



Financial Reporting
Governance Report

Winnie Bunei , November 2018

Agenda

- Governance Reporting and Why
- Regulations and Guidelines
- What constitutes Governance Reporting
- The CFO and the Audit Committee

State Corporations and Semi - Autonomous Government Agencies Importance

OECD GUIDELINES ON CORPORATE GOVERNANCE OF STATE OWNED ENTERPRISES, 2015 EDITION



SAGAs

In emerging economies, state-owned enterprises (SOEs) represent a substantial part of:

- GDP
- Employment
- Market capitalization
- Critical utilities service providers
- Infrastructure industries

SAGAs

- Government of Kenya SAGAs Consolidated Financial Statements for the year ended 30 June 2017 had listed **361 entities.**

Entity Type	Number
State Corporations incorporated under the State Corporations Act Cap 446	223
Funds established under an Act of Parliament or a Legal Notice	46
Water Companies incorporated under Companies Act	74
Other Semi Autonomous Government Agencies	18
Total number of entities consolidated	361

- Consequently, **good governance of SAGAs** is critical to ensure their positive contribution to economic efficiency and competitiveness.
- performance is of great importance **to broad segments of the population** and to **other parts of the business sector.**

SAGAs – Challenge with Governance

Accountability for the performance of SAGAs may involve a complex chain of stakeholders:

- Management
- Board
- Ministries
- The legislature

This complex web of stakeholders is a challenge and requires profound attention.

Governance Reporting

Definition and importance

Corporate Governance

Exercise of ethical and effective leadership to achieve the following:

- Ethical culture
- Good performance
- Effective control
- Legitimacy

Source: King IV

It is the structure and system of rules, practices and processes by which an organization is directed, controlled and held accountable. It encompasses ***authority, accountability, stewardship, leadership, direction*** and ***control*** exercised in organizations. ***Source: Mwongozo***

Corporate Governance

Different types of governance

- **Corporate** governance
- **National** governance
- **Political** governance

Transparency and Disclosure

- ***State-owned enterprises should observe **high standards of transparency** and***
- ***Be subject to the same **high quality accounting, disclosure, compliance and auditing standards** as listed companies***

- ***Transparency and disclosure is important...it creates and sustains confidence of stakeholders and the wider society***
- ***Provides opportunities for continuous improvement***
- ***To be contained in quarterly and annual reports***

Mwongozo vs OECD SOE Guidelines

Governance Parameter	Mwongozo	OECD
Organisation vision and values	✓	✓
Policy on corporate governance	✓	✓
Key stakeholder groups	✓	✓
Governance structures	✓	✓
Board performance and remuneration of directors	✓	✓

Mwongozo vs OECD SOE Guidelines

Governance Parameter	Mwongozo	OECD
Code of Ethics and Whistleblowing policy	✓	✓*
Key organisational risks	✓	✓
Financial reporting – management analysis	✓	✓
Corporate Citizenship	✓	
Procurement	✓	

Mwongozo vs OECD SOE Guidelines

Governance Parameter	Mwongozo	OECD
Compliance with laws and regulations	√	
Sustainability reporting	√	

Governance Parameters (Reporting Framework)

Mwongozo – Transparency and
Disclosure

Organisational vision and values

OUR VISION

Providing world-class power that delights our customers

By striving to provide world-class products and services,
we bring a sense of optimism and delight to our
customers - working together towards a brighter future for Kenya

OUR MISSION

Powering people for better lives

By becoming the preferred energy solution for businesses and
individuals, we empower our customers to achieve more
and reach their full potential

CORE VALUES

We put our customers first
as they matter most

We work together
as one team to achieve our goals

We are passionate
about powering the nation

We believe in integrity
and delivering on our promises

We strive for excellence
in all that we do

Policy on Corporate Governance

Parameter 2.2 :

1. The Board shall include a statement of policy on good governance in the annual report.
2. The statement should indicate aspects of the Mwongozo Code that have not been complied with and reasons thereof

The board has complied with the provisions of the Mwongozo Code of Governance for public corporations as indicated below:-

