ANNEX 2B - ANALYSIS OF OTHER PENDING PAYABLES

Name	Brief Transaction Description	Original Amount	Date Payable Contracted	Amount for Certified Work to date	Amount Paid To-Date	Outstanding Balance	Outstanding Balance
						2020	2019
		KShs	KShs	KShs	KShs	KShs	KShs
Amounts due to Third Parties		a	b	c	d	e=c-d	
Project Affected Persons	Wayleaves compensation	2,292,467,699	2012-2019	1,979,064,986	1,680,742,722	298,322,264	300,524,658
Total		2,292,467,699		1,979,064,986	1,680,742,722	298,322,264	300,524,658

ANNEX 2C – SUMMARY OF FIXED ASSET REGISTER

Asset class	Opening Cost	*Purchases/Additions in the Year	**Disposals in the Year	Closing Cost
	(KShs)	(KShs)	(KShs)	(KShs)
	FY 2019/20	FY 2019/20	FY 2019/20	FY 2019/20
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Powerline (transmission equipment)	7,904,339,795	74,802,466	-	7,979,142,261
Total	7,904,339,795	74,802,466	-	7,979,142,261

Notes

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

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

