

REPUBLIC OF KENYA

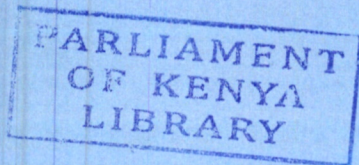


OFFICE OF THE AUDITOR-GENERAL



REPORT

*Paper hand by the
Leader of the Majority
Party on 10-04-18
HBM*



OF

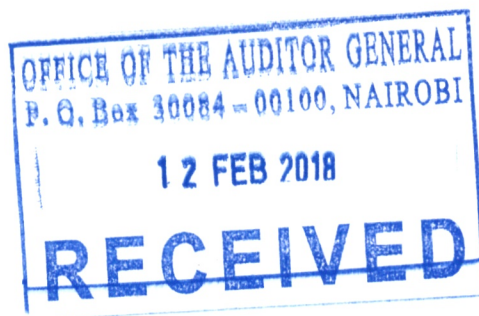
THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
PETROLEUM TRAINING LEVY FUND**

**FOR THE YEAR ENDED
30 JUNE 2017**

**STATE DEPARTMENT FOR
PETROLEUM**



MINISTRY OF ENERGY AND PETROLEUM

STATE DEPARTMENT FOR PETROLEUM

PETROLEUM TRAINING LEVY FUND

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017

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



PETROLEUM TRAINING LEVY FUND
Reports and Financial Statements
For the year ended June 30, 2017

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I. KEY ENTITY INFORMATION AND MANAGEMENT

STATE DEPARTMENT FOR PETROLEUM INFORMATION AND MANAGEMENT

(a) Background information

The **State Department for Petroleum** was formed in May 2016 following the Executive Order no. 1 of May 2016 which split the Ministry of Energy and Petroleum into the State department of Energy and State department for Petroleum, At Cabinet level, the State Department for Petroleum is represented by the Cabinet Secretary for Ministry of Energy and Petroleum, who is responsible for the general policy and strategic direction of the State Department for Petroleum. The operations of the Ministry began in July 2016.

(b) Key Management

The Ministry of State for Petroleum's day-to-day management is under the following key organs:

No.	Designation	Name
1.	Cabinet Secretary	Hon. Charles Keter, (MGH)
2.	Principal Secretary	Mr. Andrew N. Kamau (CBS)
3.	Director of Administration	Mr. Francis Ongaki
4.	Secretary Petroleum	Martin Heya
5.	SAD/HRM&D	Agnes Muthuo
6.	Senior Chief Finance Officer	Melissa Musoma
7.	Deputy Chief Economist	Electine Nanzala
8.	Ag. Ass. Accountant General	CPA Mary A. C. Wanyonyi
9.	PSCMO	Samuel Mativo

(c) Ministry of Energy and Petroleum, Headquarters

State Department for Petroleum
P.O. Box 30582 – 00100
Nyayo House Building
Kenyatta Avenue
NAIROBI, KENYA



PETROLEUM TRAINING LEVY FUND
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(d) State Department for Petroleum

Telephone: (254) (020) 3310112

E-mail: pspetroleum@energy.go.ke

Website: www.go.ke

(e) Independent Auditors

Auditor General

Office of the Auditor General

Anniversary Towers, University Way

P. O. Box 30084

GPO 00100

Nairobi, Kenya

(f) Principal Legal Adviser

Attorney General

E-mail: info@ag.go.ke

Tel : 2542227461.

Website: www.ag.go.ke

(g) State Department for Petroleum Bankers

Kenya Commercial Bank

Kipande House Branch

NAIROBI, KENYA



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II. 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 (PSASB) from time to time.

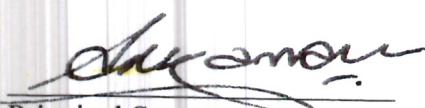
The Accounting Officer in charge of the *Ministry of Energy and Petroleum State Department for Petroleum* is responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2017. 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.