Key stakeholder groups

Parameter 2.3: Key stakeholders and the extent of their shareholding

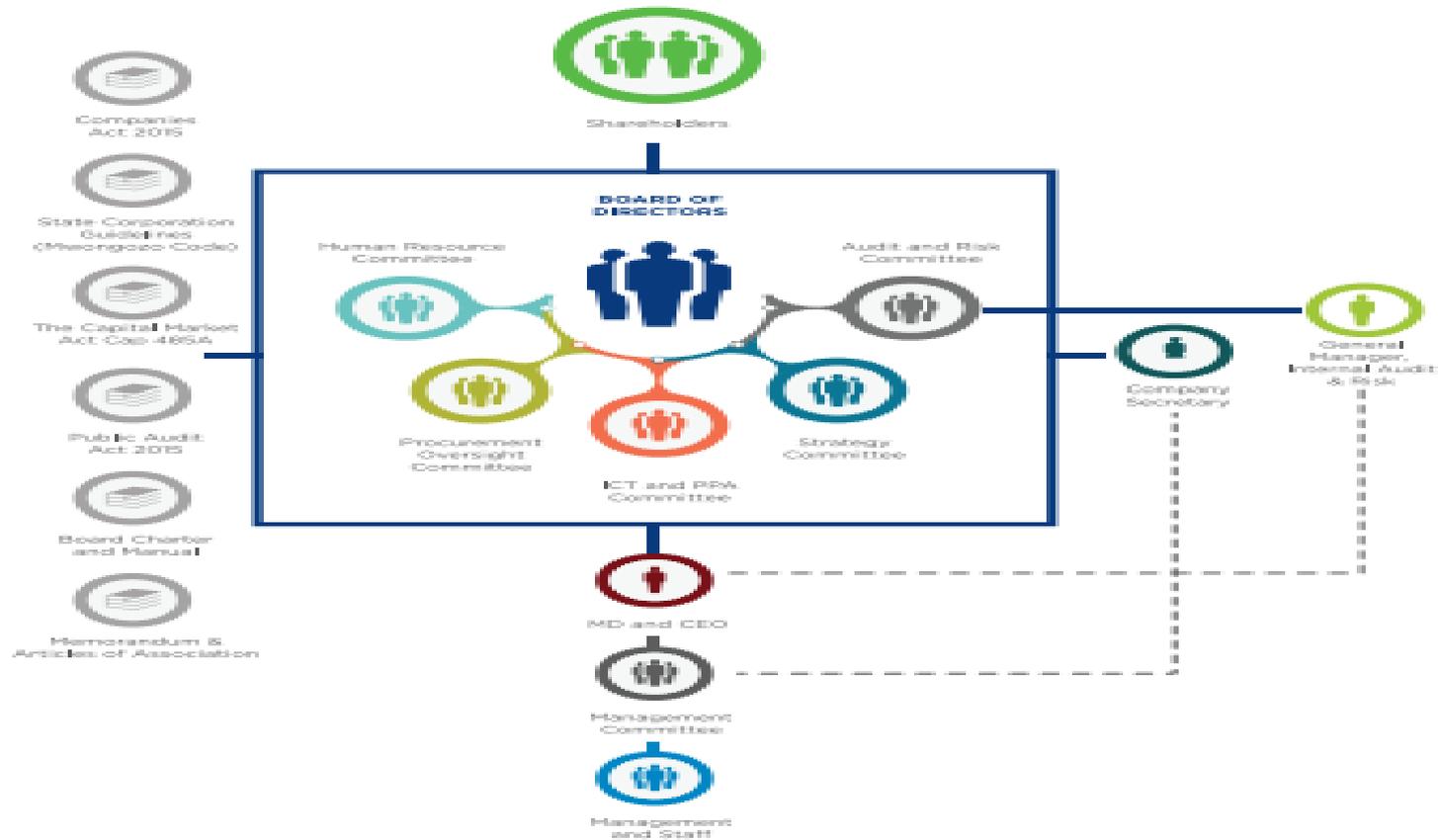
The top 20 major **shareholders** as at 31st August 2017 were as follows:

No.	Name of Shareholder	Ordinary (KShs. 2.50 each)	4 percent Pref. (KShs. 20 each)	7 percent Pref. (KShs. 20 each)	Total	Percentage
1	PERMANENT SECRETARY TO THE TREASURY	977,641,695	656,808	193,531	978,492,034	50.086
2	STANDARD CHARTERED KENYA NOMINEES LTD A/C KE20510	36,233,521	-	-	36,233,521	1.855
3	STANDARD CHARTERED NOMINEES RESD A/C KE11450	32,518,589	-	-	32,518,589	1.665
4	STANDARD CHARTERED KENYA NOMINEES LTD A/C KE002012	30,616,600	-	-	30,616,600	1.567
5	STANDARD CHARTERED NOMINEES NON-RESD. A/C KE9053	24,848,575	-	-	24,848,575	1.272
6	KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 915B	22,887,288	-	-	22,887,288	1.172

Governance structures

Parameter 2.4: Disclosures relating to the size of the board, the size and composition of each board committee and the key management team

1.3: Governance Framework



Governance structures

Parameter 2.4: Disclosures relating to the size of the board, the size and composition of each board committee and the key management team

	MEETING	NO. OF MEETINGS	MEMBERSHIP	AVERAGE ATTENDANCE %
1	Full Board Meeting	9	10	90%
2	Board Finance Meeting	15	5	95%
3	Board Human Resource Meeting	19	5	98%
4	Board Technical Meeting	11	5	90%
5	Board Adhoc Meeting	11	10	95%
6	Annual General Meeting	1	12	100%
7	Board Audit Meeting	4	5	98%

Board performance and Directors' Remuneration

Parameter 2.5 : SCs are required to disclose:

- Remuneration of directors individually and collectively
- Salary and remuneration of the CEO and senior management
- Summary of the Board evaluation results

1.5 Board Evaluation

The Board undertakes an annual self-assessment to improve its members' individual and collective performance for continuous growth and sustainability of the Company. The evaluation covers the Board as a whole, its committees, individual members, the Chairman, the Managing Director and Chief Executive Officer, and the Company Secretary.

During the year, the Board carried out a self evaluation exercise assisted by the State Corporations Advisory Committee. An action plan was developed from the evaluation focusing on areas that require improvement.

What about the Board evaluation results?

Board performance and Directors' Remuneration...II

The remuneration of directors and other members of key management during the year were as follows:

	2017	2016
	KShs	KShs
Key management salaries and benefits	223,072,626	110,245,097
Directors Expenses		
- Performance incentive	9,240,000	9,240,000
- Board Retreats and general expenses	10,917,176	2,827,006
- Sitting /duty allowance	11,280,000	15,796,853
- Training expenses	10,298,746	12,400,014
- Travel expenses and Subsistence allowance	17,578,533	22,500,774
	59,314,455	62,764,647

Board performance and Directors' Remuneration...III

Non-executive Directors

Name	2017			2016		
	Fees	Sitting Allowance	Total KShs'000	Fees	Sitting Allowance	Total KShs'000
Steve O. Mainda	5,199	-	5,199	5,324	-	5,324
Dr. Benson Wairegi	488	1,300	1,788	488	1,352	1,840
Dr. Peter K. Munga	488	704	1,192	488	952	1,439
Adan D. Mohamed	648	1,872	2,520	648	1,248	1,896
Constance Gakonyo	488	1,040	1,528	488	468	956
Dr. Kaushik Manek	488	1,040	1,528	488	676	1,164
Felister Kembi	488	572	1,060	85	208	293
Gladys Karuri	488	572	1,060	55	156	211
	<u>8,772</u>	<u>7,100</u>	<u>15,872</u>	<u>8,062</u>	<u>5,060</u>	<u>13,122</u>

Executive Directors

Name	2017			2016		
	Basic Pay	Non-Cash benefits	Gratuity Total KShs'000	Basic Pay	Non-Cash benefits	Gratuity Total KShs'000
Frank Ileri	44,476	6,150	13,787	44,476	5,834	13,787
			<u>64,413</u>			<u>64,097</u>

Code of Ethics and Whistleblowing

Parameter 2.6: Disclose Code of Ethics and Whistleblowing Policies on the website of the organization

ETHICAL LEADERSHIP AND CORPORATE CITIZENSHIP

The directors and employees of the Board have a fiduciary duty to act honestly and in the best interest of the Board. Business transactions with all parties must be carried out at arm's length and with integrity. The Board provides effective leadership based on ethical foundation and ensures all deliberations, decisions and actions are based on the Boards' core values underpinning good governance. The Board has put various measures in place to ensure that there is no conflict of interest amongst its directors and staff.

