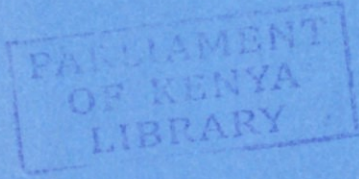


REPUBLIC OF KENYA



Enhancing Accountability

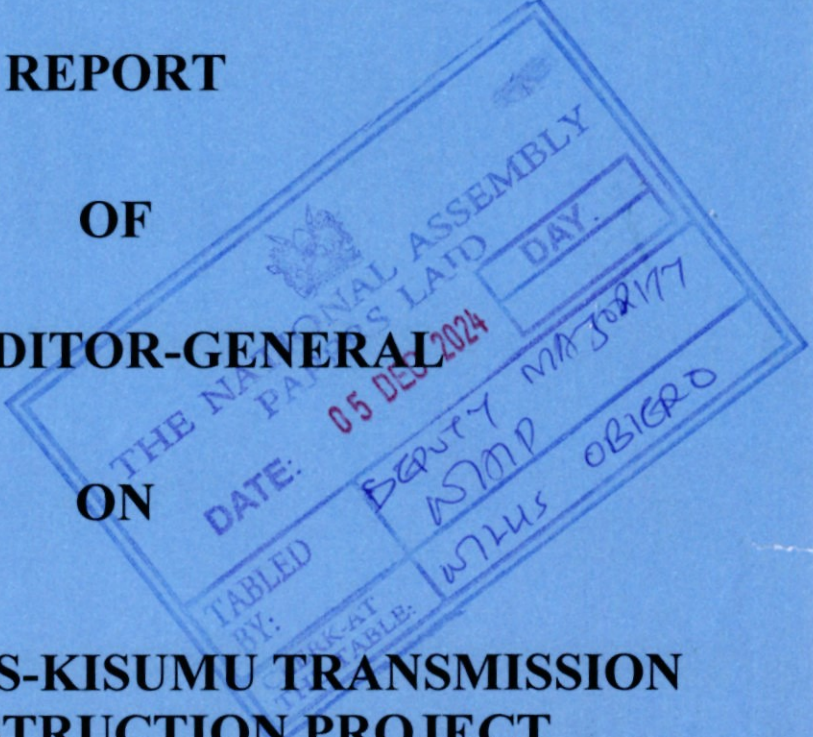


REPORT

OF

THE AUDITOR-GENERAL

ON



**OLKARIA-LESSOS-KISUMU TRANSMISSION
LINES CONSTRUCTION PROJECT
(JICA LOAN NO. KE-P28)**

**FOR THE YEAR ENDED
30 JUNE, 2024**

**KENYA ELECTRICITY TRANSMISSION
COMPANY LIMITED**





OLKARIA-LESSOS-KISUMU TRANSMISSION LINES CONSTRUCTION PROJECT

KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED (KETRACO)

JICA LOAN NO.KE-P28

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2024

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



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1. ACRONYMS AND GLOSSARY OF TERMS

GOK	Government of Kenya
HVDC	High Voltage Direct Current
ISA	International Standards on Auditing
JICA	Japan International Co-operation Agency
JPY	Japanese Yen
KETRACO	Kenya Electricity Transmission Company
KV	Kilovolts
PFSs	Project Financial Statements
PIU	Project Implementing Unit
RAP	Resettlement Action Plan
SORE	Statement of Receipts and Expenditure
UA	Units of Account
USD	United States Dollar
IPSAS	International Public-Sector Accounting Standards
MDAs	Ministries, Departments and Agencies
JV	Joint Venture
FCPA	Fellow of the Institute of Certified Accountants of Kenya
CPA	Certified Public Accountant of Kenya
ISO	International Organisation for Standardisation
Ag	Acting
Eng	Engineer
BSc	Bachelor of Science
IEK	Institution of Engineers of Kenya
BA	Bachelor of Arts
UON	University of Nairobi
ISK	Institution of Surveyors of Kenya
MA	Master of Arts
OGW	Order of Grand Warrior
ICPAK	Institute of Certified Public Accountants
HRAC	Human Resource Advisory Committee

Kenya Electricity Transmission Company Limited
OLKARIA-LESSOS-KISUMU TRANSMISSION LINES CONSTRUCTION PROJECT (JICA Loan
No.Ke-P28)
Reports & Financial Statements
For the Year Ended 30 June 2024

JV	Joint Venture
AGPO	Access to Government Procurement Opportunities
CSR	Corporate Social Responsibility
OSH	Occupation, Safety and Health
EACC	Ethics and Anti-Corruption Commission
PSASB	Public Sector Accounting Standards Board.

2. PROJECT INFORMATION AND OVERALL PERFORMANCE

2.1 Name and registered office

Name: The project's official name is the Olkaria-Lessos-Kisumu Transmission Lines Construction Project.

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

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

The address of its registered office is:

Kenya Electricity Transmission Company Limited
 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

2.2 Project Information

Project start dates:	KETRACO/PT/005/2014-LOT 1 - 23 February 2016 KETRACO/PT/005/2014-LOT 2 - 15 February 2016 KETRACO/PT/005/2014-LOT 3 - 16 February 2016
Project end dates:	KETRACO/PT/005/2014-LOT 1 – 30 June 2021 KETRACO/PT/005/2014-LOT 2 – 31 May 2021 KETRACO/PT/005/2014-LOT 3 – 31 March 2022
Project manager:	The project manager is Eng. Samson Akuto
Project sponsor:	The project sponsors are Government of Kenya and JICA

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

2.3 Project Overview

Line Ministry/ State Department of the project	The project is under the supervision of the Kenya Electricity Transmission Company Limited, a state corporation under the State Department of Energy.
Project number	KETRACO/PT/005/2014-LOT 1 KETRACO/PT/005/2014-LOT 2 KETRACO/PT/005/2014-LOT 3
Strategic goals of the project	The strategic goal of the project is to increase electricity access and address the challenges of access and low connectivity
Achievement of strategic goals	The project management aimed to achieve the goals through the following means: Lot 1 – Design, manufacture, supply, erection, testing and commissioning of the 400kV transmission lines Lot 2 – Design, manufacture, supply, erection, testing and commissioning of 220kV and 132 kV Transmission Lines Lot 3 – Design, manufacture, supply, erection, testing and commissioning of substation extensions at Olkaria, Lessos and Kisumu and a new 220/132/33kV substation at Kibos.
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>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 JICA Funded Projects comprises of projects which are funded jointly by the Government of Kenya through the Ministry of Energy and The National Treasury and a loan obtained from Government of Japan. The loan agreement was signed on 10 December 2010 for JPY 12.41 Billion. The Consultant and Contractors' details are as follows:</p>

