

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

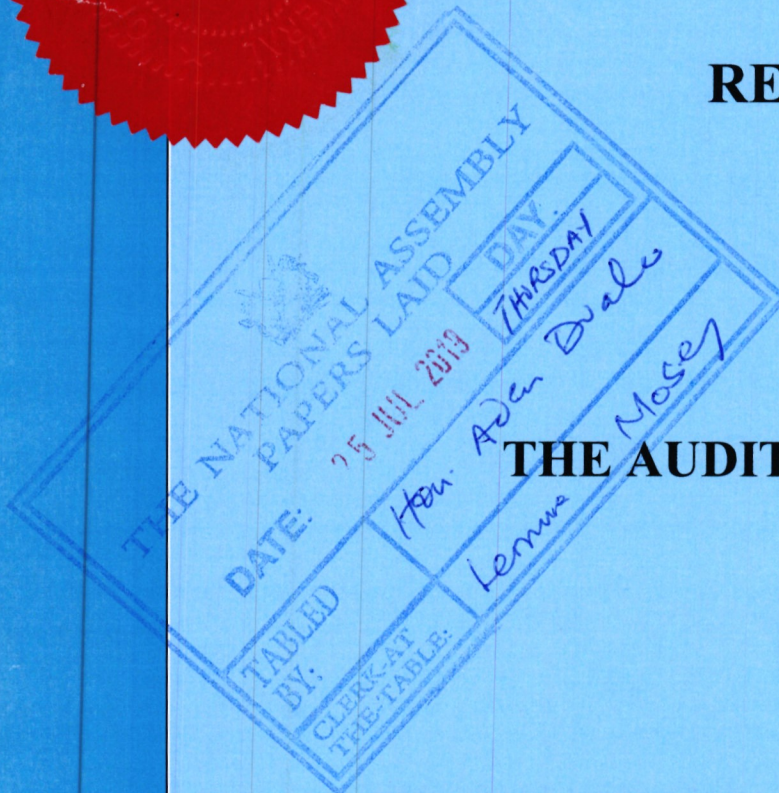
THE AUDITOR-GENERAL

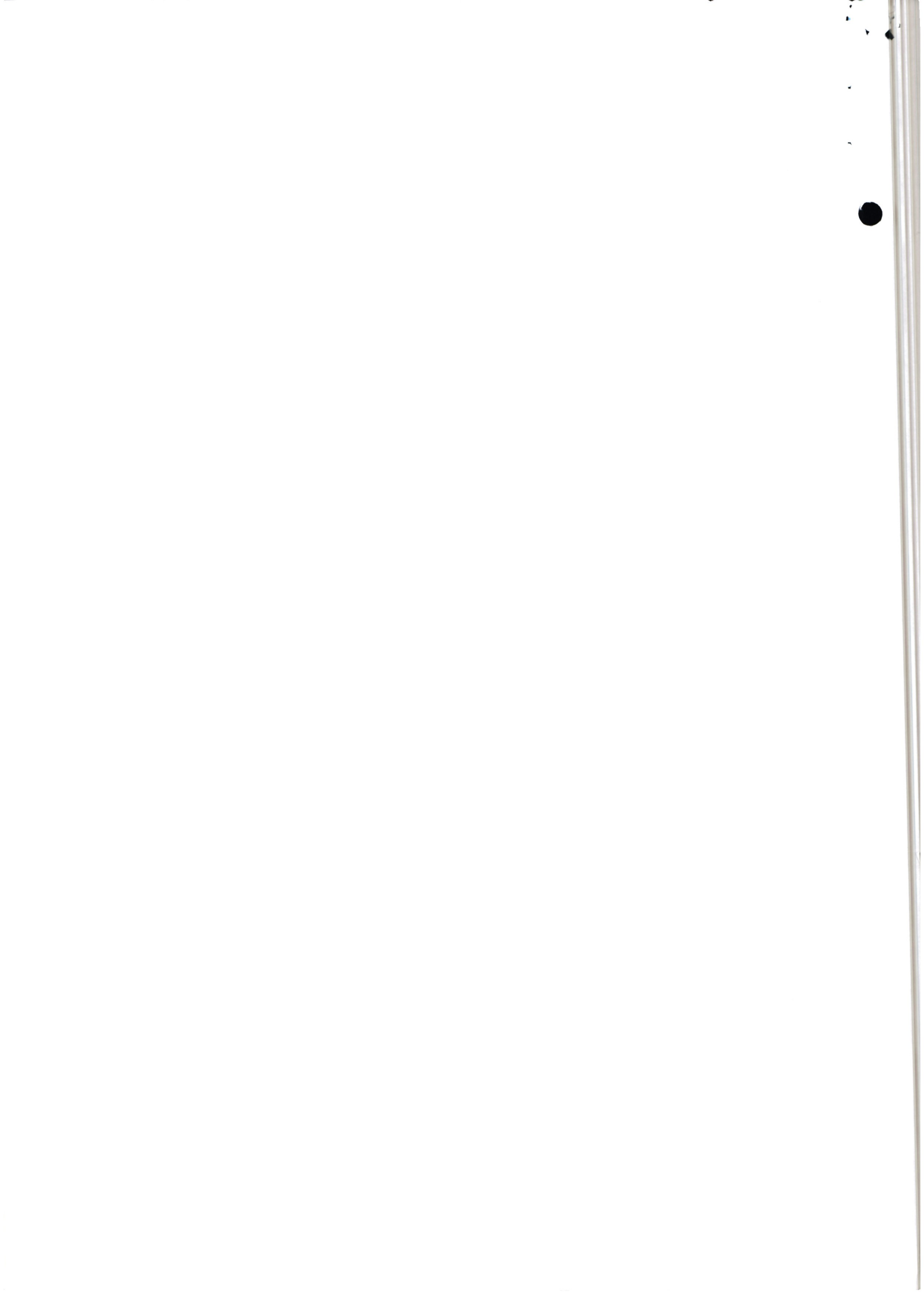
ON

THE FINANCIAL STATEMENTS OF  
PETROLEUM DEVELOPMENT FUND

FOR THE YEAR  
ENDED 30 JUNE 2018

STATE DEPARTMENT FOR ENERGY







OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
**REGISTRY**

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**PETROLEUM DEVELOPMENT FUND**

**STATE DEPARTMENT FOR ENERGY**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2018**

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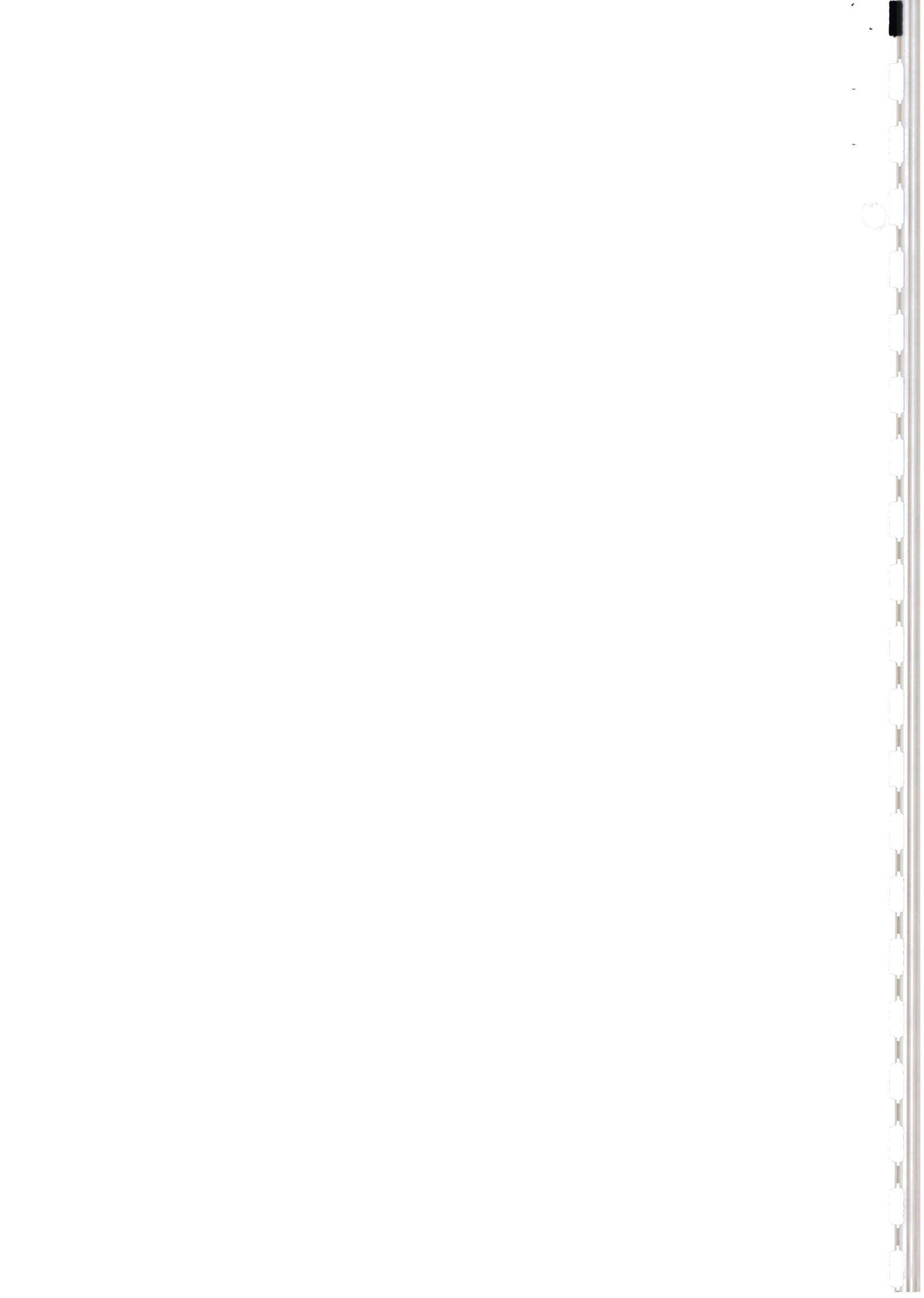
Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)



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**KEY PETROLEUM DEVELOPMENT FUND INFORMATION AND MANAGEMENT**

**a) Background information**

The Petroleum Development Fund under the State Department for Energy (PDF-SDE) was formed on 27<sup>th</sup> October, 2006. PDF-SDE is managed by the Principal Secretary for Energy, who was appointed as the Officer Administering the Fund by the Principal Secretary for National Treasury in accordance with Section 4(2) of the Petroleum Development Fund Act No. 4 of 1991 (Revised 2012). The fund is wholly owned by the government of Kenya and is domiciled in Kenya.

**b) Principal Activities**

The principal activity of the fund is to supplement the development budget of the State Department for Energy as Appropriation-In-Aid (AIA).

**Vision**

Provision of affordable, quality energy for all Kenyans

**Mission**

To facilitate provision of clean, sustainable, affordable, reliable, and secure energy services for national development while protecting the environment.

**Core Values**

The fund upholds the values of integrity, transparency, accountability, professionalism, prudent utilization of resources and open to constructive suggestions

**c) Key Management**

The Fund's day-to-day management is under the following key organs

- Principal Secretary for Energy (Fund Administrator)
- Fund Management

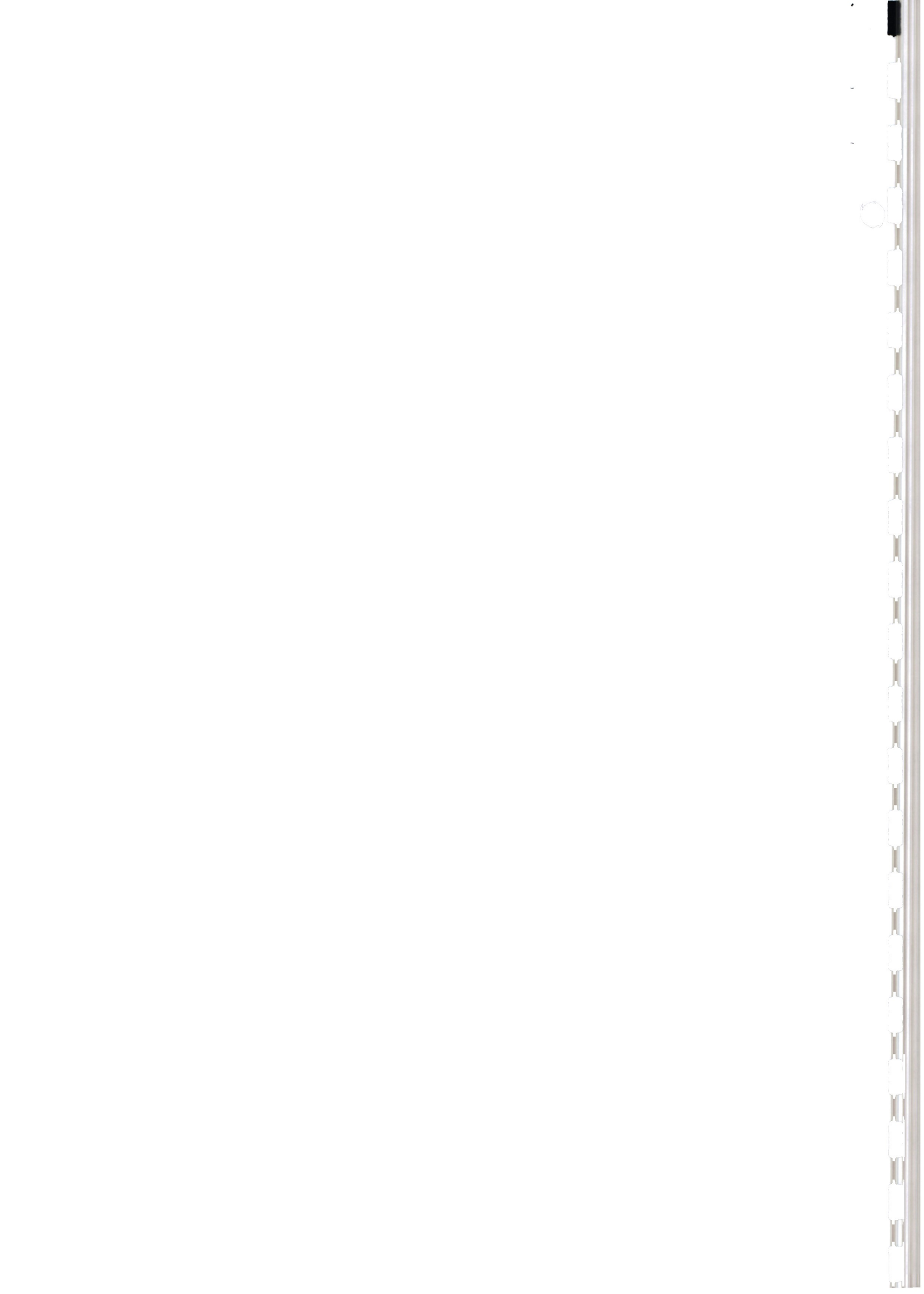
**d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30 June 2018 and who had direct fiduciary responsibility were:

| Ref | Name                            | Position                                 |
|-----|---------------------------------|--|
| 1   | Dr. Eng. Joseph K. Njoroge, CBS | Principal Secretary (Fund Administrator) |
| 2   | Jedidah A.N. Macharia           | Principal Accountant (Fund Accountant)   |
| 3   | Rebecca B. Mounde               | Chief Supply Chain Management Officer    |
| 4   | William O. Mbaka                | Senior Chief Finance Officer             |

**e) Fiduciary Oversight Arrangement**

In order to manage fiduciary risk, management has put in place the following fiduciary oversight arrangement:



**i) Budget Implementation Committee**

Responsibilities of Budget Implementation Committee are:

- To review and consider the cash flow plans-this shall involve a regular review of the Ministerial cash plan and approval of any changes to the initial cash flow plan to be communicated to National Treasury;
- To review the utilization of cash limits and consider any changes as may be required;
- To advise the Fund Administrator on any challenges related to the budget implementation;
- To review and recommend reallocation of expenditures;
- To review and approve the submission of the expenditure returns, IPPD, pending bills and recommend actions to be taken;
- To participate in Sector Working Groups; and
- To prepare the budget for the Fund in consultation with key management.

