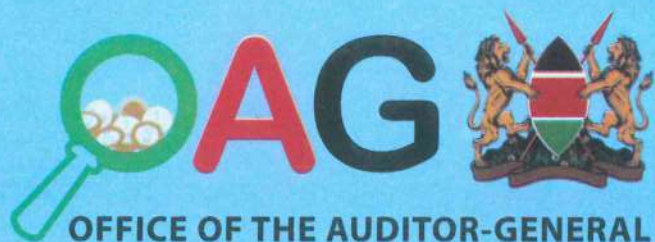


REPUBLIC OF KENYA



Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

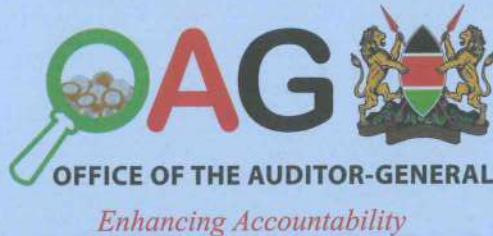
ON

**KENYA POWER AND LIGHTING COMPANY
PLC**

**FOR THE YEAR ENDED
30 JUNE, 2025**

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON THE KENYA POWER AND LIGHTING 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 the 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.

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

I have audited the accompanying financial statements of The Kenya Power and Lighting Company PLC set out on pages 70 to 158, which comprise the statement of financial

position as at 30 June, 2025, the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows 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, the financial statements present fairly, in all material respects, the financial position of The Kenya Power and Lighting Company PLC as at 30 June, 2025, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of The Kenya Power and Lighting Company PLC 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 opinion.

Emphasis of Matter

1. Land without Ownership Documents

The statement of financial position reflects property, plant and equipment valued at Kshs.287,476,703,000 which, as disclosed in Note 17 to the financial statements, includes freehold land with a book value of Kshs.785,940,000. The land includes fifteen (15) parcels at various locations valued at Kshs.28,574,258 for which the Company had no title deeds. Management indicated that most of these parcels were allotted from trust land and provided evidence of efforts undertaken to follow up with the relevant authorities to have the land demarcated and adjudicated to facilitate acquisition of title deeds. However, as at 30 June, 2025, the processes were still ongoing and title documents were yet to be obtained.

Further, eighteen (18) parcels of land had been charged to a private company between 1970 and 1984. Five (5) of the parcels were charged for Kshs.33,950,080 while the other thirteen (13) were charged for unknown amounts. In addition, five (5) parcels where power substations had been erected were under lien in favour of a law firm. Further, records at the Company indicated that a suit was filed against the law firm at the High Court, seeking to compel the release of the titles. However, efforts to serve the respondent had been unsuccessful as the law firm was said to be untraceable.

In the circumstances, the ownership of the parcels of land valued at Kshs.28,574,258 could not be confirmed.

2. Cost of Power Purchased From Independent Power Producers

As disclosed in Note 8 to the financial statements, the Company purchased a total of 14,472 gigawatt-hour (GWh) units of electricity for a cost of Kshs.144,663,605,000. The power was purchased from the Kenya Electricity Generating Company PLC (KenGen) and from Independent Power Producers (IPPs). A comparative analysis of cost of power purchased from the two sources revealed that, on average, the unit cost of power purchased from the Independent Power Producers was significantly higher compared to power purchased from KenGen.

As previously reported, the disparity was mainly attributed to the terms contained in the power purchase contracts entered with the Independent Power Producers (IPPs). To mitigate against the rising electricity costs, a Presidential Taskforce appointed in March, 2021 to undertake a comprehensive review of Power Purchase Agreements (PPAs) with Independent Power Producers recommended a review of the PPAs with an aim of renegotiation and exploring ways to address the disparity. Management indicated that significant steps had been taken towards renegotiating unfavorable PPAs, where agreements had been secured to lower tariffs and shift contracts to Kenya Shillings. However, the revised terms were yet to be formalized through approvals from the Energy and Petroleum Regulatory Authority (EPRA) and The National Treasury.

Until such negotiations are concluded and requisite approvals obtained, the disparities in costs between power supplied from KenGen and IPPs will continue to persist.