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

Project Overview (continued)

	Name	Description	Project Scope	Contract Amount-USD	Completion date
	JV of Nippon Koei Philkoei UK and Gibb International	Consultant-signed on 09 December 2011	Engineering and project management services	JPY 305,118,100 USD 724,190 and KShs 274,688,910	30 June 2022
	JV of Kalpataru and Kinden	Contractor-signed on 10 March 2015	Lot 1 – Design, manufacture, supply, erection, testing and commissioning of the 400kV transmission lines	USD 66,843,520.02 and KShs 942,085,144.63	30 June 2021
	JV of NARI Group Corporation and CCCE	Contractor-signed on 10 March 2015	Lot 2- Design, manufacture, supply, erection, testing and commissioning of 220kV and 132 kV Transmission Lines	USD 19,579,361	31 May 2021
	JV of Sieyuan and NEIE	Contractor-signed on 31 March 2015	Lot 3- Design, manufacture, supply, erection, testing and commissioning of substation extensions at Olkaria, Lessos and Kisumu and a new 220/132/33kV substation at Kibos.	USD 12,087,842.80 and KShs 556,224,871.97	31 March 2022
Current situation that the project was formed to intervene	Low electricity access and low connectivity.				
Project duration	The project commenced in February 2016 and was completed in June 2021.				

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

2.4 Bankers

The following are the bankers for the current year:

NCBA Bank Mara & Ragati Roads, Upper Hill P. O. Box 30437 – 00100 GPO Nairobi, Kenya.	KCB Bank Limited Moi Avenue P. O. Box 30081 – 00100 Nairobi, Kenya.
--	--

Central Bank of Kenya
 Head Office, Haile Selassie Avenue,
 P.O. Box 60000-0200, Nairobi,

2.5 Auditors

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

2.6 Roles and Responsibilities

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

Names	Title designation	Key qualification	Responsibilities
Dr (Eng) John Mativo,CE	Managing Director	Doctorate (PhD) degree in Civil Engineering from Tokyo Metropolitan University (Japan), a Master's degree in Structural Engineering from Tongji University (China), and a Bachelor's degree in Civil Engineering from the University of Nairobi	Managing Director
Eng. (CPA) Anthony Wamukota, OGW	GM, Design and Construction	Bachelor's degree in civil engineering; CPA final. He is registered by the Engineers Board of Kenya (EBK) as a professional engineer. Member of the Institution of Engineers of Kenya(IEK).	Project Coordinator
CPA Tom Imbo	General Manager, Finance	Master of Business Administration (Finance) and Bachelor of Education (Economics, Business Administration) degrees; Certified Public Accountant of Kenya; Member of the Member Services Committee of ICPAK.	Project Reporting
Engineer Samson Akuto	Project Manager	Bachelor of science Electrical Engineering	Project Engineer
Johnson Muthoka	Senior Manager Wayleaves	Bachelor of Arts 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)

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

2.7 Funding summary

The project was for a duration of 5 years from 2016 to 2021. With an approved budget of JPY 12,410,000,000 equivalent to KES 11,146,675,408 as highlighted in the table below.

A. Source of Funds

Source of funds	Donor Commitment		Amount received to date – (31.06.2024)		Undrawn balance to date - (30.06.2024)	
	<i>JPY</i>	<i>KShs</i>	<i>JPY</i>	<i>KShs</i>	<i>JPY</i>	<i>KShs</i>
	<i>(A)</i>	<i>(A')</i>	<i>(B)</i>	<i>(B')</i>	<i>(A)-(B)</i>	<i>(A')-(B')</i>
Loan						
JICA	12,410,000,000	11,146,675,408	12,328,912,809	11,081,193,447	81,087,191	65,481,961
Counterpart funds						
Government of Kenya	-	5,600,225,563	-	5,600,225,563	-	
Funding from Ketraco		1,451,474,149	-	1,451,474,149		-
Miscellaneous receipts		9,654,370		9,654,370		-
Total	12,410,000,000	18,208,029,490	12,328,912,809	18,142,547,529	81,087,191	65,481,961

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

B. Application of Funds

Application of funds	Amount received to date – (30th June 2024)		Cumulative Amount paid to date – (30th June 2024)		Unutilised balance to date (30th June 2024)	
	<i>Donor currency-JPY</i>	<i>Kshs</i>	<i>Donor currency-JPY</i>	<i>Kshs</i>	<i>Donor currency-JPY</i>	<i>Kshs</i>
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan						
JICA	12,328,912,809	11,081,193,447	12,328,912,809	11,081,193,447	-	-
(ii) Counterpart funds						
Government of Kenya	--	5,600,225,563	--	5,600,225,563	--	-
Funding from Ketraco		1,451,474,149		1,451,474,149		
Miscellaneous receipts		9,654,370		9,654,370		
Total	12,328,912,809	18,142,547,529	12,328,912,809	18,142,547,529	-	-

PROJECT INFORMATION AND OVERALL PERFORMANCE (Continued)

2.8 Summary of Overall Project Performance

i) Budget Performance Against Actual Amounts

During the year under review, the project received KShs. 225,661,039 against a final budget of KShs. 433,000,000. Similarly, the project incurred total expenditure of KShs. 336,036,958 during the year, against a final budget of KShs. 433,000,000 representing 78% budget utilization. The project's cumulative receipts and payments to-date amounts to KShs. 18,142,547,529 and KShs. 18,137,348,765

ii) Physical Progress and Achievements of the Project

JICA finances the Olkaria-Lessos-Kisumu Transmission Line and associated Substations. So far, the Olkaria to Lessos and Lessos to Kisumu Transmission Lines are 100% complete. The substations component comprising of Lot 3 is also 100% complete.

iii) Value for money Achievements

The following value for money achievements will be realised now that the project was completed on 30th June 2021:

- 1/ No power outages in Kisumu and environs. Therefore, no electricity user is off power supply.
- 2/ There is no venting of steam at Olkaria because now there is a line to evacuate power;
- 3/ Reduced losses because higher voltage Olkaria Lessos Kisumu line offers low power losses during transmission;
- 4/ Industries in Kisumu can grow in business due to reliable power supply afforded by the OLK transmission line.

iv) Absorption rate

YEAR	FINAL BUDGET	ACTUAL SPENT	ABSORPTION
	A	B	C=B/A
2016/2017	5,108,000,000	1,313,931,367	25.7%
2017/2018	1,374,500,000	2,298,375,610	167.2%
2018/2019	1,522,000,000	1,375,357,692	90.4%
2019/2020	2,232,000,000	1,939,078,225	86.9%
2020/2021	5,067,559,158	4,525,875,565	89.3%
2021/2022	1,800,000,000	1,841,137,918	102.3%
2022/2023	1,625,000,000	811,941,887	50.0%
2023/2024	433,000,000	336,089,189	77.6%
OVERALL			75.4%

v) Implementation Challenges and Way Forward

The project was successfully completed on June 30, 2021

2.9 Summary of Project Compliance:

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

3. STATEMENT OF PERFORMANCE AGAINST PROJECT'S PREDETERMINED OBJECTIVES

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 in order to facilitate power exchange and develop electricity trade in the region

Progress on attainment of Strategic development objectives

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

Below we provide the progress on attaining the stated objectives:

Project	Objective	Outcome	Indicator	Performance
The Olkaria-Lessos-Kisumu Project	To stabilise power supply in the western parts of Kenya	-Facilitate evacuation of power from the geothermal fields of Olkaria - enabling additional evacuation of power from Olkaria and Loiyangalani	Number of substations and transmission lines complete.	In financial year 2020/2021 construction works were completed on the transmission line and substations and the project was energized.

4. ENVIROMENTAL AND SUSTAINABILITY REPORTING

Kenya Electricity Transmission Company Limited (KETRACO) is mandated 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. 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 to transfer skills and future career preparation.

2. Environmental and Social Sustainability

Environmental and Social Compliance

KETRACO is committed to sustainable operations in alignment with relevant legislation, including the Environmental Management and Coordination Act (EMCA) 1999, the Climate Change Act 2016, the Sustainable Waste Management Act 2021, and the Land Act 2012. To ensure adherence to these laws and promote responsible environmental stewardship, the company has undertaken the following initiatives. Between July 2023 and June 2024, KETRACO completed twelve (12) ESIA's, ensuring that new projects meet environmental and social requirements.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

The company conducted 20 Environmental and Social Management Plan monitoring activities and four (4) environmental audits to track compliance and assess the effectiveness of its sustainability measures.

Development of an operational framework

KETRACO has developed and reviewed its Environmental and Social Management Framework to enhance its sustainability practices and compliance with current regulations.

Wayleave Compensation Regulations development

The company contributed to the development and review of the Draft Public Rights of Way Compensation Regulations 2023, aiming to address land-related concerns in project implementation.

Integration of Environmental and Social Considerations

Environmental and social considerations have been integrated into several studies, including the proposed transmission lines for Meru-Maua, Musaga-Webuye-Kitale, Sotik Kilgoris, Juja Ruaraka, and Kieni Chogoria.

Community Sensitization and Awareness

The company recognizes the importance of community engagement in promoting environmental awareness. A total of 105 community sensitization meetings were held across various projects, fostering greater understanding and involvement of local communities in environmental issues.

Climate Change Mainstreaming

KETRACO is actively involved in climate change mitigation and adaptation efforts through several key initiatives:

Tree Planting Activities: The company has participated in the National Tree Planting and Restoration Program in collaboration with the State Department for Forestry. Notably, 211,000 seedlings were planted across Kabunda Forest, Mt. Elgon, Ontulili Meru County, Kibwezi Forest, Aberdare Forest, and Bungoma. Additionally, 3,000 seedlings were distributed to staff for home planting.

Land Allocation for Tree Growing: 330 hectares of land were allocated within Londiani Forest for the growth of 330,000 indigenous trees, contributing to reforestation and habitat restoration efforts.

Climate Workshops and Training: KETRACO took part in the Climate Adaptation for Infrastructure Development workshop at the Wangari Maathai Institute and a multi-agency workshop on Carbon Markets convened by NETFUND.

Corporate Social Responsibility (CSR) Integration

The company has integrated Corporate Social Responsibility (CSR) into the conceptualization of the KTNIP projects. This includes:

- Offering scholarships for Technical and Vocational Education and Training (TVET) to potential students from project areas, thereby supporting local education and skill development.

ENVIROMENTAL AND SUSTAINABILITY REPORTING (Continued)

- Incorporating tree-growing initiatives into project plans (at least 9,000 trees), with contractors required to implement these plans and KETRACO providing oversight and supervision to ensure successful execution.

Renewable Energy Contribution

In line with its commitment to sustainable energy practices, the company facilitated the evacuation of energy supplied to the national grid from renewable sources. Between July and December 2023, the company's contribution to Kenya's energy mix reached an impressive 84.94%, underscoring its role in advancing the country's renewable energy goals.

3. Safety and Security Measures

During the year ended 30 June 2024, the Company achieved the following;

- Promotional of safe work through effective incident and accident investigations, OSH inspections /audits, robust risk assessment and monitoring implementations of corrective actions for both operational sites and sites under construction. Contributing towards sustainability of KETRACO projects and mandate including public safety
- Sensitized/trained staff and contracted personnel on workplace safety and health measures in the offices and substations. As well as dissemination of vital OSH information to employees.
- Enhanced public safety by listening to safety and health concerns of employees and other stakeholders and guiding appropriately.
- Reviewed and developed the Company Occupational Safety and Health policy.

The Section played a key role in ensuring safety and health during the completion and energization of Sabaki river crossing restoration works

5.STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Chief Executive Officer of KETRACO and the Project Coordinator for the Olkaria- Lessos-Kisumu Transmission Lines Construction Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on 30 June 2024. This responsibility includes maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; 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; safeguarding the assets of the Project; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Chief Executive Officer of KETRACO and the Project Coordinator for the Olkaria- Lessos-Kisumu Transmission Lines Construction 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.

