REPORT OF THE AUDITOR-GENERAL ON THE KENYA POWER AND LIGHTING 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 purposes.

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

I have audited the accompanying financial statements of The Kenya Power and Lighting Company PLC set out on pages 57 to 153, which comprise of the statement of financial position as at 30 June, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows 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 The Kenya Power and Lighting 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 Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of The Kenya Power and Lighting 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 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. Material Uncertainty Relating to Going Concern

I draw attention to Note 2 (a) to the financial statements which discloses that the Company recorded a loss of Kshs.4,433,856,000 during the year under review. In addition, the Company's current liabilities of Kshs.132,275,488,000 exceeded its current assets of Kshs.81,041,557,000 by Kshs.51,044,683,000 (2022 - Kshs.56,534,952,000). The Company has remained in a negative working capital position for the seventh consecutive year. The Board of Directors and Management have in the past and in the year under review, indicated strategic initiatives being undertaken to improve the financial results of the Company. However, these initiatives appear not to have yielded the intended results as at 30 June, 2023. As further stated in Note 2(a), this condition, along with other matters as set forth in the Note indicates existence of material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

2. Long Outstanding Receivables from Other Government Entities

The statements of financial position and as disclosed in Note 21(b) to the financial statements reflects net current trade and other receivables balance of Kshs.56,737,372,000 and a gross balance of Kshs.83,175,666,000. Included in the current trade and other receivables gross balance is an amount of Kshs.27,795,493,000 in respect of receivables from other Government entities. Review of these balances revealed the following anomalies and inconsistencies:

i. Receivables amounting to Kshs.26,928,111,000 relate to a debt due from Rural Electrification Scheme (RES) which the Company administers on behalf of the Government of Kenya. Management indicated that Rural Electrification Scheme (RES) are funded by the National Government and implemented by the Company on behalf of Ministry of Energy and Petroleum (MOEP). The Schemes under RES are considered sub-economic, given that their operational and maintenance costs exceed their revenues, and it was agreed that the Government will reimburse the Company any deficit arising from the Scheme. The resultant accumulated deficit is recoverable from the Government of Kenya (GOK) as stipulated in the 1973 Mercado Agreement signed between KPLC and the Government through the MOEP. As at the 30 June, 2023, no reimbursement had been made to cover the deficits despite a cabinet resolution to disburse Kshs.19,400,000,000 to settle the RES losses.

ii. Included in the receivable amount is Kshs.154,766,000 due from the Ministry of Energy and Petroleum, Kenya Electricity Generating Company PLC (KenGen), Geothermal Development Company (GDC), Rural Electrification and Renewable Energy Corporation (REREC), Energy and Petroleum Regulatory Authority (EPRA) and Nuclear Power and Energy Agency (NuPEA) which has been outstanding since 2015. The amount relates to media campaigns executed in November 2014 through electronic, print, and online media to gauge demand for 5000+ MW from existing and potential investors as had been directed by the then Cabinet Secretary for Ministry of Energy and Petroleum. Records at the Company indicates that the Ministry of Energy and Petroleum and its parastatals had agreed to share the costs of the integrated media advertising for investors power plan data gathering campaign. However, no evidence was provided to show how the Company ended up paying all the costs on behalf of the other entities.

iii. An amount of Kshs.248,564,297 was due from Rural Electrification and Renewable Energy Corporation (REREC) for electrification of schools in rural areas. REREC contracted Kenya Power and Lighting Company to connect the schools in preparation of the laptop project in 2015. Although the Company completed the projects, this has not been acknowledged by REREC and remains unsettled.

iv. The receivables balance includes an amount of Kshs.71,337,550 in respect of street lighting maintenance costs due from several counties for works done between 2016 and 2017. Management has not demonstrated how the amount will be recovered.

The Management has taken care of the probable loss that may result out of doubtful recoverability through and an Expected Credit Loss (ECL) in line with IFRS 9.

