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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
STATE DEPARTMENT FOR ENERGY**

**FOR THE YEAR ENDED
30 JUNE 2018**



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STATE DEPARTMENT FOR ENERGY

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018**

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



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I. STATE DEPARTMENT FOR ENERGY KEY INFORMATION AND MANAGEMENT

(a) Background information

The Ministry of Energy was formed many years ago and on 20 May 2013, its name was changed to the Ministry of Energy and Petroleum through Executive Order No.2/2013 that outlined the Organisation of the Government of Kenya. Under the Executive Order No. 1 of May, 2016 on the Organization of the Government of the Republic of Kenya, the Ministry was split into two State Departments; Energy and Petroleum, with each drawing its mandates from the above Executive Order.

Under the Executive order no. 1 of June 2018 on the Organization of Government of Republic of Kenya the Ministry of Energy - State Department for Energy was split from the Ministry of Energy and Petroleum the Ministry is represented by the Cabinet Secretary who is responsible for the general policy and strategic direction of the by a Principal Secretary and a Chief Administrative Secretary.

i. Vision of the State Department for Energy

Provision of affordable, quality energy for all Kenyans

ii. Mission of the State Department for Energy

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

iii. Mandate/Functions of the State Department for Energy

The State Department for Energy is mandated to undertake the following functions:

- National Energy and Policy management
- Hydro-power Development
- Geothermal Exploration and Development
- Rural Electrification Programme
- Promotion of Renewable Energy
- Energy Regulation, Security, and Conservation

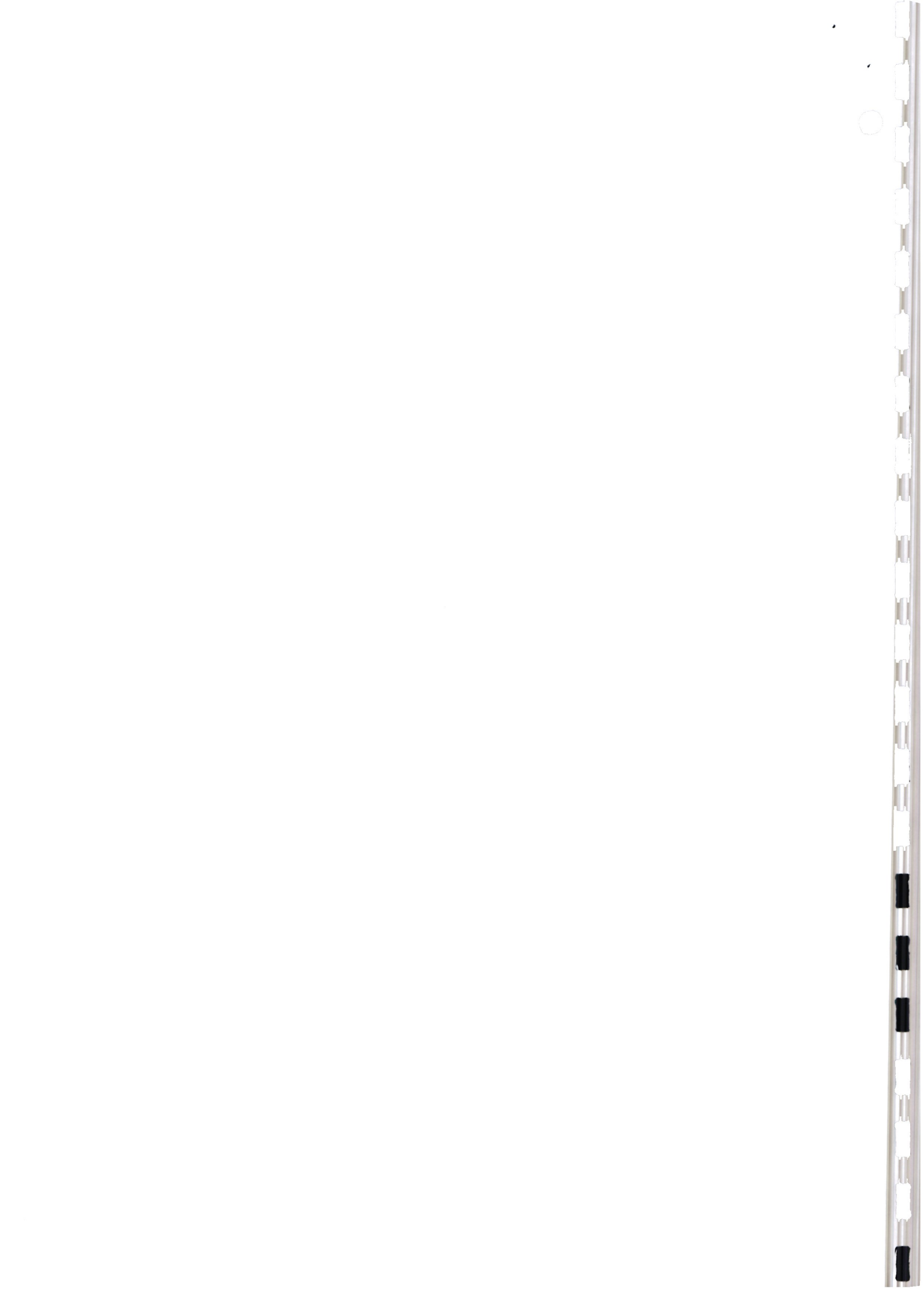
iv. Core Values of the State Department for Energy

