

REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY GENERATING COMPANY PLC FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Kenya Electricity Generating Company Plc set out on pages 19 to 103, which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by PricewaterhouseCoopers 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 Kenya Electricity Generating Company Plc as at June 30, 2021, 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.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Electricity Generating Company Plc in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key Audit Matters are those matters that, in my professional judgment, were of most significance in the audit of the Company's financial statements of the current year. These matters were addressed in the context of the audit of the Company's 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 Auditor's Responsibilities for the Audit of the Financial Statements 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 risks 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 audit opinion on the accompanying financial statements.

Key audit matter	How the audit addressed the key audit matter
<p>1. Accounting treatment of the financial asset at fair value through profit or loss</p> <p>As explained under Note 16, the company has recorded a financial asset at fair value through profit or loss of Kshs. 11,306,096,000 (2017: Kshs. 14,005,833,000). The asset relates to unrealized exchange difference on foreign denominated borrowings recoverable from Kenya Power and Lighting Company Limited (“Kenya Power”) under the respective Power Purchase Agreements (“PPAs”) with Kenya Power.</p> <p>In line with IAS 39, the asset is required to be measured at fair value at each reporting date. Gains and losses arising from changes in fair value are recognized in other gains and losses (Note 6)</p> <p>Significant judgement has been made in the valuation of the asset and in determining the fair value gains or losses recorded in relation to the judgement</p>	<p>We obtained and reviewed the Power Purchase agreements that give rise to the right to recover foreign exchange differences from Kenya Power.</p> <p>We evaluated the appropriateness of the designation of the asset arising in accordance with the International Financial Reporting Standards (IFRS).</p> <p>We tested the valuation Methods and inputs used in measuring the financial asset fair value through profit or loss.</p> <p>We also reviewed the appropriateness of the classifications of the financial asset at fair value through profit or loss in the financial statements</p>
<p>2. Provision for compensating tax</p> <p>As discussed under Note 28 and 32 of the financial statements, the Company has a compensating tax liability of Kshs. 2,331,022,000 (2017: Kshs. 2,431,022,000) due to the Kenya Revenue Authority (KRA) arising from payment of dividends in prior years.</p>	<p>We performed the following audit procedures;</p> <ul style="list-style-type: none"> • Held discussions with management and reviewed available correspondence with KRA and other stakeholders in relation to the tax assessment

<p>No provision has been recorded for the related interest and penalties arising on the unpaid taxes. The amount of interest and penalties if levied on outstanding liability, would amount to Kshs. 963,305,000 in the current year (2017: Kshs. 661,328,000).</p> <p>Management is in discussions with KRA in relation to the unpaid taxes and related interest and penalties; as this engagement has not been concluded, the determination of what amounts if any will eventually be payable is a matter of judgement</p>	<ul style="list-style-type: none"> Reviewed the computation of compensating tax principal, interest and penalties.
<p>3. Recoverability of amounts due from Kenya Power and Lighting Company</p> <p>As disclosed in Notes 15(a(i)) and 15(a(iii)), the company has recognized receivables of Kshs. 22,871,154,000 due from Kenya Power.</p> <p>Significant judgement has been made by management in assessing recoverability of these balances</p>	<p>We reviewed the makeup of the debtor balance with Kenya power based on records provided by management.</p> <p>We requested for confirmations from Kenya Power for the balances outstanding at the year end and where balances confirmed differed from those recognized in the financial statements, we tested the reconciliation between the amounts recorded and those confirmed.</p> <p>We also tested the ageing of the debtor against the agreed credit terms with Kenya Power subsequent to the year end.</p>
<p>4. Valuation of Retirement Benefits Obligation</p> <p>As explained under Note 25, the Company operates a closed defined benefits scheme. At</p>	<p>We obtained the actuarial valuation report for each of the years presented and:</p>

<p>year end, management engaged the services of an actuary to carry out a valuation of the retirement benefit obligation in line with the requirements of International Accounting Standards (IAS) 19(R).</p> <p>Significant judgement has been made by management in:</p> <ul style="list-style-type: none"> • Valuation of the present value of the future obligation and the fair value of the plan assets; and • Application of the asset ceiling on the net defined benefit asset. <p>The application of the asset ceiling was carried out for the first time in the current financial year. This has been done retrospectively with the prior period balances restated in line with the requirements of IAS 8.</p>	<ul style="list-style-type: none"> • Tested the inputs into the model. • Reviewed the assumptions made by the actuary in the valuation of the retirement benefit obligation. • Tested the computation of the asset ceiling for each of the years presented.
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Other Information

The other information comprises the Chairman’s Statement and the Managing Director & CEO’s Statement, which I obtained prior to the date of this auditor’s 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 our 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 we conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS

As required by Section 7 (1) (a) of the Public Audit Act, 2015, I confirm that, nothing has come to my attention to cause me to believe that internal controls were not operating in an effective way.

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 6 to 8 is consistent with the financial statements.
- (ii) In my opinion the auditable part of the directors' remuneration report on pages 11 to 12 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are 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 the directors are aware of any intension to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

The directors are 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.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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.

As part of an audit 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's 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.

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 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

25 October 2018