**ii) Internal Audit Unit**

The mandate of Internal Auditors includes:

- Review and evaluate of budgetary performance, financial management, transparency and accountability mechanisms and processes relating to the Fund;
- Giving reasonable Fund; and
- Reviewing the effectiveness of the financial and non-financial performance management systems of the Fund.

**iii) Parliamentary Committee Activities**

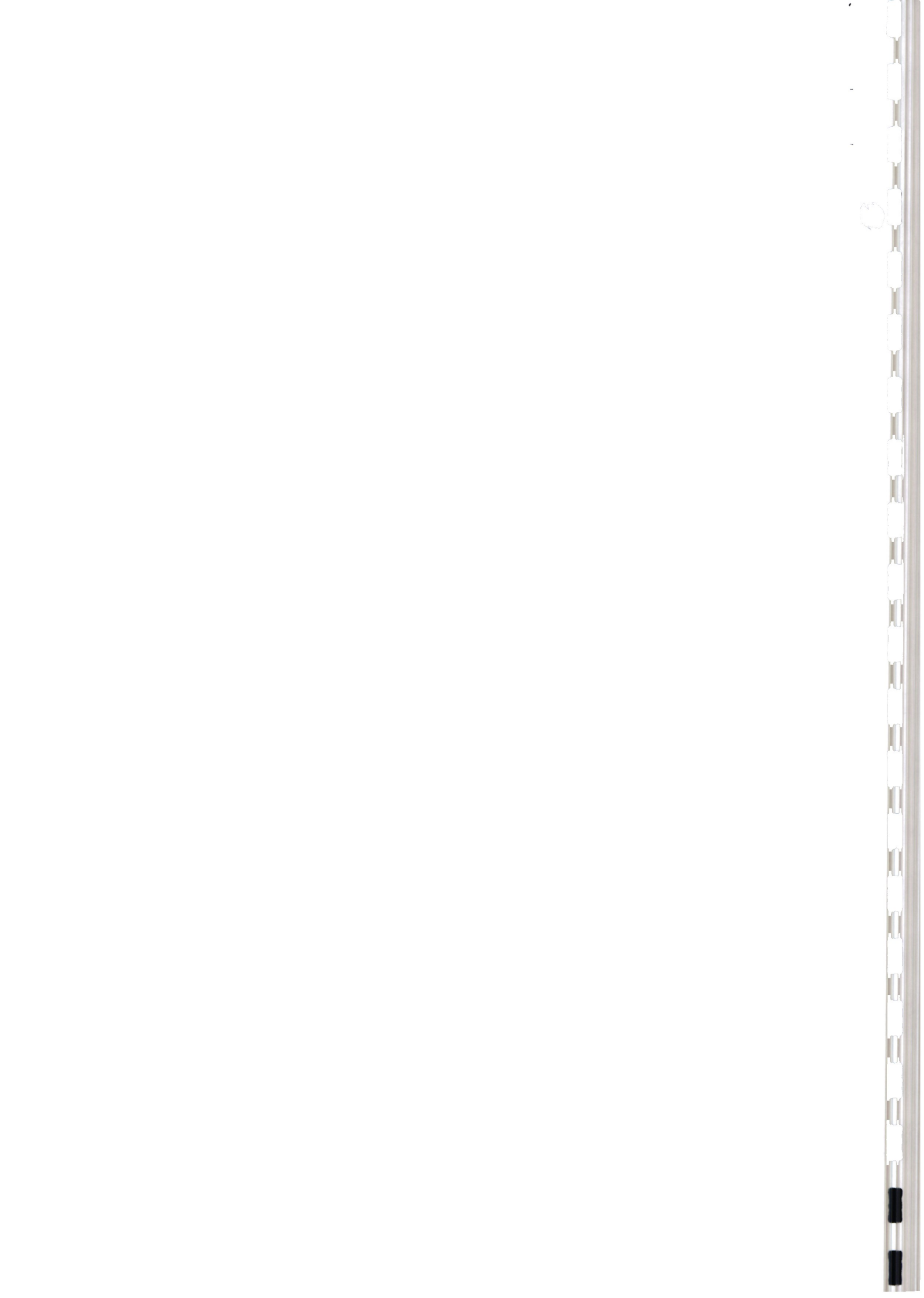
- Public Accounts Committee invites the Principal Secretary to appear before it to adduce evidence on the Report of the Auditor-General on the financial statements of the Fund.
- Budget and Appropriations Committee approves expenditure budget of the State Department for the execution of governance.
- Energy Committee examines special matters relating to energy.

**f) Registered Offices**

Ministry of Energy Headquarters  
P.O. Box 30582 – 00100  
Nyayo House Building  
Kenyatta Avenue  
Nairobi, Kenya

**g) Fund Contacts**

State Department for Petroleum  
Telephone: (254) (020) 3310112  
E-mail: [pspetroleum@energy.go.ke](mailto:pspetroleum@energy.go.ke)  
Website: [www.go.ke](http://www.go.ke)



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**h) Fund Bankers**

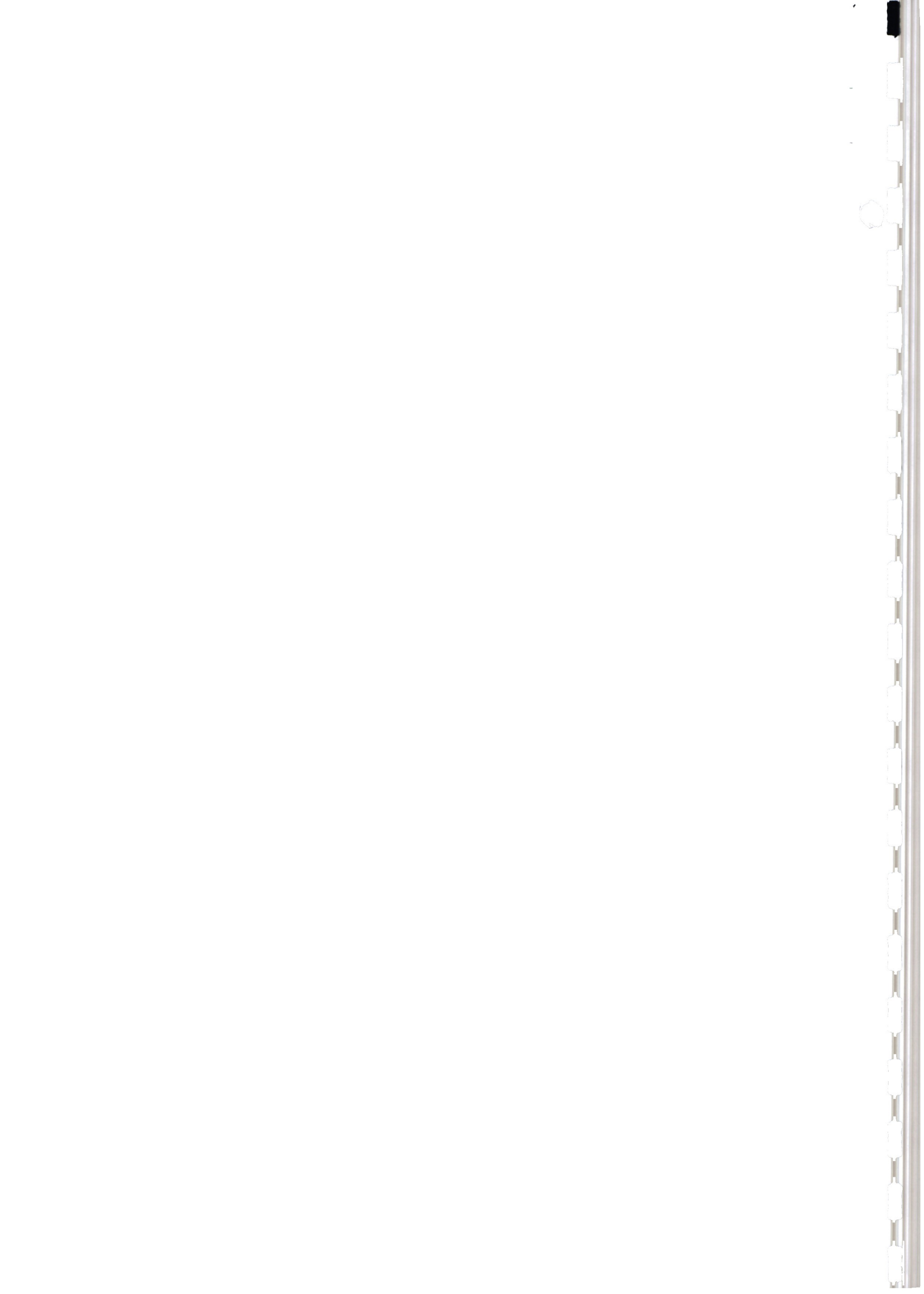
Kenya Commercial Bank  
Kipande House Branch  
P.O. Box 19828 - 00100  
Nairobi, Kenya

**i) Independent Auditors**

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





**j) Principal Legal Adviser**

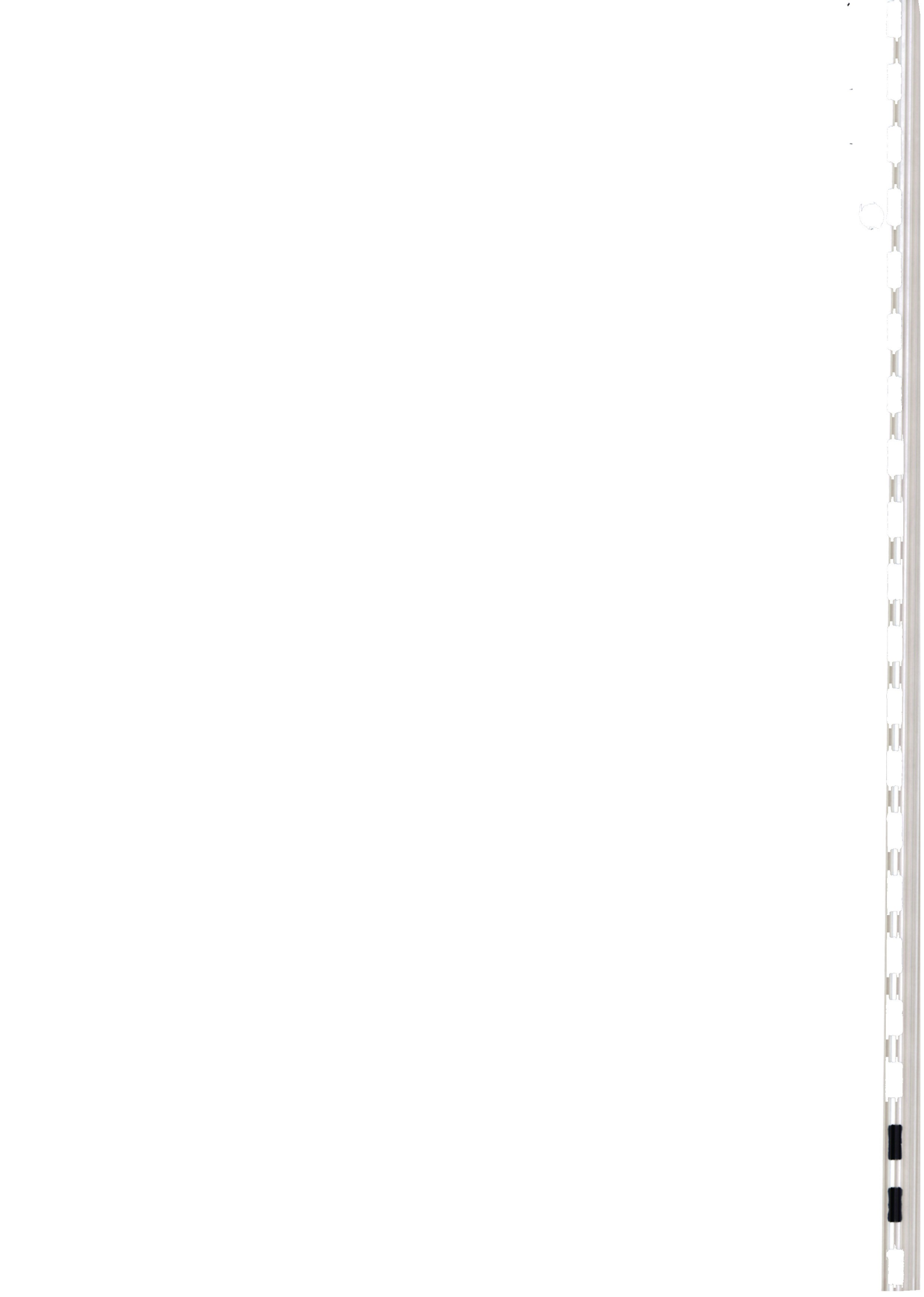
The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
Nairobi, Kenya



