REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA ELECTRICITY TRANSMISSION COMPANY (KETRACO) LIMITED

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
Email: info@oagkenya.go.ke
Website:www.oagkenya.go.ke

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OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA ELECTRICITY TRANSMISSION COMPANY (KETRACO) LIMITED 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 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 the 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 the Government achieves value for money and that such funds are applied for the intended purpose; and,

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, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, 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

Qualified Opinion

I have audited the accompanying financial statements of Kenya Electricity Transmission Company (KETRACO) Limited set out on pages 1 to 38 which comprise of the statement of financial position as at 30 June, 2025 and the statement of profit or loss and other comprehensive income, statement of changes in equity, 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 Kenya Electricity Transmission Company Limited 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.

Basis for Qualified Opinion

Inaccuracies in the Property, Plant and Equipment Balance

The statement of financial position reflects property, plant and equipment balance of Kshs.230,749,329,000. As disclosed in Note 13 to the financial statements, the balance includes capital work in progress values valued at Kshs.56,922,084,000. However, review of documents provided in respect to work in progress revealed inaccuracies and inconsistencies as indicated below:

i. A schedule of projects under construction supporting donor funded projects reflected ongoing works valued at Kshs.117,198,926,082 resulting in an unexplained variance of Kshs.60,276,842,082;

ii. A schedule provided by Management in support of work in progress reflected a balance of Kshs.10,446,203,112 as at 30 June, 2025. The resultant variance of Kshs.106,752,722,970 was not reconciled or explained;

iii. Capital works in progress balance of Kshs.56,922,084,000 reflected in Note 13 to the financial statements included computer accessories related works valued at Kshs.173,946,505. However, an amount of Kshs.158,530,497 was not supported by procurement and other documentation for the additions were not provided for review; and,

iv. The work in progress schedule indicated no opening balances for Isiolo-Marsabit 220Kv Transmission Line Project and Mumias-Rangala Transmission Line Project. However, the schedule indicated reversals of prior year entries of Kshs.45,621,197 and Kshs.1,798,401 in respect of the two projects respectively, whose basis was not disclosed.

In the circumstances, the accuracy and completeness of the work in progress balance of Kshs.56,922,084,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Electricity Transmission Company (KETRACO) Limited Management in accordance with ISSAI 130 on the 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

Garnishee Proceedings Against the Company

As previously reported, Note 30 to the financial statements discloses that the Company's estimated contingent liabilities consist of ongoing court cases relating to acquisition of wayleaves and contractors' claims amounting to Kshs.2,030,366,000 down from (2024 Kshs.7,019,789,000). However, during the audit in the month of November, 2025, it was noted that KETRACO was taken to the High Court by an international firm/creditor to execute an arbitral ward against KETRACO for Kshs.5,625,404,804 and legal fees of Kshs.102,165,744 totalling Kshs.5,727,570,548. The risk of execution of the judgement remains high on its projects.

Further, on the 20 November, 2025 KETRACO lost in Garnishee proceedings through an Insolvency Petition NO. E031 of 2024 in the High Court which now paves way for the Creditor to attach all of KETRACO's bank accounts which may render the Company unable to operate.

In the circumstances, all public funds under KETRACO accounts are now at risk of being garnisheed to fulfil a court judgement.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effect of the matters described in the Basis for Qualified Opinion, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Issues

In the prior year's audit report, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Company revealed that the following matters raised in 2023/2024 financial year remained unresolved;

