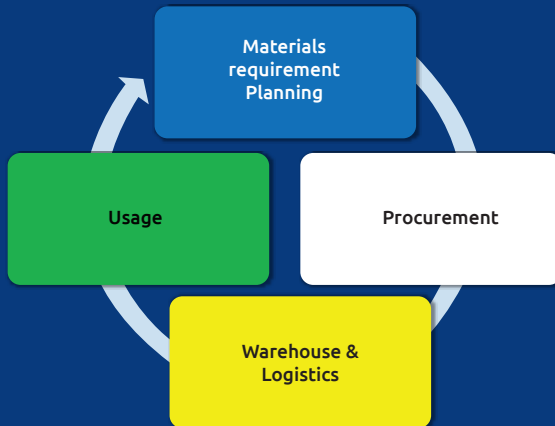




Kenya Power

# SUPPLY CHAIN POLICIES



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# THE KENYA POWER & LIGHTING COMPANY LIMITED

## A.WAREHOUSE POLICY

This is the policy of the Kenya Power & Lighting Company Limited (KPLC) on its warehouses, storage and material distribution/logistics.

### 1.0 INTRODUCTION

- 1.1 Storage and material distribution is a complex business encompassing a number of individual functions that include: Requisitioning, Receiving, Inspection, Packaging and unitization, Storage, Stock control, Transport, delivery or distribution. The functions of storage and distribution are only a partial element of the much wider concept of Logistics which in turn is only part of the total supply chain.
- 1.2 Material distribution or logistics is a key component of the company's operations and is a significant contributor to the success and profitability of the company. Efficiency in material distribution is dependent on the personal responsibility, qualifications and skills of staff.

### 2.0 WAREHOUSE PERSONNEL

- 2.1 The warehousing/storage function shall be supervised continually by warehouse personnel. The warehouse personnel are responsible for issuing and delivering goods expeditiously to operating departments during office hours, seven days a week should the need arise. Aside from the more common tasks of material issues and receipts, warehouse personnel are to be responsible for the identification,

- salvage and disposal of certain surplus, obsolete, worn, scrapped or damaged items.
- 2.2 The same personnel shall be responsible for updating the physical inventory and other related tasks, as well as the proper storage and handling of any hazardous waste, safe custody of all empty cases, drums, tins and packing materials that may be of any value. Records in respect of such items should be kept outlining the particulars and quantity of the items.
  - 2.3 Whereas all the stores personnel shall uphold professional ethics while undertaking their duties, all staff working in the store/warehouse should ultimately be multi-skilled and prove their competence in receiving, stocking, picking, issuing, cycle counting and all computer transactions.
  - 2.4 All persons working in the store/warehouse should have a recognised certificate qualification in Stores, inventory management and Stock Control best practice. Skill gaps shall be identified for purposes of training staff periodically. The Training Need Analysis shall be carried out regularly to ensure staffs are trained on relevant courses.
  - 2.5 All persons working in the store will have an official job description that details their daily work responsibilities and will include an accurate description of their duties.
  - 2.6 Performance measures for the warehouse will be set up to support the company's objectives. These measures will be visually displayed and be as current as possible.

- 2.7 Warehouse management shall recognize and appraise good performers and review general performance on a timely basis.
- 2.8 All stores staff shall always liaise with other team members, colleagues/team members in other regions/stores, users, and third parties.

### **3.0 STORAGE**

- 3.1 Company materials are to be maintained in company stores and yards that are physically secure from entry by unauthorized persons for the purpose of ensuring that all materials and supplies entering and leaving the facilities do so only with the accompaniment of an established accounting document. Materials should be stored in an orderly manner and managed effectively and efficiently so that they are immediately available and in good condition when needed.
- 3.2 Stores facilities should be organized for each access to the stores and retrieval of items. The layout should facilitate the implementation of a simple item location system to properly record the identification, description and location of all stored items;
- 3.3 The Stores facilities should be well ventilated, well lit and free of all obstructions. The following should also be noted on storage facilities.
  - The site of the store must be convenient and not prone to flooding
  - The design of the stores should be prepared taking into consideration the type of stores, quantities and handling equipment to be used in the stores. Preferably, the stores facilities should be considered when a building is being designed. Other considerations may include; nature and characteristics of goods to be stored; nature



of handling equipment available; duration of storage needed i.e. short term or long term; the need for other activities, e.g. repackaging, labelling etc; access and parking for vehicles; secure compound.

- The facilities should be well lit and ventilated.
- The doors and windows should be preferably be burglar proof and lockable for security.
- Large stores facilities should be secured with a perimeter wall or fence and guarded.
- Appropriate stores handling equipment should be provided.
- Offices should also be made available for the stores staff within the facilities.
- Cleanliness of the facilities should be observed.

#### **4.0 STANDARDS AND PROCEDURES**

- 4.1 A full set of up-to-date standard operating procedures and computer work instructions will be in place for each store/warehouse. These documents will be used to train and assess employees' competence. All documentation will be audited at least once a year.
- 4.2 Authority (and responsibilities) of various staff in the stores in respect to receipts and issuance of materials shall be well defined and harmonized.
- 4.3 Data/Record Management and filing procedures/systems shall be defined and harmonized in all stores for consistent application.
- 4.4 All stores shall have a clearly marked quarantine area for storage of non-conforming (defective) materials. Materials rejected shall be

kept aside awaiting immediate collection by the affected suppliers. Materials rejected for quality factors shall be collected by the supplier within 45 days of the date of the rejection notification.

- 4.5 Accuracy of stock records in the store/warehouse will be maintained through daily cycle counts. The Store/Warehouse Manager (Officer in-charge of a store) will approve the cycle count program and all cycle counts will be authorised by him/her on a daily basis. A summary of the cycle counting programs together with stock accuracy will be submitted to the head office on a weekly basis.
- 4.6 To assist in the identification of problems in the cycle counting process, copies of all receiving, transfer, stock adjustments and issuing source documentation will be retained in the store/warehouse area for not less than one year.
- 4.7 Monthly, quarterly or annual stock takes shall be planned for and will be carried out in the store/warehouse in liaison with the central office stock control teams.
- 4.8 A quarterly 'ABC' analysis, based on Usage value, will be worked out by the stores in-charges for their respective stores and shall be used to determine the cycle counting program. 'A' items will be counted at least once every day, 'B' items will be counted at least every 3 days a week and 'C' items counted once a week. Any obsolete/redundant stock will be counted once a month.
- 4.9 The methods for controlling stock, all designed to provide an efficient system for deciding what, when and how much to order should be employed. The use of technology to assist in stock control mechanisms such as RFDI (Radio Frequency Identification) and other useful technological systems may be used to collate and process information using special computer software.