**MANAGEMENT TEAM**

The management during the financial year consisted of:

|   |  |
|---|--|
|    | <p><b>Dr. Eng. Joseph K. Njoroge, CBS</b><br/> <b>Principal Secretary (Fund Administrator)</b></p> <p>Eng. Dr. Joseph Njoroge has wide experience in power engineering and management. He previously worked at Kenya Power and rose through the ranks to become Managing Director before being nominated to the position of Principal Secretary in the Ministry of Energy and Petroleum. Eng. Njoroge holds a Bachelor of Science degree in electrical engineering and Master of Business Administration with a major in strategic management. 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. He also holds a PhD from University of Nairobi's School of Business.</p> |
|   | <p><b>Jedidah A.N. Macharia</b><br/> <b>Principal Accountant (Fund Accountant)</b></p> <p>Jedidah A.N.Macharia is the Head of the accounting unit from June 2018. She is responsible for the budget execution function and preparation of financial reports. She holds a Bachelor of commerce degree (Accounting &amp; finance option) from KCA University.</p>  |
|  | <p><b>Rebecca B. Mounde</b><br/> <b>Chief Supply Chain Management Officer</b></p> <p>Ms. Rebecca Mounde is the Head of Supply Chain Management Services from June 2018. She is in charge of procurement, planning, processing, Inventory and Assets Management, disposal of assets and Contract Management. She holds a Bachelor of Arts Degree She is a member of KISM.</p>   |
|  | <p><b>William O. Mbaka</b><br/> <b>Senior Chief Finance Officer</b></p> <p>Mr. William O. Mbaka is the Senior Deputy Director of Budget in the State Department of Energy, Ministry of Energy and Petroleum and Head of Finance. He has served in the Civil Service for 29 years and as Head of Finance for 18 years. He has served in various ministries such as Housing, Agriculture, Health, Planning and Labour, among others. He also served as an Alternate Director in various State Corporations including Nzoia Sugar Company, Kenya Sugar Board, Sony Sugar Company and Coast Development Authority and currently is serves as an Alternate Director at Kenya Generating Electricity Company (KENGEN).He holds a MBA in Finance from Birmingham</p>  |



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|  |   |
|--|---|
|  | University (UK), A degree in Business Studies from Kenyatta University and an ACCA qualification. |
|--|---|

**REPORT OF THE PRINCIPAL SECRETARY (FUND ADMINISTRATOR)**

It is my pleasure to present the Petroleum Development Fund financial statements for the year ended 30<sup>th</sup> June 2018. The financial statements present the financial performance of the fund over the past year.

The fund was established on 27<sup>th</sup> October 2016 and collects revenue in form of appropriations in Aid (AIA) through the National Treasury.

**Financial Performance**

**a) Revenue**

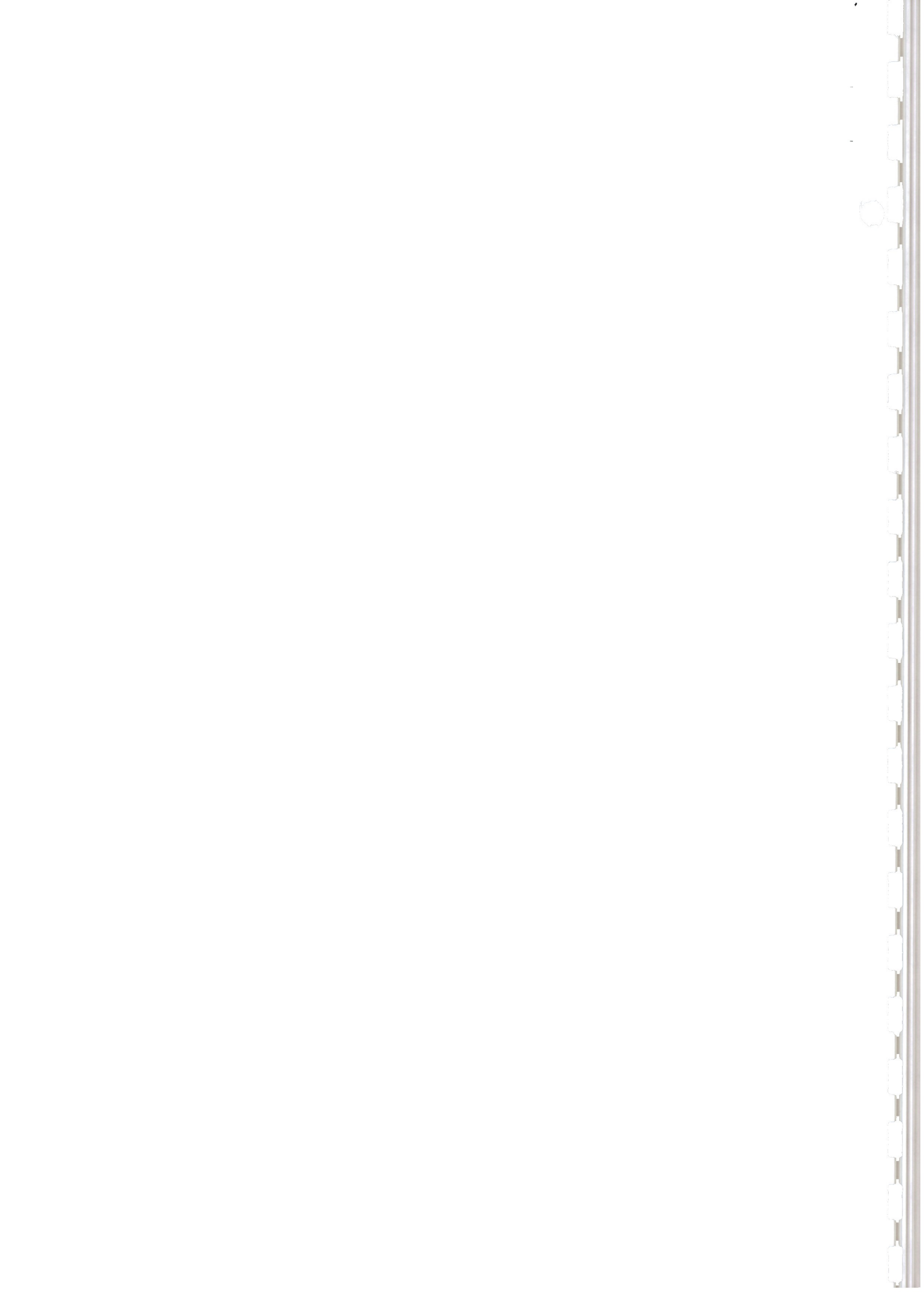
In the year ended 30<sup>th</sup> June 2018, the fund had projected revenues of KShs.1,170,000,000 from Petroleum Development Levy. This budget was fully realised during the year, representing 100% performance.

**b) Expenditure**

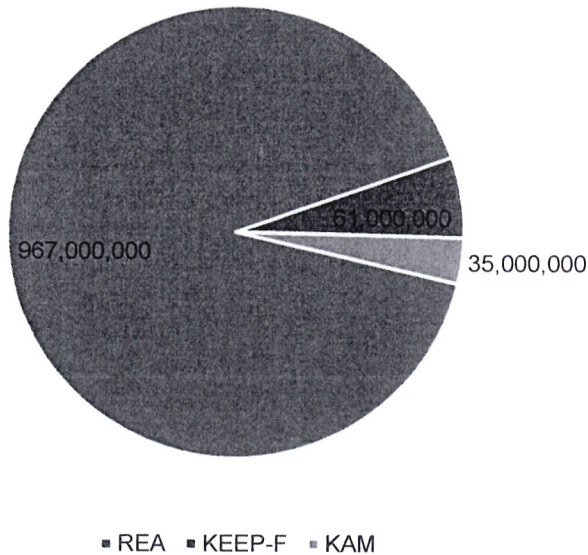
During the financial year 2017/2018, the fund disbursed a total of Kshs.793,000,000 as transfers to other government entities. This was a 54% decrease from prior financial year's disbursements of Kshs.1,055,000,000 due to budget cuts. Out of the Kshs.793,000,000:

- Kshs.697,000,000 was disbursed to Rural Electrification Authority (REA) to finance rural electrification projects.
- Kshs.61,000,000 was transferred to Kenya Energy-Sector Environment and Social Responsibility Programme Fund (KEEP-F) to finance its activities.
- Kshs.35,000,000 was disbursed to Kenya Association of Manufactures (KAM) for energy efficiency programme (investment grade audit).

A graphical representation of the Transfers is as shown below:



### Transfers to Other Government Entities (Kshs)

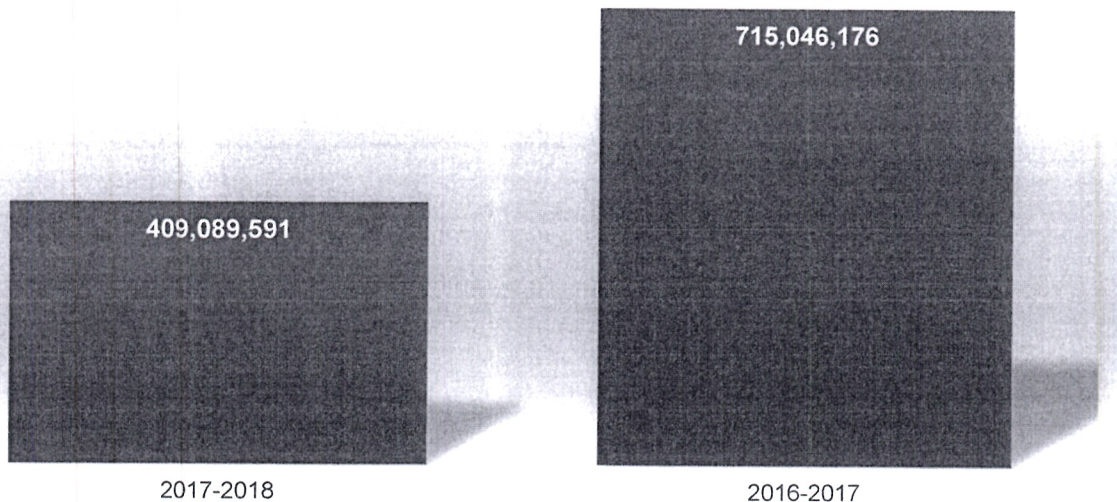


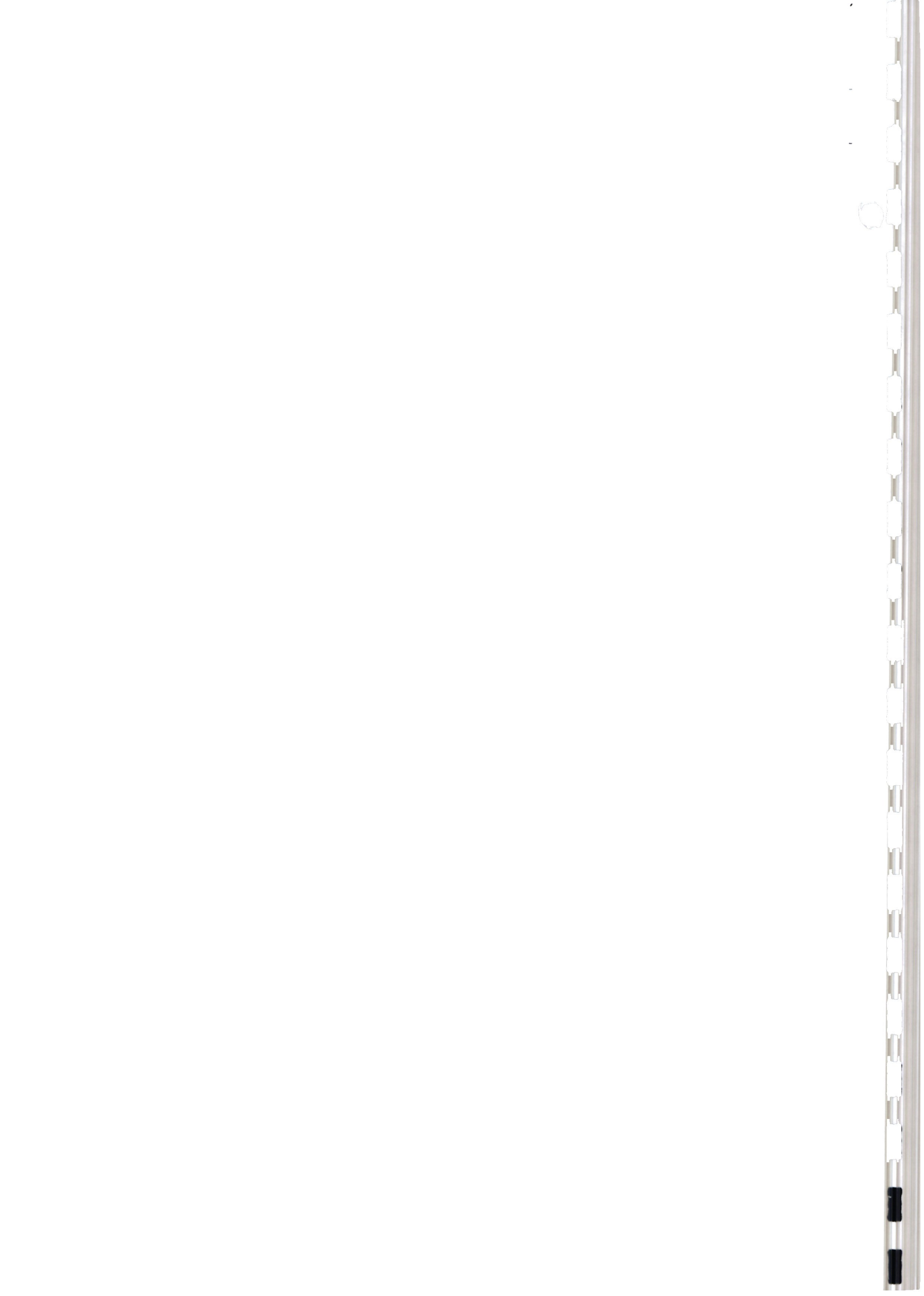
#### c) Cash flows

In the FY 2017/2018, the cash and cash equivalents reduced from Kshs.715,046,176 as at 30<sup>th</sup> June 2017 to Kshs 409,089,591 as at 30<sup>th</sup> June 2018. However, we have not had any liquidity disruptions as the cash flow from collections was as per the budgeted amount.

