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THE AUDITOR-GENERAL

ON

STATE DEPARTMENT FOR PETROLEUM

**FOR THE YEAR ENDED
30 JUNE, 2019**





STATE DEPARTMENT FOR PETROLUEM

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2019**

**Prepared in accordance with the Cash Basis of Accounting Method under the International Public Sector
Accounting Standards (IPSAS)**

NATIONAL GOVERNMENT ENTITY - (indicate actual name of the entity)
Reports and Financial Statements
For the year ended June 30, 20XX

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background Information

The Ministry of Petroleum and Mining was created in 2018 through Executive Order No. 1 of June, 2018. Prior to this, the State Department for Petroleum fell under the Ministry of Energy and Petroleum. Before then, petroleum pricing was under the then Ministry of Finance which represented the Government interests in the Kenya Petroleum Refineries Limited.

Under the Executive Order No. 1 of June, 2018 on the Organization of the Government of the Republic of Kenya, the Ministry was split into two State Departments with each drawing its mandate from the Executive Order. At the Cabinet level, the Ministry is headed by the Cabinet Secretary, Mr. John Munyes, EGH, who is responsible for general policy and strategic direction of the Ministry.

The State Departments under the Ministry are:

- i. The State Department for Petroleum administered by Andrew Kamau, CBS, and
- ii. The State Department for Mining administered by Mr. John Omenge, CBS

The State Department for Petroleum is a Public Institution whose responsibility is to ensure adequate, quality, cost effective and affordable development of the extractives Sector to meet national development needs while protecting and conserving the environment

The Vision, Mission, Core Values, Strategic Objectives and core functions of the State Department for Petroleum under Ministry of Petroleum and Mining are:

Vision

Promote sustainable development of the extractives sector.

Mission

Enhance commercialization of discoveries, develop the requisite skills and infrastructure for production in the oil, gas and improve access to competitive, reliable and secure supply of petroleum products

Core Functions

- Formulation of policy, review of fiscal, legal and regulatory framework for oil and gas exploration, development and production.
- Acquisition, interpretation and modeling of primary data, primary geotechnical data for geophysical (gravity, magnetic), geological and geochemical surveys in unlicensed or open petroleum exploration blocks. The purpose is to upgrade exploration data base and to accelerate or bring forward, seismic acquisition programmes by oil and gas companies that will be licensed to operate in those blocks.
- Monitoring operations and compliance of oil and gas exploration, in the implementation of their minimum geological, geophysical, geochemical and drilling obligations in licensed blocks.
- Evaluation of results and reports submitted by licensed oil and gas companies, operationalise Production Sharing Contracts in the country's exploration blocks.

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- Carrying out continuous review, subdivision and reduction of petroleum exploration block sizes on basis of additional data and to increase commitment to implementation of minimum work in smaller blocks by licensed oil and gas companies.
- Carrying out evaluation and negotiation of Production Sharing Contracts terms submitted by oil and gas companies which express interest in the country's exploration blocks.
- Exploratory drilling operations in prospective areas;
- Promotion and licensing of acreage;
- Facilitating exemption of Duty, VAT and Income Declaration Forms (IDF) by the National Treasury and Planning, in respect of goods and equipment imported into the country by licensed oil companies specific to oil and gas operations.
- Promotion of regional and international programmes on data exchange and technology transfer between the State Department for Petroleum and relevant oil and gas – based organizations.
- Formulation of policies on oil and gas operations with upstream segment of the oil industry.
- Continuous monitoring and coordination of Distribution, Supply and Market situations of finished petroleum products in the country.
- Ensure Security and supply of Petroleum products.
- Promote investment in petroleum infrastructure.

Strategic Objectives

- Enabling regulatory framework for the Petroleum Sector;
- Affordable, reliable and safe supply of petroleum to Kenyans;
- Sustainable petroleum self-sufficiency;
- Efficient utilization and conservation of petroleum;
- Development of new petroleum resources and;
- Optimal utilization of both human and financial resources.

Core Values

- (i) Professional integrity and excellence
- (ii) Commitment to work
- (iii) Commitment to customer service
- (iv) Efficiency, transparency and accountability
- (v) Zero tolerance to corruption
- (vi) Non-partisan

Our Stakeholders

The stakeholders that the State Department for Petroleum targets in order to encourage cleaner petroleum consumption and conservation includes:-

- Kenya Petroleum Refineries Limited (KPRL)

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- National Oil Corporation of Kenya (NOCK)
- Kenya Pipeline Company (KPC)
- Ministries, Departments and Agencies
- Oil Marketing Companies

(b) Key Management

The State Department for Petroleum derives its mandate from Executive order No.1 of 2018 and other Acts of Parliament relevant to Petroleum. To effectively provide services per our mandate, the Department has two divisions namely Petroleum and the Administration and Support Services. It has ten units namely:

- HRM&D
- Public Communications
- Central Project Planning
- Supply Chain Management Services
- Information Communication Technology (ICT)
- Finance
- Accounts
- Legal
- Audit
- Gender

(c) Fiduciary Management

The key management personnel who held office in the State Department for Petroleum during the financial year ended 30th June, 2018 and who had direct fiduciary responsibility were:

Designation	Name
Cabinet Secretary	Hon. John Munyes, EGH
Principal Secretary	Mr. Andrew N. Kamau CBS
Secretary, Petroleum	Mr. James Nganga
Secretary, Administration	Mr. Chege Mwangi
Senior Chief Finance Officer	Mr. Mathew Musyoka
DD/HRM&D	Ms Agnes Muthuo
Deputy Chief Economist	Ms Electine M Nanzala
Assistant Accountant General	CPA Charles Liyayi
Ass Director Supply Chain Management	Ms. Chepkemoi Kerich

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Hon. John K. Munyes, EGH
Cabinet Secretary
Ministry of Petroleum and Mining

Hon. John K Munyes, EGH was appointed Cabinet Secretary for Ministry of Petroleum and Mining by President Uhuru Kenyatta in January 2018. Prior to his appointment as Cabinet Secretary, Hon. John K Munyes served as the Senator for the oil-rich Turkana County for 5 years beginning 2013 and ending 2017.

Hon. John K Munyes has also previously served in various capacities as Minister of State for Special programmes (2005), Minister for Water and Irrigation (2003) as well as Minister for Labour & Social Services. He also served as the Member of Parliament (MP) for Turkana North Constituency for 15 years, beginning 1997.




Prior to joining politics, Hon. John K Munyes worked as UNESCO Project Assistant and later became a Programme Coordinator of the Intermediate Technology Development Group (ITDG) where he coordinated food security programmes in Turkana District including livestock projects, women empowerment and capacity building. He is awarded the Elder of the Order of the Golden Heart of Kenya (EGH) for his valuable service rendered to the nation.



Mr. Andrew N. Kamau, CBS
Principal Secretary

Mr. Andrew Ng'ang'a Kamau has wide experience in Petroleum energy gained from several years in leadership positions in the private sector. Prior to his appointment as Principal Secretary for Petroleum, he was the Chief Executive Officer of Bracewell Energy which has interests in mining, energy and natural resources. As PS, he steers the Petroleum docket at the Ministry where he will oversee implementation of Petroleum projects. He holds a Bachelor of Science degree in Chemistry from the University of Nairobi.

