

REPORT

OF


PARLIAMENT
OF KENYA
LIBRARY

THE AUDITOR-GENERAL

ON

**ENERGY AND PETROLEUM REGULATORY
AUTHORITY**

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

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 25 FEB 2021	DAY: THURSDAY
CLERK OF THE TABLE:	LOM Leah Wanjiru





**Annual Report and Financial Statements
FOR THE YEAR ENDED 30TH JUNE, 2019**

**Prepared in accordance with the accrual basis of accounting method under the International Public Sector
Accounting Standards (IPSAS)**

Energy & Petroleum Regulatory Authority

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Energy & Petroleum Regulatory Authority

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Key Entity Information And Management

1. Background information

1.1. Legal framework

The Energy Regulatory Commission was established under the Energy Act, 2006. In March 2019, the Energy Act 2019 and the Petroleum Act 2019 were enacted. The Energy Act 2019 provides for the establishment of the Energy and Petroleum Regulatory Authority as the successor to the Energy Regulatory Commission.

1.2 Principal activities

The principal activity/mission of the EPRA is to regulate the energy sector with responsibility for economic and technical regulation of electric power, renewable energy, and mid & downstream petroleum sub sectors. It's functions include tariff review and setting, licencing, enforcement, dispute settlement and approval of power purchase and network services contracts.

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Key Entity Information And Management

2. Key management

The Authority's day to day management is under the following key organs:

2.1. Board members

The Board members who served during the year and up to the date of this report are:

Name	Designation	Status
Mr. Joshua Oigara	Chairman	Appointed on 18/03/2016
Mr. Pavel Robert Oimeke	Director General (DG)	Appointed on 01/08/18
Eng. Joseph Njoroge Dr. Sellah J. Kebenei	PS, Ministry of Energy (MOE) Board Member	Re-Appointed on 08/02/2019
Mrs. Veronica Kamau	Alternate to the PS Energy	Retired on 28/03/2019
Eng. Samuel N. Maugo	Board Member	Re-Appointed on 06/06/2018
Ms. Lillian Mahiri Zaja	Board Member	Appointed on 06/06/2018
Dr. Macharia Irungu	Board Member	Appointed on 08/02/2019
Prof. George Achoki	Board Member	Appointed on 08/02/2019
Mr. Nixon L. Lenana	Board Member	Retired on 01/10/2018
Mr. Njenga Mwangi	Board Member	Retired on 01/10/2018
Mr. Daniel Kiptoo	Alternate to the PS Petroleum	Appointed 12/06/2019
Mr. Moses Gitari	Alternate to the PS Energy	Appointed on 28/03/2019

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Key Entity Information And Management

2.2 Management

The key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibilities were:

Designation	Name
Director General	Mr. Pavel R. Oimeke
Board Secretary & Director Legal Services	Ms. Mueni Mutung'a
Ag. Director Petroleum & Gas	Mr. Edward Kinyua
Director Electricity & Renewable Energy	Eng. Joseph Oketch
Director Economic Regulation	Dr. Frederick Nyang
Ag. Director Corporate Services	CPA. James Kilonzo
Ag. Director Enforcement & Consumer Protection	Mr. Cyprian Nyakundi
Manager, Supply Chain Management	Ms. Loise Thuge
Ag. Manager Corporate Strategy & Performance	Ms. Esther Njengah
Manager, Internal Audit & Risk Assurance	CPA. Everlyne Orege

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Key Entity Information And Management

2.3. Fiduciary Oversight Arrangements

The Authority

The Authority is chaired by a non-Executive Chairman (Mr. Joshua Oigara) appointed by the President. All Board members have extensive business and administrative experience in private and/or public sectors that is applied in the management of the EPRA. Authority meetings are held regularly to review EPRA's performance against set targets and business plans as well as to formulate and implement strategy. Various committees whose chairpersons report to the Authority supplement the functions of the Authority.

Board Finance and Administration Committee

The Authority's Finance and Administration Committee is chaired by a non-Executive Board members and meets at least on quarterly basis. The members are Eng. Samuel Maugo (Chair), Mr. Moses Gitari, Ms. Lilian Mahiri Zaja and Mr. Pavel R. Oimeke. The Committee's responsibilities are ensuring sound financial reporting, internal system controls, business plans and budgets, procurement, ICT, Public Relations, administration and staff matters.

Board Audit & Risk Committee

The Audit Committee is chaired by a non-executive Director and the members are non-Executive Directors. The members are Prof. George Achoki (Chair) and Dr. Macharia Irungu. The responsibilities of the committee are to review the financial information of the Authority, monitoring the effectiveness of management information and internal control systems, deliberate on significant findings arising from both internal and external audits, and review the overall risks facing the Authority.

Board Technical Committee

The Technical Committee is chaired by a non-Executive director and meets at least on quarterly basis. The members are Dr. Sellah Kebenei (Chair), Eng. Samuel Maugo, Prof George Achoki, Dr Macharia Irungu and Mr. Pavel R. Oimeke. The Committee's responsibilities are to provide strategic technical direction of EPRA and to approve technical plans, activities, reports and budgets.

3. Authority headquarters

Eagle Africa Centre
Longonot Road, Upperhill
P O Box 42681
00100
Nairobi

4. Authority contacts

Telephone (254) 20 2847200
Email: info@epra.go.ke
website: www.epra.go.ke

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Key Entity Information And Management

5. Authority bankers

6.1 KCB Bank

Moi Avenue Branch

P.O Box 48400

00100

Nairobi, Kenya

6.2 National Bank of Kenya

Harambee Avenue Branch

P.O Box 41862

00100

Nairobi, Kenya

6.3 NCBA Bank

Upperhill Branch

P.O Box 30437

00100

Nairobi, Kenya

6. Auditors

Auditor General

Annivesary Towers

P.O Box 30084-00100

Nairobi, Kenya

7. Principal legal advisor

The Attorney General

State Law Office-Harambee Avenue




P.O Box 40112-00200

Nairobi, Kenya

Energy & Petroleum Regulatory Authority

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Board members

 <p>Mr. Joshua Oigara Chairman</p>	<p>Mr. Joshua Oigara was appointed Chairman of the Energy & Petroleum Regulatory Authority on 18th March 2016, bringing to the Authority valuable experience in business and management, having held senior positions at various organizations across Africa.</p> <p>He is the Group Chief Executive Officer and Managing Director at KCB Group Plc and KCB Bank Kenya. He is the current Chairman of Kenya Bankers Association Governing Council; a position he has served for two terms.</p> <p>He is a Director of the Vision 2030 Delivery Board and was awarded the Order of the Burning Spear, CBS by H.E. President Uhuru Kenyatta for exemplary service to the people and Nation of Kenya.</p> <p>In September 2015, Mr. Oigara was named among the top 100 youngest and most Influential Economic Leaders in Africa by the Paris-based <i>Institut Choiseul</i>, an independent French research center.</p> <p>Mr. Oigara was appointed by the Minister of Sports to join the World Rally Championship Steering Committee in December 2017.</p> <p>Date of Birth: 9th November, 1975</p>
 <p>Mr. Pavel Robert Oimeke Director General</p>	<p>Mr. Pavel Robert Oimeke is a renewable energy and energy efficiency specialist with close to two decades of experience. Eng. Oimeke holds a Bachelor's degree in Chemical and Process Engineering from Moi University, a Diploma in Energy Planning and Use from Life Academy, Sweden; a Certificate in Corporate Governance and is currently in the final stages of completing a Master's degree in Sustainable Energy Engineering from Kenyatta University. He is registered with the Institute of Engineers of Kenya (IEK), the Association of Energy Professionals East Africa (AEPEA), and Engineers Board of Kenya (EBK). He is also a member of the Institute of Leadership and Management (ILM), UK.</p> <p>Date of Birth: 29th April 1976</p>
 <p>Eng. Joseph Njoroge Principal Secretary, Ministry of Energy</p>	<p>Eng. Dr. Joseph K Njoroge has wide experience in power engineering and management. He joined KPLC in 1980 and rose through the ranks to become Managing Director in June 2007. Eng. Njoroge holds a Bachelor of Science degree in electrical engineering and Master of Business Administration with a major in strategic Management and a PhD in Business Administration. He is a Chartered Electrical Engineer, a member of the Institution of Engineering and Technology, UK, a Registered Consulting Engineer, and is also a Fellow of the Institution of Engineers of Kenya. He is also Chairman of the MBA Chapter of University of Nairobi Alumni Association.</p> <p>Date of Birth: 16th June 1958</p>

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Board members

 <p>Dr. Sellah J. Kebenei Board Member</p>	<p>Dr. Kebenei, a senior lecturer (academician) at Kabarak University, has conducted extensive research in the field of Organic and Environmental Chemistry.</p> <p>She began her academic career at the University of Nairobi in 1981 where she graduated with a Bachelor of Science Degree (BSc), with a Major in Chemistry. She subsequently did Master of Philosophy (M.Phil.) Degree in Chemistry at the Moi University, Eldoret and graduated in 2003. She holds a Doctor of Philosophy Degree in Chemistry (PhD) from the same university (2009).</p> <p>From 2006 to 2015, she served as Head of Environmental and Life Science Department at the Kabarak University. Since 2016 to date, she has served as Head of Physical and Biological Sciences Department. She served as acting Dean for the School of Science, Engineering and Technology (2014) and as Director of the Institute of Post-Graduate Studies and Research (2016).</p> <p>She was coordinator for the development of the School of Medicine and Health Science from 2009 to 2014, which resulted in the launching of Nursing and Clinical Medicine Degree program.</p> <p>Date of Birth: 28th February, 1961</p>
 <p>Mrs. Veronica Kamau Board Member (Alternate to the Principal Secretary for Ministry of Energy)</p>	<p>Mrs. Veronica Kamau holds a Master of Business Administration in Strategic Management and a Bachelor of Commerce (Accounting Option) Degree. Mrs. Kamau is a member of ICPAK and is a Certified Public Accountant of Kenya (CPA-K). She previously worked with the Ministry of Lands, Housing & Urban Development (2014-2016), before joining the Ministry of Energy and Petroleum.</p> <p>Mrs. Kamau is a trained ISO Auditor and has 25 years' work experience having worked with the Government of Kenya as an accountant at various levels including; District Accountant, Nyandarua District Treasury; Head of Accounting unit at the Ministry of Nairobi Metropolitan, Ministry of Lands and Housing and Urban Development as well as the Ministry of Energy. Veronica is a member of Sukari Housing Cooperative Sacco Management Board.</p> <p>Date of birth: 20th March 1968</p>
 <p>Eng. Samuel N. Mugo Board Member</p>	<p>Eng. Mugo holds a Masters degree in Structural Engineering from Concordia University, Montreal Canada as well as a Bachelor of Science degree in civil engineering from the University of Nairobi. He is a registered consulting engineer with Engineers Board of Kenya (EBK) and a member of the Institution of Engineers of Kenya (MIEK). He was a lecturer at the Civil Engineering Department of the University of Nairobi for 18 years, a principal partner at Samez Consultants, a firm of consulting engineers and a commissioner at Electoral Commission of Kenya (2007-2008). Eng. Mugo has been the managing director of Multiscope Consulting Engineers Ltd from 2007 to date and has served as a Board Member at EPRA since April 2015.</p> <p>Date of Birth: 1st January 1955</p>