No.	Year	Audit Issue
1.	2023/2024	Material Uncertainty Relating to Going Concern
2.	2023/2024	Unsupported Down Payments and Advances
3.	2023/2024	Expenditure on Stationery and Office Supplies, Transmission Line Spares and Mortgage
4.	2023/2024	Long Outstanding Related Party Balances
5	2023/2024	Trade and Other Payables
6	2023/2024	Contingent Liability
7	2023/2024	Long Outstanding Wayleave Compensation
8	2023/2024	Double Wayleave Compensation
9	2023/2024	Non-Compliance with Loan Novation Agreement
10	2023/2024	Non-Submission of Car Loan and Mortgage Scheme Financial Statements
11	2023/2024	Excess Board Meetings
12	2023/2024	Non-Contribution Energy Environment and Social Responsibility Program Fund
13	2023/2024	Nanyuki-Rumuruti Underground Cable Project
14	2023/2024	Land Without Titles
15	2023/2024	Delays in Transfer of Energy Dispatch System Operator
16	2023/2024	Security of Transmission Assets

Other Information

The Directors are responsible for the Other Information set out on page iii to lii which comprise of Key Entity Information, The Board of Directors, Key Management Team, Fiduciary Management, Fiduciary Oversight Arrangements, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and Statement of Directors' Responsibilities, 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. Based on the audit procedures performed and the matters described in my Basis for Qualified Opinion, I confirm that the Other Information is not materially inconsistent with the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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 including wayleave compensation.

Basis for Conclusion

1. Inconsistencies in Wayleave Compensation Payments

The statement of financial position reflects property, plant and equipment valued at Kshs.230,749,329,000. As disclosed in Note 13 to the financial statements, the balance includes capital works in progress valued at Kshs.56,922,084,000 including wayleave compensation.

However, a forensic audit on Wayleave Compensation dated September, 2025 revealed several inconsistencies and irregular payments to Project Affected Persons (PAPs) which included the following: -

i. Amounts payable to PAPs in three projects comprising Lessos-Tororo Transmission Line, Ethiopia-Kenya Transmission Line and Isinya-Namanga Transmission Line Projects included Kshs.141,945,746 paid in excess of the value for the land acquired for the projects.

ii. Compensation of lands which was outside the wayleave corridor which was yet to be recovered.

iii. Use of outdated valuation reports as a basis for Resettlement Action Plans (RAPs).

iv. Lack of scoping reports for identification and purchase of land for construction of substations.

v. Unsupported rerouting of transmission lines which resulted in new PAPs who had not been provided for during project scoping, design and budgeting.

vi. Lack of guidelines for land valuation and a framework for negotiation and renegotiation.

vii. A list of payable wayleaves did not include all parcels of PAPs who had accepted offers from the Company. Additionally, compensation payments included persons who had rejected offers for compensation which raised doubts on the basis for settlement.

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

2. Non-Reservation of Employment Opportunities to Persons with Disability

During the year under review, the Company had five hundred and forty-seven (547) employees, out of which, fourteen (14) or 2.6% were classified as persons living with disabilities. This was contrary to Section 21 (2) (a) of the Persons with Disabilities Act, 2025 which requires an employer with at least twenty employees, to reserve at least five per cent direct employment opportunities for persons with disabilities to secure employment.

In the circumstances, Management was in breach of the law.

3. Unsupported Supply of Tree Seedlings

The statement of profit or loss and other comprehensive income reflects expenditure of Kshs.2,796,378,000 in respect of administration costs. As disclosed in Note 6(a) to the financial statements, the expenditure of Kshs.363,408,000 was incurred on other operating expenses. Review of documents provided in support of the expenditure revealed a payment of Kshs.5,190,000 to a private firm to supply and planting assorted seedlings at Londiani Forest in the month of August and September, 2024 and June, 2025.

However, review of documents attached in support of the expenditures revealed several inconsistencies and anomalies as indicated below:

i. An amount of Kshs.1,530,000 was paid to casual workers and local forest association members for pitting and planting. However, identification of the casuals and details of the persons engaged such as names and Identification Numbers were not provided. Further, no signed schedules of the casuals engaged acknowledging receipt of payment was provided for review.

ii. Only one supplier was issued with request for quotations contrary to Section 106 of the Public Procurement and Asset Act, 2015 which provides that the request shall be given to as many persons as necessary to ensure effective competition and shall be given to at least three persons, unless that is not possible.