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 <p style="text-align: center;">Mr. James Nganga Senior principal superintendent geologist</p>	<p>Mr. James Ng'ang'a was appointed Ag.Secretary, Petroleum in February 2019. He has been instrumental in oil and gas exploration in the country leading to the first oil discovery in Kenya in March, 2012, implementation of the early oil project as well as the review of the Petroleum policy, legal, regulatory and contractual framework for oil and gas. He holds an MSc.a Bsc and PGDip.</p>
 <p style="text-align: center;">Mr. Chege Mwangi Secretary Administration</p>	<p>Mr. Mwangi has been the Secretary, Administration in the State Department for Petroleum from May 2018. He joined the Public Service in 1985 as an Assistant Secretary/District Officer, rising through the ranks to Senior Deputy Secretary/Senior District Commissioner in 2008. In 2011, he was appointed County Commissioner and was redeployed in 2016 as Secretary, Administration. He holds a Bachelor of Arts and a Master of Arts in Project Planning and Management from the University of Nairobi</p>
 <p style="text-align: center;">Mr Mathew K. Musyoka Chief Finance Officer</p>	<p>CPA Mathew K. Musyoka assumed the position of Head of Finance Unit in November 2018. He is in charge of budget preparation and implementation. He holds an MA (Economics) from Kenyatta University and Bachelor of Arts (economics) from University of Nairobi. He is a CPA (K), and also a member of the ICPAK</p>

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 <p>Ms. Electine M. Nanzala Deputy Chief Economist</p>	<p>Ms. Electine M. Nanzala assumed the position of the Head of CPPMU in May, 2016. She is in charge of Economic planning function which involves planning and analysis of economic policy; undertaking economic analysis, evaluation and monitoring of development projects and programmes; co-ordination of strategic planning and performance contracting; and performance review of economic activities to inform policy and budgetary processes. She holds a Masters in Economics and a Bachelor of Arts Degree from Kenyatta University.</p>
 <p>Ms. Agnes Muthuo, Deputy Director/HRM&D</p>	<p>Ms. Agnes Muthuo assumed the position of Head, Human Resource Management and Development in January, 2017. She is in charge of managing the HR function in the Department including Training and Development for effective service delivery. She holds a Master of Science degree in Human Resource Development from the Jomo Kenyatta University of Science and Technology and a Bachelor of Arts degree in Anthropology from the University of Nairobi. She is a Member of IHRM.</p>
 <p>Ms. Charles Liyayi Shidzugane Ag. Assistant Accountant General</p>	<p>CPA Charles Liyayi Shidzugane assumed the position of Head of Accounting Unit in December 2018. He is in charge of Accounting and Financial Reporting as well as designing, implementing and monitoring internal controls relevant to the preparation and for presentation of financial reports in line with the relevant International Public Sector Accounting Standards (IPSAS). He holds an MSc (Finance Option) from The KCA University and Bachelor of Commerce (Finance) from Catholic University Of Eastern Africa. He is a CPA (K), and also a member of the ICPAK.</p>

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Ms. Chepkemai Kerich
 Assistant Director Supply Chain
 Management

Ms Chepkemai Kerich assumed the position of Head of Supply Chain Management Unit in January 2019. She is in-charge of Procurement of goods and services and Overseeing implementation of the Department's Procurement Plan. She holds a Masters Degree and Bachelor's Degree in Economics from Nairobi University. She is also a member of KISM and CIPS

This committee comprises the following members drawn from various departments:

No	Name	Designation
1	Mr.Andrew Kamau,CBS	Principal Secretary- Petroleum (Chairman)
2	Mr.Chege Mwangi	Senior Deputy Secretary
3	Mr.James Nganga	Secretary, Petroleum
4	Ms.Agnes Muthuo	Deputy Director/HRM&D – Secretary
5	CPA.Charles Liyayi	Assistant Accountant General
6	Ms.Electine Nanzala	Deputy Chief Economist
7	Ms. Chepkemai Kerich	Assistant Director Supply Chain Management

This is the committee charged with the responsibilities of human resource needs. Its duties include but are not limited to:

- Promotion of officers in Job Groups A-P
- Confirmation in appointment
- Disciplinary matters
- Review of re-designation of officers from one cadre to another and
- Confirmation of surcharge of officers found to have misused government resources.

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The following table shows the number of human resource management advisory committee meetings held during the year and the attendance of individual members.

	Committee attendance for the year ended 30th June, 2018	Human Resource Management Advisory Committee Meetings											Total Attendance	
		29.8.17	27.9.17	24.10.17	6.12.17	7.12.17	8.1.18	1.2.18	1.3.18	9.4.18	2.5.18	4.6.18		
1	Andrew Kamau, CBS	✓	✓	✓	✓	✓	✓	X	X	X	X	X	X	6
2	Chege Mwangi	✓	✓	✓	✓	✓	✓	X	X	X	X	X	X	6
3	James Ng'ang'a	✓	✓	✓	✓	✓	✓	X	X	X	X	X	X	6
4	Agnes Muthuo	✓	✓	✓	✓	✓	✓	X	X	X	X	X	X	6
5	Charles Liyayi	✓	✓	✓	✓	✓	✓	X	X	X	X	X	X	6
6	Electine Nanzala	✓	✓	✓	✓	✓	✓	X	X	X	X	X	X	6
7	Chepkemoi Kerich	✓	✓	✓	✓	✓	✓	X	X	X	X	X	X	6

✓ Attended

X - Absent with apology

NB

Due to reorganization of Government, there were no Human Resource Management Advisory Committee (MHRMAC) Meetings held from January to June 2018

i. Training Committee

This committee comprises the following members drawn from various departments:

No	Names	Designation
1.	Mr.Andrew Kamau,CBS	PS Petroleum – Chairman
2.	Mr.Chege Mwangi	Senior Deputy Secretary
3.	Mr.James Ng'ang'a	Secretary, Petroleum
4.	Ms.Agnes Muthuo	Deputy Director/HRM&D – Secretary
5.	Mr.Charles Liyayi	Assistant Accountant General
6.	Ms.Electine Nanzala	Deputy Chief Economist
7.	Ms.Chepkemoi Kerich	Assistant Director Supply Chain Management

This is the committee charged with the responsibility of training and human resource development (capacity building). Its duties include but are not limited to:

- Overall co-ordination of the training function in the State Department;
- Review and implementation of the State Department's training plan based on Training Needs Assessment (TNA) and approved Training Projections;
- Induction of newly appointed/promoted and transferred officers; and
- Long/short term courses.

N.B: During the year under review, Training Committee Activities were performed by the Ministerial Human Resource Management Advisory Committee as described in (i) above.

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(a) State Department for Petroleum's Headquarters

P.O. Box 30582 – 00100
Nyayo House Building
Kenyatta Avenue
Nairobi, Kenya

(b) State Department for Petroleum's Contacts

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E-mail: psPetroleum@energy.go.ke
Website: www.go.ke

(c) State Department for Petroleum Bankers

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P. O. Box 60000
City Square 00200
Nairobi, Kenya

2. Kenya Commercial Bank
Kipande House Branch
Nairobi, Kenya

(d) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

(e) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

(d) Independent Auditors

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Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
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GOP 00100
Nairobi, Kenya

(e) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
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City Square 00200
Nairobi, Kenya

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II. FORWARD BY THE CABINET SECRETARY



(a) Early Oil Pilot Scheme Project (EOPS)

The project's objective is to gather technical data for designing and preparation of the Field Development Plan (FDP) and, to test the international market for Kenyan Crude Oil. Trucking of crude oil from the South Lokichar oil field to KPRL storage facilities in Mombasa under EOPS was launched by H.E. the President on 3rd June 2018.

During the FY 2018/19 the Department:

- i. Finalized the Environmental and Social Impact Assessment (ESIA) study and report submitted to National Environmental Management Authority (NEMA) for approval. The ESIA License was issued by NEMA on 19th March 2019.
- ii. Trucked a total of 176,453 barrels of crude oil produced in South Lokichar to the KPRL storage terminal in Mombasa. However, the Department did not manage to export the 200,000 barrels of crude due to delay in issuance of NEMA licence as well as the Energy and Petroleum Regulatory Authority (EPRA) operating licence. This greatly impacted on oil production.
- iii. Held eight (8) EOPS steering committee meetings to steer the implementation of the project and marketing of the Kenyan crude.

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Trucking of crude oil from South Lokichar, Turkana to the KPRL Storage Terminal, Mombasa

(b) Preparatory Activities for Lokichar – Lamu Crude Oil Pipeline

The Lokichar – Lamu Crude Oil Pipeline will evacuate/transport crude oil from the production fields in the South Lokichar Basin to the port of Lamu for storage and onward export to the international markets.

During the FY 2018/19 the Department:

- i. Convened four (4) Pipeline Steering Board (PSB) quarterly meetings which developed action plans for implementation.
- ii. Implemented Government's Action Plans from the PSB resolutions.
- iii. Completed Pre-FEED Baseline Report to inform on Final Investment Decision (FID) on the pipeline project. Mitigation measures from the report for each County began mid-June 2019.