- Integrity
- Transparency
- Accountability
- Professionalism
- Prudent utilization of resources
- Open to constructive suggestions

(b) Key Management

The Ministry's day-to-day management is under the following key departments:

- Renewable Energy Directorate
- Electric Power Development Directorate



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- Geo-Exploration Directorate
- Administration Department
- ICT Department
- Accounts Department
- Human Resource Development Department
- Human Resource Management Department
- Internal Audit
- Finance Department
- Central Planning and Project Monitoring Unit (CPPMU) Department
- Supplies Chain Management Department
- Public Communications Department

(c) Fiduciary Management

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

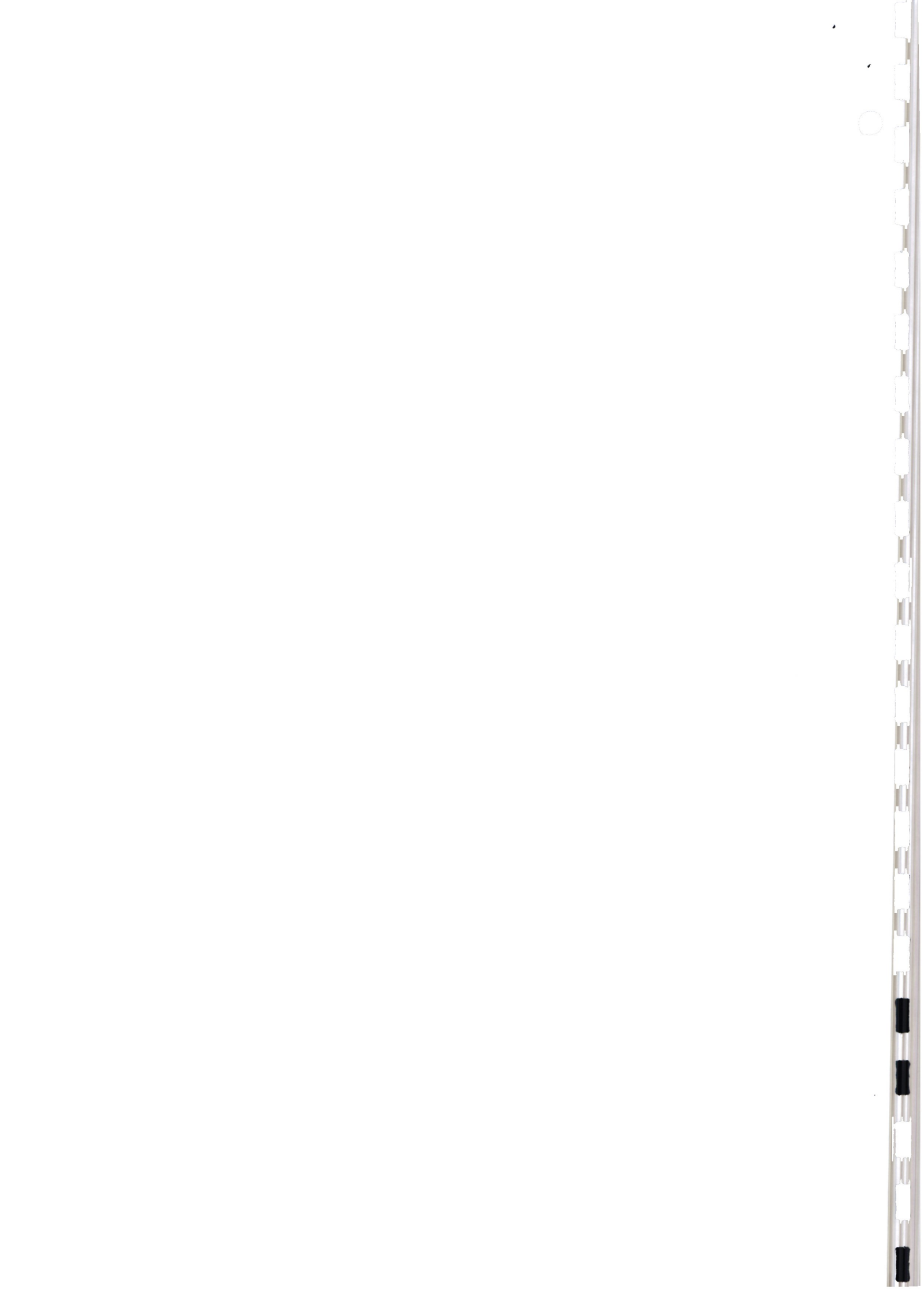
No	Designation	Name
1.	Cabinet Secretary, Ministry of Energy	Hon. Charles Keter, (EGH)
2.	Principal Secretary (Accounting Officer)	Dr. (Eng.) Joseph Njoroge, (CBS)
3.	Chief Administrative Secretary	Simon Kachapin
4.	Senior Deputy Secretary	Charles Wanyoike (HSC)
5.	Head of Finance	Andrew Kigen
6.	Head of Accounting Unit	Jedidah A.N. Macharia
7.	Head of Supplies Chain	Rebecca Mounde
8.	Chief Geo Exploration	Chrispin O Lupe
9.	Secretary Renewable Energy	Eng. Isaac Kiva, (OGW)
10.	Secretary Electrical Energy	Eng. Julius M. Mwathani
11.	Director of HRM/D	Stephen Lusweti
12.	D./DHRD	Nancy Wachira
13.	AD/ICT	Patrick Njoroge
14.	Chief Economist	Timothy Gakuu (HSC)

(d) 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 review the utilization of donor funds voted for the MDA;
- To advise the Accounting Officer on any challenges related to the budget implementation;
- To review and recommend reallocation of expenditures;



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- To review and approve the submission of the expenditure returns, IPPD, pending bills and A-I-A returns for the MDAS and recommend actions to be taken;
- To participate in Sector Working Groups; and
- To prepare the budget for the line Ministry/State Department in consultation with Heads of Departments.