iii. A purchase order was issued on 8 November, 2024 while the seedlings were delivered on 25 September, 2024 an indication that the goods were procured and delivered before a purchase order was issued contrary to Section 69(2) and 106(5) of Public Procurement and Asset Disposal Act, 2015 and Regulation 166(1) of the Public Procurement and Asset Disposal Regulations, 2020.

iv. Records maintained by the Company indicated that tree planting was undertaken between 8 to 14 September, 2024. However, the seedlings were indicated to have been supplied on 25 September, 2024 which was eleven (11) days later.

v. According to documents reviewed, 60,000 trees were planted between 25 to 31 August, 2024. However, a purchase order issued on 5 September, 2024 and delivery notes indicated that the seedlings were delivered on 10 September, 2024 and received by a Company official on 18 September, 2024 implying that the tree planting was carried out before the seedlings were delivered.

vi. Out of the 160,000 trees procured, only 50,000 seedlings was acknowledged. The remaining 110,000 lacked evidence of receipt such as stamped delivery notes or signed acknowledgment forms. Further, no evidence was provided on receipt and issue of the tree seedlings.

In the circumstances, Management was in breach of the law and value for money on the expenditure of Kshs.5,190,000 could not be confirmed.

4. Lack of Updated Survey Works, Records and Maps

During the year under review, Management did not maintain a record of survey works and maps for its transmission network both in Nairobi and Regional Offices. In addition, Management was yet to update survey records of acquired wayleaves with the Directorate of Surveys in Nairobi and in the Regional Offices. This was contrary to Section 30 (1) of the Survey Act, CAP 299 which requires that every surveyor who executes any survey in accordance with the provisions of the Act to send to the Director all plans, field notes and computations relating thereto, and all such plans, field notes and computations to be deposited in the Survey Office and become the property of the Government.

In the circumstances, Management was in breach of the law .

5. Lack of Tender Evaluation Committees

During the year under review, Management appointed only three (3) members to sit in Evaluation Committees which awarded various tenders for goods, services and works valued at Kshs.16,368,737. However, the appointment did not conform with Section 46(4) of the Public Procurement and Asset Disposal Act, 2015 which requires that an Evaluation Committee to consist of between three and five members appointed on a rotational basis comprising heads of user department and two other departments or their representatives and where necessary, procured consultants or professionals, who shall advise on the evaluation of the tender documents and give a recommendation on the same to the committee within a reasonable time.

In the circumstances, Management was in breach of the law.

6. Irregular Procurement of Computer Application Certificates

During the year, Management invited bids through request for quotations on 13 November, 2024 for supply of Secure Sockets Layer (SSL) application certificates from four (4) suppliers. The bids closed on 18 November, 2024 with only two quotations from local bidders received. The two quotations were evaluated and awarded to the lowest evaluated bidder at their quoted price of USD16,870.95 or approximately Kshs.2,180,305.

The quotation was approved by the Managing Director on 26 November, 2024, contrary to Section 106(2) of the Public Procurement and Asset Disposal Act, 2015 which require that, an Accounting Officer of a procuring entity shall ensure that at least three persons shall submit their quotations prior to evaluation.

In the circumstances, Management was in breach of the law.

7. Irregular Staff Sponsorship for Advanced Management Programme

The statement of profit or loss and other comprehensive income reflects administration costs balance of Kshs.2,796,378,000 as disclosed in Note 6(a) to the financial statements. The expenditure includes Kshs.39,909,000 incurred on staff training. Review of supporting records revealed an amount of Kshs.2,300,000 was incurred to sponsor an employee undertaking an Advanced Management Programme at a local University. However, the employee who was admitted for the program commencing in April, 2025 for a duration of eight (8) months, was set to retire in December, 2025, the same time of completion of studies.

In the circumstances, the value for money incurred on the training expenditure of Kshs.2,300,000 could not be confirmed.