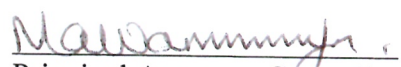
The Accounting Officer in charge of the *Ministry of Energy and Petroleum State Department for Petroleum* accepts responsibility for the entity's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the *entity's* financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2017, and of the entity's financial position as at that date. The Accounting Officer charge of the *Ministry of Energy and Petroleum 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 entity's financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of the *Ministry of Energy and Petroleum 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 entity's 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 entity's 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 financial statements were approved and signed by the Accounting Officer on 30th September 2017.


Principal Secretary
Andrew Kamau CBS


Principal Accounts Controller
CPA Mary A C Wanyonyi
Member Number: 10366



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REPUBLIC OF KENYA

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Website: www.kenao.go.ke



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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON PETROLEUM TRAINING LEVY FUND – STATE DEPARTMENT FOR PETROLEUM FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Petroleum Training Levy Fund set out on pages 6 to 20, which comprise the statement of assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows, statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Petroleum Training Levy Fund – State Department for Petroleum as at 30 June 2017, 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 Petroleum (Exploration and Production) Act, Cap 308.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

Revenue Due

The statement of receipts and payments reflect royalties on oil exploration and training levy, amounting to Kshs. 213,282,721, as disclosed in note 1 to the financial statements (2016: Kshs. 558,349,996). Available information however indicates that seven (7) oil companies operating 14 oil blocks did not remit their annual training contributions and surface fees contributions amounting to Kshs. 835,951,970 (2016: Kshs. 754,147,743), contrary to Clause 5(2) and Clause 13 (c) respectively of their individual Production Sharing Contracts (PSC). It is therefore not possible to confirm the completeness of annual training contributions reflected in the financial statements.

Report of the Auditor-General on the Financial Statements of Petroleum Training Levy Fund – State Department of Petroleum for the year ended 30 June 2017

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Petroleum Training Levy Fund in accordance with ISSAI 30 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 qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Non-compliance with Petroleum Act Cap, 308

1.1 Ineligible Expenditure

As reported in the previous year, the Ministry paid Kshs. 9,741,600 out of the Fund in relation to salaries and gratuity to its officers during that year, contrary to Section 11 (1) and (4) of the Petroleum (Exploration and Production) Act Cap, 308, which provides that the Training Fund should only be used for training Kenyan nationals in the petroleum industry. There is no evidence that the amounts taken out of the Fund were subsequently refunded.

1.2 Invalid Contract with Oil Company

As similarly reported in 2015/2016 report, the Ministry entered into a Production Sharing contract with a company incorporated outside Kenya, on 28 June 2012, contrary to Section 2 (2) of Petroleum (exploration and production) regulations of 1984, which stipulates that no person other than a company incorporated or registered in Kenya under the Companies Act may enter into a petroleum agreement with the Government.

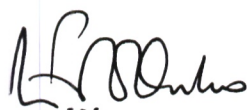
2. Non-remittance of Community Project Funds

The production sharing contract (PSC) for individual oil companies under Clause 13 (3) requires the contractors to pay minimum fees per year to the Government for the benefit of local communities. As reported in my 2015/2016 report and during the year under review, one Company did not pay their contributions amounting to Kshs. 5,125,100 (2016: Kshs.22,000,000) to the Government contrary to the contract in place. According to management, the non-remittance is due to the contractor's inability to carry out the work programme set out in the PSC, due to insecurity along the Somali border, where the block is located. In the circumstances, it is not possible to confirm when the outstanding contributions will be received from the Contractor.

- 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 use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions which may cast significant doubt on the Fund's ability to sustain 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 Fund to cease 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 of the business activities 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 which 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 which may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

