REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA ELECTRICITY GENERATING COMPANY PLC

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY GENERATING COMPANY PLC FOR THE YEAR ENDED 30 JUNE, 2025

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 purpose.

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 is issued when the Auditor-General concludes that the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management, and Governance.

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

The accompanying financial statements of Kenya Electricity Generating Company PLC set out on pages 33 to 124, which comprise of the statement of financial position as at

30 June, 2025, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte and Touché, 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 the Kenya Electricity Generating Company PLC as at 30 June, 2025, 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 Public Finance Management Act, 2012 and 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 the Kenya Electricity Generating 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 audit 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

Change in Assets Depreciation and Net Book Value Estimation

The statement of profit or loss and other comprehensive income reflects depreciation and amortization charge amounting to Kshs.14,484,645,000 against a prior year charge balance of Kshs.15,707,703,000. The decrease was despite an increase in assets cost at the beginning of the year to Kshs.472,659,536,000 compared to Kshs.463,057,086,000 in the prior year.

As disclosed in Note 15(a) to the financial statements, the Company applies an assets revaluation model to determine subsequent values of assets, except for furniture and motor vehicle assets classes where a cost model is applied. In addition, the Company uses a straight-line depreciation method for all its asset classes. During the year under review, Management changed the depreciation measurement approach by assigning a residual value equivalent to 10% of the cost to depreciable asset classes, a departure from prior years measurement where a residual value was only assigned to assets under cost valuation model.

The departure in the assets valuation resulted in a decrease of depreciation charge for the year, and significantly impacted on the net book value of the assets at the end of the year.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Key Audit Matter	How Audit Addressed the Key Audit Matter
Impairment of Property, Plant and Equipment The carrying value of the Company's property, plant and equipment amounts to Kshs.429,556,183,000 (2024 - Kshs.426,723,308,000) as reported in the statement of financial position. The balance includes an amount of Kshs.350,547,360,000 (2024: Kshs.354,892,274,000) in respect of buildings, transmission lines, plant and machinery. As disclosed in Note 15 to the financial statements, these power generation assets are significant to the statement of financial position and are carried at revalued amounts less accumulated depreciation and accumulated impairment losses. Property, plant and equipment balance also includes capital work in progress amounting to Kshs.71,001,022,000 (2024 – Kshs.63,921,181,000) which is carried at cost less of impairment losses. During the year, an impairment assessment was carried out on the capital work in progress and a loss of Kshs.538,052,000 (2024 – Kshs.39,478,000) was charged to the statement of profit or loss as disclosed in Note 10(g) to the financial statements. In particular, Management identified impairment indicators in the capital work in progress projects that were determined not to be economically viable or environmentally sustainable. Significant judgments are required to be applied by the Management in the impairment assessment of these assets in line with the accounting policies and IAS 36 - Impairment of Assets. The Standard requires an entity to assess, at the end of each reporting period, whether	To address the key audit matter, Management's assessment of the indicators of impairment were obtained and the key assumptions made were reviewed with the objective of testing their reasonableness based on evidence provided. Additionally, significant judgments made and conclusions reached were reviewed and challenged. The audit procedures also focused on understanding the basis of the judgments made and considered audit evidence which were obtained during the audit and the understanding of the nature and use of these assets. An assessment was conducted on whether the approach and methodology used by Management was appropriate and consistent with requirements of IAS 36 - Impairment of Assets. Impairment workings and analyses prepared by

Key Audit Matter	How Audit Addressed the Key Audit Matter
there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. The objective of the Standard is to prescribe procedures that an entity applies to ensure that its assets are carried at no more than the recoverable amount. An asset is carried at more than its recoverable amount if the carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the entity is required to recognise an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures. My attention was directed at this area because of the significance of the carrying values of these assets and the risk that inappropriate judgments or key assumptions could lead to material misstatements in the financial statements. I therefore identified the impairment assessment of plant, machinery, buildings, transmission lines and capital work in progress as representing a key audit matter for purposes of my audit.	Management were obtained and the approach applied was tested for appropriateness. The data and inputs used in the impairment assessment was tested and calculations for accuracy and completeness reviewed. Additionally, the adequacy of impairment related disclosures in the financial statements, including the judgments and assumptions used were assessed.

I have fulfilled the responsibilities described in the Auditor-General'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.

Other Matter

Delay in Compensation of Land Acquired for Roads Expansion

As previously reported, part of the Company's land located in Changamwe was acquired by the Kenya National Highways Authority (KeNHA) for dualling of the Mombasa-Mariakani Road. The construction of the road rendered the staff houses in Changamwe temporarily unhabitable as they were disconnected from the sewer line, and a perimeter wall securing the property was also damaged. Management indicated that the two affected residential flats would realize a net rental income of Kshs.768,000 per year for the Company.