8. Irregular Procurement of Air Tickets

The statement of profit or loss and other comprehensive income reflects administration costs amounting to Kshs.2,796,378,000 as disclosed in Note 6(a) to the financial statements. Included in the amount is an expenditure of Kshs.363,408,000 on other operating expenses out of which Kshs.16,709,457 was incurred on purchase of air tickets.

Review of documents supporting the payments revealed that the Company received quotes through emails and not through the required quotation document to suppliers contrary to Section 106 (1) of the Public Procurement and Asset Disposal Act, 2015 provides that a procuring entity shall prepare a request for quotations that sets the name and address of the procuring entity; the specific requirements for the goods, works or services being procured; and an explanation of where and when quotations shall be submitted;

In the circumstances, Management was in breach of the law .

9. Avoidable Storage Costs on Non-Installed Transformers

Management procured two (2) transformers from Spain on 10 August, 2021 for proposed substations in the Rabai-Bamburi-Kilifi project. The transformers were received and stored at the premises of a private logistics company stores in Mombasa. A visit to the store in November, 2025, revealed that the transformers were still held at the stores and had incurred a total of USD 39,160.38 (approximately Kshs.5,071,269) in storage charges.

In addition, the industry-standard warranty period ranged from 12 - 24 months from the date of delivery or commissioning. Since the transformers were procured in 2021 and remained uninstalled for over four (4) years, the warranty may have lapsed while in storage.

In the circumstances, the value for money incurred on purchase of the transformers and storage costs could not be confirmed.

10. Loss of Transformer in Transit

KETRACO acquired a transformer from an international firm a contract sum of USD1,173,898 approximately Kshs.152,289,788 in 2013. Management awarded a tender to a local logistics company in July, 2023, for transportation of a transformer from Mombasa to Kitale to a local Company at a cost of Kshs.9,538,500. The Company was instructed to deliver the transformer to the respective destination without a formal contract or provision evidence of transit insurance.

However, while on transit, the transformer destined for Kitale was damaged in a road accident along Nairobi-Malaba Road. Physical verification in September, 2025 revealed that the transformer which was stored in Kitale substation had been rendered not functional. Further, the manufacturer's internal inspection report largely attributed the damages to the accident. The absence of a contract or an insurance cover exposed the equipment to a risk of loss and damage without recourse to the Company, contrary to Section 134 of the Public Procurement and Asset Disposal Act, 2015 which provided that the Accounting Officer shall be responsible for preparation of contracts in line with the award decision.

In the circumstances, Management was in breach of the law and the value for money incurred on the transformer amounting to USD1,173,898 approximately Kshs.152,289,788 could not be confirmed.

11. Non-Conclusive Procurement of Commercial Data Centre

Management invited expression of interest for design, construction, and commercial operation of tier IV data centre on a revenue share on Model on 30 September, 2021. Two firms out of five who had expressed interest were considered responsive invited, to submit their proposals. Review of procurement process and documents relating to the procurement revealed several anomalies and inconsistencies as indicated below:

i. The procurement had not been included in the Company's annual procurement plan for the financial year 2021/2022 and no evidence of revision of the procurement plan to include the procurement was provided for audit.

ii. The procurement required the bidder to design, build, lease and operate data centre for at least fifteen (15) years and share revenue with the Company. The arrangement fits the definition of Public Private Partnership under Section 2(1) of the Public Private Partnership Act, 2013. However, no evidence of feasibility study was carried to determine the viability of the project and the procurement was not subjected to the process prescribed in the Public Private Partnership Act, 2013.

iii. Management did not comply with The National Treasury Circular dated 24 January, 2020 on guidelines on Public Investment Management for National Government and its entities which provides for feasibility studies which should be cleared by the Project Committee, the Board, the Accounting Officer and relevant Cabinet Secretary before submission to The National Treasury for independent review and concurrence within thirty days.

iv. Five firms responded to expression of interest. However, two firms were shortlisted and invited through request for proposal contrary to section 121(3) of Public Procurement and Asset Disposal Act, 2015 which requires that, where less than six proposals have been received, a minimum of three proposals shall be shortlisted.