3. Variances Between Electricity Receivables and County Governments Data

The statement of financial position reflects trade and other receivables balance of Kshs.76,021,431,000, which as disclosed in Note 22(b) to the financial statements, include electricity receivables amounting to Kshs.39,032,248,000. The amount further includes an amount of Kshs.5,679,805,786 due from County Governments. Review of data obtained from sampled County Governments revealed variances in amounts owed by ten (10) County Governments totalling Kshs.2,363,985,447 as summarized in the table below:

County	Balance as per KPLC Records Kshs.	Balance as per County Governments Records Kshs.	Variance Kshs.
Bungoma	42,717,024	39,139,895	3,577,129
Embu	63,849,897	56,252,429	7,597,468
Homabay	69,687,399	50,334,129	19,353,270
Isiolo	14,076,267	1,556,851	12,519,416
Kakamega	23,562,965	10,923,420	12,639,545
Kirinyaga	47,328,241	33,092,495	14,235,746
Laikipia	12,979,901	11,856,709	1,123,192
Migori	54,536,667	19,953,069	34,583,598
Nairobi	3,603,991,809	1,345,691,000	2,258,300,809
Samburu	4,787,068	4,731,793	55,275
Total	3,937,517,236	1,573,531,790	2,363,985,447

Management subsequently provided additional information including billing records, joint verifications between the Company and affected County Governments and an ongoing collaboration with the Council of Governors towards addressing the matter.

Until those efforts yield the intended results, the reported disparities will continue to persist thus affecting the Company cashflows and service delivery to citizens.

My Opinion is not modified in respect of these matters.

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. These matters were addressed in the context of the audit of the financial statements as a whole and in forming my opinion thereon. 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.

Key Audit Matter	How the Audit Addressed the Key Audit Matter
Revenue Recognition As disclosed in Note 7 to the financial statements, the Company revenue is derived from different streams which are subject to different recognition and disclosure requirements based on the nature, timing, amount, and level of uncertainty. Electricity sales revenue is recognised when customers on post-paid metering are billed for power consumed each month based on meter readings or estimated consumption. Uncollected revenue is included in the accounts receivable. On the other hand, sales from prepaid metering are recognised when customers purchase electricity units and are then adjusted for an estimated unconsumed power determined in average over a period. Other revenue charged to electricity sales include fuel cost recoveries as per monthly approved tariff by the Energy and Petroleum Regulatory Authority (EPRA)	Review of revenue systems was conducted to provide an understanding of the design and operating effectiveness of the systems and general controls over input, processes, integration, and transfer of revenue information between the multiple systems involved in recording revenue. In addition, the following procedures were performed: i. Existing controls over input changes in the billing systems arising from tariff adjustments were tested for adequacy and effectiveness; ii. Information Technology (IT) general controls over customer categorization and billing were tested to ascertain accuracy and completeness of generated reports utilised for revenue reporting; iii. An end-to-end testing of different revenue streams was conducted,

Key Audit Matter	How the Audit Addressed the Key Audit Matter
Fuel Cost Charge (FCC) and foreign cost adjustment which arises from foreign currency denominated obligations at a difference between tariff factored rates and realised exchange rates. The two revenue categories are passthrough costs to customers. The occurrence and accuracy of amounts recorded as revenue is susceptible to recognition risks due to the complexity of the billing systems, changes in tariffs, and multiple electricity generation sources. The application of International Financial Reporting Standard (IFRS) 15: Revenue from contracts with customers for revenue recognition requires the use of complex rating, billing and accounting systems. The complexity is compounded by the significant number of revenue transactions that occur annually. My audit attention was directed to this area because of the significance of the number of revenue transactions, complexity of billing systems and the risk that inappropriate judgments or assumptions could lead to material misstatements in the financial statements. I therefore identified revenue recognition to be most significance during the year under review as a Key Audit Matter for the purposes of the audit.	iv. and an evaluation done on reconciliations between billing data and journals processed in the general ledger; v. Analytical review procedures were performed over significant revenue streams; vi. A sample-based testing of customer contracts was done to confirm validity and performance obligations as agreed by both parties and that revenue was appropriately recognised; vii. Unconsumed power data for selected months was evaluated to assess the reasonableness of estimates used in adjusting pre-paid electricity sales revenue; viii. Sampled journal entries were reviewed against supporting documentation to ascertain that they related to the correct period and were appropriately authorised; and ix. Accounting policies were reviewed and assessed for compliance with IFRS 15 for adequacy and consistency with other disclosures in the financial statements.