3. Foreign Currency Exposure and Uncompensated Forex Losses

The Company is heavily affected by the forex fluctuation owing to its payments of power purchase and the forex denominated loans. With a combined outstanding foreign currency obligation of approximately USD1 Billion comprising of 70% forex denominated debt and 30% power purchase obligations, the foreign exchange rate fluctuation impact in the financial year 2022/2023 was Kshs.23 Billion. The Company currently bears the difference between the actual forex rate used for payments and the Central Bank of Kenya (CBK) mean rate used by the regulator for the passthrough costs. There is no forex compensation mechanism to ensure that the market rate applied at the time of making payments is mitigated against the impact of the forex rate fluctuation.

The Company should also review its approach to power purchase contracting to mitigate against the significant foreign exchange exposure given its entire revenue is in local currency. This should include engaging existing power generators for sustainable currency related solutions that will resolve the accumulation of overdue obligations.

My opinion is not qualified with respect to these matters.

Key Audit Matters

Key audit matters are those matters which, 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 these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

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.

Key Audit Matter	How My Audit Addressed the Key Audit Matter
Comparative Cost of Power Purchase between KenGen and Independent Power Producers Over the years, there has been a disparity in the cost of power procured from the Kenya Electricity Generating Company PLC (KenGen) and Independent Power Producers (IPPs). Similarly, during the year under review, KenGen supplied a total of 8,027 gigawatt hours (GWh) being 60% of the total power purchased while the IPPs supplied the remaining 5,263 GWh (40%). However, the cost of the total power purchased from KENGEN was Kshs.54,215,880,000 equivalent to 35% compared to power purchase cost of Kshs.98,411,067,000 from IPPs, equivalent to 65%. Focus was given to the cost of power purchased due to its impact on the Company's earnings, and electricity tariffs charged to consumers. Areas identifies for review included: i. Procurement processes for Power Purchase Agreements (PPAs) from Independent Power Producers (IPPs); ii. Provisions in the PPAs and their impact on purchasing arrangements including priority dispatch and tariff setting. iii. Capacity charge on power plants and its impact on the cost of power purchased.	**The following Procedures were performed: -** i. Obtained an understanding of power purchasing arrangements and Company policy on order of dispatch policy from different sources; ii. Tested the key controls and procedure guidelines over power purchase and invoice verification process and cost recognition; iii. Reviewed invoicing and payments processes including re-computation of paid invoices; iv. Selected a sample of Power Purchasing Agreements (PPAs) and performed procedures to determine consistency of invoiced amount with the PPA provisions; v. Performed a comparative analysis of passthrough costs against amounts recovered from consumers; and, vi. Assessed the disclosures included in the financial statements, including their compliance with the requirements of International

Key Audit Matter	How My Audit Addressed the Key Audit Matter
iv. Bulk energy invoice verification and approval process v. Application of passthrough costs and recovery of the same through approved tariff Relevant disclosures were included in Notes 8 to the financial statements which give an analysis of cost of sales from different power producers and passthrough costs which comprise foreign exchange and fuel costs.	Financial Reporting Standards (IFRS).

Other Information

The other information comprises the Chairman's Statement and the Managing Director and Chief Executive Officer's Statement, which I obtained prior to the date of this report, and the rest of the other information in the Annual Report which is expected to be made available to me after that date, but does not include the financial statements and my auditor's report thereon. The Directors are responsible for the other information. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or my knowledge obtained in the audit, or otherwise appears to be misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, 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.

When I read the rest of the other information in the annual report and I conclude that there is a material misstatement therein, I am required to communicate the matter to the Board of Directors.

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, 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. Unmatched Passthrough Costs to Revenue

The statement of profit or loss and other comprehensive income for the year under review reflects revenue from contracts with customers and cost of sales amounting to Kshs.190,974,954,000 and Kshs.143,575,838,530 respectively. As disclosed in Note 7(a) to the financial statements, the revenue includes an amount of Kshs.34,155,050,000 in respect of fuel cost charge. However, fuel cost collections from revenue as per the approved Energy and Petroleum Regulatory Authority (EPRA) rates amounted to Kshs.57,335,015,682 resulting in a variance of Kshs.23,179,965,682.

