

REPORT OF THE AUDITOR-GENERAL ON RURAL ELECTRIFICATION AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Rural Electrification Authority set out on pages 39 to 80, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts 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, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Rural Electrification Authority as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Energy Act, 314 (Rev. 2012) of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Basis for Qualified Opinion and Emphasis of Matter sections of my report, 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 Qualified Opinion

Property Plant and Equipment - Work-In-Progress

The financial statements reflect property plant and equipment valued at Kshs.65,633,640,000 (2016: Kshs.59,510,572,000), as disclosed in note 16. Included in this figure is Work-In-Progress (WIP) balance of Kshs.10,965,748,000, out of which Kshs.2,315,210,651 relates to WIP brought forward from prior years which however, has not been supported with detailed project analysis. The WIP brought forward further includes a transitional account balance of Kshs.1,004,740,651 which ought to have cleared into the WIP ledger, but was outstanding as at 30 June 2017. Under the circumstances, it has not been possible to confirm whether the property, plant and equipment balance of Kshs.65,633,640,000 as at 30 June 2017, is fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Rural Electrification Authority 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 qualified opinion.

Emphasis of Matter

Unrecovered Duty Paid to KRA on Behalf of Vendor

As previously reported, the Authority in the period 2014/2015 paid duty of Kshs.31,894,000 to Kenya Revenue Authority (KRA) on behalf of one of its vendors. According to information available, this was to preempt a KRA agency notice on the Authority's bank account. Management has made full provision for the outstanding amount in the financial statements. However, although management through its lawyers, has pursued the vendor for recovery of the outstanding amounts, the amounts are yet to be recovered. Under the circumstances, it has not been possible to confirm whether and if so, when the Authority will recover the amount.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified Opinion and Emphasis of Matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

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 Public Sector Accounting Standards (Accrual Basis), 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, directors are responsible for assessing the Authority's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless directors are aware of intention to terminate the Authority, or there is no realistic alternative but to do so.

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



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

Nairobi

13 June 2018