A graphical representation of the cash and cash equivalent balance is as shown below:

### Cash and Cash Equivalent Amounts (Kshs)





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**d) Conclusion**

FY 2017/2018 was a good year in general. Good progress was made and the momentum has been created to enable Petroleum Development Levy Fund continue on a trajectory into prosperity. We have identified gaps and areas to improve on in the subsequent years.

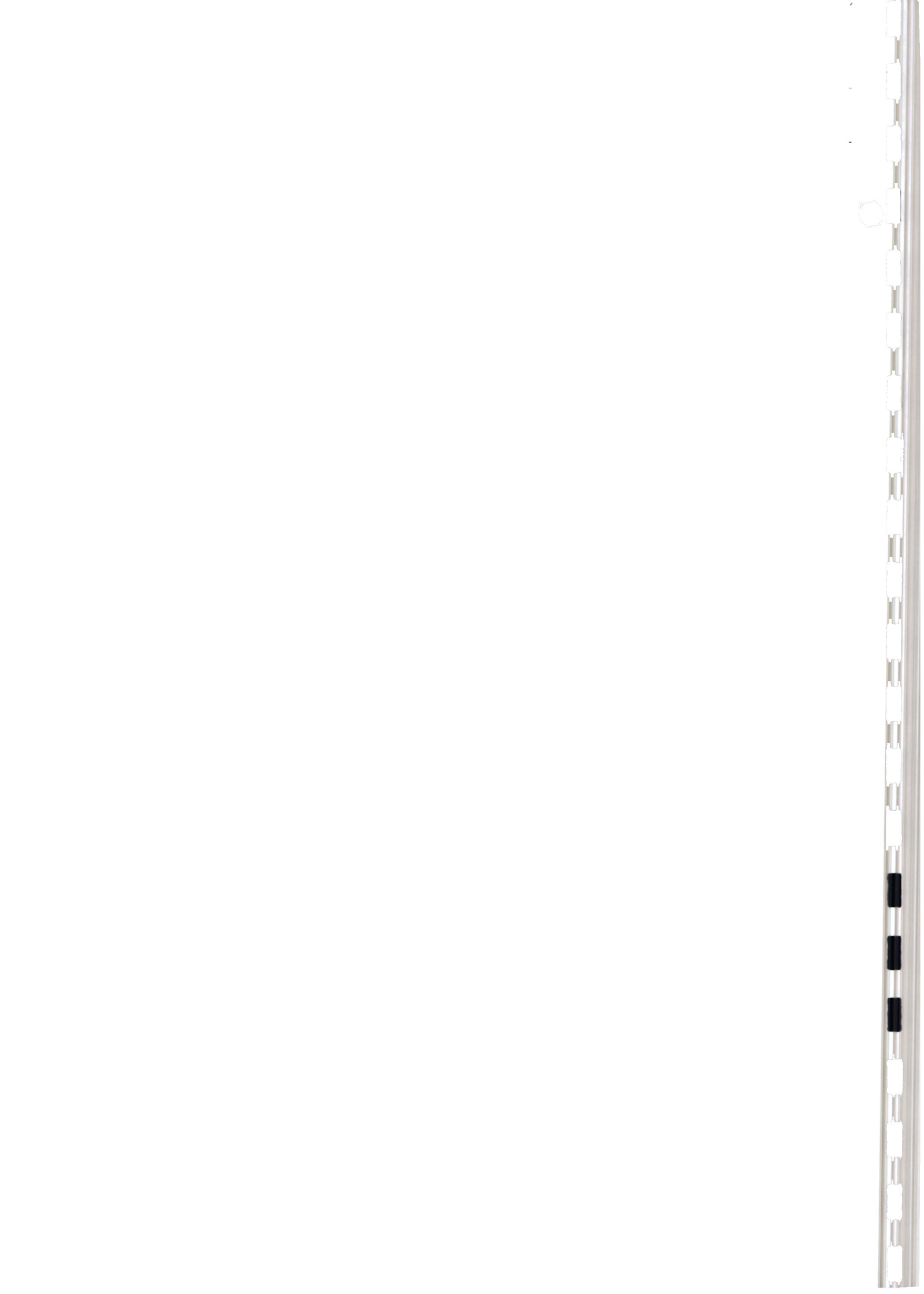
I take this opportunity to thank the management team for their support. I would also want to thank all staff who we have worked hand in hand to ensure that Petroleum Development Levy fund achieves its mission.



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**Dr. Eng. Joseph K. Njoroge, CBS  
FUND ADMINISTRATOR**

**Date: 20<sup>th</sup> February, 2019**



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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES**

Section 84 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the administrator of a national public fund established by the Constitution or an Act of Parliament shall prepare financial statements for the fund for each financial year in a form prescribed by the Accounting Standards Board.


The Administrator of the Petroleum Development Fund, 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, 2018. 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 Fund; (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; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Administrator of the Petroleum Development Fund, State Department for Energy accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act, 2012. The Administrator of the Petroleum Development Fund, State Department for Energy is of the opinion that the Fund's financial statements give a true and fair view of the state of the Fund's transactions during the financial year ended June 30, 2018, and of the Fund's financial position as at that date. The Administrator of the Petroleum Development Fund, State Department for Energy 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.

In preparing the financial statements, the Administrator of the Petroleum Development Fund, State Department for Energy has assessed the Fund's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the Administrator of the Petroleum Development Fund to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

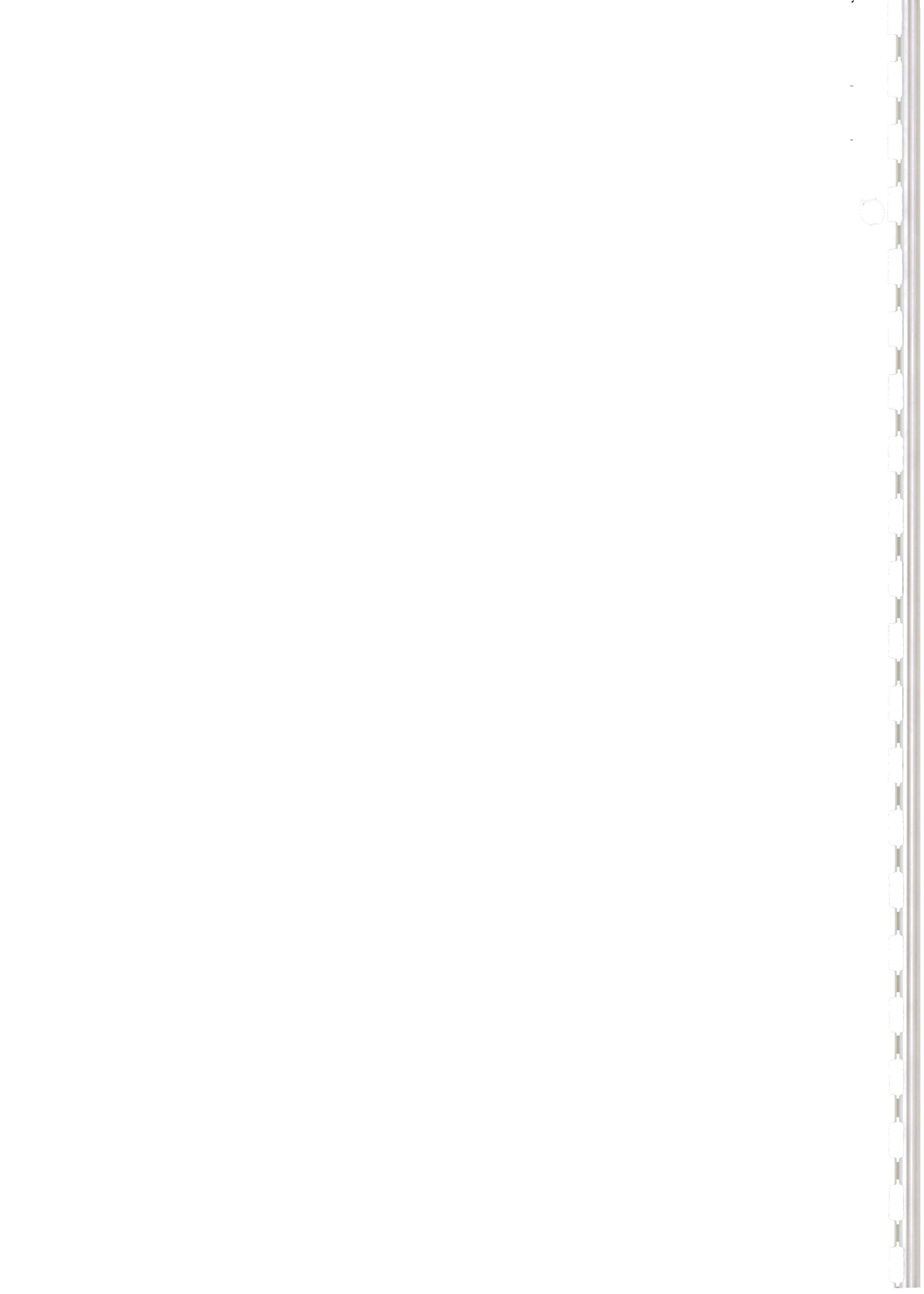
**Approval of the financial statements**

The Petroleum Development Fund's financial statements were approved by the Fund's management on 20<sup>th</sup> February, 2019 and signed on its behalf by:



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**Dr. Eng. Joseph Njoroge, CBS  
FUND ADMINISTRATOR**



# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON PETROLEUM DEVELOPMENT FUND FOR THE YEAR ENDED 30 JUNE 2018 – STATE DEPARTMENT FOR ENERGY

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#### REPORT ON THE FINANCIAL STATEMENTS

##### **Opinion**

I have audited the accompanying financial statements of Petroleum Development Fund set out on pages 1 to 13, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, 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 Fund as at 30 June 2018, 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 Petroleum Development Fund Act No. 4 of 1991 (Revised 2012) and 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 Petroleum Development Fund in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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.

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*Report of the Auditor-General on the Financial Statements of Petroleum Development Fund for the year ended 30 June 2018 – State Department for Energy*

## **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 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 governance, were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance to ISSAI 1315 and 1330. 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 governance, were operating effectively, in all material respects. I believe that the 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 Fund's ability to continue sustaining services, disclosing as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either is aware of intention to terminate the Fund, 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.

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 Fund'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 Fund'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 Fund's ability to continue sustaining its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease sustaining 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 which achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and 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**

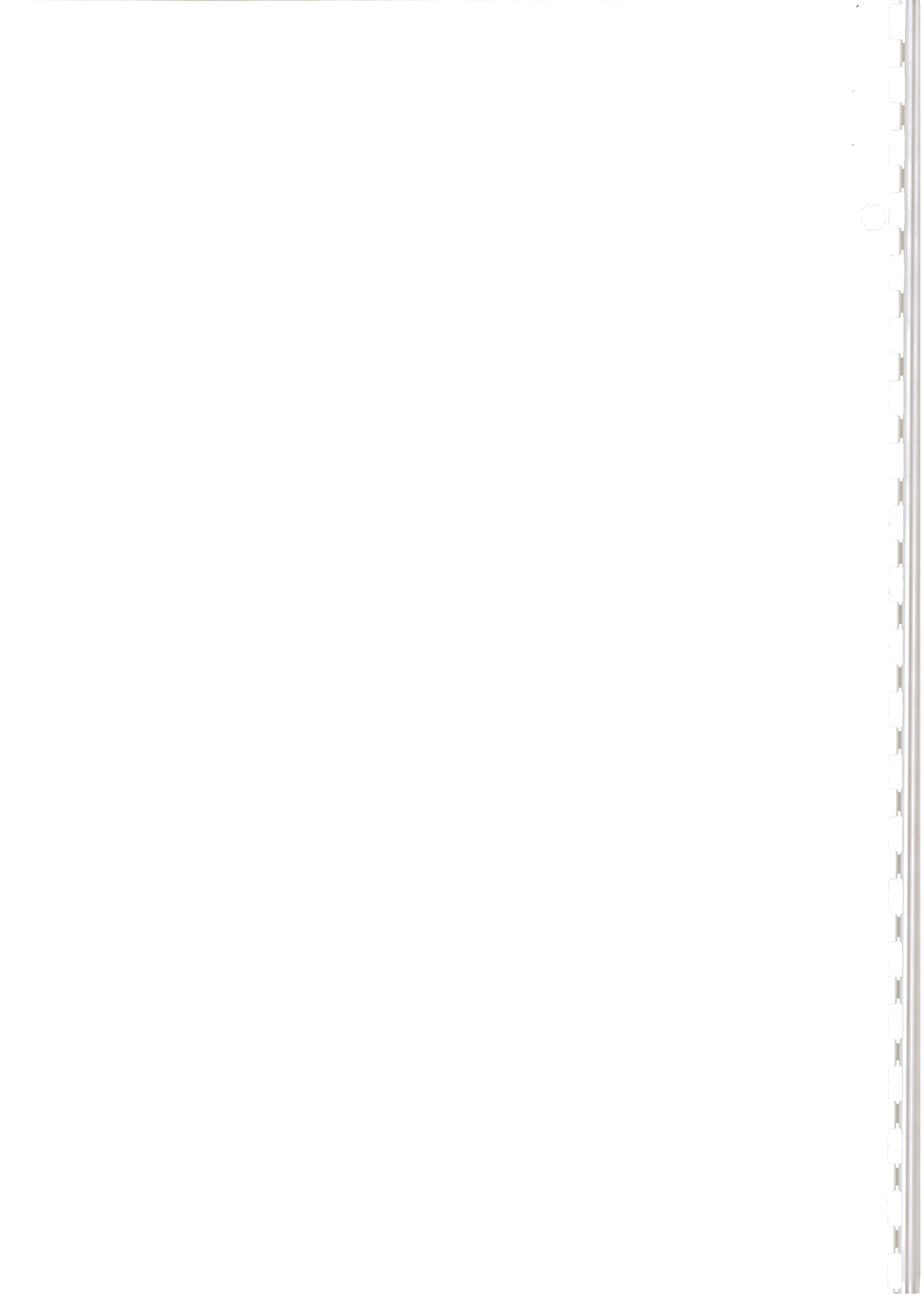
**29 April 2019**

Petroleum Development Fund, State Department for Energy  
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**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018**

|   | Note | 2017/2018            | 2016/2017            |
|---|------|----------------------|----------------------|
|   |      | Kshs                 | Kshs                 |
| <b>Revenue from Non-Exchange Transactions</b>   |      |                      |                      |
| Transfers from other government entities        | 6    | 1,170,000,000        | 1,085,000,000        |
| Other incomes                                   | 7    | -                    | 3,242,454            |
| <b>Total Revenue from Exchange Transactions</b> |      | <b>1,170,000,000</b> | <b>1,088,242,454</b> |
| <b>Revenue from Exchange Transactions</b>       |      |                      |                      |
| Interest received                               | 8    | 33,089,591           | 13,479,092           |
| <b>Total Revenue from Exchange Transactions</b> |      | <b>33,089,591</b>    | <b>13,479,092</b>    |
| <b>Total revenue</b>                            |      | <b>1,203,089,591</b> | <b>1,101,721,546</b> |
| <b>Expenses</b>                                 |      |                      |                      |
| Transfers to other government entities          | 9    | 793,000,000          | 1,055,000,000        |
| General expenses                                | 10   | -                    | 11,397,062           |
| <b>Total expenses</b>                           |      | <b>793,000,000</b>   | <b>1,066,397,062</b> |
| <b>Surplus for the Year</b>                     |      | <b>410,089,591</b>   | <b>35,324,484</b>    |