I have fulfilled the responsibilities described in the Auditor'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 risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters above, provide the basis for my audit opinion on the accompanying financial statements.

Other Information

Conclusion

The Directors are responsible for the other information set out on page 3 to 66 which comprise of Corporate Information, Board Profile, Executive Management, Statement by the Chairman, Message from Managing Director and the Chief Executive Officer, Operational Highlights, Statement of Performance Against Predetermined Objectives, Sustainability Report, Corporate Governance, Directors' Report, Directors' Remuneration Report 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 Kenya Power and Lighting Company PLC 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution and based on the audit procedures performed, except for the effect of the matters 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

1. Non-Compliance With 30% Procurement Reservation for Disadvantaged Groups

Review of the Company's approved procurement plan for the year under review revealed that only 11% of the procurement budget was reserved for the disadvantaged groups. This was contrary to Section 157 (5) of the Public Procurement and Asset Disposal Act, 2015, which requires that an Accounting Officer of a procuring entity shall, when processing procurement, reserve a prescribed percentage of its procurement budget, which shall not be less than thirty per cent, to the disadvantaged group and comply with the provisions of this Act and the Regulations in respect of preferences and reservations.

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

2. Unauthenticated Employees Academic Qualifications

On 19 October, 2022, the Public Service Commission directed that all Authorized Officers of government institutions to validate academic and professional certificates of staff

employed in the last ten (10) years with a view of taking action on any discrepancies arising thereof by 30 June, 2023. Review of Human Resource records revealed that Management concluded authentication of academic and professional certificates for all Management employees and three thousand six hundred and thirty-eight (3,638) union level employees as at 30 June, 2025. However, certificates of four thousand, eight hundred and forty-two (4,842) union level employees were yet to be validated by the Kenya National Examinations Council (KNEC).

In the circumstances, Management was in breach of the Government Guidelines and Circulars.

The audit was conducted in accordance with ISSAIs 3000 and 4000. The standards requires 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 THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015 and based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on the 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 Receivables from Government and Other Entities

The statement of financial position reflects current trade and other receivables amounting to Kshs.76,021,431,000. As disclosed in Note 22(b) to the financial statements, the balance is a net of gross receivables and provisions totalling Kshs.98,426,432,000 and Kshs.21,127,323,000 respectively. Included in the other receivables gross balance is an amount of Kshs.55,029,253,000 due from Government entities and Kshs.39,032,248,000 due from electricity customers. However, review of the balances revealed long outstanding receivables as detailed below:

- i. Receivables totalling Kshs.34,497,240,000 was in respect of Rural Electrification Scheme (RES) which the Company administers on behalf of the Government of Kenya. Management indicated that Rural Electrification Scheme (RES) is funded by the National Government and implemented by the Company on behalf of Ministry of Energy and Petroleum (MOEP). The Schemes of RES are considered sub-economic, given that their operational and maintenance costs exceed their revenues, and it was agreed that the Government will reimburse the Company any deficit arising from the

scheme. The resultant accumulated deficit is recoverable from the Government of Kenya (GOK) as stipulated in the 1973 Mercado Agreement signed between KPLC and the GOK through the MOEP. As at 30 June, 2025, no reimbursement had been made to cover the deficits despite a Cabinet resolution to disburse Kshs.19,400,000,000 to settle the RES losses.