v. The tender validity was extended from 28 April, 2022 twice comprising a one-month extension to 28 May, 2022 and a second extension running to 29 June, 2022. This was contrary to Section 88(3) of public procurement and Asset Disposal Act, 2015 which provides that extension of tender validity can only be done once and restricted to thirty days.

vi. Clause 3.3.2 of bid documents provided that financial score which is the same as percentage revenue share of at least 50% of revenue. However, a different bidder was considered for award by the Tender Evaluation Committee with a financial score of 30% against the evaluation criteria.

vii. Due diligence was conducted between 20 and 24 April, 2022 in China Mobile International Data Centre Singapore by the Evaluation Committee members. However, travel expenses comprising flight costs, accommodation and subsistence allowances amounting to Kshs.5,108,248 was met by the bidder, which amounted to conflict of interest.

viii. The Head of Procurement in a professional opinion issued on 24 May, 2022 to the Accounting Officer recommended termination of the procurement process under Section 63(1)(e) citing material governance violations including the procurement was done under Public Private Partnership Act 2013. The Accounting Officer concurred with the opinion leading to termination of the procurement process. However, the bidder sought redress from Public Procurement Administrative Board and subsequent appeal to High Court where a ruling was made in favor of the bidder. As at the time of audit in November, 2025 no contract had been entered into, and no information was provided on how the stalemate would be resolved.

In the circumstances, Management was in breach of the law.

12. Loss of Insulator Washing and Water Deionizing Machine

The Company entered into a contract with an International Firm on 28 October, 2020 to deliver with a delivery date of 30 November, 2021 to procure an Insulator Washing and Water Deionizing Machine at a cost of Kshs.182,071,000. As part of the contract, a training of fifteen staff comprising engineers and technicians to operate Insulator Washing and Water Deionizing Machine, which is essential for the effective functioning of the

Operations and Maintenance of the Ethiopia Kenya Project was required. However, documents provided for audit revealed that the training was carried out for five (5) days and there is no evidence that the balance of the ten (10) training days were executed.

However, it was observed that six (6) of these trained personnel have since exited the Company through resignation without evidence of succession planning, skills transfer, or retention measures being implemented by the entity.

In the circumstances, value for money amounting to Kshs.182,071,000 incurred on purchase of the machine, transfer and training due to the loss of staff could not be confirmed.

13. Irregular Payments to Community Based Organizations

During the year under review, Management paid a total of Kshs.104,990,079 from Ethiopia-Kenya Electricity Highway Project to Community Based Organizations (CBOs) based on an agreement between Company and County Government of Marsabit. The agreement was in respect of wayleave land for Ethiopia Kenya Electricity Highway Project which traverses approximately 630 kilometres from Moyale to Suswa, 300 kilometres. The project crosses through unregistered community land mostly in Marsabit County.

Additionally, to facilitate implementation of the Project, Management requested for grant of wayleave to the County Government of Marsabit on the land held in trust for the interest of its residents. The grant was approved on condition that all monies for compensation of this land would be used for community projects within the affected area and not as a Corporate Social Responsibility (CSR) but for community land in lieu of compensation. However, Kenyan laws did not provide for compensation in-kind.

Consequently expenditure of Kshs.104,990,079 to the thirteen (13) selected Community Based Organizations (CBOs) to undertake community projects including schools, health centres, youth centres, police houses, water piping, purchase of water tanks, community social hall, water pans, dormitories in schools was unlawful.

In the circumstances, Management was in breach of the law.

14. Inadequacies in the Project Management

14.1 Claims arising from Various Contracts

Review of various contracts revealed that several of them are behind schedule and the Company has to issue new addendums to the contractors. Mariakani substation has had nine (9) addendums, Turkwel-Ortum-Kitale project had three addendums on the second contractor while Machakos-Konza-Namanga project had sixteen (16) addendums.

Claims have emanated from the addendums for idle time spent by the contractors not working due to various reasons. In reference to a Board paper reference TC Circular No5/05, authored by the Company's staff to the Board Technical Committee, the following claims were reported.