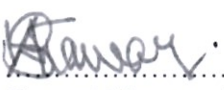
The Chief Executive Officer of KETRACO and the Project Coordinator for the Olkaria- Lessos-Kisumu Transmission Lines Construction Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended 30 June 2024, and of the Project's financial position as at that date. Chief Executive Officer of KETRACO and the Project Coordinator for the Olkaria- Lessos-Kisumu Transmission Lines Construction 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.

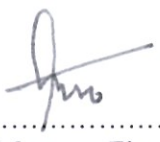
The Chief Executive Officer of KETRACO and the Project Coordinator for the Olkaria- Lessos-Kisumu Transmission Lines Construction Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during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

Approval of the Project financial statements

The Project financial statements were approved by Chief Executive Officer of KETRACO and the Project Coordinator for the Olkaria- Lessos-Kisumu Transmission Lines Construction Project on 30/09/2024 and signed by them.


.....
Managing Director
Dr. Eng John Mativo, MBS


.....
General Manager, Design
and Construction
ENG.(CPA) Antony Wamukota, OGW


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

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON OLKARIA-LESSOS-KISUMU TRANSMISSION LINES CONSTRUCTION PROJECT (JICA LOAN NO. KE-P28) FOR THE YEAR ENDED 30 JUNE, 2024 - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

PREAMBLE

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

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

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

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

Report of the Auditor-General on Olkaria-Lessos-Kisumu Transmission Lines Construction Project (JICA Loan No. KE-P28) for the year ended 30 June, 2024 - Kenya Electricity Transmission Company Limited

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Olkaria-Lessos-Kisumu Transmission Lines Construction Project (JICA Loan No. KE-P28) set out on pages 1 to 19, which comprise the statement of financial assets as at 30 June, 2024 and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Olkaria-Lessos-Kisumu Transmission Lines Construction Project (JICA Loan No. KE-P28) as at 30 June, 2024 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Financing Agreement No. KE-P28 dated 10 December, 2010 between Japan International Cooperation Agency (JICA) and the Government of the Republic of Kenya.

Basis of Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Olkaria-Lessos-Kisumu Transmission Lines Construction Project (JICA Loan No. KE-P28) 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.

Emphasis of Matter

1. Absorption of Project Funds

Records available together with Paragraph 2.7 of the project information revealed that the donor had committed an amount of Kshs. 18,208,029,490 for the project which was closed on 31 March, 2022. However, actual drawdowns during the project life amounted to Kshs. 18,137,886,490 leaving an undrawn balance of Kshs. 65,481,961 before completion of the project's planned deliverables which may not now be realized.

2. Wayleave Compensation

The statement of receipts and payments reflects acquisition of non-financial assets amounting to Kshs. 331,475,377. The amount includes wayleaves compensation totalling

Report of the Auditor-General on Olkaria-Lessos-Kisumu Transmission Lines Construction Project (JICA Loan No. KE-P28) for the year ended 30 June, 2024 - Kenya Electricity Transmission Company Limited

Kshs.207,513,658 as disclosed in Note 6 to the financial statements. The compensation was paid to one hundred and seventy-two (172) Project Affected Persons during the year under review. However, review of documents revealed that the project commenced in February, 2016 and was successfully completed in June, 2021. Further, previous year audited financial statements reflected outstanding wayleaves totalling to Kshs.27,347,743 resulting to a variance of Kshs.180,165,915. Management explained that the outstanding wayleaves totalling Kshs.27,347,743 was based on allocated budget at the end of the previous financial year.

Failure to record all the pending payables balance distorts accounting records.

3. Long Outstanding Pending Bills

Other Important Disclosures Note 1 to the financial statements reflects pending accounts payable totalling Kshs.988,541,473 which has been outstanding for more than one year. This was contrary to Regulation 42(1)(a) of the Public Finance Management (National Government) Regulations 2015 which states that debt service payments shall be a first charge on the consolidated fund and the Accounting Officer shall ensure this is done to the extent possible that the government does not default on debt obligations.

Management attributed failure to pay the amount to lack of budgetary allocation and disbursement from the National Treasury. Non-payment of the long outstanding bills exposes the project to the effect of incurring significant unquantified interest costs and penalties with the continued delay in payment.

Further, Other important disclosures under Note 2 to the financial statements reflects other pending accounts payables totaling Kshs.1,177,258,836. The amount is an increase of Kshs.1,149,911,093 or 4205% from Kshs.27,347,743 reported in the previous year. Management explained that the prior year pending payables were based on allocated budget at the end of the previous financial year. All the accepted offers were recognised in the year under review regardless of the budget allocation. Offers totalling Kshs.1,015,842,233 as disclosed in Annex 3B to the financial statements have not been accepted.

Failure to settle bills during the year they relate to distorts the financial statements and adversely affects the budgetary provision of the subsequent year as they form the first charge.

4. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects transfers from Government entities amounting to Kshs.433,000,000 against actual receipts of Kshs.221,000,000 resulting to underfunding of Kshs.212,000,000 or 49% of the budget. Similarly, the statement reflects total expenditure amounting to Kshs.433,000,000 against

actual expenditure of Kshs.336,036,958 resulting to under absorption of Kshs.96,963,042 or 22% of the budget.

The underfunding and underperformance and over expenditure may have affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of these matters.

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 communicate in my report.

Other Matter

Unresolved Prior Year Matters

In the audit report of the previous year, six (6) issues were raised under Other Matter, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Although Management has indicated that some of the issues have been resolved under progress on follow-up of the auditor's recommendation section of the financial statements, the matters remained unresolved as at 30 June, 2024.

Other Information

Conclusion

Management is responsible for the other information set out on page iii to xv, which comprise of Project Information and Overall Performance, Statement of Performance Against Project's Predetermined Objectives, Environmental and Sustainability Reporting, and Statement of Project Management Responsibilities. The other information does not include the financial statements and my auditor's report thereon.

Basis for Conclusion

In connection with my audit on the project's financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Unauthorized Transfers from KETRACO

The statement of receipts and payments reflects transfer from Kenya Electricity Transmission Company Limited (KETRACO) of Kshs.4,661,039 relating to a borrowing as disclosed in Note 2 to the financial statements. However, the transfers were not included in the approved budget for the year and had not been refunded by the end of the year. This was contrary to Section 43(1)(a) of the Public Finance Management Act, 2012 which provides that an Accounting Officer shall not authorize the transfer of an amount that is appropriated to another government entity or person.