The notes and appendices set out on pages 6 to 13 form an integral part of these Financial Statements



Petroleum Development Fund, State Department for Energy  
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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

|                           | Note | 2017/2018          | 2016/2017          |
|---------------------------|------|--------------------|--------------------|
|                           |      | Kshs               | Kshs               |
| <b>ASSETS</b>             |      |                    |                    |
| <b>Current assets</b>     |      |                    |                    |
| Cash and cash equivalents | 11   | 410,089,591        | 715,046,176        |
| <b>Total assets</b>       |      | <b>410,089,591</b> | <b>715,046,176</b> |
|                           |      |                    |                    |
| <b>NET ASSETS</b>         |      |                    |                    |
| Accumulated surplus       |      | 410,089,591        | 715,046,176        |
| <b>Total net assets</b>   |      | <b>410,089,591</b> | <b>715,046,176</b> |

The Financial Statements set out on pages 1 to 13 were signed on behalf of the management by:



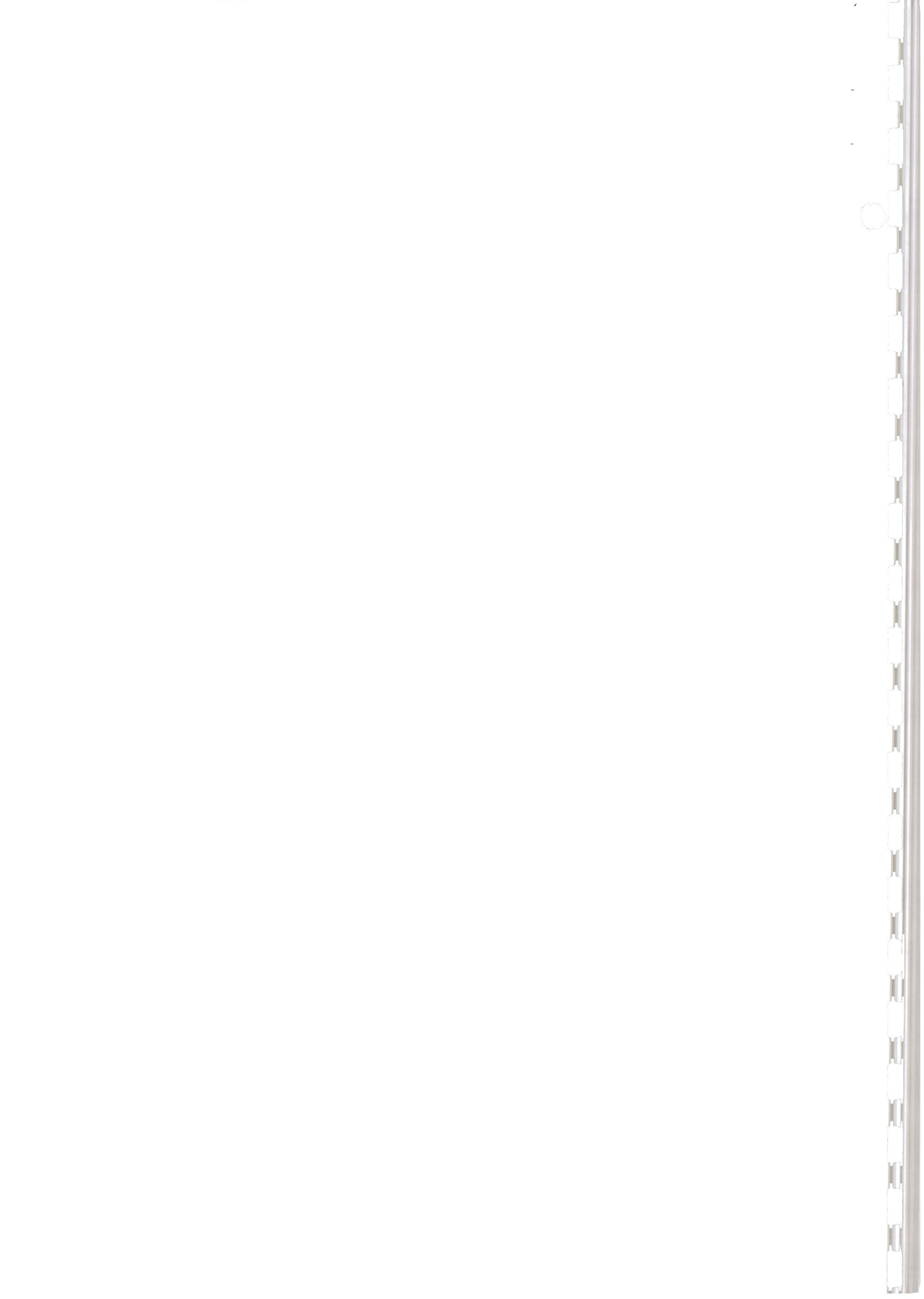
**Fund Administrator**  
 Name: Dr. Eng. Joseph Njoroge, CBS

Date: 20<sup>th</sup> February, 2019



**Fund Accountant**  
 Name: Jedidah A. N. Macharia  
 ICPAK Member Number: 8805

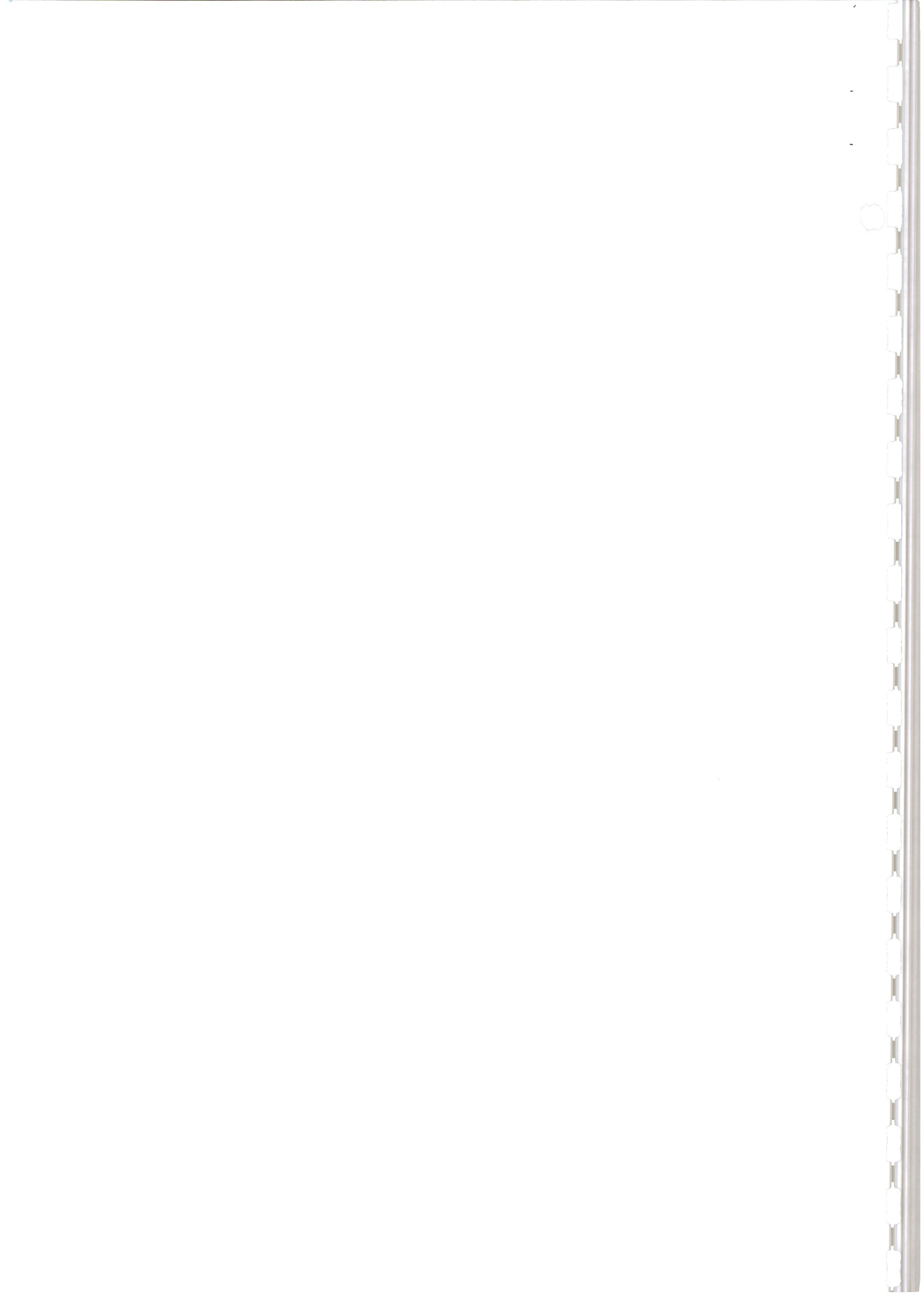
Date: 20<sup>th</sup> February, 2019



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**STATEMENT OF CHANGE IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2018**

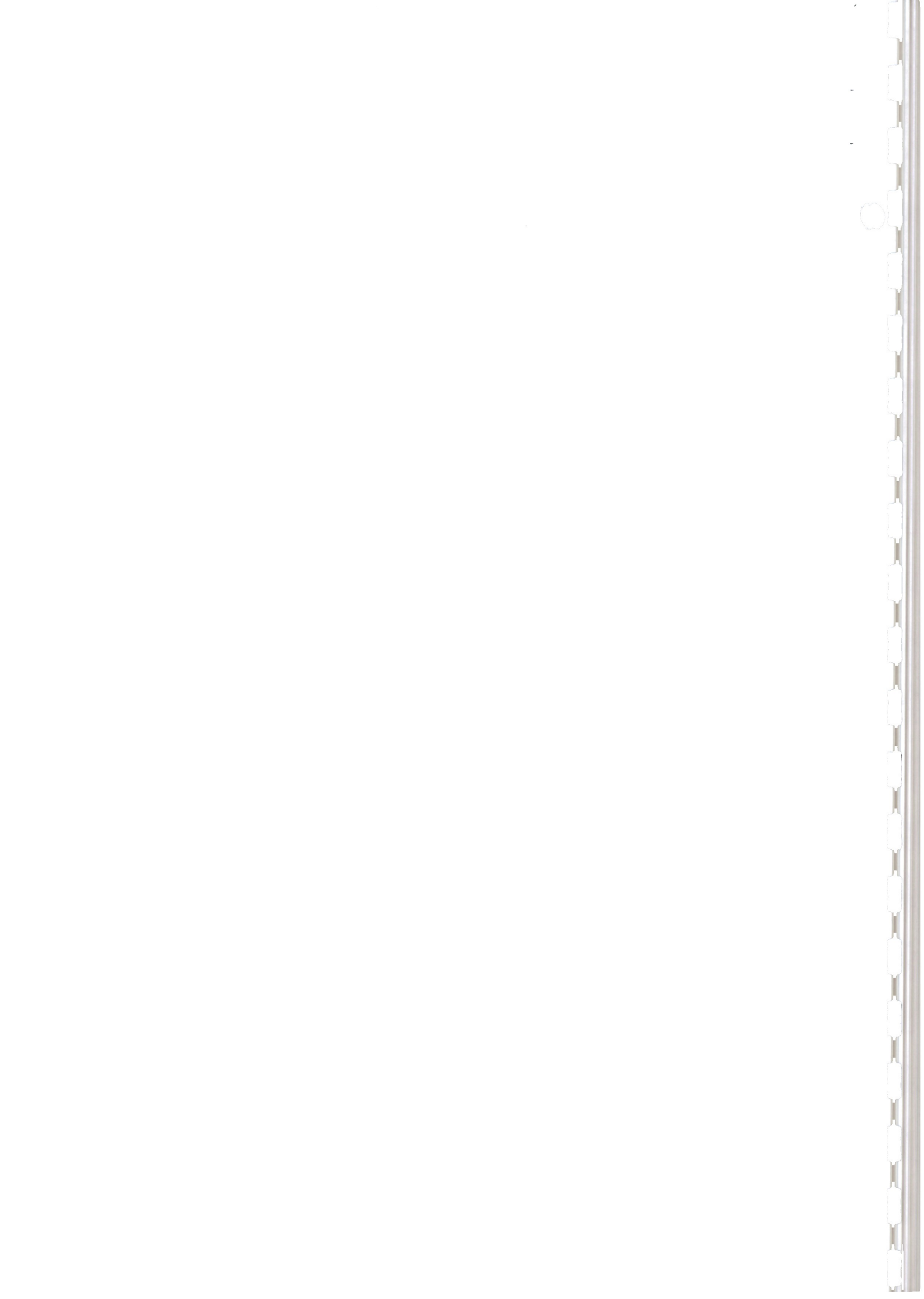
|   | Accumulated<br>Surplus |
|---|------------------------|
|   | Kshs                   |
| <b>At 1 July 2016</b>                                     | 679,721,692            |
| Surplus for the period                                    | 35,324,484             |
| <b>At 30 June 2017</b>                                    | <b>715,046,176</b>     |
| <b>At 1 July 2017</b>                                     | <b>715,046,176</b>     |
| Transfer to Petroleum Development Fund, National Treasury | (715,046,176)          |
| Surplus for the period                                    | 410,089,591            |
| <b>At 30 June 2018</b>                                    | <b>410,089,591</b>     |