- (i) Corruption Prevention and Code of Conduct & Ethics policies
- (ii) The Board has developed a Corruption Prevention and Code of Conduct & Ethics

(viii) Whistle blowing policy was published in the KRB website.

The Company's Board and Management recognise that a strong ethical culture is paramount in the realisation of the Company's corporate Vision. In this regard, we have in place an Integrity and Ethics programme to entrench a strong ethical culture of doing the right thing

In addition, we carried out training and sensitisation programmes to embed the right ethical culture among staff and other stakeholders. A leadership forum was organised for all Senior Management Staff in all regions to discuss issues on ethics and integrity in the Company and identify sustainable ways of combating all forms of corruption and unethical behaviour. The Company has also identified, trained and certified 61 Integrity Assurance Officers who have taken up their active roles in championing ethics and integrity in their various divisions and regions and report

We encourage whistle blowing through mechanisms such as our hotline number 0718999000 or through the online corruption reporting platform on our website

Key organisational risks

Parameter 2.7:

- Policy on risk management
- Key risks and mitigation



Corporate Risks and Key Interventions Implemented

The corporate risks are derived from an enterprise-wide risk assessment and ranking of risks on the ratings of likelihood and impact. The corporate risks therefore are the key risk management focus and require significant strengthening of risk controls. Below are the corporate risks for the 2016/2017 financial year and the key interventions that were implemented:

Strategy Risk



Decline in Market Share

1. Prepared market intelligence reports on market share
2. Development of a business case for setting up of regional liaison office in Kigali with the aim of resolving customer issues promptly within the region
3. Implementation of promotional tariff



Strategy Execution Control

1. Development of departmental strategic plans aligned to KPC Vision 2025
2. Alignment of annual budget to strategic objectives
3. Monitoring and reporting on implementation of the strategic plan



Adverse Publicity

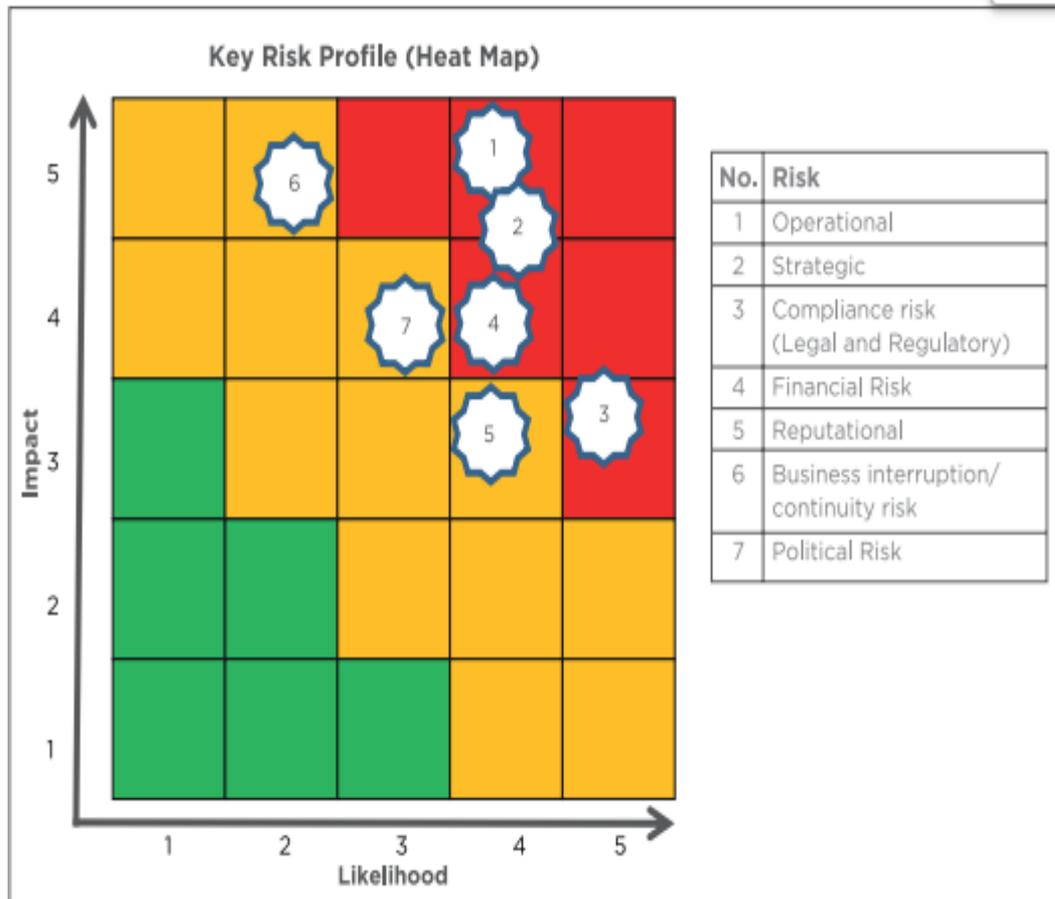
1. Initiation of corporate rebranding project
2. Proactive media and stakeholder engagement on various platforms