Further, the approval by Board of Directors, loan agreement and approval by the Cabinet Secretary were not provided for audit review. This was contrary to Section 51(2) of the Public Finance Management Act, 2012 which states that a national government entity shall obtain the approval of the Cabinet Secretary for its intended program of borrowing, refinancing and repayment of loans.

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

2. Failure to Open and Maintain a Project Bank Account

The statement of financial assets reflects cash and cash equivalents totalling Kshs.5,198,764. The balance differs with the cashbook balance of Kshs.653,981,016 resulting to a variance of Kshs.648,782,252. The variance was attributed to the Company maintaining one bank account for all donor projects. This is contrary to Regulation 76(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that for the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at Central Bank of Kenya.

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

The audit was conducted in accordance with ISSAIs 3000 and 4000. The standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Failure to Automate the Financial Reporting Process

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

In the circumstances, the manual processing of financial records exposes the Project's reporting process to a greater risk of errors.

The audit was conducted in accordance with ISSAIs 2315 and ISSAIs 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the state of expenditure procedure for Japan ODA Loans, Guidelines for borrowers, under Japan International Cooperation Agency (JICA), I report based on the audit that:

- i. Each expenditure listed under the statement of expenditure (SOE) is appropriate and conforms to the objectives of the project under the loan agreement and complies the provisions of the agreement.
- ii. That the Project expenditure does not include non-eligible items.
- iii. The Project's statement of expenditure is in agreement with the underlying records and returns.
- iv. In my opinion, the statement of expenditure is eligible for JICA financing under the loan agreement and its supported by sufficient and appropriate supporting documents under the loan agreement.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management is aware of the intention 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 financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the INTOSAI Framework of Professional Pronouncements (IFPP). The Framework requires that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with IFPP 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.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I also I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

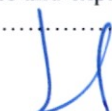
Nairobi

30 October, 2024

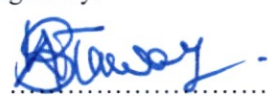
7. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2024

	Note	FY 2023/24			FY 2022/23			Cumulative to-date
		Receipts and payments controlled by the entity	Payments made by third parties	Total	Receipts and payment controlled by the entity	Payments made by third parties	Total	
		KShs	KShs	KShs	KShs	KShs	KShs	KShs
Receipts								
Transfer from Government entities	1	221,000,000		221,000,000	25,000,000		25,000,000	5,600,225,563
Transfer (to)/from KETRACO	2	4,661,039		4,661,039			-	1,451,474,149
Loan from external development partners	3		-	-		721,139,944	721,139,944	11,081,193,447
Miscellaneous receipts	4			-			-	9,654,370
Total Receipts		225,661,039	-	225,661,039	25,000,000	721,139,944	746,139,944	18,142,547,529
Payments								
Purchase of goods and services	5	4,561,581		4,561,581	1,030,387		1,030,387	954,997,161
Acquisition of non-financial assets	6	331,475,377	-	331,475,377	89,771,556	721,139,944	810,911,500	17,182,351,604
Transfer to KETRACO								-
Total Payments		336,036,958	-	336,036,958	90,801,943	721,139,944	811,941,887	18,137,348,765
Surplus/Deficit		(110,375,919)	-	(110,375,919)	(65,801,943)	-	(65,801,943)	5,198,764


The accounting policies and explanatory notes to these project financial statements form an integral part of the project financial statements. The project financial statements were approved on 30/09/2024 and signed by:



 Managing Director
 Dr. Eng John Mativo, MBS



 General Manager, Design
 and Construction
 ENG.(CPA) Antony Wamukota, OGW




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


8. STATEMENT OF FINANCIAL ASSETS AS AT 30 JUNE 2024

	Notes	FY 2023/24	FY 2022/23
Financial Assets		KShs	KShs
Cash and cash equivalents			
Bank balances	7	<u>5,198,764</u>	<u>115,574,683</u>
Represented by:			
Fund balance brought forward	8	115,574,683	181,376,626
Surplus/(deficit) for the year		<u>(110,375,919)</u>	<u>(65,801,943)</u>
Net Financial Position		<u>5,198,764</u>	<u>115,574,683</u>


The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on.....30/09/.....2024 and signed by:



 Managing Director
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 General Manager, Design
 and Consturction
 ENG.(CPA) Antony Wamukota, OGW




 General Manager-Finance
 CPA Tom Imbo
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9. STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE 2024

	Notes	FY 2023/24	FY 2022/23
		KShs	KShs
Cash Flows from Operating Activities			
Receipts for Operating Income			
Transfers from Government entities	1	221,000,000	25,000,000
Transfers from KETRACO	2	4,661,039	-
Miscellaneous Reciepts	4	-	-
Payments for Operating Expenses			
Purchase of goods and services	5	(4,561,581)	(1,030,387)
Net cash generated from operating activities		<u>221,099,458</u>	<u>23,969,613</u>
Cash Flows from Investing Activities			
Acquisition of non-financial assets	6	(331,475,377)	(810,911,500)
Cash Flows from Financing Activities			
Loan from external development partners	3	-	<u>721,139,944</u>
Net Increase/ (Decrease) in Cash and Cash Equivalents		(110,375,919)	(65,801,943)
Cash and cash equivalents at beginning of the year		<u>115,574,683</u>	<u>181,376,626</u>
Cash and Cash Equivalents at End of the Year	7	<u>5,198,764</u>	<u>115,574,683</u>


The entity financial statements were approved on 30/09/2024 and signed by:



 Managing Director
 Dr. Eng John Mativo, MBS



 General Manager, Design
 and Construction
 ENG.(CPA) Antony Wamukota, OGW



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


10. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 TH JUNE 2024

Receipts/Payment item	Original budget	Adjustments	Final budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c%
Receipts	KShs	KShs	KShs	KShs	KShs	
Transfer from government entities	442,000,000	(9,000,000)	433,000,000	221,000,000	(212,000,000)	51.0%
Loan from external development partners	-		-	-	-	
Transfers from KETRACO	-	-	-	4,661,039	4,661,039	--
Total Receipts	442,000,000	(9,000,000)	433,000,000	225,661,039	(207,338,961)	52.1%
Payments						
Purchase of goods and services	4,561,581	-	4,561,581	4,561,581	-	100.0%
Acquisition of non-financial assets	437,438,419	(9,000,000)	428,438,419	331,475,377	(96,963,042)	77.4%
Transfers to Ketraco	-	-	-	-	-	--
Total payments	442,000,000	(9,000,000)	433,000,000	336,036,958	(96,963,042)	77.6%


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



 Managing Director
 Dr. Eng John Mativo, MBS



 General Manager, Design
 and Construction
 ENG.(CPA) Antony Wamukota, OGW



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

11. SIGNIFICANT ACCOUNTING POLICIES

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

a) Statement of compliance and basis of preparation

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

b) Reporting entity

The financial statements are for the JICA Funded Projects under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012.

c) Reporting currency

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

d) Recognition of receipts

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

i) Transfers from the Exchequer

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

ii) External Assistance

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

iii) Other receipts

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

iv) Donations and grants

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

Significant Accounting Policies (continued)

v) ***Proceeds from borrowing***

Borrowing includes 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.

vi) ***Undrawn external assistance***

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

e) **Recognition of payments**

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

i) **Compensation of employees**

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

ii) **Use of goods and services**

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

iii) **Interest on borrowing**

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

iv) **Repayment of borrowing (principal amount)**

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

v) **Acquisition of fixed assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment. A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as annex 4 to these financial statements.

Significant Accounting Policies (continued)

f) In-kind donations

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

g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. 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.

h) Restriction on cash

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

i) Imprests and advances

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

j) Contingent Liabilities

A contingent liability is:

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

Significant Accounting Policies (continued)

Contingent Liabilities (continued)

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

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

Section 89 (2) (i) of the PFM Act requires the National Government to report on the payments made, or losses incurred, by the county government to meet contingent liabilities as a result of loans during the financial year, including payments made in respect of loan write-offs or waiver of interest on loans

k) Contingent Assets

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

l) Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they 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.

m) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable –

deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the

Significant Accounting Policies (continued)

participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are 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.

n) Third party payments

Included in the receipts and payments, are payments made on its behalf by to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties column in the statement of receipts and payments. During the year no amount of loan disbursements were received in form of direct payments from third parties.

o) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of receipts and payments.

p) Comparative figures

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

q) Subsequent events

There have been no events subsequent to the financial year/period end with a significant impact on the financial statements for the year ended 30 June 2021.

Significant Accounting Policies (continued)

r) Prior period adjustments

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.

12. NOTES TO THE FINANCIAL STATEMENTS

1. RECEIPTS FROM GOVERNMENT OF KENYA

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

	FY 2023/24	FY 2022/23	Cumulative to-date
	KShs	KShs	KShs
Counterpart funding through State Department of Energy			
Counterpart funds Quarter 1	-	-	1,102,619,622.00
Counterpart funds Quarter 2	221,000,000	25,000,000	2,029,566,810.00
Counterpart funds Quarter 3	-	-	1,069,477,889.00
Counterpart funds Quarter 4	-	-	1,398,561,242.00
Total	221,000,000	25,000,000	5,600,225,563.00

2. FUNDING FROM KETRACO

	FY 2023/2024	FY 2022/2023	Cumulative to-date
		Kshs	Kshs
Funding to/(from) Ketraco	4,661,039	-	1,451,474,149

This relates to funds borrowed from KETRACO in the year 2019/2020, 2020/2021 and 2023/2024

3. LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2024, the project did not receive funding from development partners in form of loans negotiated by the National Treasury donors as detailed in the table below

Name of Donor	Date received	Amount in loan currency	Loans received in cash	Loans received as direct payment	Total amount	
					FY 2023/24	FY 2022/23
		JPY	KShs	KShs	KShs	KShs
External financing						
JICA	July 2023-June 2024	-	-	-	-	721,139,944.00
Total		-	-	-	-	721,139,944.00

NOTES TO THE FINANCIAL STATEMENTS(Continued)

4. MISCELLANEOUS RECEIPTS

	2023/2024			2022/2023	Cumulative to-date
	Receipts controlled by the entity in cash	Receipts controlled by third parties	Total receipts		
	KShs	KShs	KShs	KShs	KShs
Interest income	-	-	-	-	9,654,370
Total	-	-	-	-	9,654,370

The miscellaneous receipts relate to interest income received during the financial year 2016/2017.

5. PURCHASE OF GOODS AND SERVICES

	FY 2023/24			FY 2022/23	Cumulative to-date
	Payments made by the entity in cash	Payments made by third parties	Total payments		
	KShs	KShs	KShs	KShs	KShs
License fees	-	-	-	-	1,207,000
Professional fees	-	-	-	-	40,206,800
Bank charges and fees	206,911	-	206,911	338,737	13,505,366
Other operating expenses	-	-	-	-	652,035,774
Site travel	4,354,670	-	4,354,670	691,650	248,042,221
Total	4,561,581	-	4,561,581	1,030,387	954,997,161

6. ACQUISITION OF NON-FINANCIAL ASSETS

	FY 2023/24			FY 2022/23	Cumulative to-date
	Payments made by the entity in cash	Payments made by third parties	Total payments		
	KShs	KShs	KShs	KShs	KShs
Consultancy fees	7,108,368	-	7,108,368	96,712,870	638,269,955
Transmission equipment	116,853,351	-	116,853,351	629,744,608	13,072,597,927
Wayleaves compensation	207,513,658	-	207,513,658	84,454,022	3,471,483,722
Total	331,475,377	-	331,475,377	810,911,500	17,182,351,604

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. CASH AND CASH EQUIVALENTS

	2023/2024	2022/2023
	KShs	KShs
Bank accounts	5,198,764	115,574,683
Total	5,198,764	115,574,683

The project has 2 project accounts spread within the project implementation area managed by KETRACO as well as Government of Kenya funding held in the two Kenya Commercial Bank accounts as listed below:

PROJECT BANK ACCOUNTS

	2023/2024	2022/2023
	KShs	KShs
<u>Local Currency Accounts</u>		
NCBA Bank [A/c No 762350017]	1,446,178	1,644,449
NCBA Bank[A/c No 762350025]	3,752,586	3,761,226
Kenya Commercial Bank Kenya Limited[A/c No 1111251622]	-	110,169,008
Total bank account balances	5,198,764	115,574,683

Special Deposit Accounts

The balances in the Project's Special Deposit Account as at 30 June 2024 are not included in the Statement of Financial Assets since they are below the line items and are yet to be drawn into the Exchequer Account as a voted provision. The balance held in the account is as summarized below:

	2023/2024	2022/2023
	KShs	KShs
Central Bank of Kenya Account No. 1000236299	--	-
Total	--	-

8. FUND BALANCE BROUGHT FORWARD

	2023/2024	2022/2023
	KShs	KShs
Bank accounts	115,574,683	181,376,626
Total	115,574,683	181,376,626

OTHER IMPORTANT DISCLOSURES

1. PENDING ACCOUNTS PAYABLE (Annex 3A)

Description	Balance b/f FY 2022/23	Additions for the year	Paid during for the year	Balance c/f FY 2023/24
	KShs	KShs	KShs	KShs
Supply of goods	1,149,891,367	-44,496,543	116,853,351	988,541,473
Supply of services	-	-	-	-
Total	<u>1,149,891,367</u>	<u>-44,496,543</u>	<u>116,853,351</u>	<u>988,541,473</u>

2. OTHER PENDING PAYABLES (See Annex 3B)

Description	Balance b/f	Additions	Paid during	Balance c/f
	FY 2022/23	for the period	the year	FY 2023/24
	KShs	KShs	KShs	KShs
Other pending bills	27,347,743	1,357,424,751	207,513,658	1,177,258,836
Total	27,347,743	1,357,424,751	207,513,658	1,177,258,836

13. ANNEXES

ANNEX 1: PRIOR YEAR AUDITOR-GENERAL'S 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.

1	Budgetary Performance and Control The statement of comparison of budget and actual amounts reflects a total income budget of Kshs.1,625,000,000 against actual receipts of Kshs.746,139,944 resulting to under receipts of Kshs.878,860,056(or 47%) of the budget. Similarly, the statement reflects a total expenditure budget balance of Kshs.1,625,000,000 against actual expenditure of Kshs.811,843,429 resulting to under absorption of Kshs.813,156,571 or 50% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.	Management Comments The budget allocation was based on MTEF. The allocation which was more than the available financing balance under the loan agreement. The loan balance as at in the financial year 2022/2023, was JPY 915,984,565(Equivalent to Ksh 790,586,278. The expenditure of Kshs. 813,156,571 resulted in an unutilized loan balance of 78,662,522 which expired as at 31 st December 2022.	Focal point person to resolve the issue Tom Imbo GM Finance	Status(Resolved/Not resolved) Resolved.	Timeframe FY 2024/2025
2.	Slow absorption of Project Funds As disclosed in Paragraph 2.7 of the project information and overall performance, the project was for a duration of five (5) years from 2016 to 2021. However, as at 30 June 2023, the donor, Japan International Cooperation Agency (JICA) had released Kshs.17,916,886,490 out of the expected total funding of Kshs.17,995,549,011, leaving a an undrawn balance of Kshs.78,662,522. The credit has lapsed without being fully utilized and the project's planned deliverables earmarked for completion using the funding may not be realized. Management has not provided documentary evidence to show that the closure process has been initiated or any mitigation to secure an extension the project from the Donor.	The unutilized amount of KES 78,662,522 is made up of; <ul style="list-style-type: none"> • Ksh 23,794,747 which was for commitment fees for purposes of loan administration. • Ksh 3,162,303 was under the consultant's category whereby the consultant had 	Tom Imbo GM Finance and GM, Design and Construction.	Ongoing	FY 2024/25

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		<p>been fully paid for the amounts invoiced hence the balance.</p> <ul style="list-style-type: none"> • Ksh 51,705,472 was tied under the Commitment Procedure for one of the contractors (M/s Nari) whereby the contractor did not exhaust the ceiling under this category hence the balance. 		
3	<p>Long outstanding wayleave compensation As disclosed in Annex 3B to the financial statements, the expected compensation to landowners amounted to Kshs.5,575,586,293 for wayleave acquired since inception of the project in February 2016. The amount certified amounted to Kshs.3,291,317,807 and the amount paid to date amounted to Kshs.3,263,970,064 leaving a balance of Kshs.27,347,743. The management attributed failure to pay the amount to lack of budgetary allocation from the National Treasury and lengthy land valuation negotiations due to absentee landlords and various court injunctions.</p> <p>In the circumstances, Management has not put in measures to obtain funding, identify absentee landlords and identify alternative dispute resolution mechanism to successfully implement the project and deliver services to Kenyan citizens.</p>	<p>The project pending wayleave compensation totals to Kshs. 2,311,616,229.00 of which only Kshs. 27,347,743 has been accounted for in the financial statement based on the allocated budget as at the end of the financial year 2022/2023.</p> <p>The management has continuously made submissions to parent ministry requesting for budget to settle the outstanding wayleave compensation and in the FY 2023/2024 an amount of 207,513,658 has been settled.</p>	Tom Imbo GM Finance	Ongoing FY 2024/25

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		The company continues to apply strategies such as engaging the local administration to settle disputes, helping PAPs to obtain limited grants for succession related issues and execution of indemnities where certain documents are lacking.			
4.	<p>Pending bills As disclosed in Annex 3A to the financial statements, the project management contracted works and services amounting to Kshs.15,963,092,974. The amount certified payable as at 30 June, 2022 amounted to Kshs.11,128,470,706 out of which Kshs.9,978,579,339 was paid leaving a balance of Kshs.1,149,891,367 as pending bills.</p> <p>In the circumstances, failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions in the subsequent years as they form a first charge.</p>	<p>As at the close of FY 2022/2023 the project had Kshs 1,149,891,367 Pending bills due to lack of to lack of budget, during the FY, Ksh.99,739,292. of the pending of was settled based on exchequer budget allocated. The outstanding balance is 988,541,473 which the company has continued to request for funding to settle.</p>	Tom Imbo GM Finance	Ongoing	FY 2024/2025
5.	<p>Avoidable Exchange Loss due to Late Invoice Settlements The statement of receipt and payments reflects acquisition of assets balance of Kshs.721,139,944 comprised of consultancy fees of Kshs.91,395,336 and</p>	In the Printed Estimates for Financial Year 2021/2022 the project was not allocated AIA budget, the project was funded under	Tom Imbo GM Finance	Resolved.	FY 2024/2025