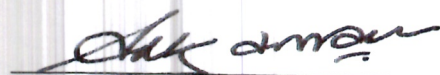
13 March 2018

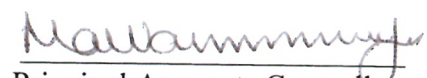
PETROLEUM TRAINING LEVY FUND
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III. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2016-2017	2015-2016
		Kshs	Kshs
RECEIPTS			
Royalties on Oil Exploration and Training Levy	1	213,282,721	558,349,996
Other Receipts	2	1,027,467,459	62,743,042
TOTAL REVENUES		1,240,750,180	621,093,038
PAYMENTS			
Compensation of Employees	3	-	9,741,600
Use of goods and services	4	176,232,260	576,187,396
Transfers to Other Government Units	5	30,000,000	65,000,000
Acquisition of Assets - Transferred to Ministry	6	100,000,000	-
TOTAL PAYMENTS		306,232,260	650,928,996
SURPLUS/DEFICIT		934,517,920	(29,835,958)

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 30th September 2017 and signed by:


 Principal Secretary
 Andrew Kamau CBS


 Principal Accounts Controller
 CPA Mary A C Wanyonyi
 ICPAK Member Number:10366

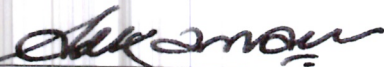


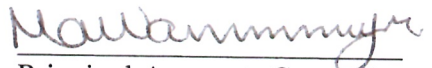
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IV. STATEMENT OF ASSETS AND LIABILITIES

	Note	2016-2017	2015-2016
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	7	997,794,524	63,932,644
Total Cash And Cash Equivalents		997,794,524	63,932,644
Accounts Receivables - Outstanding Imprest and Clearance Accounts	8	656,040	-
TOTAL FINANCIAL ASSETS		998,450,564	63,932,644
NET FINANCIAL ASSETS		998,450,564	63,932,644
REPRESENTED BY			
Fund balance b/fwd	9	63,932,644	93,768,602
Surplus/Deficit for the year		934,517,920	(29,835,958)
NET FINANCIAL POSITION		998,450,564	63,932,644

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30th September 2017 and signed by:


 Principal Secretary
 Andrew Kamau CBS


 Principal Accounts Controller
 CPA Mary A C Wanyonyi
 ICPAK Member Number:10366




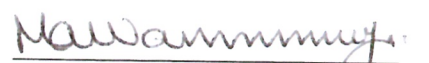
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V. STATEMENT OF CASH FLOWS

	Note	2016-2017	2015-2016
		Kshs	Kshs
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts for operating income			
Royalties on Oil Exploration and Petroleum Training Levy	1	213,282,721	558,349,996
Other Receipts	2	1,027,467,459	62,743,042
Payments for operating expenses			
Compensation of Employees	3		(9,741,600)
Use of goods and services	4	(176,232,260)	(576,187,396)
Transfers to Other Government Units	5	(30,000,000)	(65,000,000)
Adjusted for receivables		(656,040)	
Net cashflow from operating activities		1,033,861,880	(29,835,958)
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	6	(100,000,000)	-
Net cash flows from Investing Activities		(100,000,000)	-
NET INCREASE IN CASH AND CASH EQUIVALENT			
Cash and cash equivalent at BEGINNING of the year		63,932,644	93,768,602
Cash and cash equivalent at END of the year		997,794,524	63,932,644

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 30th September 2017 and signed by:


 Principal Secretary
 Andrew Kamau CBS


 Principal Accounts Controller
 CPA Mary A C Wanyonyi
 ICPAK Member Number: 10366



VI. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNT

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=d-c	f=d/c %
RECEIPTS						
Tax Receipts	306,000,000	-	306,000,000	213,282,721	(92,717,279)	70%
Other Receipts				1,027,467,459	1,027,467,459	100%
Total Receipts	306,000,000	-	306,000,000	1,240,750,180	934,750,180	405%
PAYMENTS						
Compensation of Employees			-			
Use of goods and services	176,000,000		176,000,000	176,232,260.20	232,260.20	100%
Transfers to Other Government Units	30,000,000		30,000,000	30,000,000	-	100%
Acquisition of Assets	100,000,000		100,000,000	100,000,000	-	100%
	306,000,000	-	306,000,000	306,232,260.20	232,260.20	100%

Note: The over collection of 405% is as a result of demand letters written to Oil companies to pay up and a penalty as a result of an oil company abandoning site. This had not been budgeted for.