(ii) Ministerial Human Resource Management Advisory Committee

The Committee has nine members and the quorum is five and meets once in each month. The functions of the Committee are:

- Recruitment, selection and appointment;
- Promotions;
- Confirmation in appointment;
- Training and Development;
- Training Impact Assessment;
- Management of skills inventory;
- Establishment and Complement control;
- Payroll management;
- Deployment;
- Promotion of Values and Principles of Public Service;

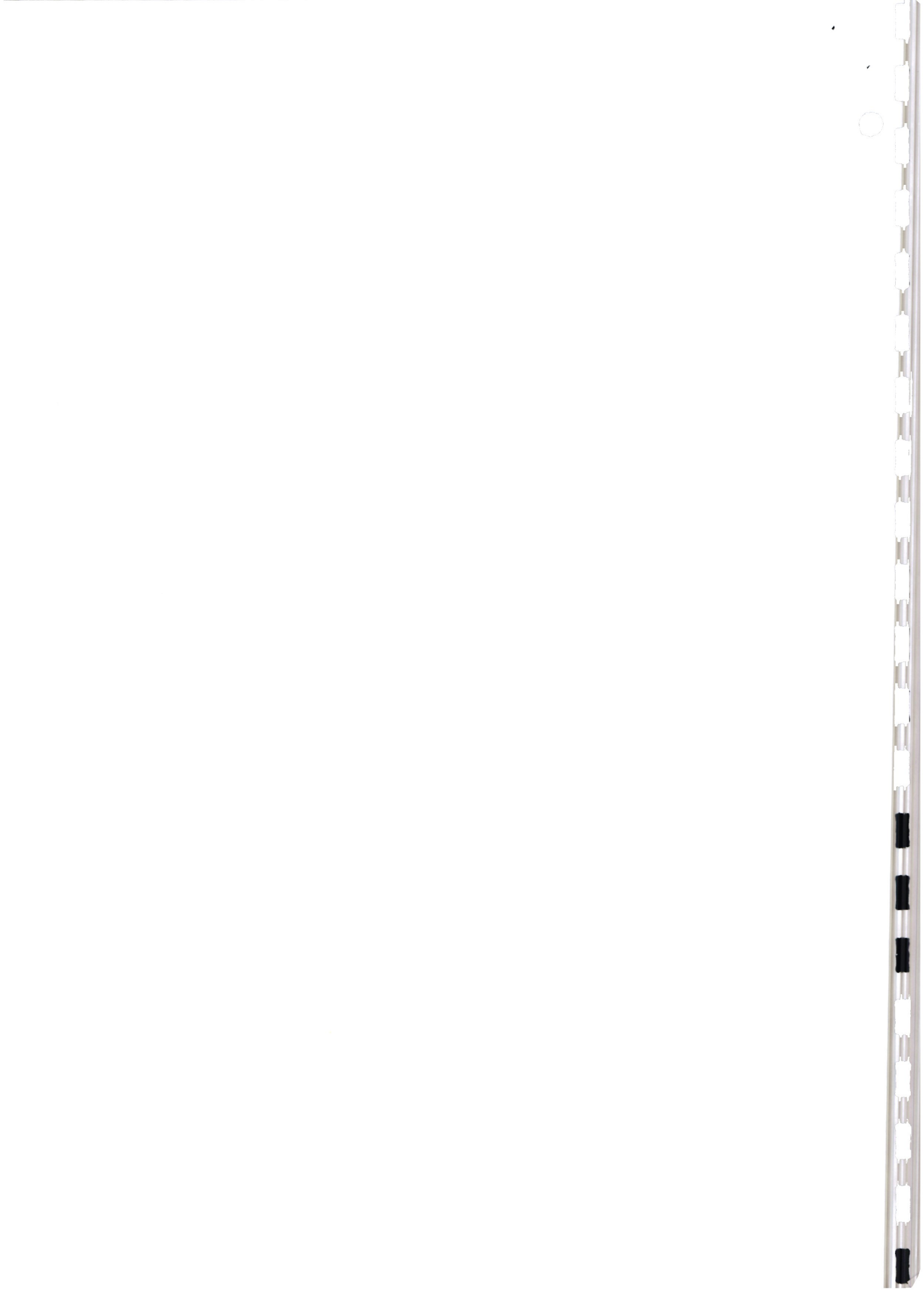
(iii) Internal Audit Unit

The mandate of Internal Auditors includes:

- Review and evaluate of budgetary performance, financial management, transparency and accountability mechanisms and processes in the State Department for Energy;
- Giving reasonable assurance on the state of risk management, control and governance within the State Department; and
- Reviewing the effectiveness of the financial and non-financial performance management systems of the State Department.

