

REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Kenya Electricity Transmission Company Limited, set out on pages 75 to 108, which comprise the statement of financial position as at 30 June 2017, 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 Deloitte and Touche, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Electricity Transmission Company Limited as at 30 June 2017, and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Other Matter section of my report, based on the procedures performed, 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.

Basis for Opinion

The audit was conducted in accordance with International Standards on Auditing. I am independent of Kenya Electricity Transmission Company Limited 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 which, in my professional judgment, were of most significance in the audit of the financial statements. Except for the matters described in the Other Matter section of my report, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Project Contractors Performance

Significant delays were noted in the completion of five (5) of the projects under implementation by the Company, as detailed below:

1.1. Nairobi Ring Project

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Nairobi Ring Project, which entails construction of a transmission line from Suswa to Isinya, together with five (5) sub-stations at Suswa, Kimuka, Isinya, Athi River and Komarock was behind schedule. This project, which is under implementation by four (4) contractors at a combined contract price of approximately Kshs.10,512,241,235, commenced in May 2012 and the initial scheduled completion date was November 2014. However, by the time of concluding this report the five sub-stations were yet to be completed. According to management, the delay arose from the termination of the initial contractor.

1.2. Lessos-Tororo Line: Kenya-Uganda Interconnector

Similarly, completion of the Lessos-Tororo Transmission Line Project which entails construction of a transmission line from Lessos Sub-station in Kenya to Tororo Sub-station near the Kenya-Uganda border was behind schedule. The Project, which is under implementation by a Spanish contractor at an initial contract price of EUR 24,220,004.29 and Kshs.941,168,910, commenced in September 2013 and was scheduled to be completed in April 2015. However as at 30 June 2017 only 37% of the transmission lines and 40% of the substations had been completed. The contractor was terminated in April 2016 due to non-performance, following which he obtained court orders stopping KETRACO from accessing the site or hiring a new contractor until a final settlement is reached. By the time of concluding this audit, the dispute was yet to be settled.

1.3. Loiyangalani-Suswa Project

In addition, the Loiyangalani-Suswa Project, which entails construction of a 430 KM, 400 KV double circuit transmission line which will evacuate electricity from the 300 MW Lake Turkana Wind Power Plant in Loiyangalani to Suswa Sub-station was also behind schedule. The Project, which is under implementation by a Spanish contractor at a contract price of EUR.146,403,129 (Kshs.17,321,071,314) was to commence in August 2014, and was scheduled to be completed in October 2016. However, by the time of concluding this report, only 35% of the project was complete. According to management, the delays arose from termination of the initial contractor due to bankruptcy. However, it is not clear whether management, through prescribed procurement procedures, satisfied themselves that the initial contractor was technically and financially qualified for the job before award of the contract.

1.4. Power Transmission System Improvement Project

Further, the Power Transmission System Improvement Project (PTSIP), comprises six (6) transmission lines, fourteen (14) associated sub-stations and consultancy services at a total cost of Kshs.7,203,142,864. Included in these are four (4) transmission lines whose completion is behind schedule as detailed in the table below:

Name of Line	Contractor	Contract Price				Completion %
		Curr	Amount	Exch. Rate as at 30/6/17	Kshs Equivalent	
Nyahururu – Nanyuki	Jyoti Structures Ltd	USD	15,191,618	103.7117	1,575,548,529	80%
Lessos – Kabamet						60%
Olkaria – Narok		KES	547,699,841	1.0000	547,699,841	50%
Bomet - Sotik						100%
Kitui - Mwingi - Wote - Sultan Hamud		USD	10,028,916	103.7117	1,040,115,928	50%
Ishiara - Kieni		KES	403,309,135	1.0000	403,309,135	100%
14 Substations	China CAMCE	USD	29,780,151	103.7117	3,088,550,086	100%
		KES	36,960,880	1.0000	36,960,880	
Project Consultancy	SMEC International PTY Ltd	USD	3,240,025	103.7117	336,028,501	
		KES	174,929,965	1.0000	174,929,965	
Total					7,203,142,864	

According to management, completion of the four transmission lines due in December 2017 was delayed by inadequate counterpart funding for wayleave acquisition and contractor financial challenges which led to slow delivery of materials. However, it is not clear why these risks were not identified at the project planning stage and mitigation measures established to minimize their expected impact on project completion.

1.5. Exim Bank of India Funded Projects

Exim Bank of India funded projects entail two (2) transmission lines and six (6) associated sub-stations. Among these is the Turkwel-Ortum-Kitale transmission line, which is under construction by KEC International Limited at a contract price of USD.11,861,976 (Kshs.1,230,225,696). This transmission line, which according to the contract, was scheduled to be completed by August 2015, was only 87% complete as at 30 June 2017. The projects further include construction of two (2) substations at Kitale and Ortum by an Indian contractor at a contract price of USD.18,100,120 (Kshs.1,877,194,215). These substations, which were scheduled to be completed by December 2017, were at 70% completion stage as at 30 June 2017. According to management, delay in completion of the substations arose from right of way challenges, inadequate budgetary allocation for wayleave compensation and contractor financial challenges which led to slow delivery of materials. However, it is not clear why these risks were not identified at the project planning stage and mitigation measures put in place to minimize their impact on project completion.

Other Information Included in the Annual Report

The directors are responsible for the other information, which comprises the report of directors as required by the Kenyan Companies Act, 2015. 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 conclusion thereon.

In connection with my audit of the 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 on the other information which I obtained prior to the date of this auditor's report, I conclude

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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.

Responsibilities of Directors and Those Charged with Governance 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, and for such internal controls as directors determine are necessary to enable the preparation of financial statements which 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 accounting assumption, unless the directors are aware of any intention to terminate the Company, or there is 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 submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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 which includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution 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 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 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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance 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 directors.
- Conclude on the appropriateness of the directors' 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 of the entities or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (i) 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, adequate accounting records have been kept by the Company, so far as appears from the examination of those records;
- (ii) The Company's financial statements are in agreement with the accounting records; and

- (iii) In my opinion, the information given in the report of the Directors is consistent with the financial statements.



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

Nairobi

11 June 2018