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**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018**

|   | Note     | 2017/2018              | 2016/2017              |
|---|----------|------------------------|------------------------|
|   |          | Kshs                   | Kshs                   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                 |          |                        |                        |
| <b>Receipts</b>   |          |                        |                        |
| Transfers from other government entities                    | 6        | 1,170,000,000          | 1,085,000,000          |
| Interest income   | 7        | 33,089,591             | 13,479,092             |
| Other income  | 8        | -                      | 3,242,454              |
| <b>Total Receipts</b>                                       |          | <b>1,203,089,591</b>   | <b>1,101,721,546</b>   |
| <b>Payments</b>   |          |                        |                        |
| Transfers to other government entities                      | 4        | (793,000,000)          | (1,055,000,000)        |
| General expenses  | 5        | -                      | (11,397,062)           |
| Transfer to Petroleum Development Fund, Treasury            |          | (715,046,180)          | -                      |
| <b>Total Payments</b>                                       |          | <b>(1,508,046,180)</b> | <b>(1,066,397,062)</b> |
| <b>Net Cash Flows from Operating Activities</b>             |          | <b>(304,956,589)</b>   | <b>35,324,484</b>      |
| <b>Net Increase/(Decrease) In Cash and Cash Equivalents</b> |          | <b>(304,956,589)</b>   | <b>35,324,484</b>      |
| Cash and cash equivalents at 1 JULY 2017                    | 6        | 715,046,180            | 679,721,696            |
| <b>Cash and Cash Equivalents at 30 JUNE 2018</b>            | <b>6</b> | <b>410,089,591</b>     | <b>715,046,180</b>     |



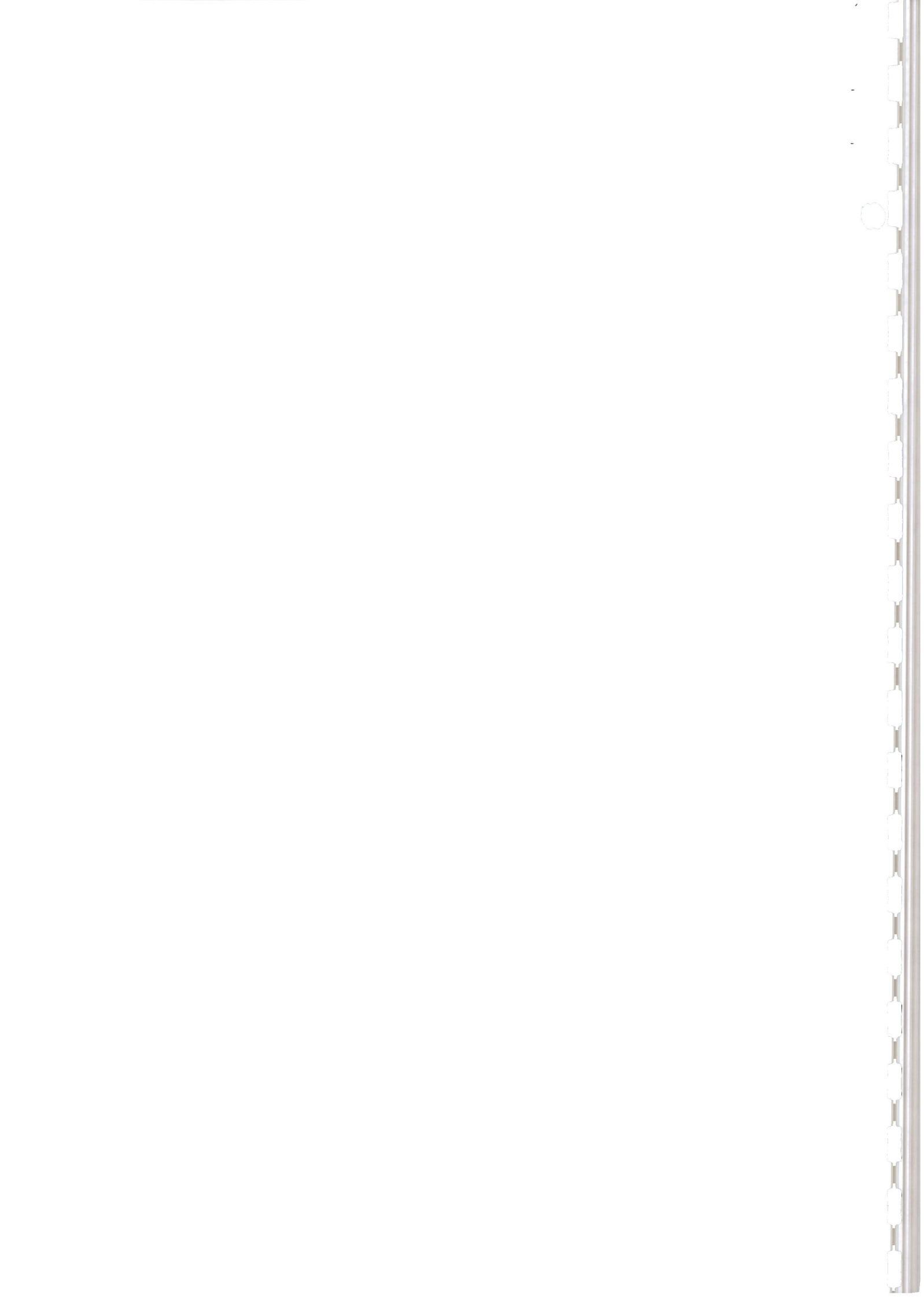
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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2018

|   | Original budget<br>Kshs | Adjustments<br>Kshs | Final budget<br>Kshs | Actual on<br>comparable<br>basis<br>Kshs | Performance<br>difference<br>Kshs | % Performance<br>difference |
|---|-------------------------|---------------------|----------------------|--|-----------------------------------|-----------------------------|
| <b>Revenue</b>                          |                         |                     |                      |  |                                   |                             |
| Transfer From other government entities | 1,170,000,000           | -                   | 1,170,000,000        | 1,170,000,000                            | -                                 | 0%                          |
| Interest income                         | -                       | -                   | -                    | 33,089,591                               | 33,089,591                        | ∞                           |
| <b>Total Revenue</b>                    | <b>1,170,000,000</b>    | <b>-</b>            | <b>1,170,000,000</b> | <b>1,203,089,591</b>                     | <b>33,089,591</b>                 | <b>103%</b>                 |
| <b>Expenses</b>                         |                         |                     |                      |  |                                   |                             |
| Employee costs                          | -                       | 2,000,000           | 2,000,000            | -  | (2,000,000)                       | -100%                       |
| General expenses                        | 20,000,000              | -                   | 20,000,000           | -  | (20,000,000)                      | -100%                       |
| Intangible assets                       | 63,000,000              | -                   | 63,000,000           | -  | (63,000,000)                      | -100%                       |
| Property, plant and equipment           | 200,000,000             | 18,000,000          | 218,000,000          | -  | (218,000,000)                     | -100%                       |
| Repair and maintenance                  | 75,000,000              | -                   | 75,000,000           | -  | (75,000,000)                      | -100%                       |
| Transfers to other government entities  | 812,000,000             | (20,000,000)        | 792,000,000          | 793,000,000                              | 1,000,000                         | 0%                          |
| <b>Total Expenses</b>                   | <b>1,170,000,000</b>    | <b>-</b>            | <b>1,170,000,000</b> | <b>793,000,000</b>                       | <b>(377,000,000)</b>              | <b>-32%</b>                 |
| <b>Surplus for the Period</b>           |                         |                     |                      | <b>410,089,591</b>                       | <b>410,089,591</b>                |                             |

**Budget Notes**

1. The non-utilization of the budgets for employee costs; general expenses; intangible assets; property, plant and equipment; and repair and maintenance was due to non-procurement of goods, services and works following Government directive not to implement new projects.
2. The adjustments reflected in the statement were due to budgetary reallocations.



## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

Petroleum Development Fund is established by and derives its authority and accountability from Petroleum Development Fund Act No. 4 of 1991 (Revised 2012). The Fund is wholly owned by the Government of Kenya and is domiciled in Kenya. The Fund's principal activity is to support development budget of the State Department for Energy as appropriations-in-aid (AIA).

### 2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Fund's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Fund.

The financial statements have been prepared in accordance with the Public Finance Management Act, the Petroleum Development Fund Act, and International Public Sector Accounting Standards (IPSAS). This is the first year the financial statements have been prepared on accrual basis.

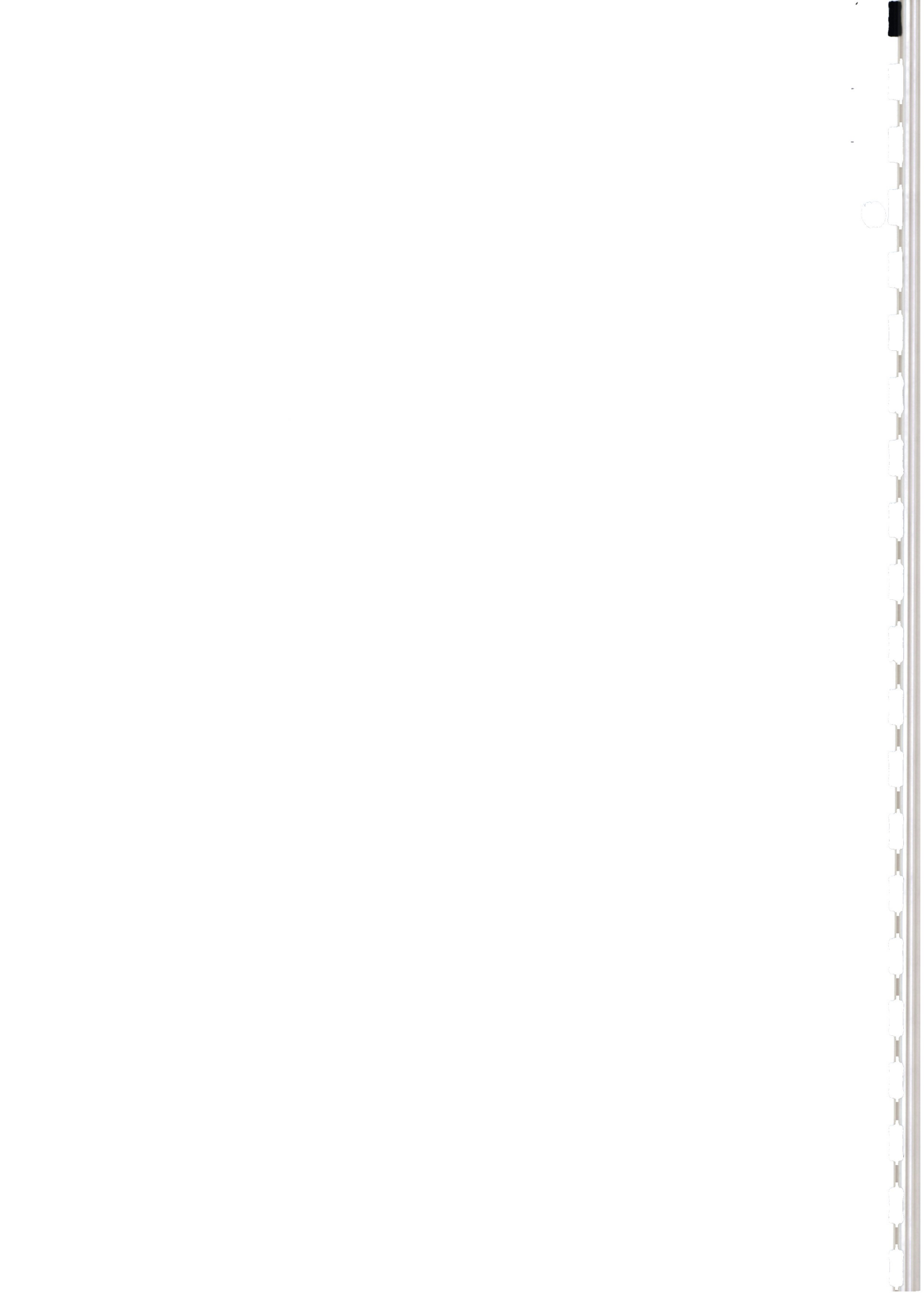
### 3. ADOPTION OF NEW AND REVISED STANDARDS

#### a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

| Standard                           | Effective date and impact:   |
|------------------------------------|--|
| <b>IPSAS 39:</b> Employee Benefits | <b>Applicable: 1<sup>st</sup> January 2018</b><br>The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach. |

#### b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

| Standard                                    | Effective date and impact:  |
|---|---|
| <b>IPSAS 40:</b> Public Sector Combinations | <b>Applicable: 1<sup>st</sup> January 2019:</b><br>The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations. |



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**c) Early adoption of standards**

The Petroleum Development Fund did not early – adopt any new or amended standards in year 2018.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Revenue recognition**

**i) Revenue from non-exchange transactions**

**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 Fund and can be measured reliably. Grants are recognized in the statement of financial performance.