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Board members

 <p>Ms. Lilian Mahiri Zaja Board Member</p>	<p>Ms. Lilian B. Mahiri-Zaja holds a Master of Laws Degree from the University of Reading, United Kingdom (2002); a post-graduate Diploma in Legal Education from the Kenya School of Law (1989); and an LL.B. (Hons.) Degree from the University of Nairobi, Kenya (1988).</p> <p>She was the Vice Chairperson of the Independent Electoral and Boundaries Commission (IEBC) of Kenya. She was a member of the Technical Working Group that developed a mechanism for women representation to ensure implementation of the two-third gender principle.</p> <p>Ms. Mahiri-Zaja is an Advocate of the High Court of Kenya and has served in various national and international institutions; including the Committee of Experts on Constitutional Review in 2009-2010, Presidential National Committees, Task Forces, various Commissions and the African Union Commission on International Law (AUCIL).</p> <p>Date of Birth: 8th December 1964</p>
 <p>Dr. Macharia Irungu Board Member</p>	<p>Dr. Irungu has 28 years of experience at Senior Management level in Leadership, People Management, Strategic Management, Merger and Acquisitions, Commercial, Chemical and Business Analysis. He has spent most of his career working in downstream petroleum business including lubrication in Africa, Europe and Far East. He is currently providing an advisory role in Gulf Africa Petroleum Corporation.</p> <p>He holds a Bachelor of Science Degree in Chemistry from the University of Nairobi, a Master of Business Management Degree from the National University – USA and a Doctor of Philosophy in Strategic Management from the University of Nairobi.</p> <p>Dr. Irungu is a member of the America Chamber of Commerce, Institute of Directors, Kenya Institute of Management and Kenya Hospital Association.</p> <p>Date of Birth: 22nd April, 1966</p>
 <p>Prof. George Achoki Board Member</p>	<p>Professor George O. Achoki has experience in Management, academia and board directorship spanning over twenty years. Professor Achoki's career life started in 1997 at Manpower Services (K) Limited where he worked as a Management Consultant. He had a one-year stint as a senior lecturer at Kenyatta University where he taught finance and accounting. He is currently an Associate Professor of Accounting and Finance at United States International University (USIU) where he has taught for over 20 years.</p> <p>Professor Achoki holds a Bachelor's degree in Commerce, a Master's degree in Commerce, Accounting and Statistics and a Doctor of Philosophy in Human Resource Accounting, all from Sukhadia University, India.</p> <p>He has published in the International Journal of Economics and Finance, the American Journal of Finance, and the Journal of Business and Management among others. Between 2016-2018, he served as a Council Member at the Export Promotion Council where he Chaired the Strategy, Product Development and Promotion and the Finance and Resource Mobilization Committees.</p> <p>Date of Birth: 24th April, 1966</p>

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Board members



Ms. Mueni Mutung'a

Board Secretary

Mueni holds a Master's in Business Administration and a Bachelor of Laws degree both from the university of Nairobi, and a diploma in legal practice from the Kenya School of Law. She is an advocate of the High Court of Kenya, a member of the Institute of Directors, the Institute of Certified Secretaries of Kenya and Chartered Institute of Arbitrators. She has also trained extensively in Good Corporate Governance





She started her career as an advocate and worked as an associate with the law firm of Robson Harris & Co advocates. She later moved to Total Kenya Ltd where she worked as a legal officer. Thereafter she worked as the Corporation Secretary and Head of Legal services at Kenya Wildlife Service prior to taking up her current appointment as the Board Secretary and Director Legal Services.

Date of Birth: 28th February, 1964

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Management Team

 <p>Mr. Pavel Oimeke B. Tech (Chem. Eng)</p>	<p>Director General: Board Member and Chief Executive Officer of the Authority.</p>
 <p>Dr. Frederick Nyang PhD (Economics)</p>	<p>Director, Economic Regulation: Heading the Economic Regulation function of the Authority.</p>
 <p>Ms. Mueni Mutung'a MBA, LL. B (Hons), CPS (K), Dip. Law (KSL)</p>	<p>Board Secretary & Director Legal Services: Secretary to the Authority and Head of the Legal function of the Authority.</p>
 <p>Eng. Joseph Oketch MBA, BSc (Elec. Eng.), R. Eng., MIEK</p>	<p>Director, Electricity & Renewable Energy: Heading the electricity & renewable energy subsector regulation function of the Authority.</p>

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Management Team

 <p>Mr. Edward Kinyua Msc (Energy Management), B.Tech (Mech. & Prod. Eng)</p>	<p>Ag. Director Petroleum & Gas: Heading the downstream petroleum & gas regulation function of the Authority.</p>
 <p>Mr. Cyprian Nyakundi MBA, Bcom, CPA(K)</p>	<p>Ag. Director, Enforcement & Consumer Protection: Heading the Enforcement & Consumer Protection function of the Authority.</p>
 <p>CPA James Kilonzo MBA, Bcom, CPA(K), CISA</p>	<p>Ag. Director, Corporate Services: Heading the Corporate Services functions of the Authority (Finance & Accounts, HR & Admin, Corporate Communications & ICT)</p>
 <p>CPA Everlyne Orege MBA, Bcom, CPA (K)</p>	<p>Manager, Internal Audit and Risk Assurance: Heading the Internal Audit and Risk Assurance function of the Authority.</p>

Energy & Petroleum Regulatory Authority

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Management Team

 <p>Ms. Loise Thuge Msc, BA MCIPS(UK), MKISM</p>	<p>Manager, Supply Chain Management: Heading the supplies and procurement functions of the Authority.</p>
 <p>Ms. Esther Njengah MBA, Msc, PGDip, HRM. MIHRM, IHRM(P),MKIM</p>	<p>Ag. Manager, Corporate Strategy & Performance: Heading the Corporate Strategy and Performance department of the Authority.</p>

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Statement of the Chairman

It is once again a great honor to present to you the Authority's annual report and financial statements for the year ended 30th June 2019. The report is a reflection of the efforts made by the Authority towards achievement of the Big Four Agenda and subsequently the country's Vision 2030 in regulating and steering the energy sector towards sustainable, affordable and adequate energy services. This is attributed to the fact that energy is considered a major infrastructural enabler of the Big Four Agenda.

During the financial year, the Energy Act of 2019 and The Petroleum Act 2019 were enacted and assented to by His Excellency the President thus transforming the Energy Regulatory Commission into the Energy and Petroleum Regulatory Authority with an expanded mandate in the regulation of upstream petroleum. This new statute, reflects the governments' effort to modernize its policy and regulatory framework and provide an efficient framework for the expedited growth of the energy sector.

The year has seen an increase in the country's Gross Domestic Product from 5.6% in 2017/18 to 6% in 2018/19. The energy sectors' role in the growth of the GDP cannot be gainsaid. The Government's desire to achieve universal access to power by 2022 has seen accelerated domestic connections through the last mile initiative, the street lighting programme and connection of urban slums. As a result access rate growth increased during the year from 74.7% in the previous financial year to 75.2% in 2018/19. During the period, the industrial sector realized the highest consumption of electricity growth. The country also made progress in the Early Oil Piloting Scheme, being able to sell her very first batch of crude oil to the international market. This has seen 200,000 barrels being sold at US \$12,000,000 transforming the country into an oil exporting nation with revenue benefits crucial to achieving economic progress.

The new Energy Act 2019 provides a framework for the energy sector development and coordination through the proposed 5-year National Energy Policy and the envisaged 3 year Integrated National Energy Plan (INEP). The aim is to support provision of affordable, adequate and reliable electricity services to the country necessary to steering the country towards achieving its Vision 2030 objectives. A special focus on Renewable Energy resource utilization has been given prominence with investment in geothermal power production which offers comparatively lower generation tariffs being given priority.

The Energy and Petroleum Regulatory Authority continues to spearhead the smooth functioning of the sector through the use of various regulatory instruments including licensing, Power Purchase Agreement approvals, Regulation development and enforcement, monitoring performance of sector utilities, Energy sector pricing as well as complaints resolutions. Each of these processes are being improved by ensuring that less time is taken to process any legal instrument issued by the Authority.

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Statement of the Chairman

The Petroleum Act 2019 also provides for the development of the National Petroleum Policy, a framework that guides the petroleum sub-sector owing to the successful discovery of crude oil in Turkana. The Authority's mandate in regulation of upstream petroleum and capacity building initiatives are bound to ensure successful regulation and promotion of the sector that is deemed crucial for achievement of the Big Four Agenda. Among critical activities this year, the Authority continued to monitor the implementation of Time of Use (TOU) tariff for large commercial and industrial consumers. As at June 2019, a total of 1,202 Industrial customers benefited from the initiative enabling them to save a total of 97.5 Million Kenya shillings. This increased electricity consumption by 15.2 GWh and capacity demand by 40MW. The utilization of the Time of Use Tariffs not only supports industrial growth but also increases the country's competitive edge in the ease of doing business analysis. It also fully utilizes cheap base load capacity that is otherwise lost during off-peak periods. It is observed that the country's peak load is high but is only experienced for a very short period, largely in the evenings. The Authority wishes to shift part of this consumption to off-peak periods preferably at night when geothermal capacity is available leading to system optimization and hence lowering end user tariffs. The country has in the recent past experienced increased interest by developers in the development of Liquefied Petroleum Gas (LPG) infrastructure. This has been buoyed by a growth in LPG consumption as more Kenyans enter the middle class and abandon traditional biomass cooking fuels. On this account, the Authority is encouraging the shift to LPG through fiscal and regulatory incentives. That aside, the Authority continues to intensify the quality of petroleum fuels used in the country through a national marking and monitoring program and a revamped Enforcement, Compliance and Consumer Protection team with offices across the country. This will ensure that consumers are protected from adulterated fuels, malpractices in electricity consumption as well as quality control of petroleum dispensing facilities. The efforts also protect the country's tax revenue by preventing dumping of tax exempt export bound petroleum products into the local market.

With regard to the Energy Sector Plans, the Authority completed the coordination of the Medium Term Plan for the electricity sub-sector for the 2018-2023 period as well as the Petroleum Development Plan covering the same period. These plans provide a framework for the sectors development in terms of forecasted demand based on major demand drivers and projected supply in terms of committed projects in both the electricity and petroleum subsectors. Energy being considered an enabler of economic growth through its multidimensional linkages with all the other sectors of the economy, strategies that guide investments and growth in the sector are of utmost importance to the Authority and the entire nation.

Finally, the Authority appreciates the support it has received from both the national and county governments, the energy sector players and from all Kenyans in general. I also take this opportunity to commend the Authority's staff, Management and my fellow Directors of the Board for the conclusion of yet another successful year and for executing our mandate with vigor, passion and distinction in our quest to meet or exceed our stakeholders' expectations.



Chairman

Hon. (Prof.) Jackton Boma Ojwang

Date: 25th September 2019

Energy & Petroleum Regulatory Authority

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Report Of The Director General

As we conclude the 2018/19 financial year, I wish to appreciate the concerted efforts made in improving delivery of services to the public from all relevant stakeholders in the sector. The Multi Agency Approach to planning and enforcement of regulations and guidelines within the sector has seen the Authority continue to achieve unprecedented levels of compliance to statutory requirements among regulated entities.