VII. 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) financial reporting under the cash basis of Accounting, as prescribed by the Public Sector Accounting Standards Board (PSASB) and set out in the accounting policy notes 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 receivables and payables are disclosed in the Statement of Assets and Liabilities. The Statement of Assets and Liabilities is not mandatory statement under the IPSAS Cash basis but is encouraged in order to disclose information on assets and liabilities.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the entity all values are rounded to the nearest Kenya Shilling. The accounting policies adopted have been consistently applied to all the years presented.

The financial statements comply with and conform to the form of presentation prescribed by the (PSASB).

2. **Reporting entity**

The financial statements are for the **Ministry of Energy State Department for Petroleum** The financial statements encompass the reporting entity as specified under section 81 of the Public Finance and Management Act (PFM Act)2012 and also comprise of the following development projects implemented by the entity:

3. **Recognition of receipts and payments**

a) Recognition of receipts

The Entity recognizes 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 is recognized in the books of accounts when cash is received. Cash is considered as received when notification of tax remittance is received.



SIGNIFICANT ACCOUNTING POLICIES(Continued)

Transfers from the Exchequer

Transfer from Exchequer is 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.

Donations and grants

Grants and donations 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/donation 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.

Proceeds from borrowing

Borrowing includes Treasury bill, treasury bonds, corporate bonds; sovereign bonds and external loans acquired by the entity or any other debt the Entity may take on will be treated on cash basis and recognized as receipts during the year of receipt.

Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for projects currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. During the year ended 30th June 2017, 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 recognizes all expenses 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.



SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of goods and services

Goods and services are recognized as payments in the period when the goods/services are consumed and 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 incurred and paid for.

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 disclosure. This summary is disclosed as an annexure to the entity's financial statements.

4. In-kind contributions

In-kind contributions are donations that are made to the *Ministry of Energy and Petroleum State Department for Petroleum* 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 *Ministry of Energy and Petroleum State Department for Petroleum* includes such value in the statement of receipts and payments both as receipts and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

5. 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.

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SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

6. Accounts Receivable

For the purposes of these financial statements, imprests and advances to authorized 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.

7. Budget

The budget is developed on the same accounting basis (Cash basis), the same accounts classification basis, and for the same period as the financial statements. The fund budget was approved as required by law and as detailed in the Government of Kenya Budget Printed Estimates. A high-Level assessment of the fund actual performance against the comparable budget for the financial year under review has been included in an annex to these financial statements.



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VIII. NOTES TO THE FINANCIAL STATEMENTS

1) TAX REVENUES

	2016 - 2017	2015 - 2016
	Kshs	Kshs
Contributions from Oil Companies	213,282,721	558,349,996
Total	213,282,721	558,349,996

2) OTHER RECEIPTS

	2016 - 2017	2015 - 2016
	Kshs	Kshs
Royalties on Geothermal Exploration	2,422,825	49,674,000
Interest received	22,247,768	13,069,042
Other receipts not classified elsewhere	1,002,796, 866	-
Total	1,027,467,459	62,743,042

3) COMPENSATION OF EMPLOYEES

	2016 - 2017	2015 - 2016
	Kshs	Kshs
Salaries		8,758,800
Gratuity	-	982,800
Total		9,741,600

4) USE OF GOODS AND SERVICES

	2016 - 2017	2015 - 2016
	Kshs	Kshs
Training Expenses	176,232,260	571,493,958
Bank Charges and other operating Expenses	-	4,693,438
Total	176,232,260	576,187,396



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5) GRANTS AND TRANSFERS TO OTHER GOVERNMENT ENTITIES

	2016 - 2017	2015 - 2016
	Kshs	Kshs
Transfers to National Oil Corporation Kenya (NOCK)	30,000,000	30,000,000
Capital Grants to Government Agencies		35,000,000
Total	30,000,000	65,000,000

NB; The inter entity reconciliations have been done.