**ii) Revenue from exchange transactions**

**Interest income**

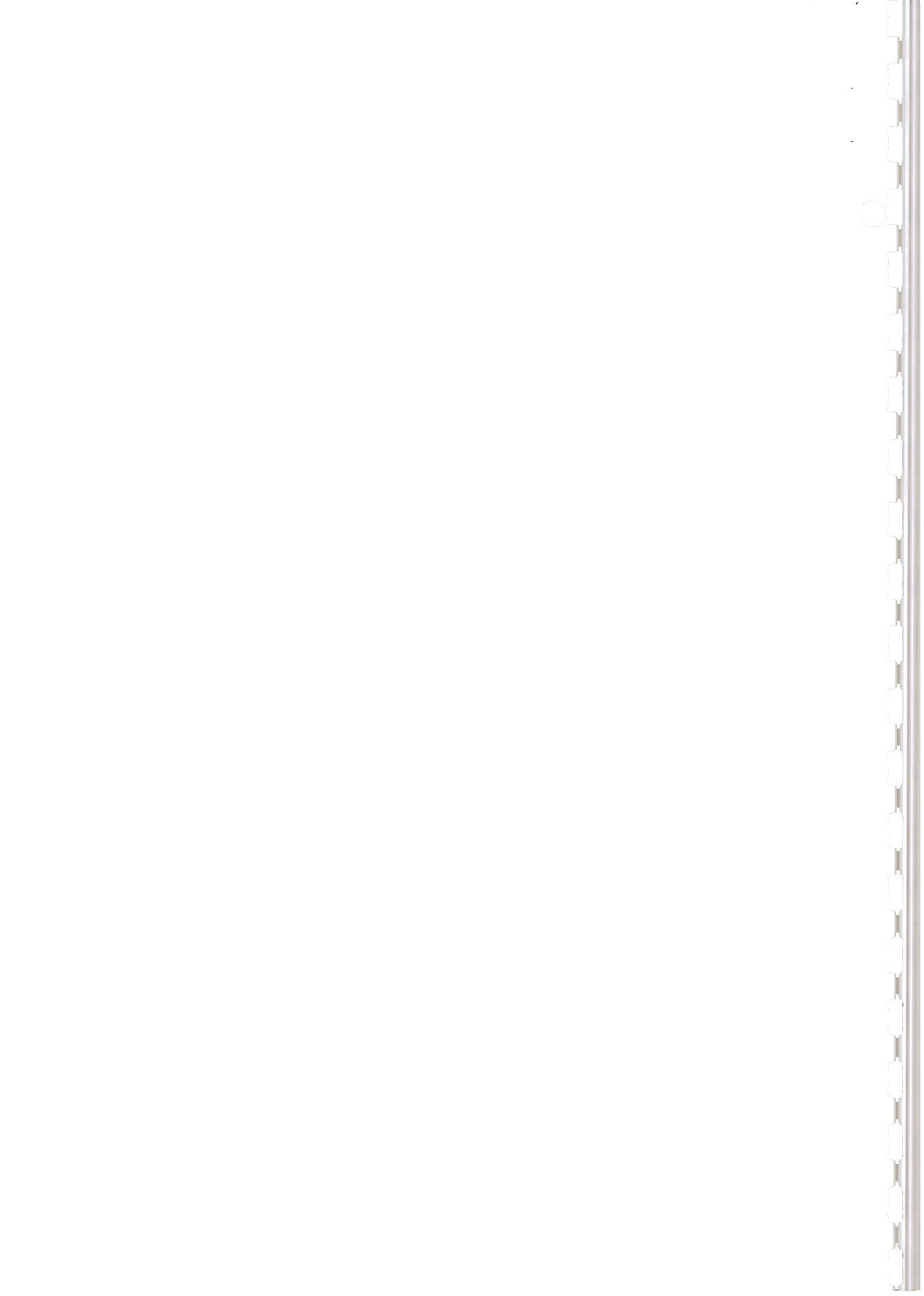
Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each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

**b) Budget information**

The original budget for financial year 2017-2018 was approved by the National Assembly in June 2017. Subsequent revisions 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 Fund upon receiving the respective approvals in order to conclude the final budget. However, the Fund did not have additional approvals for financial year 2017/2018.

The Fund's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**c) Related parties**

The Fund 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 Fund, or vice versa. The Fund's related parties include National Treasury, State Department for Energy and key members of the management.

**d) 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. For the purposes of these financial statements, cash and cash equivalents consists of bank balance held at the Kenya Commercial Bank.

**e) Comparative figures**

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

**f) Subsequent events**

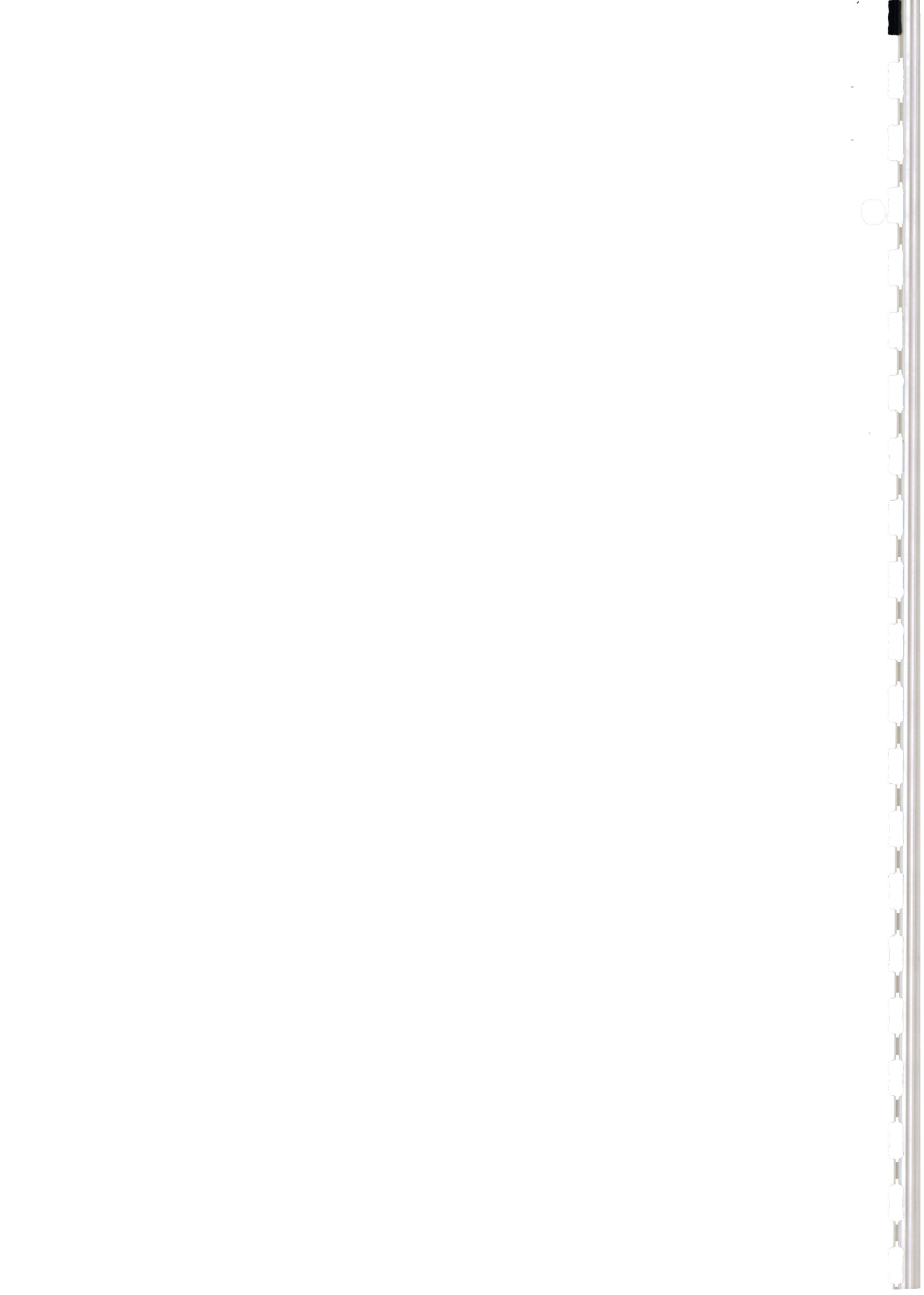
There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

**5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Fund'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 Fund 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 Fund. Such changes are reflected in the assumptions when they occur. IPSAS 1.140.



NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. TRANSFERS FROM OTHER GOVERNMENT ENTITIES

| Description  | 2017/2018            | 2016/2017            |
|--|----------------------|----------------------|
|  | Kshs                 | Kshs                 |
| Petroleum Development Levy (Appropriations In Aid) | 1,170,000,000        | 1,085,000,000        |
| <b>Total</b>                                       | <b>1,170,000,000</b> | <b>1,085,000,000</b> |

These refer to appropriations in Aid received through The National Treasury

7. OTHER INCOMES

| Description                  | 2017/2018 | 2016/2017        |
|------------------------------|-----------|------------------|
|                              | Kshs      | Kshs             |
| Other incomes                | -         | 3,242,454        |
| <b>Total interest income</b> | <b>-</b>  | <b>3,242,454</b> |

8. INTEREST RECEIVED

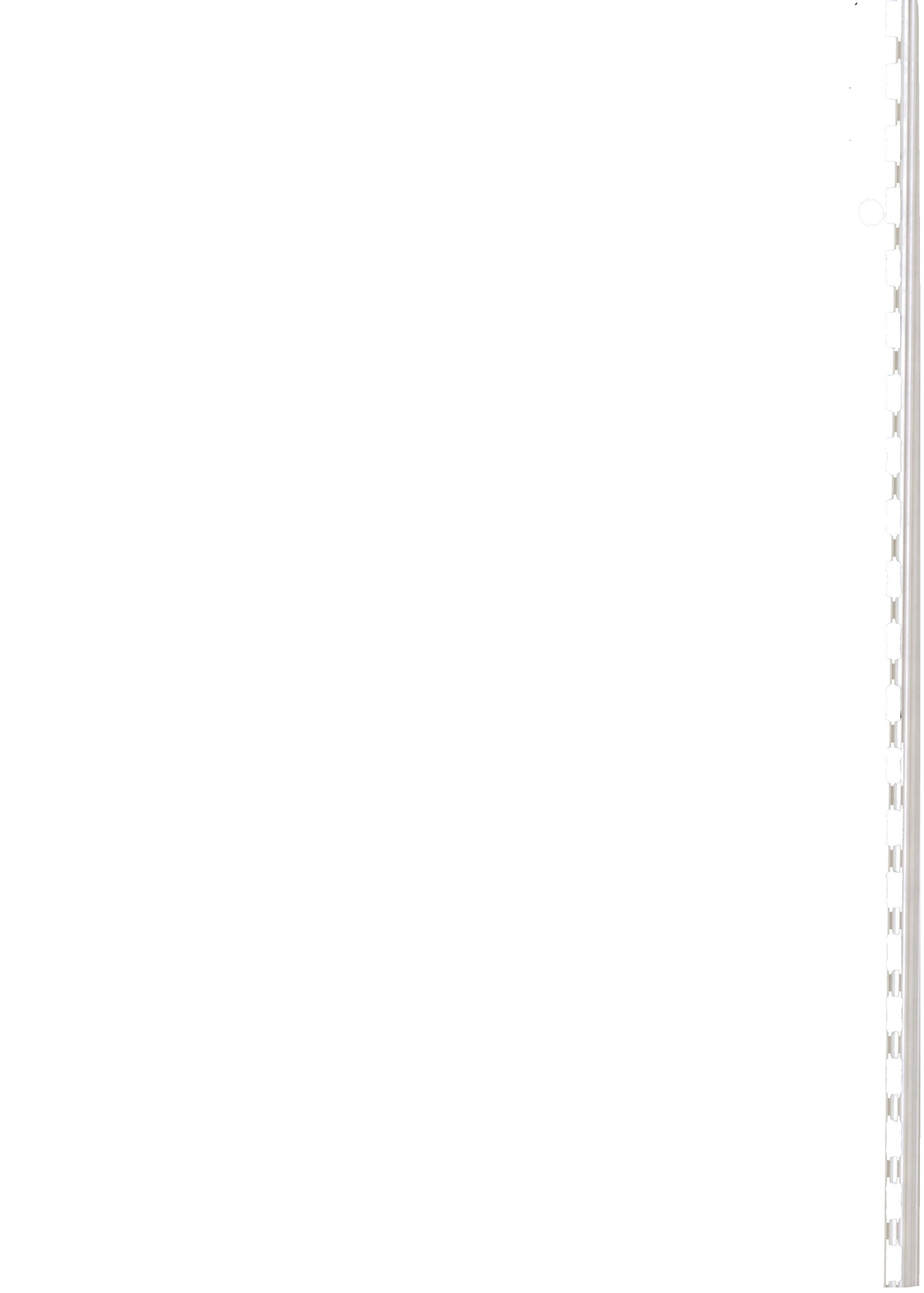
| Description                        | 2017/2018         | 2016/2017         |
|------------------------------------|-------------------|-------------------|
|                                    | Kshs              | Kshs              |
| Interest income from bank deposits | 33,089,591        | 13,479,092        |
| <b>Total interest income</b>       | <b>33,089,591</b> | <b>13,479,092</b> |

9. TRANSFERS TO OTHER GOVERNMENT ENTITIES

| Description                                | 2017/2018          | 2016/2017            |
|--|--------------------|----------------------|
|  | Kshs               | Kshs                 |
| Kenya Electricity Expansion program (KEEP) | 61,000,000         | 80,000,000           |
| Rural Electrification Authority ( REA)     | 697,000,000        | 687,000,000          |
| Kenya Association of Manufactures (KAM)    | 35,000,000         | 35,000,000           |
| <b>Total</b>                               | <b>793,000,000</b> | <b>1,055,000,000</b> |

10. GENERAL EXPENSES

| Description    | 2017/2018 | 2016/2017         |
|----------------|-----------|-------------------|
|                | Kshs      | Kshs              |
| Other payments | -         | 11,397,062        |
| <b>Total</b>   | <b>-</b>  | <b>11,397,062</b> |



NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. CASH AND CASH EQUIVALENTS

| Description                            | 2017/2018          | 2016/2017          |
|--|--------------------|--------------------|
|  | Kshs               | Kshs               |
| Current account                        | 410,089,591        | 715,046,176        |
| <b>Total cash and cash equivalents</b> | <b>410,089,591</b> | <b>715,046,176</b> |

11 (A). DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS IS AS FOLLOWS:

| Description               | Account Number | 2017/2018          | 2016/2017          |
|---------------------------|----------------|--------------------|--------------------|
|                           |                | Kshs               | Kshs               |
| <b>a) Current account</b> |                |                    |                    |
| Kenya Commercial Bank     | 1104169282     | 410,089,591        | 715,046,176        |
| <b>Sub- total</b>         |                | <b>410,089,591</b> | <b>715,046,176</b> |