Project Delivery Constraints

1. Restructuring of project management in the company and resourcing of the project management function

Key organisational risks...II



What about Emerging Risks?

- **Cyber Security**
- **Data privacy (GDPR)**
- **Climate Change**
- **Business Interruptions (including supply chain interruptions)**
- **Changes in legislation and regulation;**
- **Loss of Reputation/ Brand value**
- **New technologies – robotics, big data**

Financial Reporting – Analysis

Parameter 2.8

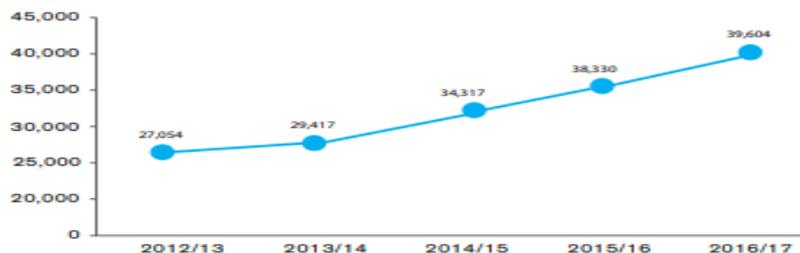
- Management’s assessment of factors that affected the organisation’s financial performance
- Known trends likely to have material impact
- Any deviation from financial policies etc

2.1. Revenue Performance

Revenue performance recorded an improvement during FY 2016/2017 recording KShs. 41,573 million against last year’s figure of KShs. 40,544 million. This reflected an increase of KShs. 1,029 million or 2.5%.

Throughput growth as explained above contributed to KShs. 39,604 million operating revenue compared to KShs. 38,330 million registered in FY 2015/2016, an increase of KShs. 1,274 million or 3.3%.

OPERATING REVENUE (MILLIONS)

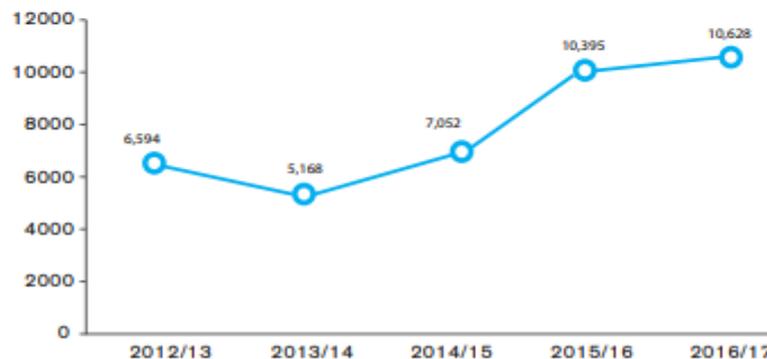


A Non-Operating Income of KShs. 1,969 million was mainly on account of higher short term deposits holdings which increased from KShs. 12,540 million in FY 2015/2016 to KShs. 17,960 million at the end of the reporting year. Delays in implementation of some projects which had been earmarked for the period under review including Kipevu Road, relocation of KOT, security system installation on new areas and the 2nd container terminal equipment among others contributed to the growth, thus the investment in short term deposits.