In addition, given that the fuel costs are passed to the customers, they are expected to match the recoveries. However, fuel cost recoveries from customers of Kshs.34,155,000 exceeded the corresponding fuel costs of Kshs.28,093,512,000 reported under cost of sales.

According to Management, the mismatch was occasioned by power purchase costs recovery mechanism for future temporary power plants; geothermal steam charge and costs of other power plants; power purchase costs that had not been factored in the approved base or non-fuel tariffs issued in 2018; and variances between costs and revenues resulting from computed and the applied Fuel Cost Charge (FCC) in the previous year 2021/2022.

In the circumstances, the legality of inclusion of these non-related charges in the fuel cost charge in fuel cost recoveries could not be confirmed.

2. Penalties on Overdue Invoices

The statement of profit or loss and other comprehensive income and as disclosed in Note 11(b) to the financial statements, reflects an expenditure of Kshs.24,153,922,000 on finance cost. Included in this amount is Kshs.1,120,143,000 relating to interest on late payment of invoices. This expenditure which resulted in the increase of the cost of sales, and negatively affected the Company's cash flows as well as profitability, could have been avoided with proper credit management.

In the circumstances, value for money on the expenditure could not be confirmed.

3. Procurement of Goods and Services

3.1 Un-Procedural Purchase of Land

The Management procured a 10-acre land in Machakos County at a cost of Kshs.75,000,000 for the construction of a substation to improve reliability and quality of electricity supply in Athi River and its environs. Management engaged a valuer to undertake valuation of the market price of the 10 acres. The valuer's report dated 13 April, 2011 gave the value of the land as Kshs.40,000,000. This was communicated to the seller which also undertook its independent valuation and gave a valuation of Kshs.70,000,000 in a report dated 7 September, 2011. However, Management failed to negotiate with the seller as required under the Company's policy on acquisition of the

Company properties and acquired the property at a price that was higher than the market value returned by the valuer it had earlier engaged of Kshs.40,000,000.

In addition, purchase of the land had no approval from The National Treasury, Ministry of Energy and the Management Committee of the Company as required under Paragraph 1.2.3 (1) of the Guidelines for Management of Specific Categories of Assets and Liabilities and Clause 6.1 of the Company's Operating Procedures on Acquisition/ purchase of Company Property. Further, the land had been encroached by a third party who claimed to hold a court order in his favour. The Management indicated in a minute between the buyer and seller dated 31 May, 2022 of its reservation that the land had been encroached and requested the seller to give the land in vacant possession in accordance with the sale agreement. As a result, the Company could not proceed with fencing of the land and subsequent construction of the station.

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

3.2 Irregular Procurement of Spare Parts for Distribution Automation Systems

A tender for Purchase of spare parts for the Distribution Automation Systems (DAS) was awarded to a supplier at a cost of USD 432,925.21 (approximately Kshs.52,816,876). Review of procurement process revealed that, Management used Request for Quotation documents instead of standard tender documents for goods under direct procurement as provided under Section 104(a) of Public Procurement and Asset Disposal Act, 2015. The quotation documents used had not provided for the technical specifications for the goods, and therefore, the basis upon which the tender was evaluated could not be confirmed.

In addition, the tender documents required the bidder to quote for nine (9) items. However, during evaluation and negotiations by the evaluation Committee, the bidder was awarded six (6) items after indicating that the Remote Terminal Unit (RTU) inner box for Load break switch with upgraded module of Gemini 3 will be supplied instead of the current Gemini 2.5. The initial quote had provided for fifty (50) pieces of the RTU at Kshs.21,166,512 (USD 173,496.48). However, the price was increased to Kshs.25,578,642 (USD 209,661) for the same items resulting in an increase in the costs of the spares by Kshs.4,412,130 (USD 36,165).

Consequently, the evaluation Committee materially altered the original tender against the provisions of Section 75(1) of the Public Procurement and Asset Disposal Act, 2015, which should have been revised before the deadline of tender submitting period.

