

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
PETROLEUM DEVELOPMENT LEVY FUND –
STATE DEPARTMENT FOR ENERGY

FOR THE YEAR
ENDED 30 JUNE 2017



PARLIAMENT
OF KENYA
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Paper laid by
the Leader of the
Majority Party
on 10-04-18
JBM



MINISTRY OF ENERGY AND PETROLEUM
STATE DEPARTMENT FOR ENERGY
PETROLEUM DEVELOPMENT LEVY FUND
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017

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

PETROLEUM DEVELOPMENT LEVY FUND

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For The Financial year ended June 30, 2017

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PETROLEUM DEVELOPMENT LEVY FUND

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For the financial year ended June 30, 2017

I KEY ENTITY INFORMATION AND MANAGEMENT

Background information

The Petroleum Development Fund was formed on 27th October, 2006 under the ministry of Energy and Petroleum, PDL (E) is managed by the Cabinet Secretary for Energy who is responsible for the general policy and strategic direction of the entity.

(a) KEY MANAGEMENT

Finance Department
Accounts Department
Supply Chain Management
Information and Communication Technology

(b) Fiduciary Management

No.	Designation	Name
1.	Principal Secretary	Dr.Eng Joseph Njoroge-CBS
2.	Head of Finance	William O. Mbaka
3.	Head of Accounting Services	Veronica W. Kamau
4.	Head of Supply Chain	Mary Mwangi

(c) Fiduciary Oversight Arrangement

Ministerial Performance Management Committee (MPMC)
Ministerial Human Resource Management Advisory Committee (MHRMAC)

(d) Entity Headquarters

P.O. Box 30582
Nyayo House Building
Kenyatta Avenue
Nairobi, KENYA

(e) Entity Contacts

Telephone: (254)203310112
E-mail: ps@energy.go.ke
Website: www.energy.go.ke

PETROLEUM DEVELOPMENT LEVY FUND

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For The Financial year ended June 30, 2017

(f) Entity Bankers

Kenya Commercial Bank
P.O. Box 30012
GPO 00100
Nairobi, Kenya

(g) Independent Auditors

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

(h) Principal Legal Adviser

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

PETROLEUM DEVELOPMENT LEVY FUND

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II. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer for a national government entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.


The Principal Secretary in charge of the State Department for Energy is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Fund's; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

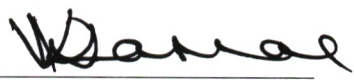
The Principal Secretary in charge of the State Department for Energy accepts responsibility for the Fund's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS) and relevant legal framework of the Government of Kenya. The Principal Secretary is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2017, and of the Fund's financial position as at that date. The Principal Secretary in charge of the Ministry of Energy and Petroleum further confirms the completeness of the accounting records maintained for the Fund which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

The Principal Secretary in charge of the State Department for Energy confirms that the entity has complied fully with applicable Government Regulations and that the entity's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Principal Secretary confirms that the Fund financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The Fund's financial statements were approved and signed by the Principal Secretary on Sept 28th, 2017


Principal Secretary
Dr. Eng. Joseph K. Njoroge, CBS


Principal Accounts Controller
Veronica W. Kamau
ICPAK Member No. 10669

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Petroleum Development Levy Fund set out on pages 5 to 14, which comprise the statement of assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and 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 Petroleum Development Levy Fund – State Department for Energy as at 30 June 2017, and of its financial performance for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Petroleum Development Fund Act, Cap 426C.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Petroleum Development Levy Fund – State Department for Energy in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards and for such 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 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.

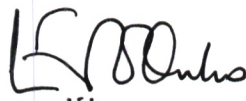
As part of an audit in conducted accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures which are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's 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 Fund's ability to sustain services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

13 March, 2018

PETROLEUM DEVELOPMENT LEVY FUND

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For The Financial year ended June 30, 2017

IV STATEMENT OF RECEIPTS AND PAYMENTS AS AT JUNE 30TH, 2017

RECEIPTS	Note	2016-2017	2015-2016
		Kshs.	Kshs.
Contribution Revenue	1	1,085,000,000	1,394,700,000
Miscellaneous Receipts	2	<u>16,721,546</u>	<u>30,811,310</u>
TOTAL RECEIPTS		<u>1,101,721,546</u>	<u>1,425,511,310</u>
PAYMENTS			
Use of goods and services	3	11,397,062	64,370,315
Transfers to Other Government Units	4	1,055,000,000	1,018,500,000
TOTAL PAYMENTS		<u>1,066,397,062</u>	<u>1,078,270,316</u>
SURPLUS/DEFICIT		<u>35,324,484</u>	<u>342,640,994</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on Sept 28th, 2017. and signed by:

Principal Secretary
Dr. Eng. Joseph K. Njoroge, CBS

Principal Accounts Controller
Veronica W. Kamau
ICPAK Member No. 10669

PETROLEUM DEVELOPMENT LEVY FUND

Reports and Financial Statements

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V. STATEMENT OF ASSETS AND LIABILITIES AS AT JUNE 30TH, 2017

	Note	2016-2017 Kshs	2015-2016 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	5	715,046,176	679,721,691
TOTAL FINANCIAL ASSETS		<u>715,046,176</u>	<u>679,721,691</u>
 REPRESENTED BY			
Fund balance b/fwd		679,721,692	337,080,697
Surplus/Deficit for the year		35,324,484	342,640,994
NET FINANCIAL POSITION		<u>715,046,176</u>	<u>679,721,691</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on Sept 28th, 2017.
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Principal Accounts Controller
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PETROLEUM DEVELOPMENT LEVY FUND

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VI. STATEMENT OF CASHFLOW AS AT JUNE 30TH, 2017