6) ACQUISITION OF ASSETS

	2016 - 2017	2015 - 2016
	Kshs	Kshs
Non-Financial Assets		
Purchase of Equipment	100,000,000	-
Total	100,000,000	-

7) BANK ACCOUNTS

<u>Name of Bank, Account No. & currency</u>	<u>Currency</u>	<u>Type</u>	<u>2016 - 2017</u>	<u>2015 - 2016</u>
			Kshs	Kshs
<i>Kenya Commercial Bank Kipande House 1104175142</i>	ksh	Fund	997,794,523.75	63,932,644.00
Total			997,794,523.75	63,932,644.00



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8) OUTSTANDING IMPRESTS

Description			2016 - 2017	2015 - 2016
			Kshs	Kshs
Government Imprests			656,040.00	-
Total			656,040.00	-
Name of Officer or Institution	Date Imprest Taken	Amount Taken	Amount Surrendered	Balance
		Kshs	Kshs	Kshs
Catherine Kathingo (Deceased)	07/4/2017	656,040.00	-	656,040.00
Total				656,040.00

9) FUND BALANCE BROUGHT FORWARD

	2016-2017	2015-2016
	Kshs	Kshs
Brought Forward Fund Balance	63,932,644	93,768,602
Total	63,932,644	93,768,602



PETROLEUM TRAINING LEVY FUND

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10) PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the External Audit Report	Issue/Observations from Auditor	Management Comments	Focal Point person to resolve the Issue (Name and Designation)	Status: (Resolved /Not Resolved)	Timeframe:(put a date when you expect the issue to resolved)
1.	<p>Revenue Due The Statement of receipt and payments indicates Contributions from Oil Companies amount of Ksh. 225,349,996 and as disclosed under note 1 to the financial statements (2015 Ksh. 391,317, 711). Available information however, indicates that eight (8) oil companies did not remit their individual Production Sharing Contracts (PSC). Had the amounts been paid, the fund would have reported a surplus for the year of Ksh. 724,311,785 instead of the current deficit of Ksh. 29,835,958.</p>	<p>Failure to pay surface fees The oil and gas exploration companies are facing a hard period due the drop in the crude oil prices hence raising the necessary capital is a challenge. In the spirit of encouraging investors in the field of oil and gas exploration, the Government encourages the licensed companies to search for partners to share the risk capital and get money to invest in the country. The Directorate also reminds the oil companies when late to honour payment obligations under the respective production</p>	Martin Heya Secretary Petroleum	Not Resolved	June, 2018



PETROLEUM TRAINING LEVY FUND

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3.	Noncompliance with Petroleum Act Cap 308	National Oil Corporation of Kenya	Martin Heya Secretary Petroleum	Not Resolved	June, 2018
3.1.	<p>Ineligible Expenditure</p> <p>Section 11 (1) and (4) of the Petroleum (Exploration and production) Act Cap 308, provides that the training Fund should only be used for training Kenyan nationals in the petroleum industry. However, the statement of receipts and payments reflects payments under compensation of employees amounting to Kshs. 9,741, 600 being salaries and gratuity payments for officers as disclosed under note 3 for the period under review. The Fund is in contravention of the Act to the extent that the funds have not been used for the intended purposes.</p>	<p>The payment of Kshs. 8,758.00 in favour of Ms. Nduta Njenga vide Voucher Number 0086(0637) dated 8/09/2015 was erroneously paid using Petroleum Training Funds instead of Contracted Professional Services funded by Petroleum Development Fund (PDL).</p> <p>A payment voucher and a receipt voucher have been prepared to correct the error. (Payment Voucher No. 10055) and receipt no. 100054). Ms. Nduta has knowledge in oil and gas legal matters having been trained by the Ministry in the same. The directorate deals in contracts with oil and gas exploration companies and she assists the Ministry in legal matters.</p> <p>The Ministry works in collaboration with the National Oil Corporation of</p>			



PETROLEUM TRAINING LEVY FUND

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For the year ended June 30, 2017