(c) Public Affairs and Stakeholder Management

The Department held eleven (11) sensitization workshops with stakeholder groups defined below, so as to provide sufficient opportunity for information sharing and a platform to voice their opinions and concerns on the pertinent issues that may influence the project implementation and most importantly, to create an atmosphere of understanding that actively involves the Turkana Community in a timely manner. The engagements were held between February - June 2019.

- Turkana County Grievances Committee
- Members of County Assembly
- Elders and opinion leaders in Turkana East and South

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- National Administration Officers
- Women Groups
- Youth Groups
- Faith Based Organizations
- Turkana Business Organizations
- Turkana Professional Associations
- Civil Society Organizations
- Community Based Organizations

(d) Media Relations

The Department held six (6) media briefings in the 3rd and 4th Quarter 2018/2019, generating over 50 media articles on the upstream petroleum developments. These involved:

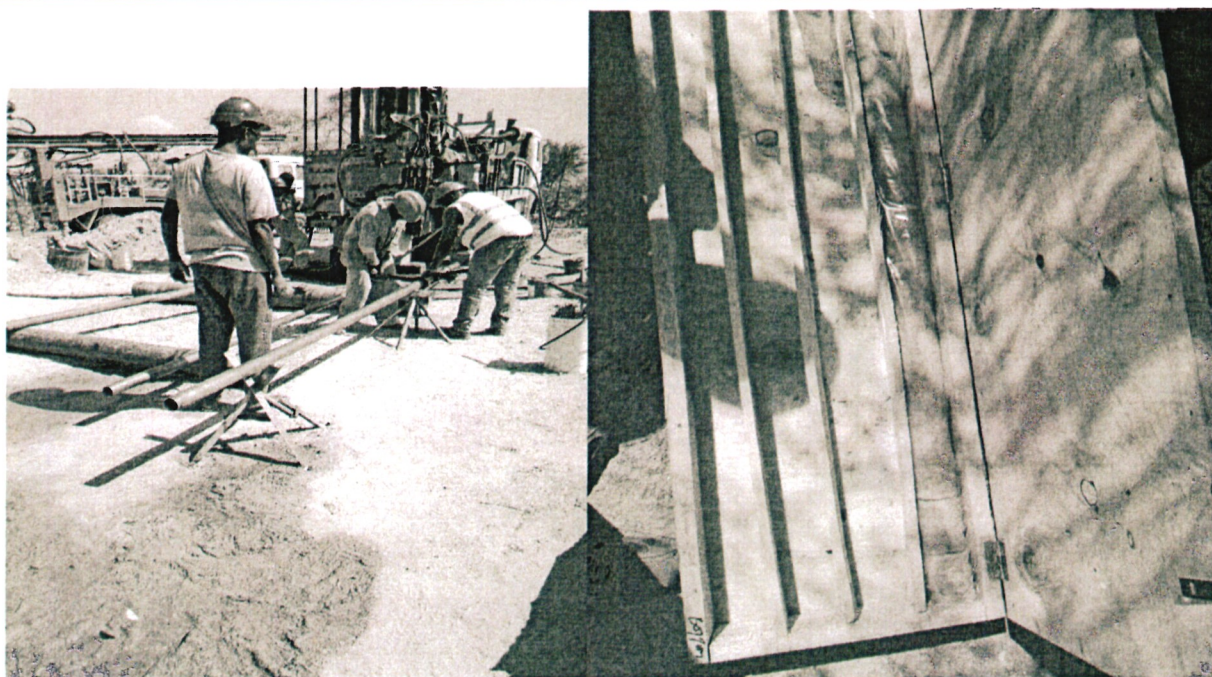
- *Turkana County and MoPM Joint Press briefing on Extractives Week 2019*
- *MCA's press conference on land acquisition for upstream development*
- *EOPS press briefing on status and progress of EOPS*
- *Lokichar Elders stakeholder briefing with Cabinet Secretary, MoPM*
- *Turkana High-level Oil and Gas Conference*

(c) Petroleum Exploration in Block 14T

During the FY 2018/19, the Department facilitated National Oil Corporation of Kenya (NOCK) exploration program in Block 14T, Tertiary Rift Basin. It ensured the processing and interpretation of seismic data and integration with earlier acquired datasets. As a result, one (1) potential hydrocarbon lead with a potential of 118 Million barrels of oil was mapped out. The completed reserve estimate will pave way for further partnership through a farm-in agreement between National Oil and an interested equity partner. This is expected to raise the required equity for the next exploration period which include drilling of an exploratory well.

The Department also ensured drilling of two (2) stratigraphic wells within the block and laboratory analysis of the obtained core samples. The wells were drilled for the purpose of gaining structural and stratigraphic information to be used concurrently with 2D seismic data exploring for oil and gas in Magadi sub – basin.

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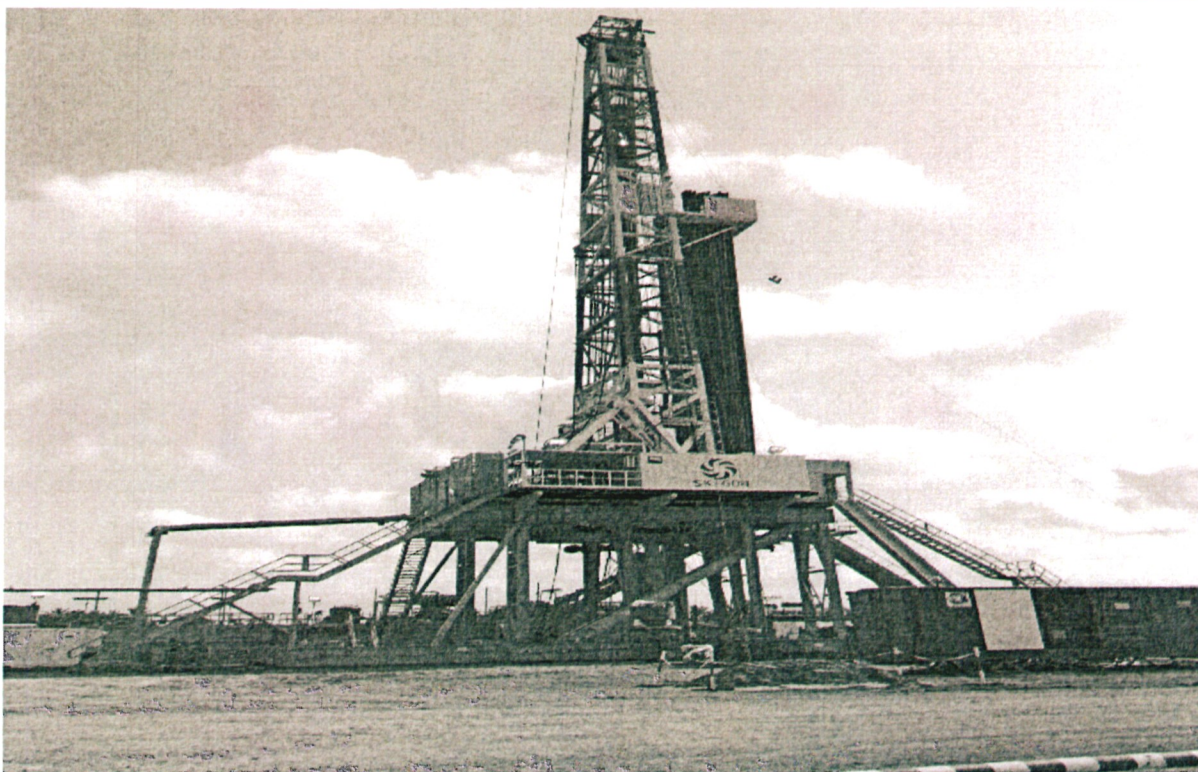


Drilling of stratigraphic wells in Block 14T, Tertiary Rift Basin

(d) Drilling of Oil and Gas Exploratory Wells

In the FY 2018/19, the Department supervised drilling of Pate-2 exploratory well in Block L4 within Lamu Basin. The objective of the drilling was to ascertain the presence of hydrocarbons in two primary targets within the Kipini Formation. The well penetrated the primary lower Kipini objective and intersected zones of high pressure natural gas. The well was plugged and abandoned having been drilled to a total depth of 4,307 metres with the possibility of re-entry. The results successfully confirmed a working petroleum system within the Pate sub-basin.