- 4.10 Prior to the end of the financial year, each store shall conduct stock counts in conjunction with the central office stock count and reconciliation teams at least once a year for all the stock items.
- 4.11 Verified Investigated Negative and Positive variances arising as a result of carelessness, pilferages, intentional errors, misconduct, fraud and theft shall be subjected to the stock control procedures and shall be adjusted after prior authority is granted by the Supply Chain Manager, Logistics and appropriate/disciplinary action shall be taken against those responsible when investigations find them culpable. Where losses or deficiencies are due to fraud or negligence on behalf of a stores officer, such officer may be surcharged with amount of such loss.
- 4.12 Space layout should be planned for both the general storage areas and the areas for goods receipt, consignment picking and goods dispatch. Each item in the store will be stored using dedicated or multiple storage locations. Every rack/shelf in the warehouse and materials kept in yards will be marked and numbered for easy identification of materials. Each item's location will be maintained on the computer system for easy and accurate stocking, picking and counting.
- 4.13 The store/warehouse shall have issuing and receiving bays to enhance order and effectiveness in stores operations.
- 4.14 All posted materials should be kept aside for collection and if by the 3<sup>rd</sup> day they are not collected, they should be returned back to stores and immediate adjustments done.

## **5.0 SECURITY, HEALTH & SAFETY**

- 5.1 The secure area of the store/warehouse is regarded as 'off limits' to all employees other than those that work in that area. Being found in the store/warehouse area without permission will be regarded as a very serious offence and disciplinary action will be taken.
- 5.2 Whereas all the stores-in-charges shall ensure all their stores have emergency doors, emergency procedures and store/warehouse personnel staff will be trained in fire fighting. Testing of the emergency response system will be done on a quarterly basis.
- 5.3 All stores personnel on duty in the store or yard should be dressed in the provided Personal Protective Equipments (PPEs) at all times to ensure employees are safe at work. It is also a requirement for any other person in the stores and in the yards to use the PPEs.
- 5.4 Store staffs should ensure contractors and internal material users are identifiable and served at designated points/counters to avoid accidents and/or loss of materials.
- 5.5 A safety and housekeeping audit will be performed in the store on an annual basis. The store/warehouse supervisor, prior to the next annual audit, will rectify any non-conformities.
- 5.6 All the necessary safety, precautions and security is provided during storage and transportation of goods. Such precautions should include but not be limited to:

- Ordering periodic fumigation where as and when necessary
  - Ordering periodic fire fighting drills
  - Ensuring that water is stored exclusively for the use of fire fighting and stores and yards are well equipped with water hydrants.
  - Ensuring the availability and regular servicing of fire fighting equipment.
  - Ensuring availability of protective gear for stores staff.
  - Stores and Stocks must be insured as is necessary.
- 5.7 Hazardous products such as fuels, compressed gases, insecticides, alcoholic substances, ether and other flammable, toxic or corrosive substances must be stored separately, preferably in a cool, secure shed in the compound but outside the main warehouse. Every store should have at least the First Aid facility. Specialized fire fighting equipment and chemicals should be stored at all times for the initial containment of fire.
- 5.8 Only security firms with proven performance shall be engaged to secure KPLC warehouses and yards and shall be inducted to check basic security issues/details at exit points (e.g., material description and quantities) in the system.
- 5.9 Losses and damages must be recorded and reported to the MD&CEO and appropriate investigation should be carried out and police assistance sought immediately the loss or damage is detected.
- 5.10 Whenever it is suspected that loss in the stores was due to theft or fraud the security department shall immediately request the Police to carry out an investigation. If the loss is confirmed, the report shall

be accompanied with a statement of whether the loss was attributable to:

- Weakness in the regulations or accounting system
- Difficulty in the interpretation of the regulations or accounting system
- Inadequate arrangements for the safe custody of stores, or
- Lack of adequate supervision or control, and
- The measures taken or considered necessary to prevent a repetition of the incident.

5.11 Losses shall be handled in accordance with clause 20 and 34 of this warehouse policy.

5.12 All stores and yards shall be well secured with perimeter walls, CCTVs, electric fences and professional guards to enhance security.

## **6.0 HANDLING OF DAMAGED, EXCESS, OBSOLETE AND DISPOSAL ITEMS**

6.1 Any material that is damaged or becomes redundant or obsolete will be identified and a plan for its disposal shall be put in place, which shall be at least on a quarter cycles. This shall involve seeking the relevant approvals from the Disposal Committee, and materials categorised as scrap or already used/recovered/replaced through renovations. Those found fit for further use shall be returned to the store or written back /re-coded before issuance.

6.2 All materials identified as obsolete or damaged must be segregated within the store/yard and be properly stored. Once written off, they should be in shelves/racks and recorded on accurate bin cards kept against all the items and those in the yard recorded in a well kept

register that shall always be updated and handed over when there is change of management.

- 6.3 Materials in excess of wants in the stores should be reported immediately to avoid obsolescence and damage. The Supply chain Manager, Logistics shall be informed of the decision to dispose the items or otherwise.
- 6.4 Faulty and repairable items should be analysed and appropriate action taken which includes, repairs and disposal. Those to be repaired should be recorded and taken to the repair points by the store -in -charge.  
The store-in-charge should immediately initiate the disposal process for those identified for disposal.

## **7.0 MATERIAL HANDLING EQUIPMENTS**

- 7.1 All equipments should be properly stored when not in use and regularly maintained. Warehouse staffs shall take care of all tools, equipment and machinery entrusted to them and ensure that they are in serviceable conditions for effective materials management and efficient service delivery at all times.
- 7.2 Each store shall make use of budgeted funds for company operations and seek capital funds for office items, Material Handling Equipments and tools necessary for their good performance as and when required through the company's defined funds planning & budgeting/request procedures.