In accordance with the Energy Act of 2006, the Authority was mandated to coordinate development of National Energy Indicative Plans. During the year, The Authority has overseen the development and finalization of the Medium Term Plan and the Petroleum Development Plan of the 2018-2023 period. With the Enactment of the Energy Act 2019, this coordination function has been designated to the Ministry of Energy. However, the Authority will coordinate development of 2019-2039 LCPDP transition plan which will form an input to the Integrated Energy Plan as per the new law. The Authority will continue to objectively execute her obligations as encompassed in the New Energy and Petroleum Acts of 2019 and will fully transition from the previous Energy Regulatory Authority to Energy and Petroleum Regulatory Authority in compliance with the new statutes.

At sector performance level, it is safe to say that despite the many challenges encountered during the year, all players in the energy industry played exemplary roles in achieving set targets. In the power subsector, the level of electricity access in the country increased from 74% in the financial year 2017/2018 to 75.2% in the 2018/2019 period with a total number of 7,095,039 total customers connected. The increase in access as well as the industry utilization of the Time of Use tariffs has seen the total electricity sales increase from 8,473 GWh in the 2017/18 financial year to 8,825GWh in financial year 2018/19an increase of 4.15%. The peak demand increased from 1,802MW to 1,882MW as recorded in February 2019. According to the recently finalized Medium Term Plan, the installed capacity is projected to increase to 4,150MW by 2023, as a result of committed generation projects dominated by geothermal, Wind and solar power plants.

On electricity demand, installed capacity stood at 2,712MW as at June 2019 comprising 826 MW (30.5%) of hydroelectric power generators, 776MW (28.6%) of thermal, 663MW (24.4%) of geothermal, 336 MW of wind (12.4%), 50MW of solar (1.9%), and 28MW (1%) from Biomass power generators. This includes 33MW in isolated mini-grids.

During the FY 2018/19, the Authority facilitated the commissioning of the 310MW Lake Turkana Wind Power Plant, Africa's largest wind power plant in September 2018. Additionally, a 50MW Garissa Solar Power Plant by the Rural Electrification and Renewable Energy Corporation (Formerly REA) was commissioned. It is expected that the installed capacity will further rise considerably after commissioning of KENGEN's 158MW Olkaria V geothermal plant by September 2019. These additional plants have not only increased the country's national installed capacity, but have also reduced reliance of thermal plants during periods of low hydrology. This has had a positive impact on the cost of electricity due to a reduced fuel cost charge and low generation tariffs associated with the use of renewable energy in generation.

In the Petroleum sub-sector, The Kenya Pipeline Company completed its 20-Inch 450 km Nairobi-Mombasa pipeline dubbed as 'line 5' and four additional storage facilities each with a capacity to hold 33.3 Million litres of fuel totaling to an additional 133 million litres. This will provide sufficient capacity for receipt of higher volumes of fuel from Line 5. The new pipeline with a flow rate of 1 million liters per hour at daily maximum utilization, is expected to remove 700 trucks from the roads due to 100% pipeline transportation; a transition from the previous 80% pipeline, 20% road system. This in turn will provide safety and reduce road degradation by tankers.

Energy & Petroleum Regulatory Authority

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Report Of The Director General

The Kisumu Oil Jetty (KOJ) is a strategic investment critical for development of the lake transport network for transportation of petroleum products and was completed in 2018. The jetty was constructed following bilateral agreement between Kenya and Uganda that resulted in the need to establish a cheaper and reliable way of transporting product from Kenya to Uganda. The construction of the Jetty was pegged on construction of a complementary facility in Uganda which is yet to be completed.

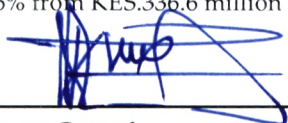
On power evacuation, the size of transmission network (400kV, 220kV and 132kV) continued to be developed and was approximately 6,294km of which 2,364 km (37.5%) is owned by KETRACO. This includes 962.41kms of 132kV lines, 381km of 220kV lines and 1,020km of 400kV lines which are currently being operated at 220kV awaiting construction and completion of Mariakani, Suswa and Isinya 400/220kV substations. At retail and distribution level, the Authority ensured that all prudently incurred costs along the power supply chain were met through a largely cost reflective tariff. The key highlight with regard to the transmission and distribution network is the commissioning of the 435.6KM Loyangalani-Suswa 400kV that enabled evacuation of electricity from the Lake Turkana Wind Power Plant to the load centers. Kenya Power and REREC have greatly expanded the electricity distribution network.

In the petroleum sub-sector, the Authority continues to set maximum retail prices for three critical products namely Diesel, Premium Motor Spirit and Illuminating Kerosene. The key determinants of pricing include, importation costs an international oil prices as determined by Platts, average bank exchange rates, taxes and levies, premiums, storage costs, pipeline tariff costs and transportation costs. This exercise has been efficiently and prudently executed on the 14th Day of every month without fail and with stakeholder participation in the whole pricing process.

The Authority is committed to reviewing Power Purchase Agreements (PPA's) within 60 days of receipt of materially complete applications, in accordance with the Energy Act 2019 a significant reduction from the statutory 90 days stipulated in the Energy Act 2006. During the financial year, a total of 4 such applications were received, reviewed and determined.

In the year under review, the Authority collected KES. 1.06 billion from the petroleum levy compared to KES. 508.0 million the previous year, an increase of 108.7%. This is as a result of the review of the petroleum levy. On the other hand, the electricity levy reduced by 14.6% from KES. 406.2 million in 2017/18 to KES. 347 million in 2018/19. Government transfers increased by 176.9% to KES. 34.9 million in 2018/19 as compared to KES. 12.6 million in 2017/18. In total, non-exchange revenue went up by 55.9 % from KES.926.8 million in 2017/18 to KES. 1.44 billion in 2018/19. The total recurrent expenditure increased by 49.9% from KES. 726.7 million in 2017/18 to KES. 1.09 billion in 2018/19.

The Authority's total asset base increased by 30.4% from KES. 589.9 million in the previous period to KES. 769.1 million in 2018/19. Non-current assets increased by 45.7% to KES. 131.6 million from KES. 90.3 million. Current assets went up by 27.6% to KES. 637.5 million from KES.499.6 million. Current liabilities increased by 95% to KES 494.5 million up from KES.253.3 million in the 2017/18 financial year. Further, total equity decreased by 18.6% from KES.336.6 million to KES 274.5 million in 2018/19.



Director General
Mr. Pavel Robert Oimeke

Date: 25th September 2019

Energy & Petroleum Regulatory Authority

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Corporate Governance Statement

1. Introduction

The Board of Directors acknowledge the need to conduct the business and operations of Authority with integrity and in accordance with generally accepted corporate practice and internationally developed principles of corporate governance. The Board recognize corporate governance as an essential element towards achieving the Authority's regulatory mandate provided in both the Energy Act, 2019 and Petroleum Act, 2019. The Board members adhere to good corporate governance by embracing the following principles:

- Observation of high standards of ethical and moral behaviour;
- Act in the best interests of the Authority;
- Ensure fair staff remuneration and promotion
- Promotion of legitimate interests of all stakeholders;
- Ensure that the organization acts as a good corporate citizen.

The Board members will continue to focus their attention on maintaining the highest standards of corporate governance and business ethics in the Authority's operations.

2. Board members

2.1 Board Composition, Appointment and Size

The Board of Directors of the Authority as provided under section 12 of the Energy Act, 2019 consist of the Chairperson, the Principal Secretary in the Ministry of Energy or his representative, the Principal Secretary in the Ministry of Petroleum and Mining or his representative, the Principal Secretary in the National Treasury or his representative, one County Executive Committee member or his representative nominated by the Council of County Governors, the Director General and five other members who represent the private sector. The Chairperson and the five members from the private sector are appointed by the President and the Cabinet Secretary respectively. The Chairperson (Mr. Joshua Oigara) is Non-Executive. The Chairpersons term is four years and that of the other Board members is three years and the respective terms are renewable once for the same duration. The Director General is the chief executive of the Authority appointed by the Cabinet Secretary through competitive selection for a term of three-year renewable once. The Director General is an ex officio member of the Board with no voting rights at the Board meetings.

The Board is well composed in terms of diversity in skills, knowledge of business and administrative experience acquired from both private and public sectors that is essential in the effective management of the Authority's operations.

The appointment of the Board members can be terminated in accordance with the provisions of Second Schedule of the Energy Act, 2019 or through voluntary resignation.

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Corporate Governance Statement

2.2. Independence and Separation of Roles and Responsibilities

The Board members exercise independent judgment in discharging their duties. The Board sets the strategic plan of the organization, oversees implementation of policies, evaluates the performance and reports to the stakeholders. The Chairperson of the Board is primarily responsible for the activities of the Board and its Committees. The Chairperson in consultation with the Director General sets the agenda for Board meetings, chairs the meetings and ensure effective communication to stakeholders. The Chairperson acts as the spokesperson for the Authority and is the principal contact for the Director General. The Director-General who is the Chief Executive of the Authority, is responsible for the day-to-day management of the Authority subject to the Board's direction.

2.3. Board Responsibilities

The Board's responsibility is to promote the long-term success of the organization. The Board provides leadership, strategic direction and exercises effective control of the Authority. The Board members assume collective responsibilities though their duties are discharged through the Board or its Committees

2.4. Board and Committee Meetings

The Energy Act 2019 provides that Board meetings will be held at least four times a year, and not more than four months shall lapse between the date of one meeting and the next meeting. A schedule of dates of the meetings is agreed upon by Board members and set out in the Board Work Plan. Notices of the location and the timing of meetings are issued seven days prior to the meetings. The Work Plan is adjusted when deemed necessary by the Board.

The Committees conduct their business within the rules and procedures set by the Board. The matters deliberated by the Committees are consequently presented to the Board by the respective Chairman during the next Board meeting for adoption.

The Committees are designed to ensure the Board runs efficiently and effectively and in a manner that embraces corporate governance. The Committees enable the Board to effectively discharge its responsibility by delving into issues that require greater attention than would be possible during regular Board meetings. The Board has three Committees; Technical, Finance and Administration and Audit and Risk.

2.5. Finance and Administration Committee

The Finance and Administration Committee is responsible for ensuring overall sound financial reporting, establishing internal system of controls, business plans and budgets, procurement, ICT, public relations, administration and staff affairs. During the year, the Committee members were; Eng. Samuel Maugo (Chair), Mr. Moses Gitari, Ms. Lilian Mahiri Zaja and Mr. Robert Pavel Oimeke.

2.6. Technical Committee

The Technical Committee's responsibilities are to provide technical and strategic direction to the Authority and approve technical plans, activities, reports and budgets. During the year the Committee members were Dr. Sellah Kebenei (Chair), Prof. George Achoki, Eng. Samuel Maugo, Dr. Macharia Irungu and Mr. Robert Pavel Oimeke.