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Sakson 604 rig drilling Pate-2 Well in Block, L4, Lamu Basin

(e) Review of the South Lokichar revised draft Field Development Plan (FDP)

The objective of FDP is to give optimal development scenario in terms of technical, economic, commercial, operational, social, environmental and political aspects of South Lokichar oil field in the interest of Kenya. The Plan aims to quantify the reserves and facilitate planning of optimal infrastructure to produce and market Kenyan Crude Oil to the International Market. During the FY 2018/19 the Department conducted the review of static, dynamic, basis of design (BoD) and economic models of Iteration 2 of the revised draft Field Development Plan submitted by the contractor for the Foundation Phase i.e. Twiga, Amosing and Ngamia (TAN) fields. A draft South Lokichar FDP Review Report was prepared. The submission of the draft Final FDP by the contractor and its subsequent review is scheduled for the FY 2019/20.

(f) Enhance Primary Data Acquisition and Interpretation in Open Blocks

The projects aim is to determine petroleum prospectively as well as attract oil companies to invest in the open block. During the FY 2018/19, the Department undertook Phase II of geological and geophysical surveys in Block L19A i.e. acquired, processed and interpreted geophysical data (gravity) from 313 gravity stations compiled a Geophysical Report. It also conducted geological mapping of

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the Block. The Phase focusing on Magnetic Survey will be conducted in the FY 2019/20.



Geophysics team acquiring gravity data from gravity stations in Block L19A

In addition, the Department jointly with National Oil Corporation undertook preliminary survey of the Kipetu Gas Prospect in Kajiado County with the view of conducting detailed geological and geophysical survey in FY 2019/20.



Joint Ministry and National Oil team conducting survey of the Kipetu Gas Prospect, Kajiado County

(g) The 9th East African Petroleum Conference and Exhibition, 2019

During the FY 2018/19 the Department successfully organized, convened and presented papers at the 9th East African Petroleum Conference & Exhibition (EAPC&E) held in Mombasa from 8th to 10th May 2019. The conference aimed at promoting exploration, development and production of oil and gas as well as investment in the oil and gas sector within the East African Region and was well attended with over 600 delegates.

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Hon. John Munyes, EGH Cabinet Secretary for Petroleum and Mining, Kenya together with regional delegates during the official opening of EAPCE'19 held in Mombasa.

D

(h) Optimization of the Mombasa – Nairobi (Line 5) and PS10(Nairobi Terminal) Tanks

The Mombasa – Nairobi product pipeline (Line 5) and PS 10 tanks were commissioned on 30th June 2018. The first product was received on 30th July 2018. Optimization of Line 5 is ongoing through efficiency initiatives such as pumping schedules to optimize on electricity consumption and larger batch scheduling.

(i) Security of Supply of petroleum products

Throughput

This is quantity in cubic meters (M³) of petroleum products delivered and issued to oil marketers at delivery points which include Moi International Airport - PS12, Jomo Kenyatta International Airport – PS9, Konza –PS8, Nairobi Terminal – PS 10, Nakuru Depot – PS 25, Kisumu Depot – PS 28, Eldoret Depot – PS 27 and KOSF to Shimanzi Oil Terminal and any other designated point.

During the period under review, a cumulative throughput performance of 7,404,967M³ was achieved against a target of 8,025,133.32 M³. The main contributor to the inability to achieve the planned throughput performance was a decline in the export market, a shift by Oil Marketing Company's (OMC's) from lifting product from KPC depots to alternative depots e.g. Petro City.

In addition, the following activities were also undertaken to ensure continued security of supply of petroleum products:

i. Adjudication of Petroleum Tenders and Enforcement of Open Tender System (OTS) Terms and Conditions.

Projection of the petroleum product demand was done and tenders were invited, opened and awarded to winners within timelines. Further, the Ministry ensured compliance to the open tender system terms and conditions by referring defaulters in the OTS to EPRA.

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ii. Vessel Scheduling Committee Meetings (VSM)

Forty-eight (48) vessel scheduling meetings were held in which vessels were scheduled in line with the demand for petroleum products. The State Department also ensured that all vessels for both Shimanzi Oil Terminal (SOT) and Kipevu Oil Terminal (KOT) berthed on time to ensure security of supply of petroleum products as well as minimizing demurrage costs.

iii. Monitoring Petroleum Stocks

The State Department monitored stocks position at the various KPC depots on a daily basis to ensure there are no stock outs in the country for efficiency of supply of petroleum products.

(j) Eradication of Fuel Adulteration, Dumping and illegal LPG Refilling

The project aims to effectively monitor and enforce quality assurance standards to alleviate dumping and adulteration of petroleum products to ensure that quality and secure petroleum products are marketed nationally and regionally. During the period under review, a total of 14,280 sample tests were carried out in petroleum outlets across the country.

B. EMERGING ISSUES

- Global price volatility of crude oil has resulted in reduced investment in oil and gas exploration by international oil companies.
- Regional re-alignment which has led to oil and gas importation and transportation through the Central Corridor.
- Closure of the refinery and integration of KPC and KPRL to enhance utilization of the latter's facilities.
- Need to develop a national oil and chemical spill contingency plan for the exploration/exploitation activities.
- Develop and review regulations to manage chemicals and hazardous waste from oil processes. Recommend and develop appropriate technology for the management of these wastes.
- Adherence to the requirements of climate change Act 2016 on compliance on levels of Green House Gases (GHGs) emission reduction.

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C. CHALLENGE FACED DURING PROGRAMMES AND PROJECTS IMPLEMENTATION

- Loss of transit market share of petroleum products exported to neighboring countries
- High community expectations in the oil, gas and mining exploration and development which slow down the pace of project implementation.
- Inadequate skilled local professionals in the sector.
- Gender mainstreaming in oil and gas projects.

D. RECOMMENDED WAY FORWARD

- Need for strategic partnership for project financing, execution and skills transfer.
- Need to develop strategies and respective legislation for management of community expectations.
- Need to strengthen national and county governments' collaboration and other stakeholders engagement at all stages of programme/project development.
- Linkages with other sectors with a coordinated approach in the implementation of the various flagship projects. The collaboration will entail capacity building with various technical institutions, environmental matters, occupational safety and health services concerns amongst others.
- There is need to strengthen the involvement of relevant local professionals in all phases of project implementation, including conceptualization, design, construction and commissioning to ensure capacity building and knowledge transfer.
- Need to come up with strategies to mitigate negative impacts on fluctuating global commodity prices and marketing trends which affect returns on investment.
- Enhancing capacity building in the counties in the oil and gas sector through partnerships with the national government, TVET training institutions, Universities and investors.

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Summary of Financial Performance

Financial Performance	Printed Estimates	Actual	Variance	%
	Kshs	Kshs	Kshs	Utilisation Variance
Total Receipts	4,894,250,000	2,945,249,041	1,949,000,959	66%
Total Payments	4,894,250,000	2,809,194,026	2,085,055,974	74%
Surplus	0	136,055,016	(136,055,016)	0

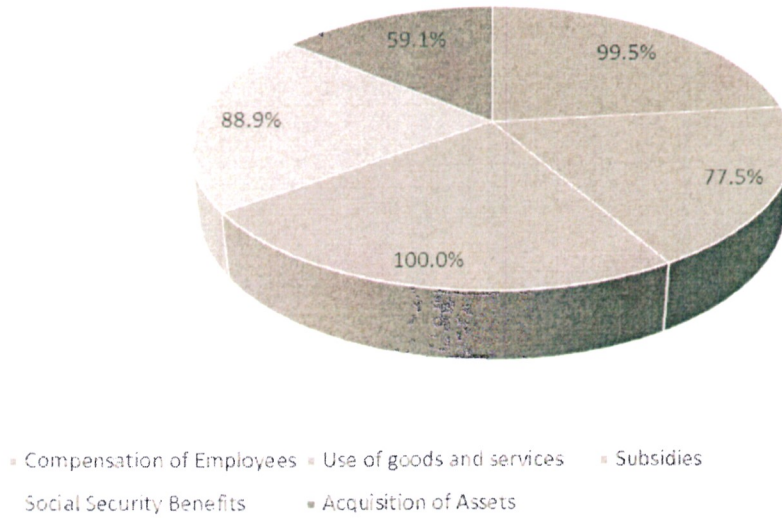
Budget Utilisation

The State Department spent KShs. 3,034,472,728 against an approved budget of KShs. 4,145,007,740 representing absorption of 72%. Utilisation of the budget was carried out through various activities (economic classifications) as shown in the chart below:

	Approved Budget Allocation	Actual Payments	Variance
	Kshs.	Kshs.	Kshs.
Compensation of Employees	164,634,428.00	160,858,530	3,775,898
Use of goods and services	661,093,644.00	627,619,207	33,474,437
Transfer to other Government entities	313,000,000.00	313,000,000	0
Social Security Benefits	2,000,000.00	1,647,884	352,116
Acquisition of Assets	2,349,817,059.00	1,706,068,405	643,748,654
Total Payments	3,490,545,131.00	2,809,194,026	681,351,105

STATE DEPARTMENT FOR PETROLEUM
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Budget Utilisation Per Economic Items



Current Year Performance against Prior Year

Financial Performance	Year to 30th June 2018	Year to 30th June 2017	Change	%
	Kshs	Kshs	Kshs	Change
Total Receipts	2,945,249,041	3,172,841,901	(227,910,055)	(7)
Total Payments	2,809,194,026	3,034,563,068	(226,275,042)	(7)
Surplus For the Year	136,055,016	138,278,833	(1,635,012)	(1)

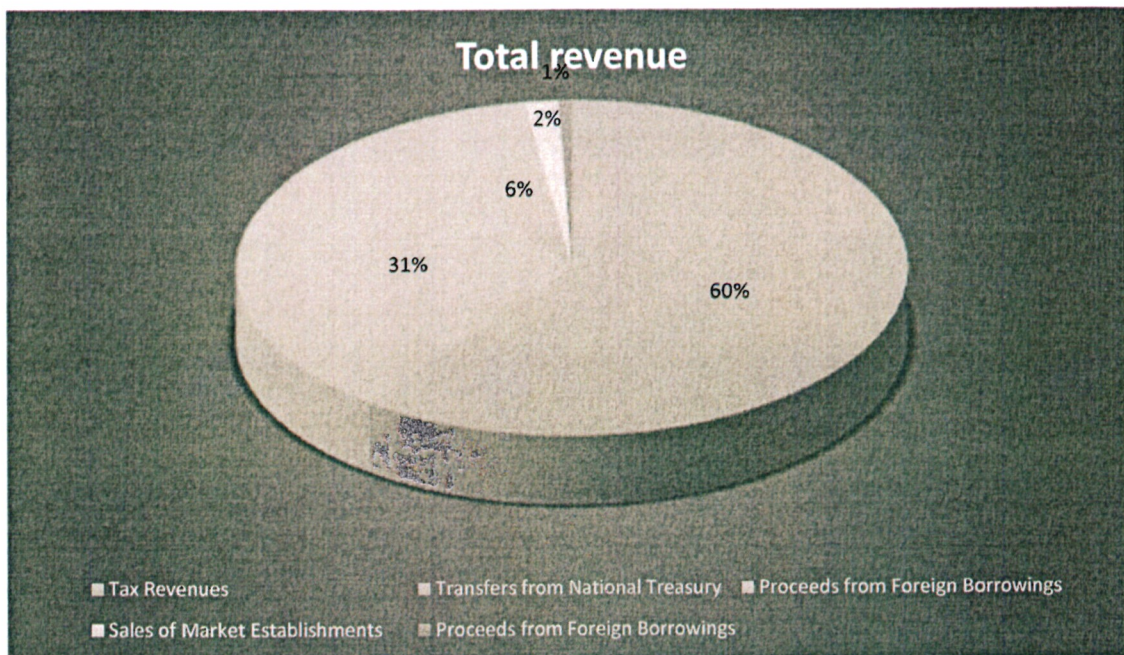
Receipts

The state department's total receipts summed up to 3,172,841,904 comprising mainly of Tax revenues, Exchequer releases, grants & borrowings, and AIA the total receipts increased by 93% due to the increased budgetary provision in the year

STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
For the year ended June 30, 2019

Total Receipts Breakdown

	Year to 30th June 2018	Year to 30th June 2017	Change	%
	Kshs	Kshs	Kshs	Change
Tax Revenues	1,773,170,473	1,886,704,499	(113,534,025.00)	(0.06)
Transfers from National Treasury	921,753,196	956,568,018	(34,814,822.00)	(0.04)
Proceeds from Foreign Borrowings	183,008,177	282,204,690	(99,196,513.00)	(0.04)
Sales of Market Establishments	47,317,195	47,364,694	(364,694.00)	(0.01)
Proceeds from Foreign Borrowings	20,000,000.00	0	20,000,000.00	1.00
Total Receipts	2,945,249,041	3,172,841,901	(227,910,054)	(0.08)



STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
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The diagram above depicts the share of major categories of receipts for the fiscal year ended 30th June 2018. The major source of funding for the State Department for Petroleum is Tax Receipts that account for 59% of the total receipts

Payments

The State Department's payments mainly comprise of Transfers to Other Government entities i.e. National Oil Corporation Kenya, Energy Regulatory Commission and KEPTAP project

STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
For the year ended June 30, 2019

Total Payments breakdown

	Kshs	Kshs	Kshs	Change
	Year to 30th June 2019	Year to 30th June 2018	Change	%
	Kshs	Kshs	Kshs	Change
Compensation of Employees	160,858,530	113,616,988	-47,241,542	(41.58)
Use of goods and services	647,110,545	930,321,646	283,211,101	30.44
Transfers to Other Government Units	313,000,000	784,187,500	471,187,500	60.09
Social Security Benefits	1,647,884	4,444,209.00	2,796,325	62.92
Acquisition of Assets	1,706,068,405	1,201,992,725	-504,075,680	(41.94)
Total	2,828,685,364	3,034,563,068	205,877,704	70

total expenditure



The diagram above depicts the share of major categories of payments for the fiscal year ended 30th June 2018.

STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
For the year ended June 30, 2019

Financial Assets Summary

Financial Assets	Year to 30th June 2018	Year to 30th June 2017	Change	%
	Kshs	Kshs	Kshs	Change
Bank Balances	138,453,175	45,236,158	93,217,017	2.06
Accounts Receivable	94,000	624,637	(530,637)	(0.85)
Total Financial Assets	138,547,175	45,860,795	92,686,380	

financial assets



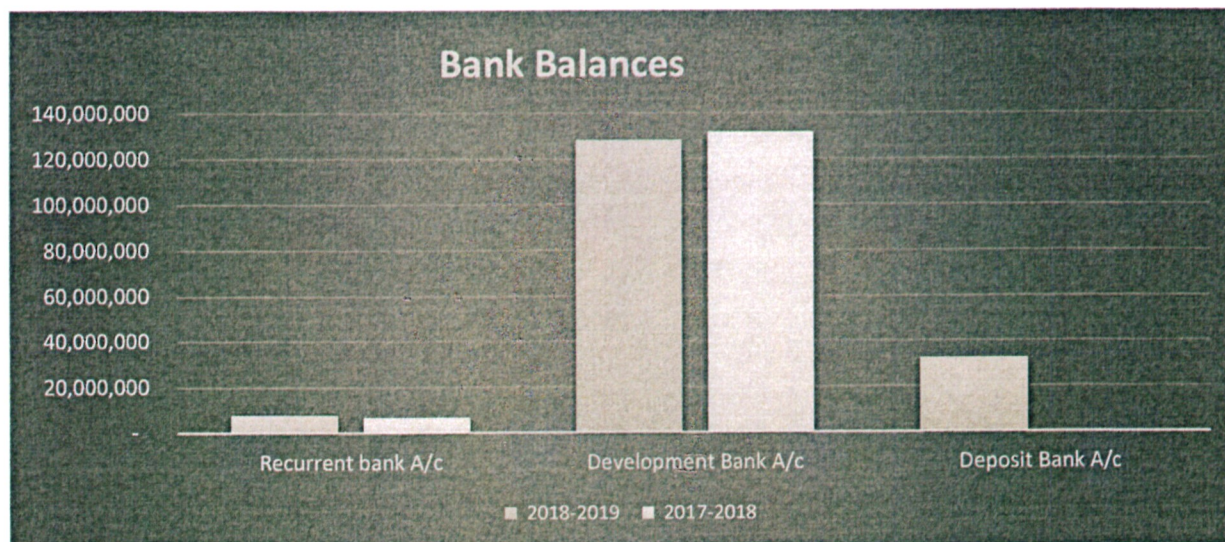
Cash flows And Cash Position

The cash and bank balances held by the State Department for Petroleum as at 30th June 2018 was KShs 138,453,176 compared to KShs 45,236,158 held as at 30th June 2017. The breakdown of the cash and bank balances is as summarized in the table below.

STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
For the year ended June 30, 2019

Cash and Bank Balances

Financial Assets	Year to 30th June 2019	Year to 30th June 2018
	Kshs	Kshs
Recurrent Bank A/c	7,821,386	6,739,075
Development Bank A/c	128,207,852	131,714,100
Deposit Bank A/c	32,254,498	-
Total	168,283,736	138,453,175



STATE DEPARTMENT FOR PETROLEUM
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For the year ended June 30, 2019

Cash Flow Activities

	Year to 30th June 2018	Year to 30th June 2017	Change	Change
	Kshs	Kshs	Kshs	%
Net cash flow from operating activities	905,250,305	1,108,756,996	203,506,691	18
Net cash flows from Investing Activities	(1,706,068,405)	(1,201,992,725)	504,075,680	(42)
Net cash flow from financing activities	211,373,745	282,204,690	70,830,945	25
Net Increase in Cash & Cash Equivalents	29,830,561	93,217,013	63,386,452	68
Cash and cash equivalent at Beginning of the year	138,453,175	45,236,158	-93,217,017	(206)
Cash and cash equivalent at End of the year	168,283,736	138,453,175	-29,830,561	(22)

Hon. John K. Munyes, EGH
Cabinet Secretary
Ministry of Petroleum and Mining

STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
For the year ended June 30, 2019

III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2013 requires that, at the end of each financial year, the accounting officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

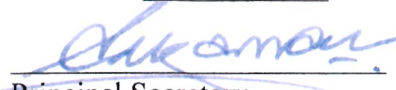
The Accounting Officer in charge of the state department for Petroleum is responsible for the preparation and presentation of the state department for Petroleum financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

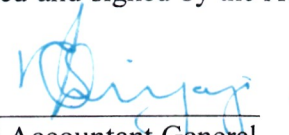
The Accounting Officer in charge of the state department for Petroleum accepts responsibility for the state department for Petroleum financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the *state department for Petroleum* financial statements give a true and fair view of the state of state department for Petroleum transactions during the financial year ended June 30, 2019, and of the state department for Petroleum financial position as at that date. The Accounting Officer charge of the state department for Petroleum further confirms the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the state department for Petroleum financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of the state department for Petroleum confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the state department for Petroleum funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the state department for Petroleum financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The *state department for Petroleum* financial statements were approved and signed by the Accounting Officer on 30-09 . 2019


Principal Secretary
Name: Andrew Kamau


Assistant Accountant General
Name: Charles Liyayi Shidzugane
ICPAK Member Number: 5068

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON STATE DEPARTMENT FOR PETROLEUM FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of State Department for Petroleum set out on pages 30 to 46, which comprise the statement of assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation-recurrent and development combined 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 State Department for Petroleum as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the State Department for Petroleum in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing 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.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that nothing 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 Opinion

The audit was conducted in accordance with ISSAI 4000. The standard 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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Lack of Risk Management Policy

Assessment of the internal control system in place at the State Department for Petroleum revealed that Management had not established a risk management policy to identify, mitigate and control operational and other risks that the Department may face from time to time. In addition, the Department had not carried out any risk assessments to identify and address key areas of concern and document specific controls in response to risks noted.

2. Lack of an Audit Committee

Section 174(1) of the Public Finance Management (National Government) Regulations, 2015, requires every National Government entity to establish an Audit Committee. However, during the year under review, the State Department for Petroleum did not have an Audit Committee in place. Consequently, the oversight purposes and functions expected to be fulfilled by the Committee were not realized.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and for assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the State Department's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services using the applicable basis of accounting unless Government is aware of the intention to dissolve the State Department of Petroleum or have its operations cease.

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 preparing and presenting 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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the State Department of Petroleum 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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. 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 or weakness 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 addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements comply with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control 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 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control system would not necessarily disclose all matters in internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.


As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the State Department of Petroleum to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the State Department of Petroleum not to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the State Department of Petroleum to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

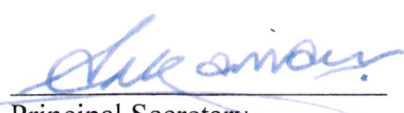
30 September, 2020

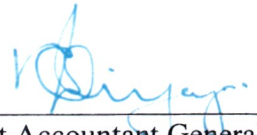
STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
For the year ended June 30, 2019

V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2018/2019	2017/2018
		Kshs	Kshs
RECEIPTS			
Tax Revenues	1	1,773,170,473	1,886,704,499
Proceeds from Domestic and Foreign Grants	2	11,125,770	-
Transfers from National Treasury	3	921,753,196	956,568,018
Proceeds from Foreign Borrowings	4	211,373,745	282,204,690
Other Revenues	5	47,317,195	47,364,694
TOTAL REVENUES		2,964,740,379	3,172,841,901
PAYMENTS			
Compensation of Employees	6	160,858,530	113,616,988
Use of goods and services	7	647,110,545	930,321,646
Transfers to Other Government Units	8	313,000,000	784,187,500
Social Security Benefits	9	1,647,884	4,444,209
Acquisition of Assets	10	1,706,068,405	1,201,992,725
TOTAL PAYMENTS		2,828,685,363	3,034,563,068
SURPLUS/DEFICIT		136,055,016	138,278,833

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30.09.2019 and signed by:


Principal Secretary
Name: Andrew Kamau

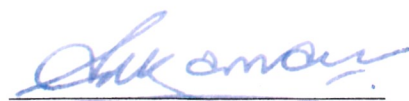

Assistant Accountant General
Name: Charles Liyayi Shidzugane
ICPAK Member Number: 5068

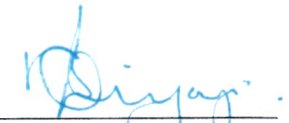
STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
For the year ended June 30, 2019

VI. STATEMENT OF ASSETS AND LIABILITIES

	Note	2018/2019	2017/2018
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	11A	168,283,736	138,453,175
			-
Total Cash and cash equivalent		168,283,736	138,453,175
Accounts receivables – Outstanding Imprests	12	25,778	94,000
TOTAL FINANCIAL ASSETS		168,309,514	138,547,175
FINANCIAL LIABILITIES			
Accounts Payables – Deposits and retentions	13	32,254,498	-
NET FINANCIAL ASSETS		136,055,016	138,547,175
REPRESENTED BY			
Fund balance b/fwd	14	138,547,175	45,860,795
Prior year adjustment	15	(138,547,175)	(45,592,457)
Surplus/Deficit for the year		136,055,016	138,278,833
NET FINANCIAL POSITION		136,055,016	138,547,175

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30.09.2019 and signed by:


Principal Secretary
CBS Andrew Kamau

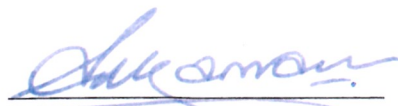

Assistant Accountant General
Charles Liyayi Shidzugane
ICPAK Member Number: 5068

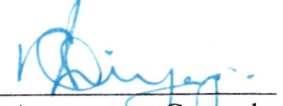
STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
For the year ended June 30, 2019