Contract	Claims -Kshs.
Turkwel - Ortum Kitale	113,339,842
Isinnya – Namanga	1,066,023,105
Kenya -Tanzania Contractor 1	1,537,841,168
Kenya -Tanzania Contractor 2	24,193,097
Nairobi Ring	2,626,510,256
Rabai - Bamburi Kilifi	768,462,300
Mariakani Substation	205,158,266
KPTSIP	1,502,441,184
Total	**7,843,969,219**

In addition, it was noted that KETRACO had been absorbing the claims through the addendums and extending contracts contrary to Public Procurement and Assets Disposal Regulation, 2020 Section 132(3) which requires that extension of contract period under Section 139(2)(a) of the Act where delivery is delayed shall not have a financial implication. Further, KETRACO is yet to turn around and complete the above listed project on time from payment of Persons Affected by Projects to contractors that it engages.

In the circumstances, Management was in breach of the law.

14.2 Construction of Electricity Transmission Lines and Substations Projects

During the year under review, Management was implemented several projects involving construction of electricity transmission lines and substations. Review of contracts for the projects revealed that works for eight (8) projects were behind schedule, with some requiring extension of time through addendums to the contracts. For instance, Mariakani substation project has had been issued nine (9) addendums, Turkwel-Ortum- Kitale project had three (3) while Machakos-Konza-Namanga project had sixteen (16).

Additionally, the delay in implementation of projects and issuance of addendums was majorly attributed to idle time spent by the contractors, as was indicated in Board paper prepared by Management to the Board Technical Committee during the year under review. The addendums were indicated to have resulted in claims amounting to Kshs.7,843,969,219 for the eight projects.

Further, the additional costs were borne by the Company contrary to Regulation 132(3) of the Public Procurement and Assets Disposal Regulation, 2020, which requires that extension of contract period under Section 139(2)(a) of the Act where delivery is delayed shall not have a financial implication.

In the circumstances, Management was in breach of the law.

15. Unconfirmed Land Occupancy for Company Buildings and Infrastructure

Review of records, including the fixed assets register, revealed the several buildings and other infrastructure had been constructed on parcels of land which were not owned or controlled by the Company Audit Inspection to the sampled facilities revealed assets valued at Kshs.7,954,397,858 in Kitui, Wote, Rabai, Sultan Hamud, Machakos, Menengai, Kisii, Chemosit, Maungu and Olkaria among others did not have title deeds, leases, wayleave agreements, or land use consents.

Therefore, in the absence of documented legal ownership or enforceable land-use rights, exposed the Company to the risk of disputes, repossession, or loss of the assets.

In the circumstances, existence of sufficient safeguards on ownership of public property could not be confirmed.

16. Incomplete Works at Mariakani Substation Project

Management contracted two (2) international firms on 25 January, 2016 to undertake construction of 400/200KV Mariakani Substation at a contract price of USD23,846,925.331 approximately Kshs.3,084,599,792 and Government of Kenya component amount of Kshs.132,481,217.00. The project was financed by African Development Bank under the Kenya-Ethiopia Electricity Highway Project.

The initial completion date of 9 August, 2020 was revised to 30 June, 2024 through addendums 1 to 9 to the contract. However, addendum 2 was signed on 25 May, 2021, 25 days after the expiry of the contract on 30 April, 2021. Several other extensions were granted thereafter through addendums 5, 6, and 9, an indication of poor contract monitoring and management.

Further, works on the 2KM main access road to the substation from Mombasa Road at a cost of EUR206,318 approximately Kshs.31,461,432 and Government of Kenya component Kshs.7,581,818 which was part of the contracted works, was yet to start as the land where the road was to be built was yet to be acquired. In addition, lack of an official public road on the map rendered the site landlocked and had affected implementation of the project due to perennial blockage of access to the site from main highway by the residents.