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Corporate Governance Statement

2.7. Audit and Risk Committee

The responsibilities of the Audit and Risk Committee are to; review the financial information of the Authority, monitor the effectiveness of management information and internal control systems, deliberate on significant findings arising from both internal and external audits, and reviewing the overall risks facing the Authority. During the year the Committee members were; Prof. George Achoki (Chair), and Dr. Macharia Irungu.

2.8. Board Charter and Work Plan

The Authority has formulated a Charter, which defines the role, and responsibilities of the Authority in executing their strategic oversight function of the organization. The board members prepare an annual Work Plan. The Plan sets out the specific activities to be undertaken by the Board members towards fulfilling their mandate.

2.9. Directors Induction and Skills Development

The Authority provides new directors with an effective induction programme in order to familiarize them with their responsibilities as Board members and with general principles of corporate governance. The programme also provides the members with an orientation of the organization, strategic plan, financial status and policies, risk management, compliance programmes and the Code of Conduct and Ethics. The Authority ensures that a competence needs assessment is carried out periodically and an Annual Development Plan prepared to address identified gaps. The Authority ensures that its members are up-to-date with continuous professional development in their respective professional bodies.

2.10. Board Effectiveness and Evaluation

The Authority conducts an annual evaluation to appraise its performance. This evaluation is carried out in accordance with the Evaluation Tool. The Board evaluation provides an opportunity for Board members to identify strengths, collective skill gaps and individual areas of improvement. The Authority also reviews the performance of each committee against the set Terms of Reference.

The Board, its composition and performance evaluation is central to corporate governance. Further, Article 1.12 of Mwongozo requires Boards to undertake performance evaluation. It is in this regard that the Authority under the guidance of a representative of the State Corporation Advisory Committee (SCAC) conducts Board performance evaluation.

The Evaluation is undertaken at three levels:

- Peer Review
- Self-evaluation
- Board evaluation

The results are analyzed and a mean score rate for each of the levels determined. Through this exercise, the Board identifies areas of strength and weaknesses and the Board is committed to addressing areas of challenges that are identified

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Corporate Governance Statement

2.11. Remuneration of the Board of Directors

The remuneration of the Chairperson and the other Board members is determined by SCAC as provided in the State Corporations Act. The members are paid taxable sitting allowance. The Chairperson is paid a monthly fee and honoraria and the other members are paid monthly fee. The Board members are entitled to daily subsistence allowances while attending official duties. The members are reimbursed their transport expenses at the prevailing AA rates. The Board members are also provided with outpatient and inpatient medical and personal accident covers.

2.12. Ethical Leadership and Corporate Citizenship

The Board members are required to act in the best interest of Authority and uphold their fiduciary responsibilities and duty of care. This involves not disclosing confidential information, avoiding real and perceived conflicts of interest, and favouring the interests of Authority over other interests. The Directors on appointment are sensitized on the requirements of the Mwongozo Code of Governance and have expressly committed to adhere to it.

Both the Board members and employees of the Authority are expected to act honestly and in good faith so as to create a culture built on principles of integrity, accountability and transparency. The Authority has developed a Code of Conduct and Ethics to guide the Directors and the employees when undertaking their duties. All the Board members and employees sign a declaration of interest form indicating they will disclose any interest that may conflict with the interest of the organization. The Board members declare their interest at every Board or Committee meeting. The Board members and employees declare their wealth status as per the Public Service Commission requirements. The organization maintains a Register of Gifts as per the requirements of the Public Officer Ethics Act, 2003 and this register is continuously updated.

2.13. Succession Plan

Succession planning is an ongoing process of systematically identifying, assessing and developing talent and capacity to ensure continuity in specific positions within the organization. The Plan is designed to identify and prepare candidates for positions that become vacant due to retirement, resignation or death. The Energy Act requires that the Board members are appointed at different times so that the respective expiry dates of their terms of office falls at different times.

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Corporate Governance Statement

2.14. Compliance with the Law

The Board conducts its business affairs in compliance with all applicable laws, regulations, policies and accepted national and international standards. The Authority is in compliance with the Constitution, the Energy Act 2019, Leadership and integrity Act, 2012; Public Officers Ethics Act, 2003, Public Procurement and Assets Disposals Act, 2015, Public Finance Management Act, 2012, Employment Act among other legislation. The Board complies with the requirements of Mwongozo Code of Governance and has developed a Board Charter that is based on the Mwongozo principles of good governance.

The following are significant cases in which the Authority is a party during the reporting period:

i) The Civil Appeal No. 341 of 2017, Energy Regulatory Commission –vs- SGS Kenya Limited and 2 Others. The Authority had advertised a tender for provision of marking and monitoring of petroleum products. SGS being one of the bidders was dissatisfied with the procurement challenged the process at the Public Procurement Administrative Review Board (PPARB). The Board ruled in favour of the Authority and SGS appealed the Board's decision at the High Court. The High Court ruled in favour of SGS and the Authority being dissatisfied with the decision of the High Court lodged an appeal. The Court of Appeal ruled in favour of the Authority and the Authority proceeded with the procurement process which has since been concluded. SGS subsequently lodged an appeal at the Supreme Court which is yet to be heard.

ii) The High Court of Kenya Petition No. 279 of 2017: Council of County Governors –vs- ERC and 7 Others. This matter was instituted by the Petitioners challenging the constitutionality of the functions and mandate of ERC as was provided for by the Energy Act 2006. The Petitioners sought to have some of the mandate vested on the Authority transferred to Counties. The other parties enjoined in the matter include; Rural Electrification Authority, National Transport and Safety Authority, Kenya Urban Roads Authority, Kenya Rural Roads Authority, Kenya Ferry Services and Kenya Roads Board. The CCG alleges that the statutory laws establishing these government entities are unconstitutional. The matter is awaiting a hearing date in court.

2.15. Delegation of Responsibilities

The preparation of Authority's financial statements is a role that has been delegated to management. These financial statements have been prepared in accordance with internationally accepted accounting principles based on appropriate accounting policies consistently applied and supported by reasonable judgment and estimates. Management ensures that adequate internal financial control systems are developed to provide reasonable certainty in respect

- The completeness and accuracy of accounting records
- The integrity and reliability of Authority's annual financial statements and
- The safeguarding of Authority's assets

Responsibility for the integrity, reliability and objectivity of the Authority's financial statements lies with the Board. External auditors are responsible for independently examining and expressing an opinion on the reasonableness of the financial statements based on their audit.

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Corporate Governance Statement

2.16. Statement of Risk Management and Internal Control

The Board has recognized its responsibility to manage both internal and external risks as a key component of good corporate governance and is committed to embedding risk management into the daily operations of the Authority; from the setting of objectives, to financial planning towards achieving the set objectives, through to departmental processes established to aid provision of services by the Authority. It is believed that effective risk management will help the Authority to achieve its corporate objectives and provide better services. The Authority has developed and is implementing an Institutional Risk Management Policy Framework (IRMPF).

2.17. Responsibility

Risk management is one of the most important activities of the Authority. The Authority through the Audit and Risk Committee has a responsibility for overseeing risk management within Authority by ensuring that appropriate risk management strategies and policies are in place, and that processes established are adequate and effective. The Board defines the Authority's overall level of risk tolerance and ensures that there are adequate tools and resources for managing risks. The Board has assigned responsibility for risk management to the Director General; hence management ensures that sound risk management processes are implemented and functioning effectively. The costs and resources employed in risk management are proportional to obtainable benefits.

2.18. Internal Controls

Internal controls are designed to support the Authority in achieving its objectives. The risks related to the achievement of objectives need to be identified and evaluated in order to manage them. Thus, identification and assessment of risks is a prerequisite for internal control in EPRA. The continuity of operations is ensured by safeguarding critical functions and essential resources.

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Corporate Governance Statement

3. Number of scheduled meetings and attendance

The attendance of meetings during the year is as summarized below:

3.1 Number of scheduled meetings and attendance

Board of Directors	Designation	Board Meeting Total No. of Meetings (7)	Finance & Administration Committee - Total No. of Meetings (7)	Technical Committee - Total No. of Meetings (9)	Audit & Risk Committee - Total No. of Meetings (6)	Pension Board Meetings (2)
Mr Joshua Oigara	Board Chairman	6/7				
Mr. Njenga Mwangi	Member	2/7	2/7			1/2
Eng. Samuel Maugo	Member	7/7	7/7	7/9		
Mrs. Veronica Kamau	Member	3/7	3/7	4/9		
Dr. Macharia Irungu	Member	2/7		2/9	2/6	
Eng. Nixon Lenaiyara	Member	2/7			4/6	
Dr. Sellah Kebenei	Member	4/7	1/7	4/9		
Prof. George Achoki	Member	2/7		2/9	2/6	
Ms. Lilian Zaja Mahiri	Member	7/7	2/7	7/9	4/6	1/2
Mr. Robert Pavel Oimeke	Member	7/7	7/7	8/9		2/2

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Corporate Social Responsibility Statement

The Energy and Petroleum Regulatory Authority's (EPRA) CSR activities are anchored on the following pillars: corporate governance, environmental rehabilitation, responsibly to communities, promoting energy efficiency, support for education causes, responsibility for consumers and staff. During the Financial Year 2018/19, the Authority undertook the following CSR activities in education, environment and health sectors with the aim of improving the well-being of the society.

Education

The place of education in societal development cannot be understated. Education features prominently in national and international development agendas. EPRA has been a key player in support of educational initiatives to improve the educational standards. As a matter of fact, education is one of the Key Pillars of CSR. In this area, the Authority conducted a countrywide essay writing competition in the Financial year 2017/18 and 2018/19. The Competition aimed at increasing students' interest in Science, Technology, Engineering and Mathematics (STEM) subjects.

The Authority also participated the Hands for the Future Skills exhibition show that took place from 8th to 10th February 2019 at the Kenyatta International Convention Center (KICC). The event was organized by the Ministry of Education with the aim of exposing Kenyan youth to opportunities available at government parastatals such as internships and procurement opportunities. The three day event attracted over 3,500 youth.

Additionally, the Authority sponsored the Engineering Students Association (ESA) annual dinner. The dinner provided the young engineers with a chance to meet and learn from leaders in the energy sector and network with future employers. Further, the Authority sponsored the construction of a library in Nyalenda Girls' School.

Health

The Authority is keen on alleviating the suffering of the sick and unfortunate members of the society. During the year under review, the Authority sponsored the Nyeri Hospice Golf tournament which sought to raise funds to enable provision of palliative care to patients with life limiting diseases such as Cancer. Services offered under the hospice's palliative care program include pain alleviation, psycho-social and spiritual support.

Environmental conservation

The Authority is keen on undertaking activities that promote environmental stewardship. Consequently, the Authority continues to call on individuals and business owners to be environmentally conscious through social media platforms. In fulfillment of the Presidential Directive to dedicate 10% of the CSR budget towards tree planting activities, the Authority planted 10,000 tree seedlings in Menengai forest, Nakuru County.

Moreover, the Authority sponsored car No. 54 which participated in the Rhino Charge, an annual off-road 4 X 4 motorsport competition held in Kenya. The event is organized in order to raise funds to support the activities of the Rhino Ark Charitable Trust. The Trust is committed to conserving and protecting Kenya's mountain range eco systems.