	<p>transmission equipment of Kshs.629,744,608 as disclosed in Note 6 to the financial statements. Interviews with Management of the Project and review of related documentation revealed that these payments were made to contractors for works and services rendered.</p> <p>However, in all cases, approval of invoices for pay delayed beyond forty-five (45) days and with some taking over one (1) year resulting to foreign exchange loss of approximately Kshs.14,995,944. This is contrary to the provisions of Appendix 1 of the of the contract agreements signed on 10th March 2015 between the Management of Kenya Electricity Transmission company (KETRACO) and the contractors on terms and procedures of payment clearly stated that payments be made to the contractor within forty-five (45) days on receipt and approval of invoices from the contractors. It is also contrary to Section 68 (2) (d) of Public finance Management Act,2012 provides that it is the responsibility of the accounting officer to ensure that all contracts entered into by the entity are lawful and are complied with.</p> <p>In the circumstances, Management was in breach of the law and exposing the project to higher unbudgeted costs.</p>	<p>Supplementary 1 hence the long duration taken to process invoice after their approval. Olkaria Lessos Kisumu being a donor funded project, the invoices are paid by JICA therefore the company cannot hedge on the foreign exchange exposure on direct payments.</p>			
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6.	<p>Automation of the Financial Reporting Process Review of the financial reporting process for the project revealed that there is significant manual intervention in preparation of financial reports. Whereas the sub-ledgers are extracted from SAP System through the Business Intelligent Reporting Module, the processing of trial balance and financial statements is done manually on excel.</p> <p>In the circumstances, the manual intervention may result in errors in the Project financial statements.</p>	<p>The company is in the process of fully automating the projects reporting system (Project services module in SAP) and integrating SAP with Integrated Location Intelligence System (ILIS). This will ensure end to end processing of the project financial information in the system and reporting. Subsequently, KETRACO has engaged BI experts who are helping in full automation of the projects module in the SAP.</p>	Tom Imbo GM Finance	Ongoing	FY 2024/2025
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 Managing Director
 Dr. Eng John Mativo, MBS



 General Manager, Design
 and Construction
 ENG.(CPA) Antony Wamukota, OGW



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

ANNEX 2 – VARIANCE EXPLANATIONS – COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget	Actual on Comparable Basis	Budget Utilisation Variance	Comments on Variance	% of Utilisation
	a	b	c=a-b		d=b/a %
Receipts During the Year/Period					
Transfer from Government entities	433,000,000	221,000,000	212,000,000	(i)	51.0%
Interest income					
Loan from external development partners	-	-	-		
Transfers from KETRACO	-	4,661,039	(4,661,039)		
Total Receipts	433,000,000	225,661,039	207,338,961		52.1%
Payments During the Year/Period					
Purchase of goods and services	4,561,581	4,561,581	-		100.0%
Acquisition of non-financial assets	428,438,419	331,475,377	96,963,042	(iii)	77.4%
Total Payments	433,000,000	336,036,958	96,963,042		77.6%

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

Explanation:

- (i) Underutilisation of the transfer from government entities was occasioned by lack of GoK disbursement for the second half of the year.
- (ii) Under acquisition of the non-financial assets was occasioned by lack of GoK disbursement for the second half of the year.

(iii) ANNEX 3A - ANALYSIS OF PENDING BILLS

Supply of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2024	Outstanding Balance 2023	Comments
	KES		KES	KES	KES	
	a		b	c=a-b		
Construction of buildings						
1. NONE						
Sub-Total						
Construction of civil works						
TOTAL-KALPATARU	9,570,623,051	15/02/2016	6,716,029,904	887,915,299	1,028,563,289	
NARI Group Corporation & CCCE LOT 2	2,536,055,892	15/02/2016	1,691,714,123	-	-	
Total Sieyuan & NEIE	2,121,926,886	16/02/2016	1,268,312,620	100,626,175	121,328,078	
Sub-Total	14,228,605,830		9,676,056,648	988,541,473	1,149,891,367	
Supply of goods						
3. NONE						
Sub-Total						
Supply of services						
JV of Nippon Koei and Gibb International	612,965,060	16/02/2016	419,376,042	-	-	
Grand Total	14,841,570,890		10,095,432,690	988,541,473	1,149,891,367	

ANNEX 3B - ANALYSIS OF OTHER PENDING PAYABLES

Name	Brief transaction description	Original amount	Date payable contracted	Amount for work certified to-date	Amount paid to-date	Outstanding balance	Outstanding balance
						2024	2023
		a	b	c	d	e=c-d	
		KShs		KShs	KShs	KShs	KShs
Amounts due to third parties							
Project affected persons	Wayleaves compensation	<u>5,604,584,791</u>	2015-2024	<u>4,648,742,558</u>	<u>3,471,483,722</u>	<u>1,177,258,836</u>	<u>27,347,743</u>
Total		<u>5,604,584,791</u>		<u>4,648,742,558</u>	<u>3,471,483,722</u>	<u>1,177,258,836</u>	<u>27,347,743</u>

The project pending wayleave compensation is totalling to KES 2,133,101,069 (a-d) of which only 1,117,258,836 has been accounted for in the Financial Statement based on accepted offers for compensation. KES 1,015,842,233 (2,133,101,069-1,117,258,836) is yet to be accepted.

ANNEX 5– SUMMARY OF FIXED ASSET REGISTER

Asset Class	Opening Cost	*Purchases/Additions in the Year	**Disposals in the Year	Closing Cost
	(KShs)	(KShs)	(KShs)	(KShs)
	2023	2023/2024	2023/2024	2024
	(a)	(b)	(c)	(d)= (a)+ (b)-(c)
Powerline (Transmission Equipment)	<u>16,850,876,228</u>	<u>331,475,377</u>	-	<u>17,182,351,605</u>
Total	<u>16,850,876,228</u>	<u>331,475,377</u>	-	<u>17,182,351,605</u>

Notes

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