## **8.0 DISTRIBUTION OF MATERIALS**

- 8.1 Distribution of materials should be planned while taking into account the lead time or delivery periods, availability from or at source in mind.
- 8.2 Constant communication with the logistics/fleet officer to arrange and plan for emergency distribution.
- 8.3 Delivery of the right materials, to the right place at the right time should be the norm in order to distribute materials within acceptable cost frameworks.
- 8.4 Long haul vehicles should be used to deliver bulk materials from the bulk stores and some primary stores to the destinations allocated by the fleet officer. The small truck shall only be used to deliver materials to and from stores within one region unless express permission is given by the Chief Supply Chain Officer.

## **B. MATERIALS INVENTORY POLICY**

### **9.0 INTRODUCTION**

- 9.1 The objectives of the KPLC Supply Chain and Logistics Division include effective inventory management while preventing wastage and loss and obtaining a fair return of value upon disposal of supplies. In order to achieve these objectives, sound inspection, testing, warehousing, inventory control practices and disposal of disposable materials should be employed.
  - 9.2.1 Materials held in warehouses represent cash and the utmost economy in their use and accuracy in all transactions relating to



them is essential. To avoid unprofitable lock-up of funds, material stocks must be kept to the minimum necessary for the efficient conduct of the procuring entities.

9.2.2 This policy will enable KPLC employ Materials inventory management and controls to assist it in meeting the objectives of sound supply chain management.

## **10.0 BACKGROUND**

10.1 KPLC holds a significant amount of materials stock and each individual materials holding warehouse team has the responsibility of managing risk and economic benefit by ensuring optimal materials stock holdings are held to support operations.

## **11.0 VALUATION OF MATERIALS STOCKS**

11.1 The policy has been informed by the fact that the inventories are stated at the lower of costs or net realizable value.

11.2 Stocks physically held in stores will equally be reflected in the computer system records at their total costs values. All stocks should carry the same values for the same items/codes in all storage location of the company.

## **12.0 OBSOLESCENCE**

12.1 Obsolete stocks shall be identified, flagged in the computer records as obsolete for eventual write-off. The write-off should be done within 3 months of their identification as obsolete. They shall be segregated physically and stored separate from the other materials in the stores/yards.

12.2 Manual records such as bin cards or spreadsheet with details of quantities and storage location must be kept by the respective store and the same records shared with the Chief Supply Chain Officer in central office.

### **13.0 UNSAFE MATERIALS**

13.1 With regard to the use and storage of fuel and toxic chemicals, the stores personnel should;

- i. Identify all fuels, flammables and toxic chemicals that are placed in inventory;
- ii. Establish the required procedures for controlling the procurement, storage and issue;
- iii. Measure regularly the inventory;
- iv. Regularly Test and calibrate the measurement devices;
- v. Establish the necessary controls to identify toxic chemicals in the stock records.

13.2 Hazardous products such as fuels, compressed gases, insecticides, alcoholic substances and other flammable, toxic or corrosive substances must be stored separately, preferably in a cool, secure shed in the compound but outside the main warehouse.

### **14.0 RETURNED MATERIALS**

14.1 Materials returned by the users shall record accordingly in the system by way of adjustment or posting as a write-back in their respective unit of measure immediately they are physically identified

and confirmed. They should be stored with other related materials ready for issue.

- 14.2 As for transformers that are returned for repair, they must be examined by the electrical teams for stores personnel to record them in their correct codes either as faulty or healthy. Those examined as not repairable should be treated as scraps and their codes adjusted accordingly with the electrical plant personnel issuing scrap certificates to stores and the latter shall store them in readiness for disposal. Those found with minor repair works shall be handed over to the transformer workshops through normal issuance procedures between the workshops and their respective stores. Materials for repairs shall be issued to the workshops and must be properly accounted for and as much as possible and reasonably matched with the number of transformers under repair. Repaired transformers should be returned to the stores where transformers are stored together with the items which had been removed such as the copper windings.
- 14.3 Copper windings recovered from scrap transformers shall be quantified and stocked only for purposes of disposal and shall be fully accounted for in the Integrated Logistics System.
- 14.4 Other scrap items returned by users shall be accepted by stores if they meet the following requirements:
- Scrap wooden pole shall be all those poles returned as a result of being changed through operations and maintenance activities and may not be used for power lines construction. Such poles shall be coded, quantified, stocked and accounted for disposal.
  - Scrap wires (conductors, cables, stay wires) shall be wires that are destroyed or damaged and cannot be used in construction;
    - Cabled wires of less than 20 meters in length for all sizes

- Bare wires of less than 60 – 100 meters in length for all sizes.
- 14.5 Except for scrap wooden poles and scrapped transformer copper winding all other declared scrap items shall be quantified and accounted for in spreadsheet records with reasonable estimates. The items shall be well secured for eventual disposal in actual quantified weights.
- 15.0 RECEIPT, INSPECTION, STOCKING, ISSUANCE AND STOCK CODING**
- 15.1 All materials delivered to a store by suppliers or vide inter-store transfers should be received with the relevant documentation such as the delivery/consignment notes and
- 15.2 Orders shall be offloaded by the stores personnel except where the items require technical and special expertise to do so. Physical counts for every delivered item must be done and recorded in order to reconcile the delivered items with the delivery documents/notes and once Okayed to sign/stamp the delivery documents for further processes.
- 15.3 The materials should be received and properly stored at the stores' designated areas meant for receipt of goods awaiting inspection and acceptance.
- 15.4 Inspection of materials shall be conducted within two days of receipt by the Tender Processing Committee (TPC). Goods should be checked systematically for quality, faults, on-conformities and unsuitability to perform as expected. This will be followed by notification of identified problems to the suppliers. Materials

accepted by TPC shall be posted into the system as goods received in order to update the stock records ready for issuance.