STATEMENT OF CASH FLOWS

	Note	2018/2019	2017/2018
		Kshs	Kshs
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts for operating income			
Tax Revenues	1	1,773,170,473	1,886,704,499
Proceeds from Domestic and Foreign Grants	2	11,125,770	-
Transfers from National Treasury	3	921,753,196	956,568,018
Other Revenues	5	47,317,195	47,364,694
		2,753,366,634	2,890,637,211
Payments for operating expenses			
Compensation of Employees	6	160,858,530	113,616,988
Use of goods and services	7	647,110,545	930,321,646
Transfers to Other Government Units	8	313,000,000	784,187,500
Social Security Benefits	9	1,647,884	4,444,209
		1,122,616,958	1,832,570,343
Adjusted for:			
Changes in receivables		68,222	530,637
Changes in payables		32,254,498	-
Adjustments during the year	15	(138,547,175)	(45,592,457)
Net cash flow from operating activities		1,524,525,221	1,013,005,048
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	10	(1,706,068,405)	(1,201,992,725)
Net cash flows from Investing Activities		(1,706,068,405)	(1,201,992,725)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	4	211,373,745	282,204,690
Net cash flow from financing activities		211,373,745	282,204,690
NET INCREASE IN CASH AND CASH EQUIVALENT		29,830,561	93,217,013
Cash and cash equivalent at BEGINNING of the year		138,453,175	45,236,158
Cash and cash equivalent at END of the year		168,283,736	138,453,175

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30.09.2019 and signed by:


Principal Secretary
Andrew Kamau


Assistant Accountant General
Charles Liyayi Shidzugane
ICPAK Member Number: 5068

STATE DEPARTMENT FOR PETROLEUM

Reports and Financial Statements

For the year ended June 30, 2019

VII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

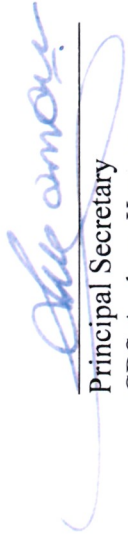
Revenue/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation Difference to Final Budget
	a	b	c=a+b	d	e=c-d	f=d/c %
RECEIPTS						
Tax Receipts	AIA 2,119,158,598	(23,658,598)	2,095,500,000	1,773,170,473	322,329,527	85%
Proceeds from Domestic and Foreign Grants	AIA 50,000,000	(30,000,000)	20,000,000	11,125,770	8,874,230	56%
Exchequer releases	2,525,091,403	(1,377,363,467)	1,147,727,936	921,753,196	225,974,740	80%
Proceeds from Foreign Borrowings	AIA 200,000,000	(20,000,000)	180,000,000	211,373,745	(31,373,745)	117%
Other Receipts	AIA 0	47,317,195	47,317,195	47,317,195	0	100%
Total Receipts	4,894,250,000	(1,403,704,869)	3,490,545,131	2,964,740,379	525,804,752	85%
Payments						
Compensation of Employees	69,500,000	95,134,428	164,634,428	160,858,530	3,775,898	98%
Use of goods and services	663,081,800	(1,988,156)	661,093,644	647,110,545	13,983,099	98%
Transfers to Other Government Units	313,000,000	0	313,000,000	313,000,000	0	100%
Social Security Benefits	1,000,000	1,000,000	2,000,000	1,647,884	352,116	82%
Acquisition of Assets	3,847,668,200	(1,497,851,141)	2,349,817,059	1,706,068,405	643,748,654	73%
Grand Total	4,894,250,000	(1,403,704,869)	3,490,545,131	2,828,685,363	661,859,768	81%
Surplus/Deficit	0	0	0	136,055,016	(136,055,016)	


The underutilization of 73% arose as a result of

- i. Delays in getting approvals by NEMA of the activities that were scheduled to take place during the financial year under Early Oil Pilot Scheme (EOPS)
- ii. Failure by the state department for Petroleum to obtain approval in time from The National treasury to set aside funds to finance the operation of Early Oil Pilot Scheme which were spilling over to the next financial year.

STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
For the year ended June 30, 2019

The entity financial statements were approved on 30.09 2019 and signed by:


Principal Secretary
CBS Andrew Kamau


Assistant Accountant General
Charles Liyayi Shidzugane
ICPAK Member Number: 5068

STATE DEPARTMENT FOR PETROLEUM
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VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Code	Revenue/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation Difference to Final
		a	b	c=a+b	d	e=d-c	f=d/c %
	RECEIPTS						
	Tax Receipts	AIA 23,658,598	(23,658,598)	-	-	-	
	Exchequer releases	112,091,403	122,655,875	234,747,277	208,539,190	26,208,087	89%
	Other Receipts	AIA -	47,317,195	47,317,195	47,317,195	0	100%
	Total Receipts	135,750,000	146,314,472	282,064,472	255,856,385	26,208,087	91%
	PAYMENTS						
21	Compensation of Employees	69,500,000	95,134,428	164,634,428	160,858,530	3,775,898	98%
22	Use of goods and services	63,081,800	48,011,844	111,093,644	85,500,546	25,593,098	77%
27	Social Security Benefits	1,000,000	1,000,000	2,000,000	1,647,884	352,116	82%
31	Acquisition of Assets	2,168,200	2,168,200	4,336,400	1,663,590	2,672,810	38%
	Grand Total	135,750,000	146,314,472	282,064,472	249,670,549	32,393,923	89%
	Surplus/Deficit		-	-	6,185,836	(6,185,836)	

Notes

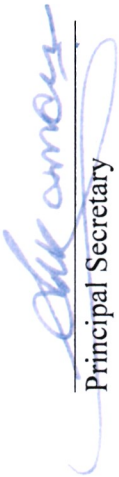
- i. The underutilization of 77% under use of goods and services arose as a result of delay in receiving the approvals by NEMA of the activities that were scheduled to take place during the financial year
- ii. The underutilization of 38% under acquisition of assets was a result of failure by the state department for Petroleum to obtain approval in time from The National treasury to set aside funds to finance the operation of Early Oil Pilot Scheme which were spilling over to the next financial year

STATE DEPARTMENT FOR PETROLEUM

Reports and Financial Statements

For the year ended June 30, 2019

The entity financial statements were approved on 30.09.2019 and signed by:


Principal Secretary

CBS Andrew Kamau



Assistant Accountant General

Charles Liyayi Shidzugane

ICPAK Member Number: 5068

STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
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SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT

Code	Revenue/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
		a	b	c=a+b	d	e=c-d	f=d/c %
	RECEIPTS			0			
	Tax Receipts	2,095,500,000	-	2,095,500,000	1,773,170,473	322,329,527	85%
	Proceeds from Domestic and Foreign Grants	50,000,000	(30,000,000)	20,000,000	11,125,770	8,874,230	56%
	Exchequer releases	2,413,000,000	(1,500,019,341)	912,980,659	713,214,006	199,766,653	78%
	Proceeds from Foreign Borrowings	200,000,000	(20,000,000)	180,000,000	211,373,745	(31,373,745)	117%
	Total Receipts	4,758,500,000	(1,550,019,341)	3,208,480,659	2,708,883,994	519,088,003	84%
	Payments						
	Use of goods and services	600,000,000	(50,000,000)	550,000,000	561,609,999	7,881,339	102%
	Transfers to Other Government Units	313,000,000	-	313,000,000	313,000,000	-	100%
	Acquisition of Assets	3,845,500,000	(1,500,019,341)	2,345,480,659	1,704,404,815.00	641,075,844	73%
	Grand Total	4,758,500,000	(1,550,019,341)	3,208,480,659	2,579,014,814	648,957,183	80%
	Surplus/Deficit			0	129,869,180	(129,869,180)	

The entity financial statements were approved on 30.09.2019 and signed by:



Principal Secretary
CBS Andrew Kamau



Assistant Accountant General
Charles Liyayi Shidzugane
ICPAK Member Number: 5068

STATE DEPARTMENT FOR PETROLEUM
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BUDGET EXECUTION BY PROGRAMMES AND SUB-PROGRAMMES

Programme/Sub-programme	Original Budget 30TH, 2019 Kshs	Adjustments Kshs	Final Budget 30TH, 2019 Kshs	Actual on comparable basis 30TH, 2019 Kshs	Budget utilization difference Kshs
Exploration and Distribution of Oil and Gas	3,490,545,131	-	3,490,545,131	2,809,194,026	681,351,105
Oil and Gas exploration	3,241,181,356	-	3,241,181,356	2,575,390,389	665,790,967
Distribution of petroleum and gas	249,363,775	-	249,363,775	233,803,637	15,560,138
TOTAL	3,490,545,131	-	3,490,545,131	2,809,194,026	681,351,105

STATE DEPARTMENT FOR PETROLEUM
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IX. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

1. Statement of compliance and Basis of Preparation

The financial statements have been prepared in accordance with Cash-basis International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board (PSASB) and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

2. Reporting

The financial statements are for the *State Department For Petroleum*. The financial statements encompass the reporting entity as specified under section 81 of the PFM Act 2012 and also comprise of the following development projects implemented by the entity:

- i. Oil and gas exploration
- ii. Distribution of petroleum and gas

3. Reporting Currency

The financial statements are presented in Kenya Shillings (KShs), which is the functional and reporting currency of the Government and all values are rounded to the nearest Kenya Shilling.