Review of records indicates that Management has made several correspondences to the National Land Commission (NLC) and KeNHA seeking compensation of Kshs.250,611,659 but no response has been received by the time of the audit. The State Department for Roads had also written to The National Treasury, on behalf of KeNHA, requesting for the allocation of funds to settle the long outstanding compensation of the Company's land.

Other Information

The Directors are responsible for the Other Information set out on page 1 to 31 which comprise of Key Corporate Information, Board of Directors, Management Team, Shareholding, Business Overview, Report of the Directors, Statement of Directors Responsibilities and The Company's Directors Remuneration Policy and Strategy. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Company's 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, 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.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

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 effects of the matter 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

Delay in Completion of an Office Block and Parking Yard at Olkaria Power Station

On 4 May, 2021, Management contracted a local contractor to undertake construction works of an office block and a parking yard at Olkaria Geothermal Power Station in Naivasha at a cost of Kshs.11,534,357. According to procurement records, the works were to be undertaken in two phases where phase one encompassed construction of an office block while phase two involved construction of a parking yard. The expected completion date was on 24 August, 2022. However, the date was extended to 3 November, 2022 due to non-completion of works within the initial contract period.

Despite the extension, the contractor failed to mobilize adequate resources and did not achieve satisfactory progress, leading the Management to institute termination proceedings. The contract was formally terminated in accordance with the provisions of the Public Procurement and disposal Act, 2015. At the time of termination, the contractor had been paid an amount of Kshs.7,176,945 for completed and certified works. Management had not yet initiated procurement process for completion of the works at the time of the audit.

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

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 effect of the matters described in the Basis for 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. Trade Receivables - Balance Due to from The Kenya Power and Lighting Company Plc

The statement of financial position reflects trade receivables balance of Kshs.16,646,382,000 (2024: Kshs.16,629,593,000) which, as disclosed in Note 21 to the financial statements is net allowance of impairment amounting to Kshs.830,990,000 (2024: Kshs.466,706,000) due from The Kenya Power and Lighting Company Limited. Review of records indicates that the two companies had executed a Purchase Power Agreements (PPAs) with an agreed credit period of 40 days. Although Management indicated that measures were in place to enhance collection of outstanding amounts which included agreeing on payments plans with KPLC on a monthly basis, the collection period remains high at an average of 113 days against the credit period of 40 days which had been agreed in the Purchase Power Agreements (PPAs).

In the circumstances, failure to collect receivables in optimal time and lack of an effective regular resolution of reconciliation items leading to delays in settling of the outstanding amounts negatively, impacts the company's working capital which could lead to future disputes and eventual risk of impairment.

2. Long Outstanding Receivables from Non-Commercial Clients

The statement of financial position reflects other receivables and prepayments balance of Kshs.2,340,298,000 (2024: Kshs.3,027,582,000) which as disclosed in Note 22 to the financial statements includes Kshs.1,272,743,000 (2024: Kshs.982,420,000) in respect of non-commercial clients' receivables with a total provision of Kshs.545,000,000 (2024: Kshs.308,000,000). The balance has been outstanding above the average credit period of between 30 – 90 days. The most significant overdue amounts are owed two firms, one of which was foreign, with an outstanding total balance of Kshs.890,000,000 representing 70% of the total balance. The extended outstanding receivables are attributed to weak contractual terms with clients which do not sufficiently safeguard timely payment.

Delayed collection of receivables would negatively affect the Company's cashflows and working capital position while the prolonged outstanding balances increases the risk of bad debts, which may require additional provisions and results into financial losses. The situation could also impact on the company's ability to funds operations and meet its obligations when they fall due. Management indicated that the Government of Djibouti, through its Embassy in Kenya reaffirmed its commitment to honour all contractual obligations under the Galla-le-Koma Geothermal Project once donor disbursements are finalized.

In the circumstances, the existence of an effective enforcement mechanism of payment and debt recovery strategies 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

Conclusion

As required by the Companies Act, 2015, I report based on my 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;

ii. Information given in the Directors' report on pages 25 to 27 is consistent with the financial statements; and

iii. The auditable part of the directors' remuneration report on pages 28 to 30 has been properly prepared in accordance with the Companies Act, 2015.

Basis for Conclusion

The Companies Act, 2015, requires that I report on the legal and regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Company's compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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 control, 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 unless the Management is aware of the intention to 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 governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I also I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

30 October, 2025