- 15.5 The updating of materials in the system should be accurately done in order to ensure there is no interchanging of stock codes from which goods are recorded and/or issued.
- 15.6 Materials deliveries and exit on issue or transfer must be verified at the stores/yards gates by the security officers manning the gates with vehicles delivering materials and entering or leaving stores/yards being recorded in well-designed registers occasionally inspected by the stores-in-charges or their delegated subordinates.

## **16.0 STOCK PROVISION**

- 16.1 Stock provisions shall be set up when the company identifies materials which have been stolen, are spoilt, obsolete or damaged. The company will use these provisions to ensure that the inventory figures in the accounting books accurately reflect the physical inventory in the company.
- 16.2 There are various methods that can be applied to help calculate the stock provision. The Finance division shall recommend a method or methods that conform with the financial standards and based on the selected or other acceptable predetermined criteria, provisions will be made to reduce stock from cost to net realizable value and the calculations shall take account as appropriate, the following circumstances of the stock:
  - Age
  - Nil movements during the last five years
  - Expected future movements
  - Estimated scrap values

- Unexplained historical variance constant over a period of two years
- 16.3 A provision should be made at the end of each Financial Year to provide for excessive loss in the value of stock held, which is likely to be incurred in the coming year, through obsolescence, damage, expired shelf life, variance as a result of break-in theft/fire or natural causes, historic slow movement and 5 years continuous zero movement.
- 16.4 There are three factors that need to be considered when the Supply Chain (Logistics) & Finance departments calculate slow moving provision for the year.
- Any stock 5 year old and above;
  - Any stock known to be obsolete or with an expired shelf life.
  - The period of at least one year will be allowed for another review of obsolete, slow moving, damaged, expired shelf life and variances.
- 16.5 These figures are intended as an initial calculation to work from and not a definitive answer. It will still be necessary for the results to be reviewed by the Supply chain (Logistics) Head of Department together with the Chief Manager Finance in the light of any special circumstances which cannot be anticipated in the formulae, such as slow moving items in the store which are expensive.

## 17.0 STOCK WRITE OFF

- 17.1 Write-off is the elimination of an item (debit/credit) from an account that is deemed irrecoverable.
- 17.2 In the event that the company suffers loss of stock items, there is an expectation to undertake a formal write-off process. The company shall be deemed to have lost permanently the possession or use of a stock item, when any of the following occurs:
- ✓ Accidental damage to a stock item rendering it irreparable
  - ✓ A stock item is stolen, i.e. theft/burglary/break-in
  - ✓ Fire/storm/flood/malicious damage to property occurs damaging the stock item beyond repair.
  - ✓ Loss of property for other reasons that are properly reconciled/investigated/audited not attributable to the stores staff.
- 17.3 Other instances when stock items may no longer be used and require write-off are; When they become unserviceable, obsolete, unsafe, are traded-in, transferred, sold, donated or scrapped.
- 17.4 The stock items that are subject to write-off are individual stock items that are recorded in the company's computer or manual stock records.
- 17.5 The same calculations that were made for the provision should also be made for the write off, with the same reviews made for special circumstances. In addition to this a decision has to be made whether the stock item is still usable by the department but has no value. If this is the case the item can be written off but remain in stock in a separate area. This is only reasonable if there is sufficient space in

the store and the item is sufficiently small to be kept in stock. It can then be issued out over a longer period of time or it can be written back in to stock if a future need is identified.

- 17.6 The policy for authorizing the write off of stock is that -  
All amounts shall be approved by the Audit committee of the board;

All items deemed to be written off must be fully documented.  
The documentation must include:

- ✓ An Approved board paper justifying each write-off and background together with the approval circular by the Company Secretary of the same.
- ✓ Reconciliation report and detail support copies
- ✓ All documentation must support the total amount to be considered for write-off and must evidence authorizations/endorsements
- ✓ All supporting documentation must be attached to the Journal Voucher authorizing the write-off.
- ✓ Records of accounts written-off must be maintained in the stores and shared with the Finance division.

## 18.0 DISPOSAL OF STOCK

- 18.1 Written-off items and other major assets/resources, which are surplus, unserviceable or obsolete, shall be disposed of by dumping/burying, recycling or destroying, sale, auction or trade-in and in accordance with the Public Procurement and Disposal Act (PPDA). Where possible, items should be disposed of in an environmentally friendly manner including recycling. Other alternatives should be considered such as charity donations prior to disposal.



- 18.2 Once disposal has been approved, the item shall be removed from the physical stock location and counted to compare with the quantity held on the stock management system and any adjustments to the quantity accounted for.
- 18.3 The item should then be disposed of in accordance with the PPDA and the laid down company procedures. If the item is a hazardous substance or a chemical then the Health and Safety Executive guidelines should be adhered to.
- 18.4 There may be costs incurred for disposal of an item and it is prudent to carry out disposals at regular pre-determined intervals with other departments whenever possible.
- 18.5 In-house checking of all disposals should be administered by the Chief Supply Chain Officer, Logistics to ensure compliance and the records should be available for review by the auditors on a regular basis.

## **19.0 SLOW MOVING STOCKS**

- 19.1 Slow-moving items may be classified as items that have less than five continuous years of demand since they were stocked.
- 19.2 The actual slow moving items shall be classified as slow moving by the logistics department when in any period of one to five years not a single item has been issued out. For purposes of calculating provisions for accounts purposes by the Finance department, slow moving will be items which have not been issued out in any period of 5 preceding years.

- 19.3 Some materials may take more than one year before moving because they are held as strategic spares. Such materials will be classified as strategic and not as slow moving despite their slow movement. Other materials that may be seen as slow yet not classified as slow moving are those in maintenance, repair and operations and spare parts.
- 19.4 This broad criterion is based on the ability to apply time series-based forecasting techniques. In essence, slow-moving items are items that cannot be forecasted in the normal way.
- 19.5 More often than not, slow moving stocks are an extra expense for the warehouse. The longer inventory is in the store, the more expensive it will be for the company and also run the risk of that inventory becoming obsolete.
- 19.6 The stores personnel should carry out frequent analysis of the items identified as slow moving inventory over a sufficient period in order to determine and decide actions to take on such inventory when under stocking, right stocking, overstocking occurs and when some of the overstocked parts become obsolete, actions to be taken may include:
- Segmenting the inventory and determining appropriate service levels for each segment.
  - Documenting procedures for the introduction of new items into the inventory, which include order quantity calculation, lead times and delivery schedule and other relevant variables.
  - Calculating more appropriate replenishment variables (re-order point and re-order quantity) for the slow moving.