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

4. Failure to Prepare Financial Statements for a Donor Funded Project

Note 43(b) the financial statements reflects that the Company received funding from the World Bank through Credit No.5587-KE to support electricity modernization projects. As at 30 June, 2023, a balance of USD 68,266,159 equivalent to Kshs.9,592,999,656 was outstanding in respect of the Loan. However, since inception of the project in 2015, Management of the Company have not prepared and submitted financial statements for the project as required in Clause 90.3 (1) of the subsidiary loan agreement between the

Government of Kenya and The Kenya Power and Lighting Company PLC dated 29 July, 2015.

5. Irregular Payment of Long Outstanding Payables

During the year under review, the Company paid one hundred and fifty-seven (157) invoices for services rendered in 2014 and 2017 for eight (8) suppliers at a total cost of Kshs.488,714,883 which had not been paid earlier due to inadequate documentation. A committee appointed to vet and verify the invoices and deliveries in December, 2022 indicated that the failure to settle the invoices in a timely manner was as a result of breakdown of the payment process, non-submission or late submission of invoices by the suppliers, provision of goods without a valid framework agreement, lack of various requisite documents required for payment such as professional opinion, a valid contract, performance bond physical Local Purchase Orders (LPOs), physical goods received notes and inspection and acceptance reports.

However, the committee recommended payment to the suppliers without the above cited supporting documentation being provided, and a payment of Kshs.488,714,883 was subsequently made.

Further, included in the committee recommendation for payment was an amount of Kshs.11,625,919 in respect of a supplier who was not among the seven (7) the committee was mandated to verify and validate its invoices and delivery notes. The inclusion of this supplier in the committee report and the subsequent payment is therefore irregular and its validity could not be confirmed. Similarly, an invoice for one of the seven (7) suppliers amounting to Kshs.835,200 was paid despite the invoice having not been validated by the verification Committee.

In addition, a prior verification of all pending payments done in 2019 and approved by the then Managing Director on 3 May, 2019 for payment included four (4) of the seven (7) suppliers for which outstanding invoices had been settled. However, earlier report did not indicate any outstanding invoices in respect of these suppliers for the stated period between 2014 to 2018. Further, review of vendor accounts for these suppliers in the accounting system did not have evidence that the invoices were posted prior to settlement in the current financial year which makes their existence doubtful.

In the circumstances, the value for money for the payables of Kshs.488,714,883 could not be confirmed.

6. Employee Costs

6.1 Irregular Payment of Exit Pay

A former Managing Director of the Company requested to disengage with the Company to pursue other engagements through a letter dated 3 August, 2021. The Board considered and approved the request on 11 August, 2021 and later approved payment of Kshs.26,820,648 as final exit payment comprising of full compensation of the remaining contract period of fifteen (15) months. The payment was subject to approval by the Ministry of Energy, and The National Treasury who both granted approvals on

25 May, 2022 and 11 April, 2022. While not objecting to the payment, The National Treasury advised that the same be subjected to approval of State Corporation Advisory Committee (SCAC). However, SCAC approval was not obtained prior to payment of the gratuity of Kshs.26,820,648 as advised.

In addition, the payment contravened the Staff Regulations and Procedures which provides that if an employee resigns before the completion of his contract, he/she will have no entitlement to gratuity, or any terminal leave pay. Further, included in the exit pay was an amount of Kshs.2,520,000 paid as payment in lieu of notice. However, the payment was irregular since it is only payable to an employee whose employment contract is terminated by the Company without giving notice. In this case, the former Managing Director resigned without giving a notice and ought to have paid the Company a notice of Kshs.2,280,000.

In the circumstances, the regularity of Kshs.26,820,648 exit pay could not be confirmed.

6.2 Acting Allowances Beyond the Limit

Review of the Company's employee records on appointments to acting positions and allowances paid thereof revealed that ninety (90) employees were appointed on acting capacity for long periods and continued to draw acting allowances beyond the stipulated six months' period. In some instances, some employees had been holding positions in an acting capacity for more than five (5) years, without obtaining special approval from Chief Manager, Human Resources and Administration as provided for in the Company policy. This is contrary to the provisions of the Company's staff regulations and procedures.