12. CASH GENERATED FROM OPERATIONS

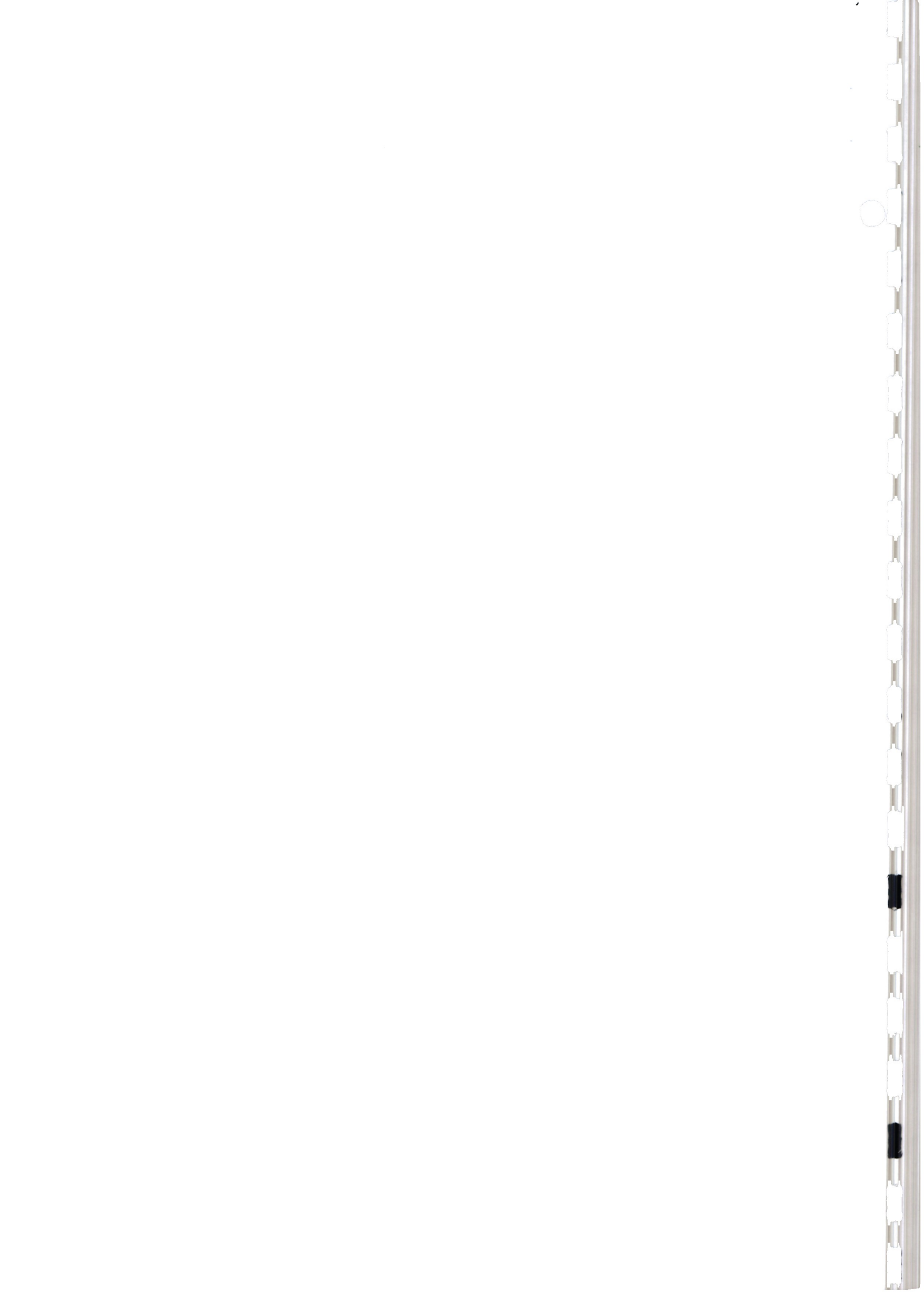
| Description                                      | 2017/2018            | 2016/2017         |
|--|----------------------|-------------------|
|  | Kshs                 | Kshs              |
| <b>Surplus for the year</b>                      | <b>410,089,591</b>   | <b>35,324,484</b> |
| Adjustment for:                                  |                      |                   |
| Transfer to Petroleum Development Fund, Treasury | (715,046,176)        | -                 |
| <b>Net cash flow from operating activities</b>   | <b>(304,956,589)</b> | <b>35,324,484</b> |

13. Related Party Balances

a) Nature of related party relationships

Entities and other parties related to the Fund include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions and those benefit from the Fund. Related parties include management personnel, their associates and close family members. The Fund is related to the following entities:

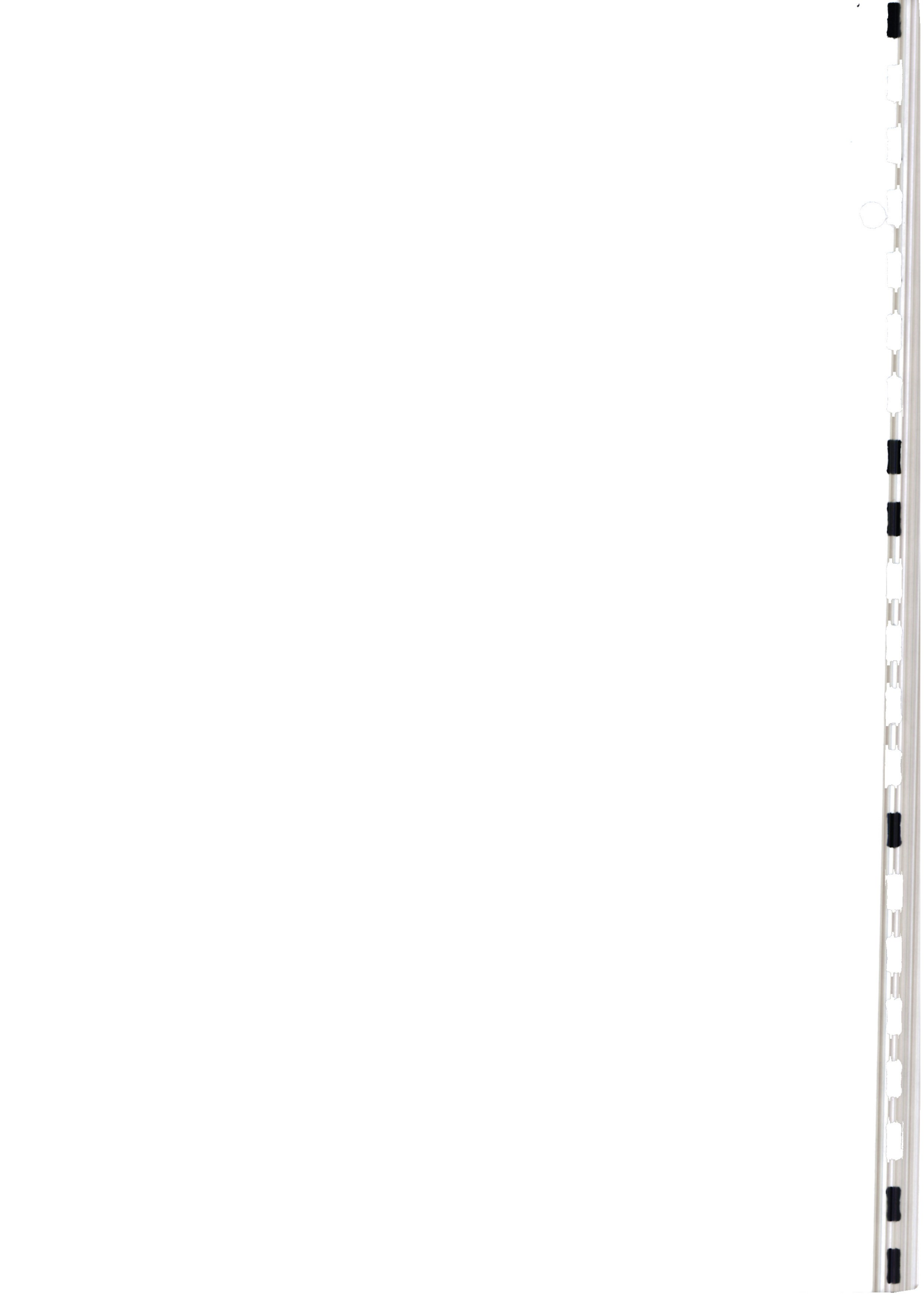
- i. State Department for Energy,
- ii. National Treasury
- iii. Key Management
- iv. Rural Electrification Authority
- v. Kenya Energy-Sector Environment and Social Responsibility Programme Fund
- vi. Kenya Association of Manufactures



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

|   | 2017/2018            | 2016/2017            |
|---|----------------------|----------------------|
|   | Kshs                 | Kshs                 |
| <b>Transactions with related parties</b>                            |                      |                      |
| <b>Receipts</b>   |                      |                      |
| Disbursement of petroleum development levy by the National Treasury | 1,170,000,000        | 1,085,000,000        |
| <b>Total Receipts</b>   | <b>1,170,000,000</b> | <b>1,085,000,000</b> |
|   |                      |                      |
| <b>Payments</b>   |                      |                      |
| Transfers to other government entities                              | 793,000,000          | 1,055,000,000        |
| Transfer of un-used cash to National Treasury                       | 715,046,176          | -                    |
| <b>Total Payments</b>   | <b>1,508,046,176</b> | <b>1,055,000,000</b> |



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APPENDIX III: INTER-ENTITY TRANSFERS

| ENTITY NAME:  |                     | PETROLEUM DEVELOPMENT FUND - STATE<br>DEPARTMENT FOR ENERGY |   |  |
|---|---------------------|---|---|--|
| Break down of Transfers from the National Treasury During the Year Ended 30 June 2018   |                     |   |   |  |
| Type of Revenue Transferred   | Bank Statement Date | Amount (Kshs)   | Indicate the FY to Which the Amounts Relate |  |
| Petroleum development levy  | 14-May-2018         | 1,170,000,000   | 2017/2018                                   |  |
| <b>Total</b>  |                     | <b>1,170,000,000</b>  |   |  |
| Break down of Transfers to Other Government Entities During the Year Ended 30 June 2018 |                     |   |   |  |
| Name of Entity  | Bank Statement Date | Amount (Kshs)   | Indicate the FY to Which the Amounts Relate |  |
| a. Kenya Energy-Sector Environment and Social Responsibility Programme Fund             | 16-Feb-2018         | 1,000,000   | 2017/2018                                   |  |
| b. National Treasury  | 10-May-2018         | 715,046,176   | 2016/2017                                   |  |
| c. Rural Electrification Authority  | 22-May-2018         | 697,000,000   | 2017/2018                                   |  |
| d. Kenya Energy-Sector Environment and Social Responsibility Programme Fund             | 22-May-2018         | 60,000,000  | 2017/2018                                   |  |
| e. Kenya Association of Manufacturers   | 22-May-2018         | 35,000,000  | 2017/2018                                   |  |
| <b>Total</b>  |                     | <b>1,508,046,176</b>  |   |  |

The above amounts have been communicated to and reconciled with the entities.

*J.S.B.*

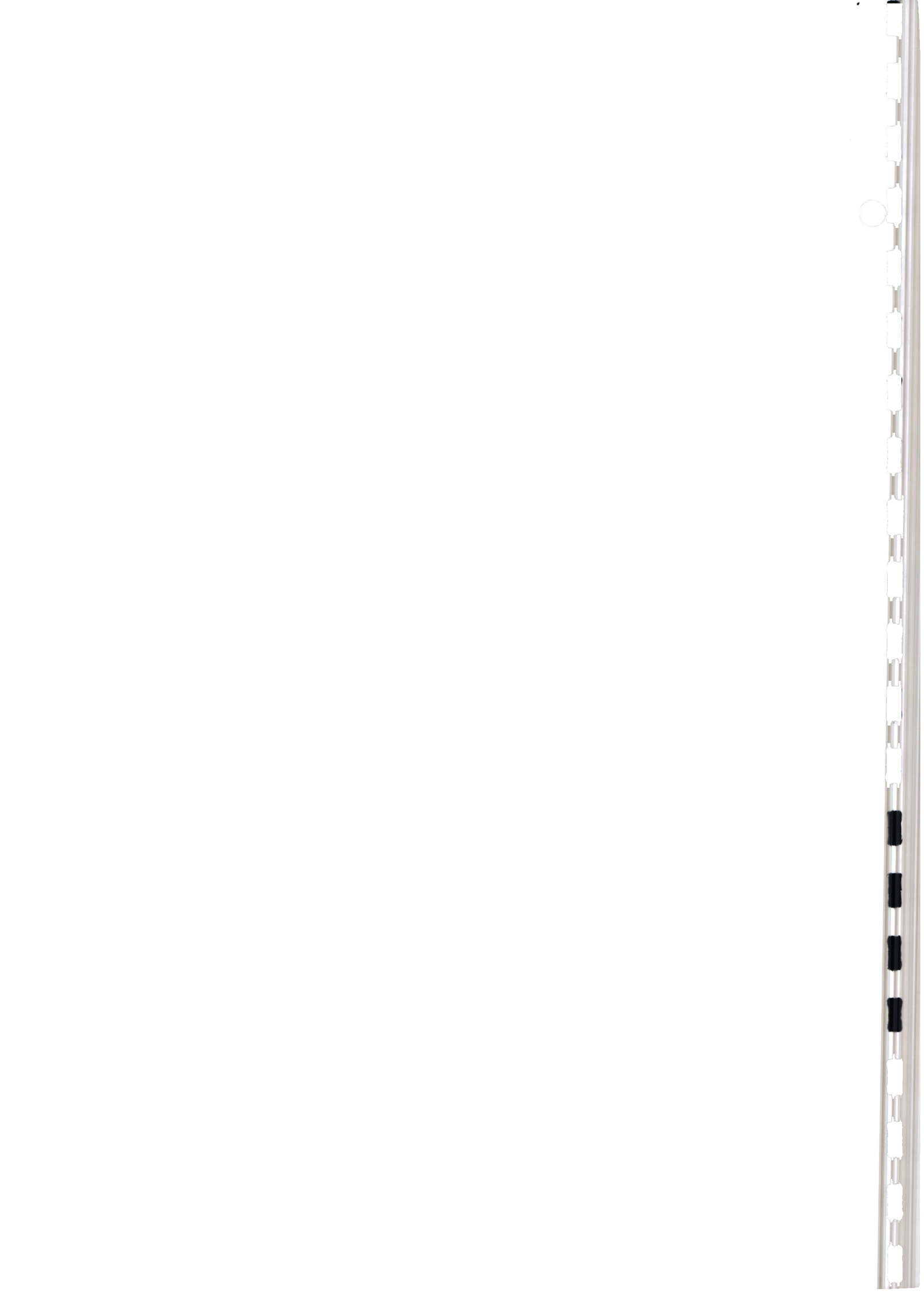
Fund Administrator  
Name: Dr. Eng. Joseph Njoroge, CBS

Date: 20<sup>th</sup> February, 2019

*Dony*

Fund Accountant  
Name: Jedidah A. N. Macharia  
ICPAK Member Number: 8805

Date: 20<sup>th</sup> February, 2019



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APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

| Name of the MDA Transferring the funds | Date Received as Per Bank Statement | Nature: Recurrent/Development/Other s | Total Amount – (Kshs) | Statement of Financial Performance | Total Transfers during the Year |
|--|-------------------------------------|---------------------------------------|-----------------------|------------------------------------|---------------------------------|
| National Treasury                      | 14-May-2018                         | Petroleum development levy            | 1,170,000,000         | 1,170,000,000                      | 1,170,000,000                   |
| <b>Total</b>                           |                                     |                                       | <b>1,170,000,000</b>  | <b>1,170,000,000</b>               | <b>1,170,000,000</b>            |