## 20.0 OPTIMAL STOCKS

- 20.1 The stores should carry optimal inventory. This is having the necessary materials available in the right quantity at the right time, while minimizing the cost of ordering and carrying the goods.
- 20.2 The stock control, otherwise known as **inventory control**, will be used to show how much stock is held at any one time, and how to keep track of stock movement. Efficient stock control will allow us to have the right amount of stock in the right place at the right time. It will ensure that capital is not tied up unnecessarily, and protect production if problems arise with the supply chain.
- 20.3 The basic inventory management terms for the purpose of effective stock control should include the following:
- i. **Stock control** – This is maintenance of stocks at the appropriate levels to satisfy customer requirements at the minimum.
  - ii. **Lead Time** – This is the length of time from the notification on non-availability of an item to the time the item is purchase and is in the Store.
  - iii. **Reserve (Buffer Stocks)** – Extra stocks for critical items to take care of increased demand or lengthened lead time. It is calculated and specially approved.
  - iv. **Dues-in** – These are orders which have been requisitioned for but cannot be issued because there are no stocks in the store or any other reason.
  - v. **Dues-out** – These are items which have been requisitioned for but cannot be issued because there are no stocks in the store or any other reason.

- vi. **Re-order level** – This is the quantity of stock for particular items when action to place a new order is taken.
- vii. **Minimum Stock Level** – This is the highest quantity of stock which is expected to be achieved when a new delivery for replenishment of stocks is received.
- viii. **Provisioning Period** – This is the duration to be considered to be covered by the new order to be placed. It shall be arrived at taking into considering the average monthly issue rate (MIR) and lead time.
- ix. **Contingency reserves** – These are special extra stocks which may be authorized from time to time to meet such unexpected calamities and other natural disasters and specific situations of KPLC.

20.4. In order to calculate optimum inventory, the following method may be used

**Optimal Inventory (OI)** - How much of a product a store should have?

(Re) **Order Point (OP)** - When they should get more

**Replenishment Quantity (RQ)** - How much they should get

**Safety Stock** - How much additional inventory the store should carry as a buffer for changes in issuance, construction and lead time.

Optimal inventory can be computed using the following formula:

$$OI = OP + 1/2 RQ$$

Where OI = optimal inventory, OP = order point and RQ = replenishment quantity

- 20.5 On the average, all items in the store should be halfway through their replenishment. The goal of the store shall be to optimize inventory through better forecasting of demand and by reducing lead time. Generally, this policy intends to limit the order quantity to the equivalent of immediately required quantities plus any buffer stocks.

## 21.0 STOCK SECURITY

- 21.1 Keeping stock secure depends on knowing what materials are being held, where they are located and how much it is worth and in this regard, good records are essential. Check the security around premises to keep the risk of thieves to a minimum.
- 21.2 Identify and mark expensive portable equipment (such as poles). If possible, fit valuable stock with security tags - such as Radio Frequency Identification tags - which will sound off an alarm if they are moved.

Don't leave equipment hanging around after delivery. Put it away in a secure place, record it and clear up packaging. It is a good idea to dispose of packaging securely -leaving boxes in view could be an advertisement to thieves.

- ✓ Take regular inventories
- ✓ Put CCTV in parking lots and other key locations

21.3 Theft by employees should be prevented through the following ways:

- ✓ Training staff about security systems, disciplinary policies and procedures, the cost of stock theft to the company and the implications it has on company turnover and job security.
- ✓ Setting up procedures to prevent theft. Staff without authorization profiles and financial responsibilities should not be in charge of stock records.
- ✓ Restrict access to warehouses, stockrooms and stationery cupboards.
- ✓ Regularly change staff controlling stock to avoid collusion or bad practice.

## C. DISPOSAL POLICY

### 22.0 STATEMENT OF POLICY

22.1 The surplus, damaged or unserviceable and obsolete stocks or materials and equipment owned by the Kenya Power & Lighting Co. Ltd (KPLC) will be disposed of in a manner that will add value and benefits and in accordance with the Public Procurement and Disposal Act 2005, Public Procurement and Disposal Regulations 2006 and directions of the Public Procurement Oversight Authority (PPOA) or as shall be amended.

### 23.0 PRINCIPLES

KPLC will adhere to the following principles when implementing this Policy:

23.1 That all fixed assets, materials and stocks designated as surplus, damaged, obsolete and unserviceable (herein referred to as disposable items) are disposed of in a fair, equitable and uniform manner. In disposing disposable items, all persons have equal opportunity and equal access.

23.2 To ensure that disposable items that are identified for disposal are disposed of appropriately.

Assets which may be identified for disposal are;

1. Surplus items
2. Damaged items
3. Obsolete
4. Unserviceable

23.3 Obsolete and unserviceable items including those that are no longer in use;

- Following a change in technology, law or company procedures;
- If they have been in storage for a period of one year with no possibility of being used in future;
- If they have reached their optimum selling time to maximize returns;
- When they do not comply with occupational health and safety standards,
- Should they contain hazardous materials and/or
- Beyond repair;
- After an upgrade of assets or when functions or usage patterns have been removed.

23.4 Disposable items, will be disposed through the following methods to be recommended by the disposal Committee (DC)

- Transfer to another public entity or part of a public entity, with or without financial adjustment;
- Sale by public tender;
- Sale by public auction;
- Destruction, dumping or burying;
- Trade-in;
- To KPLC employees and members of its board or its committee under conditions set out in clause 12 (ii) below.
- Donation to organizations (not individuals) who have useful value for the items to be disposed but which have lost value or have no value either through diminution, depreciation or obsolesces.



## **24.0 SCOPE**

24.1 This Policy applies to fixed assets such as equipment's including office equipment's, machinery, motor vehicles, furniture and fittings, tools, ICT equipments including accessories & software, stocked materials e.g., Transformers and documents/records which are declared surplus, damaged, obsolete and unserviceable to the needs of KPLC.