Promoting energy efficiency

The Authority was a key sponsor of the Energy Management Awards 2019. The awards, organized by the Kenya Association of Manufacturers (KAM) aim at feting companies which have portrayed excellence in Energy Management with a view to conserve the environment and save on energy costs.

The Authority continues to touch lives and communities by developing and sponsoring initiatives that contribute to the wellbeing of the society.

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Report Of The Board Of Directors

The Board of directors submit their report together with the audited financial statements for the year ended June 30, 2019, which show the state of the Authority's affairs.

1. Principal activities

The principal activities of the Authority are: -

a) To regulate: -

- Importation, exportation, generation, transmission, distribution, supply and use of electrical energy;
- Importation, exportation, transportation, refining, storage and sale of petroleum and petroleum products;
- Production, distribution, supply and use of renewable and other forms of energy;

b) Protect the interests of consumer, investor and other stakeholder.

2. Results

The results of the Authority for the year ended June 30, 2019 are set out from page 30 .

3. Board Members

The members of the Board of Directors who served during the year are shown on page iv. The Directors are appointed in line with the 2nd Schedule of the Energy Act 2019.

4. Dividends/Surplus remission

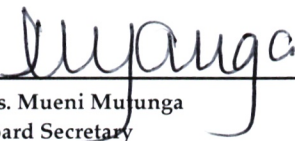
In accordance with section 219(2) of the Public Financial Management Act regulations, regulatory entities shall remit into the consolidated fund, ninety per centum of its surplus funds reported in the audited financial statement after the end of each financial year. Energy & Petroleum Regulatory Authority made some surplus during the year (FY 2018/2019) and intend to remit KES 260.6 million to the National Treasury.

5. Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with the Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

The annual Reports and Financial Statements set out on pages 29-60 which have been prepared on the going concern basis, were approved by the Board on 25th Sept 2019 and were signed on its behalf by:

By Order of the Board


Ms. Mueni Murunga
Board Secretary

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Statement Of Directors Responsibilities

Section 81 of the Public Finance Management (PFM) Act, 2012, section 8 (3) of the Second Schedule of the Energy Act 2019 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of the Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year/period and the operating results of the Authority for that year/period. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30, 2019. This responsibility includes:

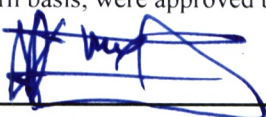
- (i). Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii). Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority;
- (iii). Designing, 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 Authority;
- (v). Selecting and applying appropriate accounting policies; and
- (vi). Making accounting estimates that are reasonable in the circumstances.

Section 81 of the Public Finance Management (PFM) Act, 2012, section 8 (3) of the Second Schedule of the Energy Act 2019 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of the Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year/period and the operating results of the Authority for that year/period. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of financial statements.

The annual report and financial statements set out on pages 29-60, which have been prepared on the going concern basis, were approved by the directors on and were signed on its behalf by:



Mr. Pavel Robert Oimeke
Director General



Hon.(Prof) Jackton Boma Ojwang
Chairman

25th September 2019

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON ENERGY AND PETROLEUM REGULATORY AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Energy and Petroleum Regulatory Authority set out on pages 29 to 60, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, 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, the financial statements present fairly, in all material respects, the financial position of the Energy and Petroleum Regulatory Authority as at 30 June, 2019, and of its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Energy Act, 2019 and 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 Energy and Petroleum Regulatory Authority Management 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 which, in my professional judgment, were of most significance in the audit of the financial statements. There were no Key Audit Matters to report in the period 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 Conclusion

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 on whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities which 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 audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance, were not effective.

Basis for Conclusion

The audit was conducted in accordance to ISSAI 2315 and 2330. The standards require that I plan and perform the audit to obtain assurance on whether effective processes and systems of internal control, risk management and overall governance, were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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 (Accrual Basis), and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements which are free from material misstatement, whether due to fraud or error and for assessment of the effectiveness of the internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Authority's ability to continue as a going concern, disclosing as applicable, matters related

to going concern and using the going concern basis of accounting unless Management is aware of the intention to terminate the Authority or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance 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 Authority's financial reporting process, reviewing the effectiveness of management's systems for monitoring 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 which 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 and 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 review is planned and performed to express a conclusion on whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution, and submit the audit report in compliance with Article 229(7) 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 would not necessarily disclose all matters in the internal control which 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 which 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 Authority's 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 which 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 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 Authority's ability to continue as a going concern. 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 Authority to cease to continue as a going concern.
- 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 which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

08 February, 2021

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Statement of Financial Performance For The Year Ended 30th June 2019

Figures in Kenyan Shilling	Note(s)	2019	2018
Revenue			
Revenue from non-exchange transactions			
Transfer revenue			
Transfers from government	6	34,874,087	12,602,427
Electricity levy	7	347,272,642	406,186,541
Petroleum levy	8	1,060,760,528	508,029,918
Total revenue from non-exchange transactions		1,442,907,257	926,818,886
Revenue from exchange transactions			
Other income	9	5,461,778	8,731,257
Interest received - investment	10	17,141,892	4,546,582
Total revenue from exchange transactions		22,603,670	13,277,839
		22,603,670	13,277,839
		1,442,907,257	926,818,886
Total revenue		1,465,510,927	940,096,725
Expenses			
Board Expenses	11	(23,096,598)	(24,037,453)
Employee costs	12	(550,047,228)	(376,516,094)
Transport & Travel	14	(81,249,671)	(48,915,844)
Public relation and consumer services	15	(92,167,732)	(57,826,408)
Utilities	16	(6,549,730)	(6,265,822)
Information and communication technology	17	(18,790,299)	(13,970,053)
Office Rent & Other Services	18	(54,909,757)	(54,048,232)
Consultancy and other professional services	19	(137,055,166)	(89,456,656)
HIV/AIDS Prevention	20	(1,774,117)	(2,961,810)
Depreciation and amortisation expense	21	(45,782,686)	(35,217,368)
KEEP	22	(2,000,000)	(2,000,000)
Office supplies	23	(17,463,022)	(15,437,810)
Transfer to Staff Mortgage and Car Loan Scheme	24	(61,139,060)	-
Total expenses		(1,092,025,066)	(726,653,550)
Other gains (losses)			
Gain on disposal of assets and liabilities	25	750,509	-
Surplus before taxation		374,236,370	213,443,175
Taxation		-	-
Surplus for the year from continuing operations		374,236,370	213,443,175
Remission to National Treasury	26	(260,550,327)	(125,914,100)
Surplus for the year		113,686,043	87,529,075

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Statement of Financial Performance For The Year Ended 30th June 2019

Figures in Kenyan Shilling	Note(s)	2019	2018
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The accounting policies and the notes on pages 29 to 60 form an integral part of the annual report and financial statements.

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Statement of Financial Position As At 30th June 2019

Figures in Kenyan Shilling	Note(s)	2019	2018
Assets			
Current Assets			
Cash and cash equivalents	27	496,564,772	437,716,921
Receivables from exchange transactions	28	13,275,698	13,275,698
Receivables from non-exchange transaction	29	124,146,135	46,030,431
Inventories	30	3,463,716	2,614,156
		637,450,321	499,637,206
Non-Current Assets			
Property, plant and equipment	31	116,985,056	74,071,724
Intangible assets	32	14,596,925	16,276,212
		131,581,981	90,347,936
Non-Current Assets		131,581,981	90,347,936
Current Assets		637,450,321	499,637,206
Total Assets		769,032,302	589,985,142
Liabilities			
Current Liabilities			
Payables under exchange transactions	33	190,424,115	109,281,430
Provisions	34	273,465,764	133,985,115
Employee benefits	35	30,647,459	10,087,078
		494,537,338	253,353,623
Non-Current Liabilities		-	-
Current Liabilities		494,537,338	253,353,623
Total Liabilities		494,537,338	253,353,623
Assets		769,032,302	589,985,142
Liabilities		(494,537,338)	(253,353,623)
Reserves			
Sinking Fund Resreve		55,000,000	55,000,000
Accumulated surplus		219,494,964	281,631,519
Total Net Assets/Equity		274,494,964	336,631,519
Total Net Assets and Liabilities		769,032,302	589,985,142

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Statement of Financial Position As At 30th June 2019

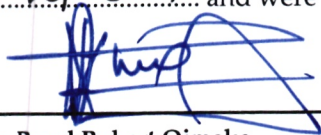
Figures in Kenyan Shilling

Note(s)


2019

2018

The annual report and financial statements and the notes on pages 29-60 were approved by the Directors on 25th Sept 2019 and were signed on its behalf by:



Mr. Pavel Robert Oimeke
Director General



Ms. Muznah Sisiwa
Ag. Manager, Finance & Accounts
ICPAK No. 21186



Hon.(Prof.) Jackton Boma OJwang
Chairman

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Statement of Changes in Net Assets For The Year Ended 30th June 2019

Figures in Kenyan Shilling	Sinking Fund	Accumulated surplus	Total net assets/equity
Balance at 01 July 2017	55,000,000	194,102,443	249,102,443
Changes in net assets/equity			
Surplus for the year	-	87,529,075	87,529,075
Total changes	-	87,529,075	87,529,075
Balance at 01 July 2018	55,000,000	281,631,518	336,631,518
Changes in net assets/equity			
Transfer to EPRA Fund	-	(175,822,597)	(175,822,597)
Net income (losses) recognised directly in net assets	-	(175,822,597)	(175,822,597)
Surplus for the year	-	113,686,043	113,686,043
Total recognised income and expenses for the year	-	(62,136,554)	(62,136,554)
Total changes	-	(62,136,554)	(62,136,554)
Balance at 30 June 2019	55,000,000	219,494,964	274,494,964

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Cash Flow Statement For The Year Ended 30th June 2019

Figures in Kenyan Shilling	Note(s)	2019	2018
Cash flows from operating activities			
Receipts			
Levy		1,292,019,221	872,894,336
Transfer from government entities		34,874,087	12,602,427
Other Miscellaneous & Licence fees		5,461,778	537,956
Interest Income		17,141,892	2,347,323
		1,349,496,978	888,382,042
Payments			
Board expenses		(19,146,637)	(22,363,130)
Employee Costs		(423,951,699)	(310,327,034)
Training and other personnel costs		(115,741,013)	(45,172,971)
Office supplies and expenses		(17,463,022)	(13,448,323)
Transport and travel		(56,289,675)	(51,456,051)
Public relations and consumer services		(84,291,040)	(57,283,252)
Utilities		(6,549,729)	(6,265,822)
Information and communication technology expenses		(11,416,097)	(11,069,020)
Office rent and office services		(54,909,757)	(45,400,918)
Consultancy and other professional services		(63,475,678)	(71,766,941)
HIV/AIDS prevention related expenses		(1,774,117)	(2,641,411)
Provisions		-	22,455,437
90% Transfer to consolidated fund		(125,914,100)	-
Revolving fund transferred to Mortgage & Car Loan		(175,822,597)	-
Interest Transferred to Mortgage and Car Loan		(1,139,090)	-
Transfer to Mortgage and Car Loan		(60,000,000)	-
		(1,217,884,251)	(614,739,436)
Total receipts		1,349,496,978	888,382,042
Total payments		(1,217,884,251)	(614,739,436)
Net cash flows from operating activities	36	131,612,727	273,642,606
Cash flows from investing activities			
Purchase of Fixed Assets	31	(70,768,943)	(15,683,966)
Proceeds from sale of Fixed Assets	31	1,432,000	-
Purchase of other intangible assets	32	(3,427,931)	(5,395,586)
Net cash flows from investing activities		(72,764,874)	(21,079,552)

