

# **REPORT OF THE AUDITOR-GENERAL ON KENYA POWER AND LIGHTING COMPANY LIMITED FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Opinion**

The accompanying financial statements of Kenya Power and Lighting Company Limited (“the Company”) set out on pages 51 to 127, which comprise the statement of financial position as at 30 June 2017, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year 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 Power and Lighting 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 requirements of the Kenyan Companies Act, 2015.

### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of my report. I am independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code). I have fulfilled my other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audit of the 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 were those matters that, in my professional judgement, were of most significance in the audit of the financial statements of the current year. 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 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.

No.	Key Audit Matter	How the audit addressed the key audit matter
1.	<p><b>Revenue Recognition</b></p> <p>The Company's financial accounting and reporting systems are heavily dependent on complex information systems and applications. Specifically, the calculation, recording and financial reporting of transactions and balances related to electricity revenue is significantly dependent on IT automated systems and processes.</p> <p>Revenue recognised is dependent on a complex tariff methodology and units consumed. The respective tariffs, used to bill each class of customers, are approved by the Energy Regulatory Commission (ERC).</p> <p>There is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operated effectively.</p> <p>The audit focused on the following aspects of the information systems and application relevant to accounting and financial reporting controls:</p> <ul style="list-style-type: none"> <li>• Logical access and security including segregation of duties;</li> <li>• Controls over changes to programs and system developments; and</li> <li>• Automated application controls relating to accounting calculation and financial reporting.</li> </ul> <p><b>Valuation of Trade and other Receivables</b></p> <p>Trade and other receivables are a significant asset in the statement of financial position of the Company comprising balances with varying risks of non-recoverability as shown in notes 5 (a) and 20 of the financial statements.</p>	<p>I assessed and tested the design and operating effectiveness of the controls over the integrity of the IT systems that are relevant to financial accounting and reporting.</p> <p>I examined controls over program development and changes, access to programs and data and IT operations, including compensating controls where required.</p> <p>I also carried out tests of certain aspects of the security of the Company's IT systems including logical access management and segregation of duties.</p> <p>I checked whether the tariffs are appropriately set up in the relevant systems, that consumption is correctly captured and that the system computations are accurate.</p> <p>The assessment of the appropriateness of the provisions for credit losses and potential impairment of other receivables included consideration of:</p>
2.		

	<p>There is uncertainty relating to the recoverability of certain trade and other receivables. As a result, the directors make subjective judgements in estimating the impairment provision for trade and other receivables.</p> <p>The audit focused on the following:</p> <ul style="list-style-type: none"> <li>• the completeness and accuracy of the aging of electricity receivables included in the provision computation;</li> <li>• the adequacy of the provision for credit losses for trade and other receivables; and</li> <li>• obtaining third party confirmations of the outstanding debt amounts for significant debtors. Where such confirmations were not received, we considered alternative evidence such as payments received after year-end.</li> </ul>	<ul style="list-style-type: none"> <li>• the duration of outstanding debt;</li> <li>• developments in the year including correspondence with the debtors where applicable;</li> <li>• existing regulation impacting recoverability of the debt;</li> <li>• the appropriateness and reasonableness of assumptions applied by management taking into account our knowledge of other practices and the past payment history; and</li> <li>• the completeness and accuracy of the financial statements disclosures.</li> </ul>
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## Other Information

The directors are responsible for the other information. The other information comprises the Report of Directors as required by the Companies Act, 2015, and the statement of Directors' responsibilities which I obtained prior to the date of this report, and the annual report which is expected to be made available to me after that date. The other information does not include the financial statements and the auditor's report thereon.

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

In connection with the 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 the knowledge obtained in the audit, or otherwise appears to be materially 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.

## Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is 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 either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance 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 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 decision of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism through 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 which 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 the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the director'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 which may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, 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 within the Company to express an opinion on the financial statements.

I communicate with the directors regarding, among others, the planned scope and timing of the audit and significant audit findings, including any significant deficiency in internal control that are identified during the audit.

I also provide the directors with a statement that I have complied with the relevant ethical requirements regarding independence, and to 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 to the directors, I determine those matters which 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 the 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.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report to you 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 my audit;
- ii. In my opinion, proper books of account have been kept by the Company, so far as appears from the examination of those books;
- iii. The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account;

- iv. In my opinion, the information given in the report of the directors on page 40 to 41, is consistent with the financial statements; and
- v. In my opinion the auditable part of the directors' remuneration report on page 42 to 44 has been prepared in accordance with the Kenyan Companies Act, 2015.



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

**Nairobi**

**19 October 2017**