## **25.0 APPLICATION**

25.1 This Policy applies to all KPLC Departments/sections and Regions/sub-regions and does not expire but is subject to revisions or termination as and when effectively approved by the KPLC board.

## **26.0 EXCLUSION**

26.1 This policy does not apply to the following types of property:-

- Land on which there is no KPLC structures or other improvements;
- Government assets seconded to KPLC whether under the administration and control of KPLC or the Government of Kenya;
- Private Property;
- Surplus Staff Housing;
- Property which is leased by KPLC;
- Property that is held by KPLC pursuant to the land claims agreement;
- Shares;
- Salvage on Insurance subrogation.

## 27.0 AUTHORITY AND ACCOUNTABILITY

The following are key participants but not limited to the disposal process.

- 27.1 MD and CEO:** As the head of the procurement entity (KPLC), he is the person to whom the disposal committee should make recommendations justifying the methods outlined in Clause 2 c) above. He has the final authority of accepting or rejecting the recommendations of the disposal committee.
- 27.2 Central Disposal Committee:** To prepare deliberate on recommendations from regional disposal committees and/or users departments and make or affirm recommendations for submission to the MD and CEO. It shall ensure that the disposal plans are implemented.
- 27.3 Regional Disposal Committees:** To prepare evaluation reports/minutes for submission to the Central Disposal Committee. They will ensure that the Disposal Plan is implemented.
- 27.4 Head of user department:** responsible for identifying any items which are due for disposal assemble them and maintain a proper inventory record as they initiate the disposal process.
- 27.5 Head of stores:** responsible for identification of stocked materials which are candidates for disposal.
- 27.6 Head of records:** responsible for identification of disposable records.

27.7 **Head of Administration:** responsible for identifying property for disposal that has either been replaced by new construction, requires removal to accommodate new construction, has become surplus, is beyond economic operation or repair, is functionally obsolete or has been repossessed.

## 28.0 DISPOSAL PLAN

28.1 The head of the user department shall be responsible for identifying any items which are due for disposal and where possible assembling them together. Every user department shall maintain a proper inventory record. The head of stores shall be responsible for identification of stocked items which are candidates for disposal.

28.2 The lists of all items identified for disposal as per clause 2 b) above shall be submitted to the Finance Division for records adjustments/reconciliation of assets. These submissions shall also form the basis of the annual disposal plan.

28.3 A standard disposal form shall be used to submit the list of all items for disposal to the Head of the Procurement unit (GM, Supply Chain & Logistics) and it shall contain the following information:-

- Item number
- Description of item
- Unit of issue
- Quantity
- Date of purchase
- Purchase unit price
- Total purchase price
- Estimated current value, General condition/reason for disposal
- Disposal recommendation of the disposal committee

- Estimated current value
- Decision of the Accounting Officer

## **29.0 ANNUAL DISPOSAL PLANNING OF STORES AND EQUIPMENT**

- 29.1 KPLC will undertake annual stocktaking of stores and valuation of assets and equipment and maintain an up to date inventory register. It shall prepare a disposal plan for each fiscal year.
- 29.2 Annual disposal planning shall be integrated with applicable budget processes and shall be based on indicative or approved budgets, as appropriate, for any disposal linked to replacement. The Disposal Planning shall be done at the same time as the Procurement Planning.

## **30.0 CONTENTS OF THE ANNUAL DISPOSAL PLAN**

- 30.1 The Annual disposal plan shall be prepared by the disposal committee in consultation with the Chief Manager, Supply Chain and Logistics and the heads of user departments. KPLC shall establish a disposal committee in accordance with Regulation 92 (1) of the Public Procurement and Disposal Regulations, 2006.

The annual disposal plan shall include:

- A detailed breakdown of the stores, assets and equipments to be disposed of;
- A schedule of the disposal;
- An indication of the justification for disposal;
- An estimate of the value of each store asset or equipment;
- A reference to the asset register or records of the stores;
- An indication of the method of disposal envisaged for each disposal requirement, including any need for pre-qualification,

and the anticipated time for the complete disposal cycle, taking into account the applicable approval requirements;

- An indication of whether the disposal of the stores, assets or equipment will be managed by the company or any special agency designated or hired;
- An indication of the resources available for managing the disposal workload.

### **31.0 JUSTIFICATION AND DELINEATION OF THE DISPOSAL REQUIREMENT**

31.1 The Disposal Committee shall take appropriate measures to effectively ensure that each disposal requirement is justified and does not present a risk for the on-going delivery of service to the public nor a loss of public monies.

31.2 The Disposal Committee shall ensure that each disposal requirement is well delineated so as to avoid any possible confusion between disposal procedures and procurement procedures in the case where the two processes may be integrated as in the case of trade-in.

### **32.0 ENVIRONMENTAL ASSESSMENT**

32.1 Any surplus property that is suspected of being hazardous or contaminated with hazardous waste and materials (e.g. *PCB based oil, Asbestos, Halon Fire Extinguishers*) will undergo a complete analytical assessment before it is sold, transferred or disposed of in an environmentally sound manner. The Manager in charge of Safety, Health & Environment shall be consulted on all environmental related issues. Hazardous waste disposal tracking

documents shall be duly completed and filed by Safety, Health & Environment Department.

### **33.0 TIMELINESS**

33.1 The disposal of surplus, damaged or unserviceable and obsolete stocks or materials and equipment owned by KPLC shall be carried out in a timely manner to minimize costs.

### **34.0 FINANCIAL**

34.1 The cost of disposing surplus, damaged or unserviceable and obsolete stocks or materials and equipment owned by KPLC shall, include appraisal fees, advertising, site inspections, surveying, demolition, material removal, site restoration and general administrative costs.

34.2 KPLC may dispose of its surplus, damaged or unserviceable and obsolete stocks or materials and equipment to its employees, a member of a board or its committee if the time and cost required to dispose to any other person would be disproportionate to the value of the stores/equipment to be disposed or the employee is in possession of the stores or equipment to be disposed and may be given the first priority to purchase the same.