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Cash Flow Statement For The Year Ended 30th June 2019

Figures in Kenyan Shilling	Note(s)	2019	2018
Net increase/(decrease) in cash and cash equivalents		58,847,852	252,563,049
Cash and cash equivalents at the beginning of the year		437,716,920	185,153,871
Cash and cash equivalents at the end of the year	27	496,564,772	437,716,920

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Kenyan Shilling						
Revenue						
Revenue from non-exchange transactions						
Electricity levy	284,850,037	73,172,677	358,022,714	347,272,642	(10,750,072)	a
Petroleum levy	1,535,105,320	(89,095,320)	1,446,010,000	1,060,760,528	(385,249,472)	b
Transfers from government	75,000,000	(10,000,000)	65,000,000	34,874,087	(30,125,913)	c
Total revenue from non-exchange transactions	1,894,955,357	(25,922,643)	1,869,032,714	1,442,907,257	(426,125,457)	
Revenue from exchange transactions						
Other income	700,000	-	700,000	5,461,778	4,761,778	d
Interest received	17,850,000	3,000,000	20,850,000	17,141,892	(3,708,108)	e
Total revenue from exchange transactions	18,550,000	3,000,000	21,550,000	22,603,670	1,053,670	
'Total revenue from exchange transactions'	18,550,000	3,000,000	21,550,000	22,603,670	1,053,670	
'Total revenue from non-exchange transactions'	1,894,955,357	(25,922,643)	1,869,032,714	1,442,907,257	(426,125,457)	
Total revenue	1,913,505,357	(22,922,643)	1,890,582,714	1,465,510,927	(425,071,787)	
Expenditure						
Board Expenses	(34,774,000)	3,806,000	(30,968,000)	(23,096,598)	7,871,402	f
Employee costs	(661,345,506)	16,900,000	(644,445,506)	(550,047,228)	94,398,278	g
Office Supplies	(19,531,840)	2,000,000	(17,531,840)	(17,463,022)	68,818	h
Transport and travel	(56,938,200)	(28,200,000)	(85,138,200)	(81,249,671)	3,888,529	i
Public relation and consumer services	(75,550,000)	(16,500,000)	(92,050,000)	(92,167,732)	(117,732)	j
Utilities	(7,092,000)	59,717,128	(52,625,128)	(6,549,730)	46,075,398	k
Information & communication Technology	(26,113,009)	6,531,968	(19,581,041)	(18,790,299)	790,742	l
Office rent and services	(68,178,184)	9,500,000	(58,678,184)	(54,909,757)	3,768,427	m
Consultancy and other professional services	(205,085,900)	50,459,500	(154,626,400)	(137,055,166)	17,571,234	n
HIV/AIDS Prevention	(6,300,000)	3,150,000	(3,150,000)	(1,774,117)	1,375,883	o
Depreciation and amortisation expense	(48,314,844)	1,172,929	(47,141,915)	(45,782,686)	1,359,229	p

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Kenyan Shilling						
Contingency and other costs	(2,000,000)	-	(2,000,000)	(2,000,000)	-	q
Transfer to Mortgage and Car Loan Scheme	-	(60,000,000)	(60,000,000)	(61,139,060)	(1,139,060)	r
Total expenditure	(1,211,223,483)	48,537,525	(1,267,936,214)	(1,092,025,066)	175,911,148	
	1,913,505,357	(22,922,643)	1,890,582,714	1,465,510,927	(425,071,787)	
	(1,211,223,483)	48,537,525	(1,162,685,958)	(1,092,025,066)	70,660,892	
Operating surplus	702,281,874	25,614,882	727,896,756	373,485,861	(354,410,895)	
Gain on disposal of assets and liabilities	-	-	-	750,509	750,509	s
	702,281,874	25,614,882	727,896,756	373,485,861	(354,410,895)	
	-	-	-	750,509	750,509	
Surplus(Deficit) before taxation	702,281,874	25,614,882	727,896,756	374,236,370	(353,660,386)	
Taxation	-	-	-	-	-	
Surplus (Deficit) after taxation	702,281,874	25,614,882	727,896,756	374,236,370	(353,660,386)	
	-	-	-	-	-	
Remission to National Treasury	-	-	-	(260,550,327)	(260,550,327)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	702,281,874	25,614,882	727,896,756	113,686,043	(614,210,713)	

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Notes to the Annual Report And Financial Statements

The budget and financial statements of EPRA are reported following the accrual basis, hence there are no differences arising from the treatment. The differences between the approved and final budget are due to reallocations, which was submitted to the National Treasury through the Ministry of Energy for approval.

The explanation on differences between the actual and budget is below:

- a) Electricity levy is below budget by 3%.
- b) Petroleum levy received was below budget by KES385,249,472. This is as a result of levy being approved one month late and introduction of VAT which resulted in lower consumption.
- c) Transfer from government was below budget by KES 30,125,913. This is as a result of World Bank training budgeted for not materializing, and delays in procurement of the SCADA system by the Ministry of Energy, despite receiving a No Objection from the World Bank.
- d) Other income was above budget by KES4,761,778 due to enactment of the Energy Act in March 2019 which mandated the Authority to collect License fees as part of A-in-A.
- e) Interest received was below budget by KES3,708,109 due to change in investment policy. The rates given by the Central Bank of Kenya are lower than the rates negotiated with the Commercial Bank.
- f) Expenditure on Board Expenses is below the budget by KES 7,871,401. This is as a result of late appointment of board members after expiry of the term of 3 others.
- g) Expenditure on Employees Expenses is below the budget by KES 94,398,278. This is as a result of delays in approval required before recruitment.
- h) Expenditure on Office Supplies is within the budget
- i) Expenditure on Transport and Travel is within the budget.
- j) Expenditure on Public Relations and Consumer Services is within the budget.
- k) Expenditure on Utilities is within the budget.
- l) Expenditure on ICT is within the budget.
- m) Expenditure on Office rent and services is within the budget.
- n) Consultancy and other professional services is below budget by KES 17,571,234. There was delay in procurement of fuel marking consultancy due to a pending litigation resulting in underutilization of the fuel marking allocation. Some savings resulted from cost management in provision of other professional services including Human Resource consultancy, ISO certification costs, Petroleum planning, LCPDP and ICT Consultancies.
- o) HIV/AIDS Prevention was below budget by KES1,375,883. This is as a result of cost saving measures adopted by the Authority.
- p) Expenditure on Depreciation is within the budget.

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Notes to the Annual Report And Financial Statements

1. General information

The Energy Regulatory Commission was established under the Energy Act, 2006. In March 2019, the Energy Act 2019 and the Petroleum Act 2019 were enacted. The Energy Act 2019 provides for the establishment of the Energy and Petroleum Regulatory Authority as the successor to the Energy Regulatory Commission. EPRA is wholly owned by the Government of Kenya and is domiciled in Kenya. The Authority's principal activities are regulation of all forms of energy except nuclear power.

2. Statement of compliance and basis of preparation

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Authority. The accounting policies have been consistently applied to all the years presented.

The Authority adopted IPSAS in the year 2014 following the gazettelement of the Public Sector Accounting Standards Board (PSASB), which was established by the Public Financial Management Act (PFM) No. 18 of 24th July 2012. PSASB issued financial reporting standards and guidelines to be adopted by all state organs and public sector entities, which the Authority complies with.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

The accounts are presented in Kenya Shillings (KES) which is the functional and reporting currency of the Authority and all values are rounded to the nearest shilling

3. Adoption of new and revised standards

3.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IPSAS 41 (revised) - Financial Instruments	01 January 2022	The impact to the Authority will not be material
• IPSAS 42 - Social Benefits	01 January 2022	The impact to the Authority will not be material
• IPSAS 40 – Public Sector Combinations	01 January 2019	The Authority will not be impacted by this Standard

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Notes to the Annual Report And Financial Statements

4. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Electricity and Petroleum Levies

The Authority recognizes revenues from Electricity and Petroleum levies when the event occurs and the asset recognition criteria are met. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Authority and the fair value of the asset can be measured reliably.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Authority and can be measured reliably.

ii) Revenue from exchange transactions

Miscellaneous Revenue

Miscellaneous revenue from exchange transactions comprise of sale of stores, tenders and surplus goods.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information

The original budget for FY 2018/2019 was approved by the National Treasury through Ministry of Energy on 19th October 2019. Subsequent revision or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the authority recorded reduced appropriations of KES 47.4M on the 2018/2019 budget following the approval.

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the Authority. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or commission differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Notes to the Annual Report And Financial Statements

4. Summary of significant accounting policies (continued)

c) Taxation/Transfer to treasury

No provision has been made for Income Tax. The Authority does not operate for gain. Its income is therefore not subject to tax. However, a provision is made for transfer of surplus funds to Treasury in line with Public Financial Management Act No. 18 of 2012 Regulation 219 (2) that states that a regulatory authority established by an Act of Parliament and referred to under regulation 211 (4) shall remit into Consolidated Fund, ninety percent of its surplus funds reported in the audited financial statements after the end of each financial year. Regulation 219 (3) further states that "a regulatory authority to which this section applies shall be exempt from the income tax".

The surplus funds are net of capital investments acquired in the year and any contributions to EPRA established funds within the year.

d) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Authority recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the cost of the fixed asset assets on straight line basis, at annual rate estimated to write off the cost of these assets over the expected useful life. The depreciation rates used are as follows:

- | | |
|--------------------------|-------|
| • Motor Vehicles | 25% |
| • Furniture and Fittings | 12.5% |
| • Computer Equipment | 30% |
| • Other Equipment | 12.5% |

e) Leases

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Authority. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

f) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The amortization rates used are as follows;

- | | |
|---------------------|-----|
| • Intangible Assets | 30% |
|---------------------|-----|

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Notes to the Annual Report And Financial Statements

4. Summary of significant accounting policies (continued)

The useful life of the intangible assets is assessed as either finite or indefinite.

i) Research and development costs

The Authority expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Authority can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

j) Financial instruments

Financial assets and financial liabilities are recognised on the Authority's statement of financial position when the Authority has become party to the contractual provisions of the instrument. Specific accounting policies adopted by the Authority for its financial instruments outstanding at year end are set out as follows:

Government securities

Government securities comprise treasury bonds which are debt securities issued by the Government of Kenya. Government securities are classified as held to maturity and are stated at amortised cost.

Short term deposits

Short term deposits are classified as held to maturity and are stated at amortised cost.

Trade receivables

Trade receivables are carried at anticipated realised value. An estimate is made for bad and doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps taken to recover them have failed.

Trade payables

Trade payables are not interest bearing and are stated at their fair value

Impairment of financial assets

The authority has a number of deposits but which are part of debtors, and are not considered to be impaired.