(iv) Parliamentary Committee Activities

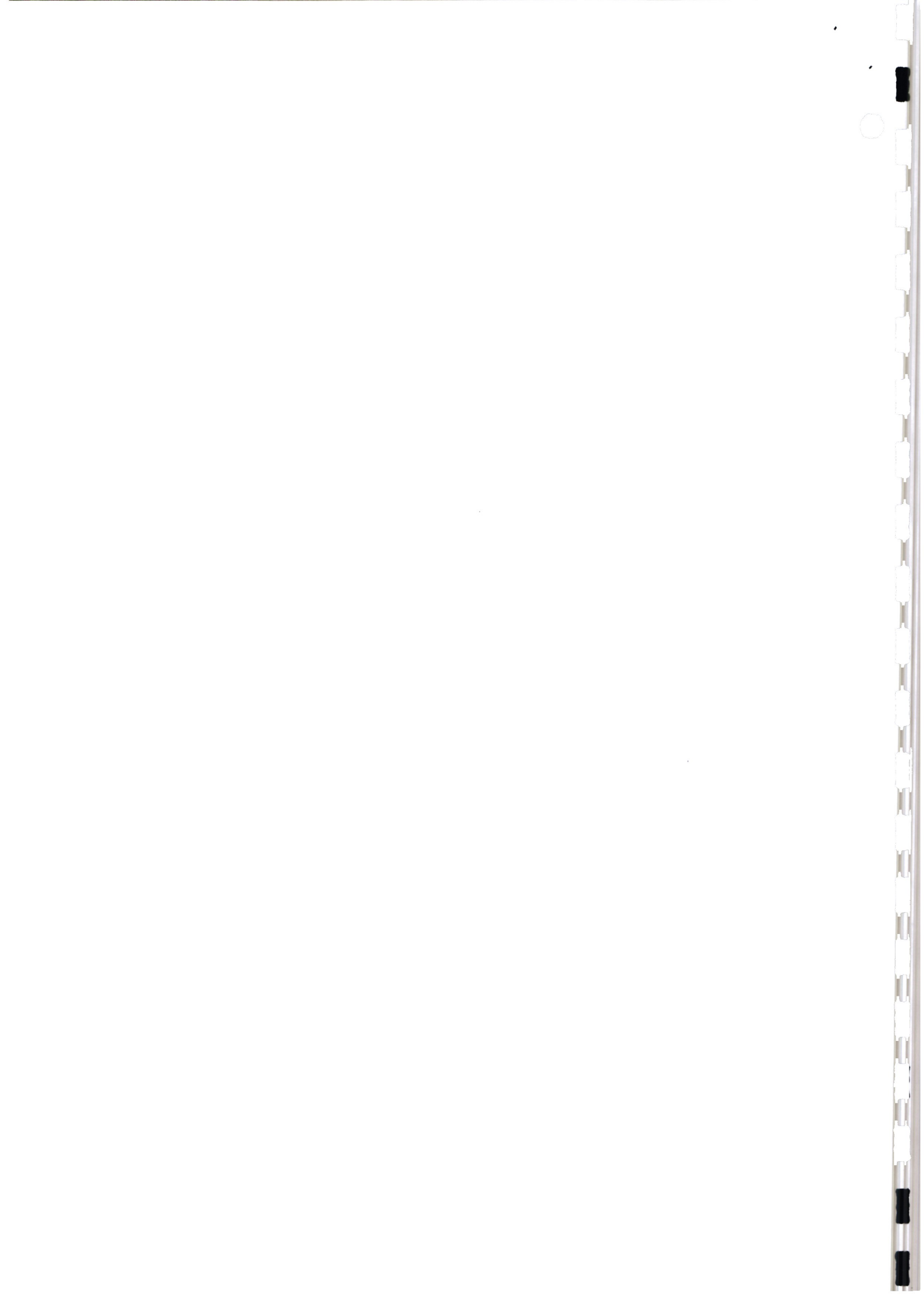
- Public Accounts Committee invites the Principal Secretary to appear before it to adduce evidence on the Report of the Auditor-General on the financial statements of the State Department.
- Budget and Appropriations Committee approves expenditure budget of the State Department for the execution of governance.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