- ii. An amount of Kshs.158,393,000 was due from the Ministry of Energy and Petroleum, Kenya Electricity Generating Company PLC (KenGen), Geothermal Development Company (GDC), Rural Electrification and Renewable Energy Corporation (REREC), Energy and Petroleum Regulatory Authority (EPRA) and Nuclear Power and Energy Agency (NuPEA) which has been outstanding since 2015. The amount relates to media campaigns executed in November, 2014 through electronic, print, and online media to gauge demand for 5000+ MW from existing and potential investors as had been directed by the then Cabinet Secretary for Ministry of Energy and Petroleum. Records at the Company indicates that the Ministry and its parastatals had agreed to share the costs of the integrated media advertising for investors power plan data gathering campaign. However, no evidence was provided to indicate how the Company ended up paying all the costs on behalf of the other entities.
- iii. The receivables balance includes an amount of Kshs.5,679,805,786 in respect of unpaid electricity bills from the forty-seven (47) County Governments which continue to accumulate. In addition, an amount of Kshs.74,402,114 in respect of street lighting maintenance costs was due from several County Governments for works done between 2016 and 2017. Management efforts to recover the amounts had not yielded favorable results.
- iv. The receivables balance includes an amount of Kshs.1,715,063,000 relating to Kenya Electricity Transmission Company (KETRACO) for costs incurred in the construction of Sondu-Miriu transmission and distribution line, and repayment of a 0.75% loan from Japan Bank for International Corporation which was transferred to KETRACO in 2018 upon signing of the Novation agreement which remained unpaid. The amount includes Kshs.743,854,974 incurred towards operations and maintenance of transmission assets that were invoiced between 2016 and 2022. However, KETRACO in a letter dated 6 March, 2025, acknowledged owing KPLC the amount but attributed the delay in settlement to lack of supporting documentation to facilitate the payment.
- v. An amount of Kshs.13,907,730 was due from thirty-eight (38) tenants who leased Company premises in Mombasa. However, the tenants vacated the premises without settling the outstanding rent, with some of the debts dating back to nine (9) years. In addition, the rent security deposits paid by the tenants were not equivalent to three (3) months' rent and service charge as required by the lease agreements. Management indicated that part of the debt was subject to court proceedings, others had been referred to external debt collectors for follow-up, while the remaining had been forwarded to The National Treasury for write-off.

In the circumstances, the existence and effectiveness on controls on revenue collection from various entities could not be confirmed.

2. Delays in Customer Electricity Connections

The statement of financial position reflects property, plant and equipment with a net book value of Kshs.287,476,703,000. As disclosed in Note 17 to the financial statements, the balance includes work in progress valued at of Kshs.23,461,184,000, which include projects for which customers had paid a total of Kshs.12,724,014,000 for electricity connections. Review of a list of the works revealed that seven thousand, seven hundred and forty (7,740) projects with a total customer capital contribution of Kshs.877,821,276 were yet to start, thus denying the customers electricity supply as well as revenue to the Company.

Further, five thousand two hundred and fifty-five (5,255) projects with capital contributions of Kshs.366,708,785 paid between one (1) to six (6) years ago were yet to start. This is contrary to the Company's Customer Charter on connection of electricity which provides for timelines within which electricity connection for customers are to be carried out ranging between seven (7) days and twenty-eight (28) days. Management attributed the delays in completion of projects to non-availability of materials, wayleaves acquisition challenges leading to re-design, abandonment of projects by customers, premises not ready for connections and customer requests for refunds or transfers to other sites.

In addition, three thousand four hundred and twenty-seven (3,427) projects with a total capital contribution of Kshs.963,146,886 having incurred costs of Kshs.564,578,158 were behind schedule, and have been outstanding for periods ranging from three (3) to twenty-nine (29) years.

In the circumstances, the effectiveness of measures that monitor customer connections could not be confirmed.

3. Weaknesses in Project Management

Review of the project management practices and work in progress records during the year revealed significant delays in the execution of projects. For instance, one sixty-six (166) projects with a cost of Kshs.937,909,373 were behind schedule having been outstanding for period ranging from three (3) to thirteen (13) years. In addition, the Company lacked regular progress monitoring, root cause analysis for delays, and corrective action plans. Management indicated that the projects are at different levels of execution and delays are occasioned by lack intermittent supply of equipment due to long lead times for some equipment like transformers and switch gears.

In the circumstances, the Company may not have realized value for money spent on the projects and the objectives of the projects may not be achieved.