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Notes to the Annual Report And Financial Statements

4. Summary of significant accounting policies (continued)

k) Provisions

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

l) Contingent liabilities

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. There are no contingent liabilities at the moment.

m) Contingent assets

The Authority does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

n) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements.

Accumulated Surplus

The Authority's capitals consist of the Accumulated reserves. The objectives when managing capital include: -

- To safeguard the Authority's ability to continue as a going concern so that it can continue to provide energy regulatory services to the nation.
- To match the profile of its assets and liability, taking account of the risks inherent in the business operation.
- To comply with the statutory requirements on provision for the renewal of depreciating assets.

Sinking Fund Reserves

The sinking fund reserve is money that the Authority has set aside for replacement of fixed assets.

o) Changes in accounting policies and estimates

The Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Notes to the Annual Report And Financial Statements

4. Summary of significant accounting policies (continued)

p)Employee benefits

Retirement benefit plans

The Authority provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which the Authority pays fixed contributions into a separate fund, and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

q)Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

r)Related parties

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Authority. Members of key management are regarded as related parties and comprise Board Members and senior managers (see further disclosures of related parties in note 29).

The Government (represented by Ministry of Energy and Ministry of Petroleum and Mining) is also regarded as a related party. The Permanent Secretaries in the two Ministries or their representative are members of the Board. The Authority also receives some funding from the Government.

s)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 various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

t)Comparative figures

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

s)Inventories

Inventory is measured at cost upon initial recognition. Inventories are expensed when deployed for consumption..

Energy & Petroleum Regulatory Authority

Annual Report And Financial Statements for the year ended 30 June 2019

Notes to the Annual Report And Financial Statements

5. Significant judgements and sources of estimation uncertainty

The preparation of the Authority's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions:

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur.

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Authority.
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- The nature of the processes in which the asset is deployed.
- Availability of funding to replace the asset.
- Changes in the market in relation to the asset.

Provisions:

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 32. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Subsequent events:

There have been no events subsequent to the financial year-end with a significant impact on the financial statements for the year ended June 30, 2019.

6. Transfers from government

Exchequer support	31,288,845	4,187,500
Capacity Building-World Bank	3,585,242	8,414,927
	34,874,087	12,602,427

7. Electricity levy

Electricity levy	347,272,642	406,186,541
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Legal Notice No. 148 of 1999.

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Figures in Kenyan Shilling	2019	2018
8. Petroleum levy		
Petroleum levy	1,060,760,528	508,029,918
Legal Notice No. 162 of 2018		
9. Other income		
Licence Fees	5,275,771	-
Other income	186,007	8,731,256
	5,461,778	8,731,256
10. Interest received		
Interest	17,141,892	4,546,582
11. Board Expenses		
Monthly Fees and Honorarium	4,517,143	4,990,000
Sitting Allowance	4,660,000	5,060,000
Meeting, Entertainment and Others	1,087,000	565,382
Seminars, Travel and accommodation	12,393,814	12,963,050
Medical and GPA	438,641	459,021
	23,096,598	24,037,453
12. Employee costs		
Salaries	266,887,146	208,601,784
Pension and Gratuity	57,178,216	40,544,844
Special duty and Acting allowances	7,679,189	1,773,647
Car and Commuter allowance	25,636,202	17,401,889
House allowance	62,179,701	47,553,314
Fringe benefits	1,299,122	1,060,889
Leave and Other allowances	10,935,404	5,087,617
Medical	34,743,344	22,227,500
Subscriptions-Clubs and Professional associations	1,288,406	2,373,522
Life and Accident Insurance	4,825,036	4,211,166
Staff Uniforms	844,998	465,501
Training and Capacity Building-EPRA Funded	75,237,259	16,854,687
Training and Capacity Building -World Bank Funded	-	6,944,114
Staff Welfare and Laundry	1,313,205	1,415,620
	550,047,228	376,516,094

Energy & Petroleum Regulatory Authority

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Figures in Kenyan Shilling	2019	2018
13. Office Supplies		
Stationary, postage and supplies	8,360,776	6,113,390
Meeting, office tea and miscellaneous	6,754,586	7,185,804
Newspapers, books and periodicals	2,347,660	2,138,616
	17,463,022	15,437,810
14. Transport & travel		
Travel-Local and Surveillance Audits	51,242,007	30,561,277
Travel-International	22,302,570	11,307,474
Fuel	3,278,611	2,570,907
Vehicle repair and service	2,197,669	3,016,631
Vehicle insurance and licences	2,228,814	1,459,555
	81,249,671	48,915,844
15. Public relation and consumer services		
Corporate Subscriptions	5,129,880	4,974,850
Corporate Social Responsibility	7,103,972	3,077,435
Advertising and Public Relations	46,518,808	25,413,766
Public Seminars & Workshops	26,163,522	16,640,987
PR Agency	6,380,000	5,220,000
Branding / Printing	871,550	2,499,370
	92,167,732	57,826,408
16. Utilities		
ISDN Line and Disaster Recovery	1,025,974	1,489,394
Telephone and Fax	5,523,756	4,776,428
	6,549,730	6,265,822
17. Information and communication technology		
Bandwidth	4,865,042	2,792,741
Software Licences	13,925,257	11,177,312
	18,790,299	13,970,053

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Figures in Kenyan Shilling	2019	2018
18. Office rent & Other services		
Rent and Parking	48,108,697	47,846,302
Security	1,495,200	1,529,550
Office cleaning	3,401,987	2,967,900
Repair and services-Office equipment	616,463	960,538
Insurance and Other costs	1,287,410	743,942
	54,909,757	54,048,232
19. Consultancy and other professional services		
Consultancy -EPRA Funded	114,146,733	73,125,438
Consultancy-World Bank GoK Funded	-	2,356,888
Bank charges	979,396	803,265
Audit fees and expenses	348,000	348,000
Other Professional Services	21,581,037	12,823,065
	137,055,166	89,456,656
20. HIV/AIDS Prevention & others		
Gender	278,120	155,275
Drugs and substance abuse	716,950	366,395
Safety,disability,HIV/AIDS and others	779,047	2,440,140
	1,774,117	2,961,810
21. Depreciation and amortisation expense		
Property, plant and equipment	38,058,321	29,268,261
Intangible assets	7,724,365	5,949,107
	45,782,686	35,217,368
22. Contingency and other costs		
Kenya energy and environmental programme[KEEP]	2,000,000	2,000,000
23. Office supplies		
Stationary, postage and supplies	8,360,776	6,113,390
Meeting,office tea and miscellaneous	6,754,586	7,185,804
Newspapers, books and periodicals	2,347,660	2,138,616
	17,463,022	15,437,810

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Figures in Kenyan Shilling	2019	2018
24. Transfer to Staff Mortgage & Car Loan		
Transfer to Staff Mortgage & Car Loan	61,139,060	-
25. Gain on sale of assets		
Property, plant and equipment	750,509	-
26. Remission to National Treasury		
Surplus for the year	374,236,370	213,443,175
Purchase of assets	(84,736,007)	(21,079,553)
Transfer to staff mortgage account	-	(47,918,470)
Transfer to staff car loan account	-	(4,540,598)
Realised surplus	289,500,363	139,904,554
90% of released profit	260,550,327	125,914,099
27. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand & Mpesa	2,491,154	100,000
Bank balances	31,518,643	191,794,324
KCB - Fixed Deposits	300,000,000	70,000,000
CBK - Treasury Bills	162,554,975	-
Other cash and cash equivalents	-	175,822,597
	496,564,772	437,716,921
28. Receivables from exchange transactions		
Deposits	13,275,698	13,275,698

Energy & Petroleum Regulatory Authority

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Figures in Kenyan Shilling 2019 2018

28. Receivables from exchange transactions (continued)

Trade and other receivables past due but not impaired

Trade and other receivables are not considered to be impaired.

The ageing of amounts past due but not impaired is as follows:

Description	1-6 Months Ksh	6-12 Months Ksh	Over 1Year Ksh	Total Ksh
Hospital,fuels and rent deposit	-	-	13,176,698	13,176,698
Telephone-deposits	-	-	99,000	99,000
	-	-	13,275,698	13,275,698

Rent deposit of KES 9,954,297.79 relates to deposit for 3 months for the 4 floors that EPRA occupies at Eagle Africa Building. Hospital deposits of KES 650,000.00 are held with Gertrude's, Aga Khan and Nairobi Hospitals to facilitate staff who seek outpatient treatment as per the EPRA medical policy. KES 2,000,000 is KQ deposits, KES 192,399.94 Aquamist dispenser deposit, KES 99,000 is telephone deposits, KES 20,000 legal fees deposit, KES 200,000 Toyota Kenya and KES. 160,000 for fuel

29. Receivables from non-exchange transaction

Board Imprest	2,335,768	254,158
Staff Imprest	(163,790)	2,154,245
Revenue Debtors	120,454,027	42,800,042
Receivables from MOE	727,062	-
Staff salaries & Medical advances	793,068	821,987
	124,146,135	46,030,432

30. Inventories

Inventories	3,463,716	2,614,151
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Figures in Kenyan Shilling		2019			2018	
Company	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Furniture and fixtures	134,609,543	(110,569,416)	24,040,127	135,130,003	(93,060,984)	42,069,019
Motor vehicles	109,839,216	(64,852,054)	44,987,162	65,780,325	(56,814,568)	8,965,757
Office equipment	24,140,761	(13,182,693)	10,958,068	21,886,488	(12,125,574)	9,760,914
IT equipment	72,617,038	(38,579,555)	34,037,483	46,035,056	(32,759,023)	13,276,033
Work in Progress	5,056,490	-	5,056,490	-	-	-
Total	346,263,048	(227,183,718)	119,079,330	268,831,872	(194,760,149)	74,071,723

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Figures in Kenyan Shilling						2019	2018
31. Property, plant and equipment (continued)							
Reconciliation of property, plant and equipment							
	Furniture and fixtures	Motor vehicles	Office equipment	IT equipment	Work in Progress	Total	
Cost							
At 01 July 2017	132,191,928	65,780,325	18,987,542	36,188,111	-	253,147,906	
Additions	2,938,075	-	2,898,946	9,846,945	-	15,683,966	
	-	-	-	-	-	-	
At 30 June 2018	135,130,003	65,780,325	21,886,488	46,035,056	-	268,831,872	
Additions	(520,460)	48,717,600	3,911,807	26,581,982	-	78,690,929	
WIP	-	-	-	-	5,056,490	5,056,490	
Disposals	-	(4,658,709)	(1,657,533)	-	-	(6,316,242)	
At 30 June 2019	134,609,543	109,839,216	24,140,761	72,617,038	5,056,490	346,263,049	
Depreciation and impairment							
At 01 July 2017	(76,649,945)	(47,504,325)	(9,988,913)	(29,085,037)	-	(163,228,220)	
Depreciation	(16,411,039)	(9,310,243)	(2,136,661)	(3,673,986)	-	(31,531,929)	
At 30 June 2018	(93,060,984)	(56,814,568)	(12,125,574)	(32,759,023)	-	(194,760,149)	
Disposals and scrappings - accumulated depreciation and impairment	-	4,658,709	976,042	-	-	5,634,751	
Depreciation	(17,508,433)	(12,696,195)	(2,033,161)	(5,820,532)	-	(38,058,321)	
Depreciation Donated Vehicle	-	2,094,273	-	-	-	2,094,273	
At 30 June 2019	110,569,416	66,946,328	13,182,693	38,579,555	-	(225,089,445)	
Net book values							
Cost	134,609,543	109,839,216	24,140,761	72,617,038	5,056,490	346,263,048	
Accumulated depreciation and impairment	(110,569,416)	(66,946,328)	(13,182,693)	(38,579,555)	-	(229,277,992)	
At 30 June 2019	24,040,127	42,892,888	10,958,068	34,037,483	5,056,490	116,985,056	

As at 30 June 2019, property and equipment with cost amounting to KES 185,460,658.06 were fully depreciated and intangible assets with cost amounting to 23,767,628.63 were fully amortized. Depreciation of KES 2,094,273 relates to a donated Motor vehicle which has been offset against Deferred Income and not on the Statement of Financial Performance.