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(v) Development Partners Oversight Activities

The World Bank approves expenditure under the projects they fund through “No Objection” letters.



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Hon. Charles Keter, EGH,
Cabinet Secretary



Dr. Eng. Joseph Njoroge, CBS,
Principal Secretary



Eng. Julius Mwathani,
Secretary, Electrical Power



Eng. Isaac N. Kiva,
Secretary for
Renewable Energy



Mr. Charles Wanyoike, HSC, Ag,
Director of Administration



Ms. Nancy Wachira
Head of training



Mr. Stephen Lusweti, Director
HRM&D



Deputy Director of Budget
Mr. William Mbaka



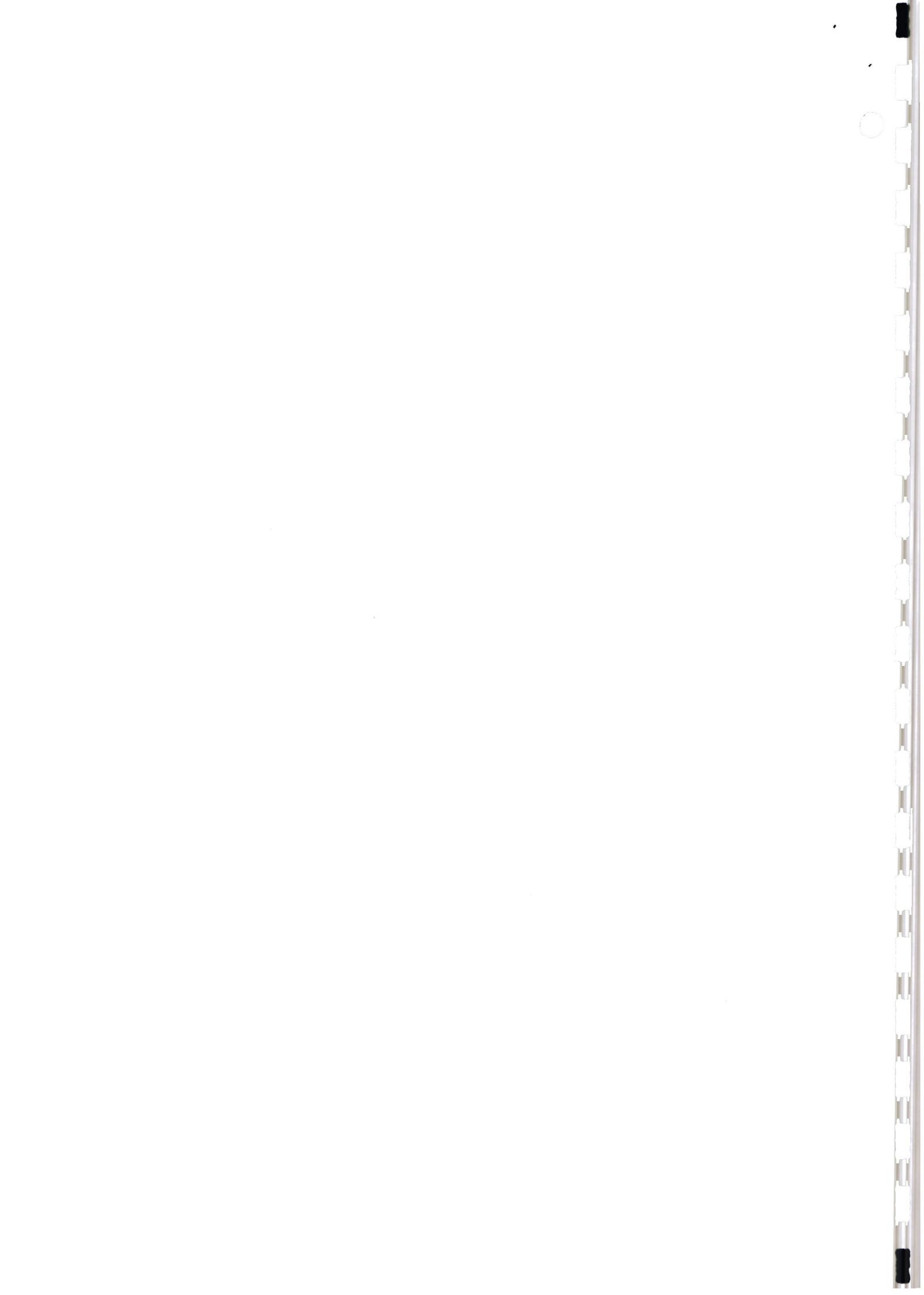
Ms. Rebecca Mounde
Head of Procurement



Mr. Timothy Gakuu, Head of
Economic Planning



Ms. Jedidah A. N. Macharia
Head of Accounting Unit



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**Hon. Charles Keter, EGH,
 Cabinet Secretary.**

Hon. Charles Keter, EGH, was appointed Cabinet Secretary for the Ministry of Energy and Petroleum in December 2015. He had previously served as an Assistant Minister in the same Ministry between 2008 and 2010. His responsibilities include oversight, policy and governance of the Ministry's mandate which is to facilitate the provision of clean, sustainable, affordable, reliable, secure and quality energy and petroleum services for national development while protecting the environment. He holds Bachelor of Science degree from Kenyatta University and a Global Executive MBA from the United States International University (USIU).