		Kenya and hence the secondment.			
3.2	<p>Invalid Contract with Oil Company Section 2 (2) of the Petroleum (exploration and production) regulations of 1984 stipulates that no person other than a company incorporated or registered in Kenya under the Companies Act may enter into a petroleum agreement with the Government contrary to these provisions, the Ministry entered into a production Sharing Contract with, a company incorporated outside Kenya, on 28th June, 2012. The Ministry therefore in breach of the law.</p>		Martin Heya Secretary Petroleum	Not Resolved	June, 2018
	<p>Non Remittance of Community Project Funds The production sharing contract for individual Oil Companies under Clause 13 (3) requires the contractors to pay minimum fees per year to the Government for the benefit of local communities. During the year under review, three (3) Oil Companies</p>	<p>Community Project Funds In the production Sharing Contracts, oil companies are required to remit a minimum amount for community based projects. This amount is meant for the community projects where the respective blocks and exploration activities are located.</p>	Martin Heya Secretary Petroelum	Not Resolved	June, 2018



PETROLEUM TRAINING LEVY FUND
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 For the year ended June 30, 2017

<p>did not pay their contributions amounting to Kshs. 22,000,000 to the Government contrary to the contracts in place. According to management, the contractors disbursed the funds directly to the community projects. However, no document was provided to confirm that the unremitted amounts were actually spent directly on the community projects. In the circumstances, it was not possible to confirm whether the disbursements were made for benefit of the intended community.</p>	<p>Oil companies have been advised to allocate the money into the Ministry's bank account. The companies thereafter engage with the local community on project priorities to be implemented. The directorate monitors all companies' activities within their respective blocks to ensure that the fees meant for the community projects are utilized as prescribed in the Production Sharing Contracts.</p>			
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Principal Secretary
 Andrew Kamau CBS

Mary A C Wanyonyi
 Principal Accounts Controller
 CPA Mary A C Wanyonyi
 ICPAK Member Number:10366



ANNEXIES ATTACHED

1. Inter Entity Confirmation Letter
2. Board of Survey (F.O. 51)
3. Certificate of Balance
4. Bank Reconciliation Statement as at 30th June, 2017



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MINISTRY OF ENERGY AND PETROLEUM
STATE DEPARTMENT FOR PETROLEUM

Telegram: 'MINPOWER', Nairobi
Telephone: Nairobi 3310112
Fax: 240910
Telex: 23094: MINERGY
Email: sdpetroleum@energy.go.ke



NYAYO HOUSE
P. O. Box 30582
NAIROBI

When replying please quote:
Ref. No. MEOP/SDP/ACC/1 VOL. I

6th July, 2017

The Ag. Managing Director/CEO
National Oil Corporation of Kenya
Kawi House, South C
NAIROBI

CONFIRMATION OF AMOUNTS DISBURSED AS AT 30TH JUNE, 2017

The State Department for Petroleum wishes to confirm the amounts disbursed to you as at 30th June, 2017 as indicated in the table below. Please compare the amounts disbursed to you with the amounts you received and populate them in column E in the table below. Then please sign and stamp this request in the space provided and return it to us.

Confirmation of amounts received by National Oil Corporation of Kenya as at 30 th June, 2017						Amount Received by NOCK as at 30 th June, 2017 (Ksh) (E)	Differences (Kshs) (F)=(D-E)
Amounts Disbursed by the State Department for Petroleum as at 30 th June, 2017							
Ref	Date Disbursed	Recurrent (Kshs) (A)	Development (Kshs) (B)	Inter-Ministerial (Kshs) (C)	Total (Kshs) (D)=(A+B+C)		
1.	23/03/2017		187,500,000		187,500,000	187,500,000	NIL
2.	23/03/2017		22,500,000		22,500,000	22,500,000	NIL
3.	08/05/2017		7,500,000		7,500,000	7,500,000	NIL
4.	05/05/2017		62,500,000		62,500,000	62,500,000	NIL
Total			280,000,000		280,000,000	280,000,000	NIL

I confirm that the amounts shown above are correct as of the date indicated.