In the circumstances, the purpose for which the project was intended for may not be realized, and the value for money already spent on the project.

17. Non-Compliance with Law on Gender Balance

During the year under review, the Company had five hundred and forty-seven (547) employees out of whom three hundred and ninety-three (393) or 72% were male contrary to Section B.22(2) of the Public Service Commission Human Resource Policies of May, 2016 which requires positions in the establishment not to be filled by more than two-thirds of either gender. Management indicated that advertisements to vacant positions encourage female candidates to apply, the ideal balance was yet to be attained.

In the circumstances, Management was in breach of the law.

18. Non-Actualization of the Appointment of KETRACO as the System Operator

The Cabinet in May, 2024 approved the transfer of transmission assets in order to streamline operations and create efficiency in the electricity sector. Following this approval, the Principal Secretary, State Department for Energy vide letter Ref

MOE/CONF/1/69 dated 27 September, 2024 addressed the Managing Directors of Kenya Power and Lighting Company Limited (KPLC) and Kenya Electricity Transmission Company Limited (KETRACO) on the transition of System Operator function from KPLC to KETRACO where it was directed that in the immediate term beginning December, 2024, all staff, technical and station clerk at the National Control Centre (NCC) were to be seconded to KETRACO, System Control and Market Operation (SCMO) Department of Directorate of System Operations and Power Management (SOPM).

Additionally, the completion of the transfer of the System Operator function had been envisioned to be on 6 June, 2022. However, as at the time of audit in August, 2025, KETRACO was yet to take over from KPLC as the System Operator, more than three years after publishing the Gazette Notice. This was attributed to deficiencies in both human and financial resources to carry out the functions outlined in the Energy Act, 2019 and gazette notice. Further, it has been noted that the Company has not been allowed by KPLC data and access to the National Control Centre for capacity building even after communication from the Energy and Petroleum Regulatory Authority (EPRA) and the Principal Secretary, State Department for Energy.

KETRACO currently lacks the both technical and financial capacity to carry out System Operator functions listed under Section 138(1) of the Energy Act, 2019.

In the circumstances, the Management was in breach of the law.

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 comply 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 the effect of the matters described in the Basis for Conclusion on 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 governance were not effective.

Basis for Conclusion

1. Long Outstanding Related Parties Balances

Note 22 (c) to the financial statements reflects payables to related party amount of Kshs.1,560,463,000 due to the Kenya Power and Lighting Company Limited (KPLC). Included in this balance is an amount of Kshs.743,855,000 being current portion of payables to related party. Review of a ledger and supporting invoices in respect of the balance revealed the several invoices had been outstanding for a period of more than eight (8) years.

In the circumstances, the existence of effective mechanisms for timely recovery of debts from related entities could not be confirmed.

2. Lack of Strategic Spares for Transformers

Audit verification of various sites and substations in August, 2025 revealed that six (6) transformers had malfunctioned, with some having been out of service since 2017. Management complained that some of the faulty transformers could not be serviced on time due to lack of strategic transformers' spares as a fallback plan in case of failure, and posed a risk interruption of transmission services in the event of multiple failures. As a result, some substations have been reduced to switch stations due to lack of transformers to handle the increased power overload.

In the circumstances, existence of effective measures to ensure minimum interruption of electricity supply to consumers could not be confirmed.

3. Lack of Succession Planning

Review of appointment of Board of Directors of the Company revealed that of the independent Directors of the Board, with the exception of the Chairperson, were appointed vide Gazette Notice No. 2379 dated 20 February, 2023 by the Cabinet Secretary, Ministry of Energy. In the absence of staggered appointments of the Board of Directors, strategic decisions and policy matters may be affected or delayed due to lack of quorum in the Board.

In the circumstances, the appointing authority had breached the law.

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 controls, 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. The information given in the Directors' report on page li is consistent with the financial statements; and

iii. The auditable part of the Directors' remuneration report on page 28 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 or 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 controls 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 controls, risk management and 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 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 comply 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 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

24 December, 2025