34.3 The disposal to employees or to board/committee members must be reported to the PPOA within fourteen (14) days of the disposal by the MD and CEO.

## 35.0 DOCUMENTATION OF DISPOSAL PROCEDURES

35.1 For each Disposal Method, KPLC shall document:

- i. The initiation of a disposal requirement clearly establishing the need for disposing of the Stores, assets or equipment, the justification of the disposal method and the reference to the Disposal Plan;
- ii. The Selection process to account transparently on compliance with the disposal procedures set forth in the Public Procurement and Disposal Act 2006 and its Regulations, notably but not limited to the choice and the enforcement of the appropriate disposal method for selecting the winning candidate securing the best value for money;
- iii. The Contract Award to establish without ambiguity the commitments taken by the Contractor/Buyer and KPLC to ensure efficient and effective disposal;
- iv. The Certification of Completion of the Disposal to ensure the contractor has discharged of its obligations;
- v. The Receipt of Monies as provided in the disposal documents.

35.2 The asset disposal process shall be in line with the accounting procedures as set out in the Fixed Assets Register (FAR). For stocked materials and other fixed assets in the accounting records the following procedures shall be followed:

**35.3 Materials:** Identification of obsolete and damaged materials shall be done by a committee in the user department. The board will approve the writing off of the books of accounts, adjustments posted as appropriate and materials set aside for disposal as outlined in this policy.

### **35.4 Fixed assets/property listing items:**

User department shall identify the items to be disposed, advice Finance to confirm from the FAR for retirement. Upon confirmation from Finance the assets shall be set aside for disposal as outlined in this policy.

### **36.0 PREROGATIVE OF KPLC**

36.1 Nothing in this policy shall in any way be construed to limit the prerogative of KPLC to make other decisions or take other action in respect of disposal of surplus, damaged or unserviceable and obsolete stocks or materials and equipment owned by KPLC outside the provision of this policy as long as those decisions and actions are within the regulatory provisions of the Public Procurement & Disposal act 2005, Public Procurement & Disposal Regulations 2006 and PPOA's Public Procurement & Disposal General Manual and all the amendments to the Regulations.



## D. PROCUREMENT POLICY

### 37.0 INTRODUCTION

Kenya Power is a public company listed on the Nairobi Stock Exchange. It is a key player in the electric power supply sub-sector with the mandate to purchase bulk electricity, transmit, distribute and retail electricity to end use customers throughout Kenya.

Kenya Power is in Class A of Public Procuring entities. The procurement process in Kenya Power is managed and administered within provisions of the Public Procurement and Disposal Act of 2005, all Regulations and manuals, PPOA Circulars, Kenya Power's ISO 9001:2008 procedures and work instructions.

Kenya Power's Sustainable Procurement Policy Manual is intended to provide guidelines, and make provisions for proper and efficient management and administration of procurement processes by ensuring quality and efficient delivery of goods and services to internal users while ensuring effective competition is enhanced in the procurement processes.

#### **Procurement Vision**

To be a world-class provider of procurement services to all users.

#### **Procurement Mission**

To deliver an efficient tender and contract management strategy in order to ensure availability of all goods, works and services.

### **37.1 Strategies for achieving Procurement Mission**

The Supply Chain Procurement unit will strive to continuously improve procurement processes and in keeping with world-class practices, has established strategic focus on; supplier development, internal client support and internal efficiency enhancement.

In particular, the Supply Chain Procurement unit shall:

1. Share best practices for adoption by all Kenya Power employees and stakeholders.
2. Position the right people for the right job, and foster a continuous learning culture.
3. Continuously improve procurement processes and practices, and solicit support from internal users.
4. Develop and maintain long-term relationships with suitable Suppliers and Business Partners for mutual benefit.

### **37.2 Key Objectives**

The Supply Chain Procurement unit's key objectives are;

1. To deliver an efficient tender management system that will ensure receipt of goods, works and services based on the 5 rights – right time, quality, place, cost and quantity.
2. To deliver an efficient contract management system that will enhance continuity in supply of quality materials, services and works on time.

### 7.3 Key sustainability objectives

The Supply Chain Procurement unit shall support commitment to Good Corporate Citizenship, safeguard reputation as a responsible public body and protect the health of staff, customers and the public at large.

The key objectives addressed by this policy are:

- Reducing fossil fuel usage to minimize climate change
- Reducing waste and usage of hazardous materials
- Improving customers quality of life in line with Kenya Power's mission of **"Powering people for better lives"**
- Increasing levels of employment, skills and equality in the Kenya Market by applying preference sections whenever feasible
- Ensuring fair pay and working conditions throughout the Supply Chain
- Protecting biodiversity by encouraging use of concrete poles
- Complying with current and anticipating future legislation

### 38.0 SCOPE

This policy applies to all procurement activities within the Kenya Power to promote the strategic ideals of the procurement department in liaison with all the employees and other stake holders who are involved in the procurement and provision of goods, works and services.

### **38.1 Policy definition**

This Procurement policy is a statement of procedures, guidelines, instructions, rules and Regulations to be followed by Kenya Power for the purpose of sustainably procuring goods, service or works efficiently, economically, transparently in a fair and most economical means and in compliance with the existing laws.

### **38.2 Procurement defined**

Procurement is the process of acquisition of the required goods, works or services, by way of purchase, lease, hire purchase, license, tenancy, and franchise or by contractual means of any type of works, assets services or goods in any combination.

### **38.3 Policy Development**

This policy will be reviewed 'as and when' need arises and following any new Public Procurement Oversight Authority guideline policies, the Company Procurement action plans and the Department's strategic endeavours to embrace best practices of the profession.

## **39.0 KEY POLICY PRINCIPLES**

### **39.1 Procurement Spend Analysis (All Categories)**

To support Kenya Power spend analysis and Procurement planning, Supply Chain Procurement unit will establish and implement a process of category management.

### **39.2 Buying Plan (All Categories)**

Prior to any tender process, buyers from all categories/sub-categories will review the aggregate requirement to minimize volume, scale, costs and environmental impact. Tenders will be packaged in line with economies of scale and in appropriate lots to facilitate deliveries in economic order quantities to right places/destinations.