Head of Accounts Department (National Oil Corporation of Kenya(NOCK))

Name: JOTHY NGUNI

Signature: [Signature]

Date: 07/07/2017

Stamp:

[Signature]
Mary A. C. Wanyonyi, Head of Accounting Unit
FOR: PRINCIPAL SECRETARY

NATIONAL OIL CORPORATION OF KENYA
P. O. Box 58587 - 00200, NAIROBI.
TEL: 6952000 FAX 6952400
Email: ceo@nockkenya.co.ke
KAWI COMPLEX, RED CROSS ROAD
SOUTH C.

Copy to: Director General Accounting Services and Quality Assurance, National Treasury



PTL

F.O. 31

REPUBLIC OF KENYA

Date 3rd July 2017

Report of the Board of Survey on the Cash and Bank Balances of Ministry of Energy & Petroleum State department for Petroleum as at the close of business on 30th June 2017

The Board, consisting of--(Names and official titles)

Chairman - Agnes Muthuo

Secretary - J. N. Omuga

Member - B. K. Musyoka

assembled at the office of Cashier

at 11.00 a.m. (time) on the 3rd July 2017

and the following cash was produced:--

Notes	Sh.	Nil
Silver	Sh.	Nil
Copper	Sh.	Nil
Cheques (as per details on reverse)	Sh.	Nil
		Nil

It was observed that cheques amounting to Sh. Nil cts. Nil had been on hand for more than 14 days prior to the date of the survey.

The cash consists of East African currency and does not contain any demonetized coin or notes.

The Cash Book reflected the following balances as at the close of business on the 30th June 2017

Cash on hand	Sh.	Nil
Bank balance	Sh.	997,794,523.75

The Bank Certificate of Balance showed a sum of Sh. 1,043,201,174 cts. 50 (Sh. cts.)

standing to the credit of the account on 20

The difference between this figure and the Bank Balance as shown by the Cash Book is accounted for in the Bank Reconciliation Statement (F.O. 30) attached.

Chairman.

Members of the Board.

Date 3/7/2017



Kipande House
P.O. Box 30012-00100
Telephone: 340161/186
Fax: 318911
Email: kipandehouse@kcb.co.ke
Website: <http://www.kcb.co.ke>

1218 CA 41 BRANCHES
CERTIFICATE OF BALANCE

Kenya)

KCB Bank Limited
(Incorporated in

CERT1720116809

KCB KIPANDE HOUSE
.....

20 JUL 2017
.....

Certified that the balance at the CREDIT Of
MINISTRY OF ENERGY TRAINING FUND

A/C 1104175142
.....

at the close of business on 30 JUN 2017 Was KES
.....

ONE BILLION AND FORTY THREE MILLION TWO HUNDRED AND ONE THOUSAND
ONE HUNDRED AND SEVENTY FOUR CENTS FIFTY TWO

KES 1,043,201,174.52
.....

Examined by

Manager Service Quality & Compliance

Branch Manager



F.O.30 MINISTRY OF ENERGY AND PETROLEUM

STATE DEPARTMENT FOR PETROLEUM

**BANK RECONCILIATION STATEMENT FOR PETROLEUM TRAINING LEVY
ACCOUNT**

FOR THE MONTHS OF JUNE 2017

	Amount(kshs)	Amount(kshs)
Balance as per bank certificate		1,043,201,174.52
Less:		
1. Payments in cash book not in bank statement (scheduled attached)	50,000,000.00	
2. Receipts in bank not recorded in the cash book (scheduled attached)	-	
TOTAL		50,000,000.00
Add:		
3. Payments in bank not recorded in the cash book (scheduled attached)	4,593,349.25	
4. Receipts cash book not in bank statement (scheduled attached)	-	
TOTAL		4,593,349.23
Bank balance as per cash book		997,794,523.75

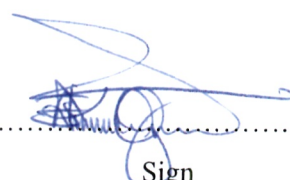
Prepared by:

JENNIFER OWINO.....

Name

SR. ACCOUNTANT.....

Designation



Sign

Checked by:

MARY A WANYONI.....

Name

CHIEF ACCOUNTANT.....

Designation



Sign

I certify that the bank reconciliation statement is correct.

Principal

Secretary.....