Energy & Petroleum Regulatory Authority

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Figures in Kenyan Shilling 2019 2018

32. Intangible assets

Company	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	99,746,604	(85,149,679)	14,596,925	93,701,526	(77,425,314)	16,276,212

Reconciliation of intangible assets

Cost

Opening balance	93,701,526	88,305,940
Additions	6,045,078	5,395,586
Closing balance	99,746,604	93,701,526

Amortisation and impairment

Opening balance	(77,425,314)	(71,476,207)
Amortisation	(7,724,365)	(5,949,107)
Closing balance	(85,149,679)	(77,425,314)

Made up as follows:

Cost	99,746,604	93,701,526
Amortisation and impairment	(85,149,679)	(77,425,314)
Net book value	14,596,925	16,276,212

33. Payables under exchange transactions

Suppliers	144,068,524	86,499,653
Rural Electrification Authority	10,196,695	12,201,039
Energy Act advances and others	1,161,653	8,349,492
Accruals	34,860,270	-
Deferred income	136,973	2,231,246
	190,424,115	109,281,430

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Figures in Kenyan Shilling 2019 2018

33. Payables under exchange transactions (continued)

Description	1-6 Months	6-12 Months	Over 1Year	Total
	Ksh	Ksh	Ksh	
Suppliers	91,856,977	6,989,778	45,221,769	144,068,524
REA	10,196,695	-	-	10,196,695
Energy Act advances & Others	1,161,653	-	-	1,161,653
Accruals	34,860,270	-	-	34,860,270
Deferred income	136,973	-	-	136,973
	138,212,568	6,989,778	45,221,769	190,424,115

34. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Total
Audit fees	348,000	-	-	348,000
Withheld taxes & other statutory deductions	7,723,015	4,844,422	-	12,567,437
Amounts due to consolidated funds	125,914,100	260,550,327	(125,914,100)	260,550,327
	133,985,115	265,394,749	(125,914,100)	273,465,764

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Total
Audit fees	348,000	348,000	(348,000)	348,000
Withheld taxes & other statutory deductions	7,957,289	-	(234,274)	7,723,015
Amounts due to consolidated funds	-	125,914,100	-	125,914,100
	8,305,289	126,262,100	(582,274)	133,985,115

35. Employee benefit obligations

Other payroll benefits	13,222,898	9,584,653
Gratuity	17,424,561	502,425
	30,647,459	10,087,078

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Figures in Kenyan Shilling	2019	2018
36. Cash generated from operations		
Surplus	113,686,043	87,529,075
Adjustments for:		
Depreciation and amortisation expense	45,782,686	35,217,368
Gain on sale of assets	(750,509)	-
Increase in Employee Benefit Provision	20,560,381	(4,752,502)
Movements in provisions	125,331,875	125,679,825
Depreciation for donated motor vehicle	2,094,273	2,263,668
Adjustment	59,692,218	-
Transfer to EPRA fund	(236,961,657)	-
Changes in working capital:		
Inventories	(849,565)	(258,517)
Receivables from exchange transactions	-	2,183,427
Other receivables from non-exchange transactions	(78,115,703)	38,744,037
Payables under exchange transactions	81,142,685	(12,963,775)
Cash generated from operations	131,612,727	273,642,606

37. Risk management

Financial risk management

Risk management is carried out by the management under the supervision of the Board of Directors. The Directors provide policies for overall risk management, as well as policies covering specific areas such as, interest rate risk, credit risk, use of non-derivative financial instruments and investing excess liquidity.

The activities of the Authority expose it to a variety of financial risk: credit risk, liquidity risk and market risk. The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The Authority regularly reviews its risk management policies and systems to reflect changes in markets and emerging best practices.

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Figures in Kenyan Shilling

2019

2018

37. Risk management (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. Credit risk arises from bank balances, trade receivables and amounts due from related parties. The Authority's management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below represents the Authority's maximum exposure to credit risk at the balance sheet date is as follows:

As at June 2019	Fully performing Ksh	Past due Ksh	Impairment Ksh	Total
Receivables from non exchange transactions	123,582,863	-	-	123,582,863
Bank Balances	496,564,772	-	-	496,564,772
	620,147,635	-	-	620,147,635

As at June 2018	Fully performing Ksh	Past due Ksh	Impairment Ksh	Total
Receivables from non exchange transactions	46,030,431	-	-	46,030,431
Bank Balances	437,716,921	-	-	437,716,921
	483,747,352	-	-	483,747,352

All the Authority's receivables are fully performing and are expected to be repaid.

The Government securities are from the Government of Kenya that has no history of default.

Bank balance includes cash in hand and deposits held with banks.

Liquidity risk management

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations when they fall due. The Authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or at the risk of damaging reputation.

The Authority ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. All liquidity policies and procedures are subject to review and approval by the Board of Directors.

The table below provides a contractual maturity analysis of the Authority's financial liabilities:

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37. Risk management (continued)				
	1- 6 Months	6 - 12 Months	Over 1 Year	Total
Trade & other payables from exchange transactions	170,114,308	11,667,453	-	181,781,761
Employee benefits Obligation	-	-	30,647,459	30,647,459
Audit fees payable	348,000	-	-	348,000
Withheld tax and other statutory deductions	12,567,438	-	-	12,567,438
	183,029,746	11,667,453	30,647,459	225,344,658

38. Operating Lease Commitments

Operating lease commitments represent rentals payable by the Authority for rented office space.

Not later than 1 year	-	47,247,902
Later than 1 year and not later than 5 years	-	188,991,608
	-	236,239,510

The Authority is of the view that future net revenues and funding will be sufficient to cover these commitments. The Authority has leased office premises under an operating lease. The lease typically runs for 5 years with an option for renewal. Lease payments are increased accordingly to reflect market rentals. The Authority does not have an option to purchase the leased asset at the expiry of the lease period. There are no contingent rents recognized in the Statement of Financial Performance

39. Dividends/surplus remission

In accordance with Section 219 (2) of the Public Management Act regulation, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. EPRA made a surplus during the year (FY 2017/2018) and hence remitted Ksh 125,914,100 to the Consolidated Fund and intends to remit Ksh 260.6M to The National Treasury.

40. Events after the reporting date

There were no material adjusting and non-adjusting events after the reporting period.

41. Ultimate and Holding Entity

EPRA is a state corporation under the Ministry of Energy. Its ultimate parent is the Government of Kenya.

Energy & Petroleum Regulatory Authority

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Figures in Kenyan Shilling	2019	2018
42. Related parties		
Transactions with related parties		
Key management compensation		
Compensation to Senior Management	62,982,760	9,381,580
Compensation to the Director General	74,011,059	9,390,000
	136,993,819	18,771,580
Grants from Government		
State Department of petroleum	34,793,087	4,187,500
Ministry of energy	81,000	8,414,927
	-	-
	34,874,087	12,602,427

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Figures in Kenyan Shilling 2019 2018

42. Related parties (continued)

Board Members Remuneration

2019

Name	Monthly Fee and Honoraria	Sitting Allowance	Lunch	Total
Joshua Oigara	1,560,000	180,000	18,000	1,758,000
Dr. Sellah J. Kebenei	385,714	680,000	24,000	1,089,714
Veronica Kamau	-	200,000	20,000	220,000
Eng. Samuel N. Mugo	600,000	820,000	54,000	1,474,000
Lilian Mahiri Zaja	600,000	960,000	44,000	1,604,000
Dr. Macharia Irungu	235,714	280,000	12,000	527,714
Prof. George Achoki	235,714	520,000	14,000	769,714
National Treasury	600,000	-	-	600,000
Christine Minyasi	-	20,000	2,000	22,000
Christopher Ombega	-	20,000	2,000	22,000
Eng. Nixon L. Lenaiyara	150,000	460,000	18,000	628,000
Isaac Omondi Odek	-	20,000	2,000	22,000
Florence Wahome	-	20,000	2,000	22,000
Peter Njenga Mwangi	150,000	480,000	14,000	644,000
	4,517,142	4,660,000	226,000	9,403,142

2018

Name	Monthly Fee and Honoraria	Sitting Allowance	Lunch	Total
Joshua Oigara	1,560,000	320,000	14,000	1,894,000
Titus Gitahi	-	160,000	-	160,000
Veronica Kamau	-	320,000	16,000	336,000
Eng. Samuel Mugo	515,000	640,000	30,000	1,185,000
Eng. Erick Nyamuga	473,333	640,000	26,000	1,139,333
Dr. Sellah Kebenei	600,000	960,000	40,000	1,600,000
Peter Njenga Mwangi	600,000	840,000	36,000	1,476,000
Nixon Lenaiyara	600,000	1,100,000	42,000	1,742,000
Lilian Mahiri Zaja	41,667	80,000	4,000	125,667
National	600,000	-	-	600,000
	4,990,000	5,060,000	208,000	10,258,000

Energy & Petroleum Regulatory Authority

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Appendix I: Progress on Follow up of Auditor Recommendations

Reference No of the external Audit report	Issue/Observations from Auditor	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.1	Inaccuracy of Financial Statements	Muznah Sisiwa, Ag. Manager, Finance & Accounts	Resolved	20 December 2018
4.2	Inappropriate Financial Statements Presentation	Muznah Sisiwa, Ag. Manager, Finance & Accounts	Resolved	20 December 2018
4.3 (a)	Overstating Cash & Cash Equivalents	Muznah Sisiwa, Ag. Manager, Finance & Accounts	Resolved	30 June 2019
4.3(b)	Investments in Fixed Deposits	Muznah Sisiwa, Ag. Manager, Finance & Accounts	Resolved	01 March 2019

Appendix II: Inter-entity Transfers

1. Breakdown of Transfers from the State Department of ministry of Energy and State Department of Petroleum

Financial Year 2018/2019	Bank Statement Date	Amount	Financial Year
State Department of petroleum	04 July 2018	1,793,087	2018/2019
State Department of petroleum	18 March 2019	33,000,000	2018/2019
Ministry of energy	06 June 2019	81,000	2018/2019
		34,874,087	

The above amounts have been communicated to reconcile with the parent ministry

Muznah S.

Ag. Manager Finance & Accounts
EPRA
Date:.....

Head of Accounting Unit
MOEP
Date:.....



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