4. Significant Accounting Policies

The accounting policies set out in this section have been consistently applied by the Entity for all the years presented.

a) Recognition of Receipts

The Entity recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Entity.

□ Tax Receipts

Tax receipts are recognized in the books of accounts when cash is received. Cash is considered as received when notification of tax remittance is received. (Check if this policy is applicable to entity)

STATE DEPARTMENT FOR PETROLEUM
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SIGNIFICANT ACCOUNTING POLICIES

▫ **Transfers from the Exchequer**

Transfers from the exchequer are recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

▫ **External Assistance**

External assistance is received through grants and loans from multilateral and bilateral development partners.

Grants and loans shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary.

In case of grant/loan in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice. A similar recognition criteria is applied for loans received in the form of a direct payment.

During the year ended 30th June 2019, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

▫ **Other receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements the time associated cash is received.

b) Recognition of payments

The Entity recognises all payments when the event occurs and the related cash has actually been paid out by the Entity.

▫ **Compensation of Employees**

Salaries and wages, allowances, statutory contribution for employees are recognized in the period when the compensation is paid.

▫ **Use of Goods and Services**

Goods and services are recognized as payments in the period when the goods/services are paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.

▫ **Interest on Borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they are paid for.

STATE DEPARTMENT FOR PETROLEUM
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SIGNIFICANT ACCOUNTING POLICIES

▫ **Repayment of Borrowing (Principal Amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made.

▫ **Acquisition of Fixed Assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the financial statements.

5. In-kind contributions

In-kind contributions are donations that are made to the Entity in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Entity includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

6. Third Party Payments

Included in the receipts and payments, are payments made on its behalf to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties in the statement of receipts and payments as proceeds from foreign borrowings.

7. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

Restriction on Cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation.

Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits. As at 30th June 2019, this amounted to Kshs xxx compared to Kshs xxx in prior period as indicated on note

There were no other restrictions on cash during the year.

STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
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SIGNIFICANT ACCOUNTING POLICIES

8. Accounts Receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year are treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

9. Accounts Payable

For the purposes of these financial statements, deposits and retentions held on behalf of third parties have been recognized on an accrual basis (as accounts payables). This is in recognition of the government practice of retaining a portion of contracted services and works pending fulfilment of obligations by the contractor and to hold deposits on behalf of third parties. This is an enhancement to the cash accounting policy adopted by National Government Ministries and Agencies. Other liabilities including pending bills are disclosed in the financial statements.

10. Pending Bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Entity at the end of the year. When the pending bills are finally settled, such payments are included in the Statement of Receipts and Payments in the year in which the payments are made.

11. Budget

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget was approved by Parliament on June 2019 for the period 1st July 2019 to 30th June 2019 as required by Law and there were two supplementary adjustments to the original budget during the year.

A comparison of the actual performance against the comparable budget for the financial year under review has been included in the financial statements.

Government Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers.

12. Comparative Figures

Where necessary, comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

SIGNIFICANT ACCOUNTING POLICIES

13. Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the

STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
For the year ended June 30, 2019

financial statements for the year ended 30th June 2019.

14. Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

During the year, errors that have been corrected are disclosed under note 26 explaining the nature and amounts.

15. Related Party Transactions

Related party relationships are a normal feature of commerce. Specific information with regards to related party transactions is included in the disclosure notes.

STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
For the year ended June 30, 2019

X. NOTES TO THE FINANCIAL STATEMENTS

1 TAX REVENUES

	2018-2019	2017-2018
	Kshs	Kshs
Royalties on oil exploration	-	120,000,000
RECEIPTS FROM PTL	135,599,906	236,034,249
RECEIPTS FROM PDL	1,637,570,568	1,530,670,249
Total	1,773,170,473	1,886,704,499

2 PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

Name of Donor	2018-2019	2017-2018
	Kshs	Kshs
Grants Received from Bilateral Donors (Foreign Governments)		
KEPTAP	11,125,770	
TOTAL	11,125,770	

3 EXCHEQUER RELEASES

Description	2018-2019	2017-2018
	Kshs	Kshs
Total Exchequer Releases For Quarter 1	173,948,585	232,593,006
Total Exchequer Releases For Quarter 2	121,322,556	181,325,625
Total Exchequer Releases For Quarter 3	126,994,555	234,112,592
Total Exchequer Releases For Quarter 4	499,487,500	308,536,795
Total	921,753,196	956,568,018

4 PROCEEDS FROM FOREIGN BORROWING

	2018-2019	2017-2018
	Kshs	Kshs
Foreign Borrowing – Draw-downs Through Exchequer		
Foreign Borrowing - Direct Payments	211,373,745	282,204,690
Foreign Currency and Foreign Deposits		
TOTAL	211,373,745	282,204,690

STATE DEPARTMENT FOR PETROLEUM
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5 OTHER REVENUES

Description	2018-2019	2017-20 18
	Kshs	Kshs
Sales by Market Establishments	47,317,195	47,364,694
Total	47,317,195	47,364,694

6 COMPENSATION OF EMPLOYEES

	2018-2019	2017-20 18
	Kshs	Kshs
Basic salaries of permanent employees	91,093,403	74,179,466
Basic wages of temporary employees	3,999,977	2,999,990
Personal allowances paid as part of salary	65,765,149	36,437,532
Total	160,858,530	113,616,988

7 USE OF GOODS AND SERVICES

	2018-2019	2017-20 18
	Kshs	Kshs
Utilities, supplies and services	2,362,465	1,055,422
Communication, supplies and services	6,483,013	5,821,652
Domestic travel and subsistence	16,726,057	19,680,654
Foreign travel and subsistence	2,570,068	3,709,220
Printing, advertising and information supplies & services	3,322,564	2,610,115
Rentals of produced assets	-	2,107,993
Training expenses	56,526,162	131,916,464
Hospitality supplies and services	302,996,145	122,374,139
Insurance costs	-	-
Specialized materials and services	1,330,372	1,525,200
Office and general supplies and services	11,507,130	8,264,338
Other operating expenses	206,435,037	619,819,032
Routine maintenance – vehicles and other transport equipment	6,421,556	4,187,779
Routine maintenance – other assets	1,899,939	985,457
Exchange Rate Losses	9,038,699	6,264,181
Total	627,619,207	930,321,646

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8 GRANTS AND TRANSFERS TO OTHER GOVERNMENT ENTITIES

Description	2018-2019	2017-20 18
	Kshs	Kshs
Transfers to National Government entities (SCOA Codes 2630100, 2630200, 2640400, 2640500, 2649900, 2820100, 2820200, 2820300)		
	313,000,000	784,187,500
TOTAL	313,000,000	784,187,500

The above transfers were made to the following self-reporting entities in the year: We have confirmed these amounts with the recipient entities and attached these confirmations as an Appendix to this financial statements

9 SOCIAL SECURITY BENEFITS

Explanation	2018-2019	2017-20 18
	Kshs	Kshs
Government pension and retirement benefits	1,647,884	4,444,209
Total	1,647,884	4,444,209

10 ACQUISITION OF ASSETS

Non Financial Assets	2018-2019	2017-20 18
	Kshs	Kshs
Overhaul and Refurbishment of Construction and Civil Works	212,500	-
Overhaul of Vehicles and Other Transport Equipment	-	30,000
Purchase of Office Furniture and General Equipment	1,272,040	316,896
Purchase of Specialised Plant, Equipment and Machinery	141,860,390	367,235,731
Research, Studies, Project Preparation, Design & Supervision	1,445,116,915	617,073,107
Rehabilitation of Civil Works	117,606,560	217,336,991
Sub Total	1,706,068,405	1,201,992,725