### **39.3 Sustainability Review**

Prior to any tender process, buyers will review the purchase against the key sustainability objectives. Where relevant, buyers will identify actions to reduce impacts through supplier pre-qualification, specifications, evaluation criteria, supplier development and continuous improvement.

### **39.4 Whole Life Costing**

Where relevant, buyers will evaluate all tenders on the basis of long term value for money, using whole life costing.

### **39.5 Small & Medium Enterprises (All Categories)**

Where possible, increase the level of business awarded to local Small & Medium Enterprises. All requirements will be advertised on local media as prescribed by the Public Procurement & Disposal Act 2005(PPDA) and Regulations 2006(PPDR) and any other amendments thereof.

### **39.6 Mandatory Minimum Standards (All Categories)**

The Supply Chain Procurement unit in partnership with Research & Development unit and users will explore the feasibility of adopting minimum technical, social and environmental standards for products, services and works based on the national and/or International Specifications Standards.

### **39.7 Innovation & Supplier Development in Framework Contracts (All Categories)**

Kenya Power and the Supply Chain Procurement unit will encourage suppliers to propose innovations which improve the sustainability of their tender responses and reflect this in tender evaluation criteria.

### **39.8 Training and Implementation (All Categories)**

The Supply Chain Procurement unit will organize Sustainable Procurement awareness and Category Management training sessions to all stakeholders.

### **39.9 Communication & Reporting (All Categories)**

This policy will also be distributed to all non-procurement staff involved in procurement activities, contracting activities as evaluators or end users.

### **39.10 Organization Structure**

In order to support development of this policy, products, services and works will be grouped in Categories to facilitate management by category buyers in cross functional teams with users.

## **40.0 VALUES OF KENYA POWER'S PROCUREMENT**

As stipulated in the statutes, the following general principles shall guide the processes while executing procurement on behalf of the organization;

1. Fairness, Integrity and Transparency
2. Effective Competition
3. Best Value for Money

## **41.0 RESPONSIBILITIES**

All Senior Managers of Kenya Power shall be responsible for the enforcement of and compliance with this procurement policy. It is also their responsibility to ensure their subordinates are familiar with the requirements.

Responsibilities and authority levels in respect of specific functions within procurement are as follows:

#### **41.1 Chief Executive Officer**

The Chief Executive Officer has the overall responsibility for the execution of the procurement process including appointment of members of various committees.

#### **41.2 Supply Chain Procurement unit**

The Supply Chain Procurement unit's responsibility is to serve internal customers with the timely and cost effective procurement of goods, works and services. This shall be accomplished through product knowledge, competitive bidding, negotiation of special pricing agreements/contracts and the monitoring of vendor performance and as per Regulation 3 of Public Procurement and Disposal Regulations (PPDR) 2006.

#### **41.3 Tender Committee**

Tender Committee (TC) shall be set up in the manner set out in the second schedule and has the responsibility of ensuring the selection of bidders are based on fair competition and in compliance with the legal and regulatory framework for the supply of goods works and services of above the threshold of **Kshs 500,000**.

The TC shall be established as provided by Regulation 10 of the Public Procurement and Disposal Regulations (PPDR) 2006.

#### **41.4 Procurement Committee**

Procurement Committees (PC) have the responsibility of ensuring that the selection of bidders is based on fair competition and in compliance with the legal and regulatory framework for the supply of



goods, works and services below the Tender Committee threshold. In this case, the threshold for the Procurement committee shall be **Kshs 30,001 to Kshs 500,000** (both values inclusive).

The PC shall be established as provided by Regulation 13 of the Public Procurement and Disposal Regulations (PPDR) 2006.

#### **41.5 Tender Processing Committee**

The main role of the Tender Processing Committee (TPC) shall be to select bids based upon technical and financial considerations the best submittal for a particular procurement request and in accordance to requirements set out under Regulation 16 of the Public Procurement and Disposal Regulations 2006.

TPC shall also inspect and where required; to test goods received, or to inspect and review services, works and consulting and design in order to certify compliance with the terms and specifications of the contract and accept or reject on behalf of the Kenya Power, the delivered goods, works, services or consultancy services in accordance to amended Regulation 17(2013) of the Public Procurement and Disposal Regulations (PPDR) 2006.

TPC shall also undertake any negotiations if deemed necessary.

#### **41.6 User Department**

A user department shall be responsible for initiating procurement requirements and forwarding them to the procurement unit and participate in the evaluation of tenders, proposals and quotations in accordance with Regulation 9 of the Public Procurement and Disposal Regulations (PPDR) 2006.

#### 41.7 Tender Opening Committee

The Chief Executive Officer shall appoint a tender opening committee specifically for the procurement in accordance with the Public Procurement and Disposal Regulations (PPDR) 2006 section 60(1).

#### 41.8 Procurement Oversight Committee

The Procurement Oversight Committee of the board shall oversee procurement activities. The secretary to the tender committee shall prepare monthly summary of all major procurement activities to be presented to the POC for review.

This committee shall equally be informed on any single procurement with amounts more than **Kshs 50,000,000 (Kenya Shillings Fifty million only)**.

#### 42.0 FILING AND ARCHIVING

The procurement unit shall maintain adequate and accurate records of the tendering proceedings in compliance with the Public Procurement and Disposal Act (PPDA) 2005 and Regulations (PPDR) 2006 and ISO 9001:2008 procedures and work instructions.

## **43.0 MANAGEMENT OF PROCUREMENT CONTRACTS**

### **43.1 Creation of Procurement Contract**

The Supply Chain Procurement unit jointly with the User Department will initiate the creation of the procurement contract in liaison with the other contracting party (Vendor). The Legal Department shall review all contracts before signing.

## **44.0 PROCURING FOR OTHER ORGANIZATIONS**

Kenya Power Tender Committee may act as a tender committee for smaller organizations or government agencies on a formal request and acceptance.



### **Kenya Power Supply Chain Contacts**

Supply Chain Division

The Kenya Power & lighting Company Ltd

P. O. Box 3009 - 00100 Nairobi, Kenya.

Walk in: Stima Plaza

Suggestion Boxes in all Major Kenya Power Offices.