		2016-2017	2015-2016
	Notes	Kshs.	Kshs.
Receipts for operating income			
Contribution Revenues	1	1,085,000,000	1,394,700,000
Miscellaneous Receipts	2	16,721,546	30,811,310
Total		1,101,721,546	1,425,511,310
Payments for operating expenses			
Use of goods and services	3	11,397,062	64,370,315
Transfers to Other Government Units	4	1,055,000,000	1,018,500,000
Total		1,066,397,062	1,082,870,316
Net Cash flow from operating activities		35,324,484	342,640,994
NET INCREASE IN CASH AND CASH EQUIVALENT		35,324,484	342,640,994
Cash and cash equivalent at BEGINNING of the year		679,721,692	337,080,697
Cash and cash equivalent at END of the year	5	715,046,176	679,721,691

The entity financial statements were approved on September 28th, 2017 and signed by:



Principal Secretary
Dr. Eng. Joseph K. Njoroge, CBS



Principal Accounts Controller
Veronica W. Kamau
ICPAK Member No. 10669

PETROLEUM DEVELOPMENT LEVY FUND

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VII. STATEMENT OF COMPARTIVE OF BUDGET AND ACTUAL AMOUNTS

Revenue/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization Difference to Final Budget
	a	b	c=a+b	d	e=d-c	f=d/c %
Contribution Receipts	1,085,000,000	0	1,085,000,000	1,085,000,000	0	0
Miscellaneous Receipts	0	0	0	16,721,546	16,721,546	100%
Interest payments	0	0	0	0	0	0
Totals	1,085,000,000		1,085,000,000	1,101,721,546		
Use of Goods and Services	0	0	0	11,397,062	11,397,062	100%
Transfers to Other Government Units	1,055,000,000	0	1,055,000,000	1,055,000,000		0
TOTALS	1,055,000,000	0	1,055,000,000	1,066,397,062		100%

The entity financial statements were approved on September 28th, 2017 and signed by:

Principal Secretary
Dr. Eng. Joseph K. Njoroge, CBS

Principal Accounts Controller
Veronica W. Kamau
ICPAK Member No. 10669

PETROLEUM DEVELOPMENT LEVY FUND

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VIII. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting and relevant legal framework of the Government of Kenya. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya.

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

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts. The cash basis of accounting recognises transactions and events only when cash is received or paid by the Fund.

2. Recognition of revenue and expenses

The Fund recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the Fund. In addition, the Fund recognises all expenses when the event occurs and the related cash has actually been paid out by the Fund.

3. In-kind contributions

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

PETROLEUM DEVELOPMENT LEVY FUND

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4. Cash and cash equivalents

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

5. Pending bills

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

6. Receivables and payables

These relate to provisioning balances for the GAV and Exchequer accounts as required by the current Government Financial Regulations and Procedures. These provisioning balances do not have an impact on the receipts and payments and therefore do not contravene the principles on the cash based IPSAS.

7. Budget

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

8. Comparative figures

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

9. 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, 2016.

PETROLEUM DEVELOPMENT LEVY FUND

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IX. NOTES TO THE FINANCIAL STATEMENTS

1 .CONTRIBUTION REVENUES

	2016-2017	2015-2016
	Kshs	Kshs
Receipts From Treasury	542,500,000	1,394,700,000
Receipts from Treasury	542,500,000	-
Total	<u>1,085,000,000</u>	<u>1,394,700,000</u>

2 .MISCELLANEOUS REVENUES

	2016-2017	2015-2016
	Kshs	Kshs
Other receipts	3,242,453.75	15,881,629
Interest Received	13,479,091.95	14,929,680
Total	<u>16,721,545.70</u>	<u>30,811,310</u>

3. USE OF GOODS AND SERVICES

	2016-2017	2015-2016
	Kshs	Kshs
Contractual obligation	-	13,758,697
Training expenses	-	6,217,239
Other payments	11,397,062	44,400,379
Total	<u>11,397,062</u>	<u>64,370,315</u>

PETROLEUM DEVELOPMENT LEVY FUND

Reports and Financial Statements

For the financial year ended June 30, 2017

4. TRANSFERS TO OTHER GOVERNMENT ENTITIES	2016-2017 Kshs.	2015-2016 Kshs.
Kenya Electricity Expansion program (KEEP)	80,000,000	80,000,000
Kenya Association of Manufactures (KAM)	35,000,000	-
Rural Electrification Authority (REA)	687,000,000	687,000,000
Energy Regulatory Commission (ERC)	-	1,500,000
National oil Corporation of Kenya (NOCK)	-	250,000,000
Principal Secretary Energy	<u>253,000,000</u>	<u>-</u>
TOTAL	<u>1,055,000,000</u>	<u>1,018,500,000</u>

5 Bank Accounts

Name of Bank, Account No. & currency-1104169282	Amount in bank account currency	Exc rate	2016-2017 Kshs	2015-2016 Kshs
Kenya Commercial Bank-1104169282	Kshs	N/A	715,046,176	679,721,691
Total			<u>715,046,176</u>	<u>679,721,691</u>

PETROLEUM DEVELOPMENT LEVY FUND

Reports and Financial Statements

For The Financial year ended June 30, 2017

X. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The Fund had no issues that were raised by the external auditor in the year 2014-2015

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Expenditure totaling to kshs.64,370,315 under the use of goods and services incurred without budgetary provision breaching the public finance management Act,2012.		HAU	not resolved	Next parliament sitting

The entity financial statements were approved on 30th September, 2017 and signed by:

Principal Secretary
Dr. Eng. Joseph K. Njoroge, CBS

Principal Accounts Controller
Veronica W. Kamau
ICPAK Member No. 10669