4. Weaknesses in Electricity Consumption Billings

The statement of profit or loss and other comprehensive income reflects revenue from contracts with customers amounting to Kshs.219,284,568,000. As disclosed in Note 7(a)

to the financial statements, the revenue relates to electricity sales on post-paid and prepaid metering. Review of the billing systems revealed several weaknesses and anomalies as indicated below:

- i. Analysis of the customer billing data revealed that fifty-five thousand and sixty-three (55,063) customer accounts, were billed a total Kshs.1,130,704,199 based on estimated consumption for more than three (3) consecutive months. However, no corrective actions had been taken as provided for in Paragraph 6.3 of the Company's Operating Procedures on handling consecutive estimates, which requires corrective measures to be taken after three (3) consecutive months of bill estimation. The foregoing indicates lack of oversight and adequate systems and controls within the Billing Department, which failed to trigger the required corrective actions and reporting mechanisms as stipulated in the Company's procedures;
- ii. During the year under review, a total of 140,064,582 units billed to customers for electricity consumption equivalent to Kshs.4,669,271,477 remained unpaid. The amount includes 130,958 units attributed to active and vending meters with a consumption of Kshs.1,786,912,737. Reasons for non-payment and measures taken by Management to collect the unpaid amount were not confirmed.
- iii. Review of the receivables revealed an amount of Kshs.4,113,652,203 due from postpaid customers whose accounts were terminated due to non-payment of bills, with some dating back to over twenty (20) years ago. However, meter numbers for the terminated accounts had been reassigned to new customers without reconciliation of outstanding balances. Reassignment of the meter numbers increased the risk of loss of revenue arising from untracking of terminated accounts.
- iv. Review of units of electricity purchased against units sold revealed a total of 14,472 in gigawatt-hours (GWh) purchased from power producers out of which 11,403 GWh were sold to customers resulting in energy losses of 3,069 GWh or 21.21%. The industry regulator, Energy and Petroleum Regulatory Authority (EPRA) approved for the Company to recover from consumers system losses of up to 17.5% that is deemed to be normal loss. The excess power loss of 3.71% above the allowed loss constitutes inefficiency power loss which is borne by the Company thus increasing operating costs.
- v. Further, review of the power transmission data revealed that the losses occurred in the distribution and transmission networks. However, KPLC did not break down losses arising from those networks which, if accurately determined, can be attributed and borne by respective distribution schemes under the Rural Electrification and Renewable Energy Corporation (REREC) and the Kenya Transmission Company Limited (KETRACO).

In the circumstances, the adequacy and effectiveness of controls for customer connections and billing could not be confirmed.

5. Network Inefficiencies

5.1 Instabilities in the Power Supply Network

The Company uses System Average Interruption Frequency Index (SAIFI) as a key performance indicator to measure the average number of interruptions a customer experiences over a specific period, with lower values indicating better performance. During the year under review, the Company recorded actual System Average Interruption Frequency Index (SAIFI) of 44.07, which significantly exceeded a target for the year of 30 as set out in the Company's Strategic Plan by 14.07.

In the circumstances, the effectiveness of measures implemented to mitigate against power outages could not be confirmed.

5.2 Inconsistencies in Electricity Outage Reporting

To establish the reliability of electricity supply within the country, the EPRA requires KPLC to collect and report information on reliability and quality of supply. This information is captured through recording electricity outages in the Incident Management System (IMS) and reported through reliability indices namely System Average Interruption Duration Index (SAIDI), System Average Interruption Frequency Index (SAIFI) and Customer Average Interruption Duration Index (CAIDI).

Review of the selected samples of the manual fault logs and the Incident Management System (IMS) generated fault reports for the period under review revealed the following SAIDI reporting weaknesses:

- i. Sixty-two (62) of the sampled incidents recorded in the manual logs were not recorded in IMS. Management attributed the delays in real-time data entry or updates into the IMS to frequent IMS outages. The outages experienced by customers during these incidents were unaccounted for in IMS.
- ii. Twenty-three (23) of the sampled incidents reflected time variances between manual logs and IMS records which Management attributed to human errors during manual logging or IMS input. The inaccurate recording of start and end times affect the calculated duration of outages and, therefore, the computation of reliability indices such as SAIDI.
- iii. Twenty-five (25) incidents had multiple interruption durations recorded manually. However, only the earliest restored segment time was captured in IMS. Capture of the earliest restored segment time led to understatement of the actual outage duration and affected the accuracy of SAIDI and other performance indicators.
- iv. The Company uses Supervisory Control and Data Acquisition (SCADA) system which typically provide real-time data on grid performance, including faults and restoration events. The SCADA system was able to generate logs whenever an interruption occurred. However, there were no time logs on when the line or sections

of a line was restored. This functionality may provide a more accurate computation of SAIDI.