Additionally, some of the employees were appointed to act in positions that were two job groups higher than their substantive positions contrary to provisions of the Staff Rules and Regulations. Further, acting allowances to employees was paid from the first month of acting contrary to part IV (b) of the Company's Staff Regulations and Procedures which provides that no acting allowance will be paid in respect of the first two months during which an employee is acting.

In the circumstances, Management was in breach of Company policies and procedures on Human Resources.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. Power Losses

The financial statements in Note 7(a) reflects electricity sales of Kshs.120,186,026,000 and Kshs.24,172,173,000 in respect of postpaid and prepaid electricity sales, respectively. Review of units of electricity purchased against units sold revealed a total of 13,290 in gigawatt-hours (GWh) purchased from power producers out of which 10,234 GWh were sold to customers resulting in an efficiency loss of 3,056 GWh or 23%.

The industry regulator, Energy and Petroleum Regulatory Authority (EPRA) approved the Company to recover from consumers system losses of up to 19.5% that is deemed to be normal loss. The excess of 3.5% power loss above the allowed loss constitutes inefficiency power loss which is borne by the Company thus increasing operating costs.

In addition, review of the power transmission data revealed that the losses occurred in the generation, distribution, transmission networks. However, KPLC does not breakdown losses arising from those networks which, if accurately determined, can be attributed, and be borne by respective power producers, distribution schemes under Rural Electrification and Renewable Energy Corporation (REREC) and Kenya Transmission Company Limited (KETRACO).

In the circumstances, effectiveness and efficiency in the pricing of the power supply could not be ascertained.

2. Delays in Completion of Customer Electricity Connection Projects

The statement of financial position and as disclosed in Note 16 to the financial statements, reflects work in progress balance of Kshs.16,667,971,000. Included in the balance are projects for which customers had paid a total of Kshs.12,079,656,000 in respect of electricity connections. However, twenty-one thousand two hundred and thirty-one (21,231) projects with a total capital contribution paid for by the customers of Kshs.966,901,128 were yet to start with some of the projects in respect of two (2) customers having been created and paid for eleven (11) years ago. This is contrary to the Company's Customer Charter on connection of electricity which provides for timelines within which electricity connection for customers are to be carried out depending on the type of connection ranging from seven (7) days to twenty-eight (28) days.

Management therefore, continues to hold customer electricity connection fees in form of capital contributions amounting to Kshs.12,079,656,000, as disclose in Note 28 (a) to the financial statements. Delayed connection of these customers denies them electricity and at the same time denies the Company revenues. Management attributes the delays in completion of projects to wayleaves acquisition challenges leading to re-designs of some projects and sometimes abandonment of the same, non-availability of critical materials needed for construction such as cables, conductors, meters and transformers and suspension of the construction contracts with hired labor and transport contractors and on-going court cases.

In addition, review of customer electricity connection projects listed in work in progress revealed that twenty-one thousand, seven hundred and thirty-four (21,734) projects with capital contributions payment of Kshs.3,048,656,972 which had no costs attributed to them as evidence that the projects have been undertaken but have been closed in the system and indicated as complete. Management did not provide explanations on how projects paid for by the customers can be completed and closed in the system without the Company using any materials to connect electricity for the customers.

Further, three hundred and forty-nine (349) customers' projects initiated with a total expenditure of Kshs.321,639,101 had no corresponding capital contribution by the customers, an indication of connecting customers without payment of the required connection fees.

In the circumstances, the effectiveness of controls in place to monitor customer connections could not be confirmed.

3. Weaknesses in Project Management

Review of the project management practices and work in progress records at the Company revealed that as at 30 June, 2023, more than twenty-one thousand (21,000) projects with a total cost of Kshs.16,629,134,000 were listed as ongoing in the Company's records. However, eight thousand five hundred and six (8,506) projects with a cost of Kshs.14,257,200,696 were behind their respective execution schedules having been outstanding for between three (3) to thirteen (13) years. In addition, review of the Company's project management system revealed absence of a robust, documented risk assessment and project monitoring during project life cycles. Project delay risks were not identified and mitigated in time. Similarly, no monitoring through a matrix designed to assess project management controls and feed the information into a project risk register for action to take place.

