

REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY GENERATING COMPANY PLC FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Kenya Electricity Generating Company PLC set out on pages 30 to 127, which comprise of the statement of financial position as at 30 June, 2023, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte & Touché, 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 the Kenya Electricity Generating Company PLC as at 30 June, 2023, and of

its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Public Finance Management Act, 2012 and the Companies Act, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Electricity Generating Company PLC 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 audit 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. Financial Assets Held at Amortised Cost-Contract Asset

I draw attention to Note 18 (d) to the financial statements which discloses contract asset held at amortised cost amounting to Kshs.5,347,560,000 relating to the Olkaria IV and I AU substation. The construction of the assets was done by the Company and completed in the year 2015. The asset has been utilized by Kenya Electricity Transmission Company Limited (KETRACO) since completion in the year 2015 for evacuation of power from Olkaria to the National grid.

The asset construction and implementation agreement indicated that the Company was to sign a novation agreement with KETRACO that would govern the transfer of assets in fulfilment of obligations thereof. This was in line with the Kenya Electricity Transmission Company Ltd mandate as outlined in Sessional Paper No.4 of 2004, on Energy and Energy Act, 2016 to evacuate all power generated in the country to the national grid. However, by the time of conclusion of the audit, the novation agreement had not been signed even though the operation of the substation had already been transferred to KETRACO. There have been ongoing discussions for the National Treasury as per letter referenced DGIPE/loans/84 dated 21 August, 2023 to take over the loan in respect to this asset and facilitate full transfer of the asset to KETRACO. As at the time of the audit the agreement with the National Treasury was yet to be concluded.

2. Impairment of Property, Plant and Equipment

The statement of profit or loss and other comprehensive income includes a net impairment charge amounting to Kshs.4,980,578,000, as recorded in the other comprehensive loss, and Kshs.899,760,000 recorded in profit or loss as disclosed in Note 10(g). These amounts relate to provisions made for assets that have been deemed as impaired by the Company. Included in these amounts are Kshs.1,899,235,000 and Kshs.200,888,000 respectively, that represent full impairment of Muhoroni power station. The Power Purchase Agreement (PPA) for this plant expired in April, 2023 and is currently under negotiation for extension. Evidence obtained during the audit indicated that the negotiations are ongoing for an extension of the PPA for a period of two years, with a

clearance from the Ministry of Energy as per letter referenced MOE/CON/1/69 dated 23 August, 2023. However, the effect of this potential extension has not been factored in determining the level of impairment that has been recorded in the financial statements as Management is of the opinion that the extension is uncertain since the plant has been idle and off grid since April, 2023 to date.

My opinion is not modified in respect of the effects of the above 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. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on them. For the matter below, a description of how the audit addressed the matter is provided in that context.

Key Audit Matter	How Audit Addressed the Key Audit Matter
Impairment of Property, Plant and Equipment	
<p>The carrying value of the Company's property, plant and equipment amounts to Kshs.432 billion as reported on the statement of financial position and include the following main categories of assets - land, buildings, transmission lines, plant and machinery and work in progress. These assets are disclosed in Note 15 to the financial statements and are significant to the statement of financial position.</p> <p>An impairment assessment was performed on these assets by Management and a net impairment provision of Kshs.4,980,578,000 and Kshs.899,760,000 made in the statement of profit or loss and other comprehensive income respectively. These provisions have been disclosed under other comprehensive income and Note 10(g) to the financial statements respectively. In particular, Management identified impairment indicators in the plant and machinery assets related to Olkaria 1, Muhoroni and Kipevu I power stations,</p>	<p>I performed the following procedures, among others, to address the key audit matter:</p> <p>The audit procedures focused on reviewing the reasonableness of assumptions made and methodologies used to ensure that they are reasonable and appropriate given our understanding of similar situations.</p> <p>I obtained management's assessment of the indicators of impairment and reviewed the key assumptions made with the objective of testing their reasonableness based on evidence available.</p> <p>I challenged the significant judgments made and conclusions reached. My audit procedures focused on understanding the basis of the judgments made considering audit evidence which we could obtain during the audit and our understanding of the nature and use of these assets.</p>

Key Audit Matter	How Audit Addressed the Key Audit Matter
Impairment of Property, Plant and Equipment	
<p>whose Power Purchase Agreements (PPA) expired in February 2023, April 2023 and June 2023, respectively. Olkaria 1 is undergoing rehabilitation while the PPA for Muhoroni power station is undergoing negotiation for a possible extension of two years. Management reported that there was no substantive discussion on the PPA related to Kipevu I power station as a decision had not been made.</p> <p>Significant judgments are required by the directors in the impairment assessment of these assets in line with the accounting policies and International Accounting Standard (IAS 36), Impairment of Assets.</p> <p>My audit attention was directed at this area because of the significance of the carrying values of these assets and the risk that inappropriate judgments or assumptions could lead to material misstatements in the financial statements. For the purposes of the audit, I therefore, identified the impairment of property, plant and equipment as representing a key audit matter.</p>	<p>I obtained the impairment valuation and analysis prepared by Management and tested the approach applied for appropriateness. I also tested the data used in the impairment calculations for accuracy and completeness.</p> <p>With regards to my analysis of the overall impairment assessment, I did not identify any significant issues with the approach used by Management and I concluded that it was consistent with IAS 36 and the company's accounting policies, in all material respects. I also did not identify any material misstatement in the data used in the calculations in respect of its accuracy and completeness.</p> <p>With regards to Muhoroni power station, I noted Management's assessment that the plant is fully impaired despite the ongoing discussions on the extension of its PPA. This matter has been discussed under the emphasis of matter.</p>

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risk of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my opinion on the accompanying financial statements.

Other Information

The Directors are responsible for the other information, which comprises Corporate information, the Chairman's Statement, Managing Director's Statement, the Statement of Corporate Governance, Directors Report, Directors Remuneration Report and the

Statement of Directors' Responsibilities. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on the audit that:

- (i) In my opinion, the information given in the report of the directors on pages 24 to 25 is consistent with the financial statements.
- (ii) In my opinion, the auditable part of the directors' remuneration report on pages 28 to 29 has been properly prepared in accordance with the Companies Act, 2015 and are in agreement with the accounting records.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Company'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 Management is aware of the intention to liquidate the Company 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in

an effective way, in accordance with the provisions of Article 229(6) of the Constitution, and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

From the matters communicated with Management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

26 October, 2023