In the circumstances, the efficiency and effectiveness of system generated value of SAIDI and CAIDI reported in the statement of performance against pre-determined objectives could not be confirmed.

6. Inefficiencies in Operations at Off Grid Power Stations Operations

During the year under review, the Company operated fifty-seven (57) off-grid stations in the regions not connected to the national grid. Thirty (30) stations were powered by diesel generators while twenty-seven (27) utilized solar technology. Review of operations at the off-grid stations revealed several inefficiencies and anomalies as detailed below:

- i. Twenty-five (25) diesel generators deployed to the stations, with a combined capacity of 12,454 kilowatts (kW), were not in operation due to breakdown and lack of maintenance, which contributed to reduction of capacity required to supply customers in these areas.
- ii. Physical visit in August, 2025 to Habaswein and Eldas stations revealed that solar and wind generation plants with an installed capacity of 1,170kw installed with the intention of reducing operational costs of diesel-powered stations. However, the plants were non-functional due to lack of periodic maintenance.
- iii. Power outages in areas served by the Off-Grid Stations were not logged in the Incident Management System (IMS), making it difficult for Management to monitor and track supply reliability in these regions.
- iv. Instances of diesel generator breakdowns resulted in extended outages in the regions. For instance, at the Lokitaung Off-Grid Station in Turkana County a breakdown lasting twenty-five (25) days was experienced in July 2024. The prolonged outages were attributed to delays in procuring spare parts for repairs.
- v. An internal investigation on six (6) Off-Grid Stations revealed low efficiency of diesel generators, evidenced by disproportionate fuel consumption relative to electricity output. The inefficiencies were linked to aging equipment, inadequate maintenance, and substandard operational practices. In addition, the investigation noted that despite the construction of a 33 kV power line intended to connect Sololo Off-Grid Station to the Ethiopian national grid in January, 2012 at a cost of USD 487,413.32 the infrastructure remained unenergized and unused.
- vi. Further, the investigation revealed inconsistencies in reservation logs used to track fuel issuance. According to the report, instances of overlapping dates were detected which compromised the integrity of fuel tracking and inventory management, raising doubts about the accuracy of recorded consumption and stock balances. In addition, the investigation identified stations which either lacked a flow meter or had faulty meters for measuring generator fuel usage. Personnel at the stations relied on manual

dip measurements by station operators which compromised verifiability, and reliability of fuel consumption data.

In the circumstances, existence and effectiveness of controls for effective inventory Management could not be confirmed. Further, inefficiencies in the management of Off-Grid stations presented operational, financial, and service reliability risks to the Company.

7. Weaknesses in Management of Fraud Risks

During the year under review, Management identified thirty-three (33) fraud incidences through internal processes comprising of internal audit assessment and voluntary reporting from employees and customers. Review of the status of the incidences reported and investigations undertaken during the year and previous years revealed the following weaknesses:

- i. An internal investigation during the year on alleged use of forged documents by employees to obtain loans from financial institutions revealed that three hundred and eighty-four (384) employees acquired loans using forged payslips and Human Resource approval letters. Out of those, three hundred and sixty-one (361) employees were in breach of the statutory one-third (1/3) basic salary rule. The practice highlights weaknesses in the Company's payroll and human resource approval processes, which may have facilitated deductions beyond the statutory thresholds.
- ii. There was no tracking and monitoring mechanism to follow up on the implementation status of recommendations arising from fraud investigations. In the absence of such a mechanism, Management was unable to effectively assess progress, enforce accountability, or ensure closure of fraud-related control weaknesses.
- iii. Review of quarterly reports from the Internal Audit and Security departments revealed that investigation reports were included as part of the internal audit quarterly reports to the Board Audit Committee. However, there was no evidence of the reports having been discussed at the Committee of full Board level, which limited the effectiveness of oversight and governance.

In the circumstances, the adequacy, effectiveness, and oversight of controls on fraud risks 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 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. Information given in the Directors' report on pages 61 to 62 is consistent with the financial statements; and
- iii. The auditable part of the Directors' remuneration report on pages 63 to 65 has been properly prepared in accordance with the Companies Act, 2015.

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 the 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 The International Standards of Supreme Audit Institutions (ISSAI)). The Standards requires 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

06 October, 2025