2.3. Operating Profit: KShs. 10,628 million

An operating profit of KShs. 10,628 million was realised during the period under reviews. Profit recorded compares favourably with last year’s profit of KShs. 10,395 million by KShs. 233 million, or 2.2%. This was mainly because of increase in throughput recorded and other factors as explained above.

PROFIT BEFORE TAX (MILLIONS)



Corporate Citizenship

Parameter 2.9: Corporate social responsibility and investment

CORPORATE SOCIAL INVESTMENT (CSI) REPORT FY 2016/17



Procurement

Parameter 2.10: Companies should disclose:

- The policy of the organization on procurement.
- The top ten contracts of the organization in terms of value.
- The number of legal challenges to procurement decisions including details of any that may have been successful

Procurement Oversight

The General Manager, Supply Chain is regularly invited to the Committee meetings.

- (i) Overseeing the Company's procurement processes on behalf of the Board to ensure compliance with the law and the Company's annual procurement plan.
- (ii) Reviewing and recommending the annual procurement plan to the Board.
- (iii) Overseeing procurement of goods and services with a value of Shs 50 million and above.

Compliance with laws and regulations

Parameter 2.11: Companies should disclose:

- The extent of compliance with Laws, Regulations and Standards.
- Material departure from compliance, the cause of non-compliance and the measures to address the same

The Board is committed to ensure compliance with all laws and regulations. The compliance is monitored through legal audits which are submitted to the Board.

Compliance with the Occupational Safety and Health Act (2007)

PPE Compliance

The Safety Branch has enforced the use of protective gear and compliance to safety regulations. In this regard, relevant heads of departments have been addressed to ensure:

- Full compliance in their respective departments in accordance with the Occupational Safety and Health Act (OSHA), 2007 as well as the Authority's Occupational Health and Safety Policy, 2013
- No employee in operational areas should be allocated work if not in proper PPEs

GOVERNANCE AUDIT

The Board carries out a governance audit of the organization on annual basis. The purpose of the audit is to ensure that KRB conforms to the highest standards of good governance, legal and statutory requirements and is not limited to the following among other parameters:-

- a) Leadership and strategic management;
- b) Transparency and disclosure;
- c) Compliance with laws and regulations;
- d) Communication with stakeholders;
- e) Board independence and governance;
- f) Board systems and procedures;
- g) Consistent shareholder and stakeholders value enhancement and;
- h) Corporate social responsibility and investment

Sustainability reporting

Parameter 2.12: Companies should:

- Include a commentary on **sustainability** in the half-yearly and **Annual Report**
- Disclose if the organization is a going concern based on the **Triple Bottom Line concept – profit, people, planet (integrated reporting)**
- Disclose to stakeholders the **major sources** of revenue and items of expenditure

Our goal is to elevate sustainability in the Company's corporate governance by embedding it in our operational processes going forward, sustained by open reporting on sustainability strategies, goals and accomplishments. The report will inform us on areas of performance improvements as identified in the sustainability goals across the entire value chain including power generation, transmission, distribution and retail of electricity.■

Sample – Summary Sustainability Report

Sustainability Highlights	Measures
Economic/Financial	<ul style="list-style-type: none"> (i) Investments in expansion and maintenance of network infrastructure (ii) Procurement of power generation capacity (iii) System efficiency (iv) Electricity pricing (v) Electricity demand management (vi) Technology and innovations (vii) Supply quality and reliability (viii) Sector regulation and market structure (ix) Legal and regulatory compliance (x) Contracting and supply chain practices
Environmental	<ul style="list-style-type: none"> (i) Environmental emissions from generation plants (ii) Infrastructure impact on flora and fauna (iii) Network aesthetics/visual impact (iv) Contribution to climate change (v) Demand side management
Social	<ul style="list-style-type: none"> (i) Availability and reliability of power supply (ii) Access to and affordability of electricity (iii) Employee and public safety/health (iv) Corporate Social Investment (v) Employee development (vi) Employee practices/ethics (vii) Consistency with community goals and values (vii) Stakeholder engagement

Questions / Discussion