Further, the Board and Management established a project management office in 2020 responsible for the coordination and guiding implementation of capital projects to ensure achievement of the expected business benefits. The projects management office was expected to maintain database and information of all capital projects under implementation. However, as at the time of audit, the database containing information of all capital projects under implementation maintained by the project management office had not been established. This led to lack of proper coordination and standardization of projects implementation activities resulting in duplicated, delayed or abandoned projects thus making the Company to incur extra costs either directly or indirectly due to lost opportunities. Additionally, there was no project management framework and project management policy in place to guide and outline the essential elements in the management of projects to assist in conceptualization, stakeholder management, managing risks and maximizing business value derived from projects. Management indicated that they were in the process of developing project management framework and project management policy.

In the circumstances, existence of controls to monitor implementation of projects could not be confirmed.

4. Trade Receivables

4.1 Unpaid Electricity Bills

Analysis of post-paid billing data and payments for the financial year under review revealed that seven hundred and twenty-nine thousand, seven hundred and thirty-two (729,732) accounts were billed for electricity consumption costing Kshs.1,803,302,369 but had not made payments towards settling the bills. In addition, the accounts remained active despite disconnection work orders having been raised against them.

In the circumstances, the recoverability of the outstanding bills of Kshs.1,803,302,369 is in doubt and Management has not indicated measures being taken to recover the same.

4.2 Pre-loaded Units Debt

An evaluation of pre-paid debtors revealed preloaded units receivable amount of Kshs.81,652,643 that accrued since financial year 2012. Out of the amount, only Kshs.6,700,123 has been settled representing only 8%. Despite the prepay records showing that the meters are installed, it is likely that the customers do not vend after the preloaded units ran out. Thus, the Company is unlikely to recover debt attributed to preloaded units of Kshs.74,952,520.

In the circumstances, the effectiveness of controls in place to monitor meter activities could not be confirmed.

5. Power Outages as a Result of Unstable Renewable Energy Generation

The Company is heavily impacted by the variable renewable energy sources (solar and wind) due to their high level of instability or intermittency during the dispatch operations. These generation sources are continuously supported by other plants which are dispatched to meet the difference of generation dropped at any one time which in the final analysis means that the actual cost of generation is the cost of the intermittent source plus the cost of generation dispatched to stabilize the ensuing intermittency by meeting the generation shortfall. When there is a sudden rise in generation due to the intermittency, the power system also becomes unstable and leads to the excess generation above the demand and this also leads to poor power quality to customers. During these instabilities, parts of the power system goes off as part of the self-protective mechanisms of the power system and this leads to outages and therefore loss of revenue. There is need to have a cost effective stabilization mechanism for these variable generation sources that are currently on the grid and regulations put in place to ensure that all renewable energy generation sources are installed with their stabilization mechanisms as part of the power generation contracting requirements.

In the circumstances, the effectiveness of measures implemented to mitigate against power outages could not be confirmed.

6. Unmetered Connections

An analysis of work requests from the data generated from Integrated Customer Management System (INCMS) revealed, that ten thousand, seven hundred and forty-five

(10,745) new connections were awaiting metering for more than one year. Further, scrutiny of metering report revealed that meters booked against the work requests for new connections were picked from the regional stores but as at the time of the audit, they were yet to be installed. Notably, some meters booked and issued in 2018 were yet to be installed.

In the circumstances, the optimal utilization of the Company's resources could not be confirmed.

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, except for the matters under the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I report based on the audit that:

(i) In my opinion, the information given in the report of the Directors on pages 47 to 48 is consistent with the financial statements.

(ii) In my opinion, the auditable part of the Directors' remuneration report on pages 49 to 51 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

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 controls, 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 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 skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the 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 that 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 and internal controls of the current year 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