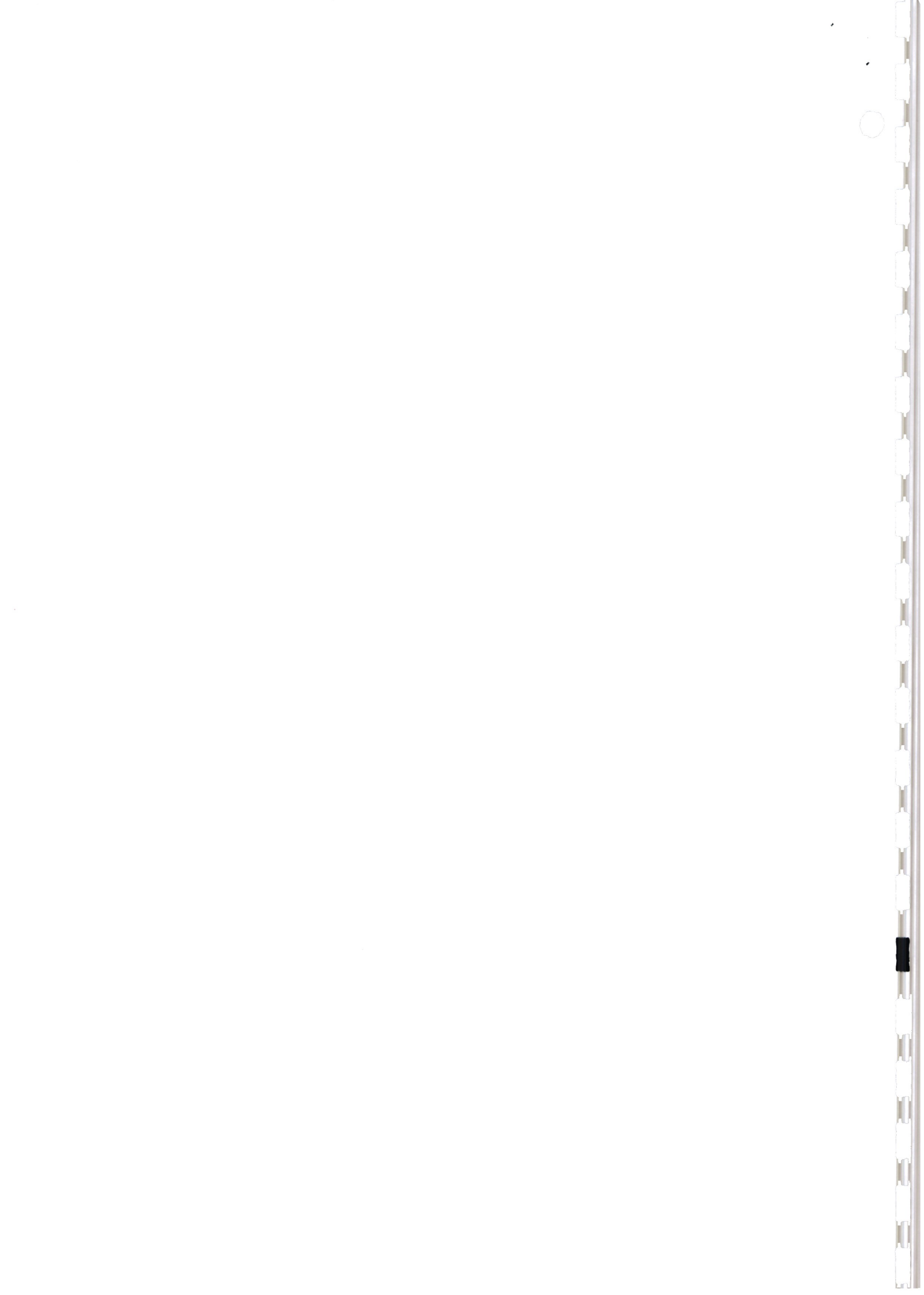
**Dr. Eng. Joseph Njoroge, CBS,
 Principal Secretary**

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.



**Hon. Simon K. Kachapin
 Chief Administrative Secretary**

Hon. Simon Kachapin Preceding his appointment in March 2018, was the Governor of West Pokot County from 2013 to 2017. He was the Chief Administrative Secretary, Ministry of Education before joining the Ministry of Energy in the same capacity. He was also the KESSHA Chairman West Pokot and the Chairman Principals Catholic Diocese of Kitale. Hon. Kachapin has been Deputy Principal for 4 years and Senior Principal for 12 years. He holds a Bachelor's Degree from Moi University and currently pursuing a Master's Degree in Leadership and Integrity.

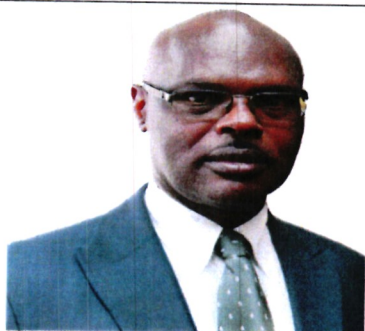


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Eng. Julius Mwathani,
Secretary, Electrical Power
Development

Eng. Julius Micheni Mwathani is the Secretary, Electrical Power Development in the Ministry. He is a Registered Consulting Mechanical Engineer by the Engineers Board of Kenya and a corporate member of the Engineers Institution of Kenya. His current duties include the formulation of energy policies, the economic and financial appraisal of energy projects, the monitoring and implementation of energy projects and the preparation and implementation of directorate work plans, budgets and procurement plans. He has a Bachelor's degree from the University of Nairobi in Mechanical Engineering and an Executive Master's degree Business Administration from Jomo Kenyatta University of Agriculture Technology.



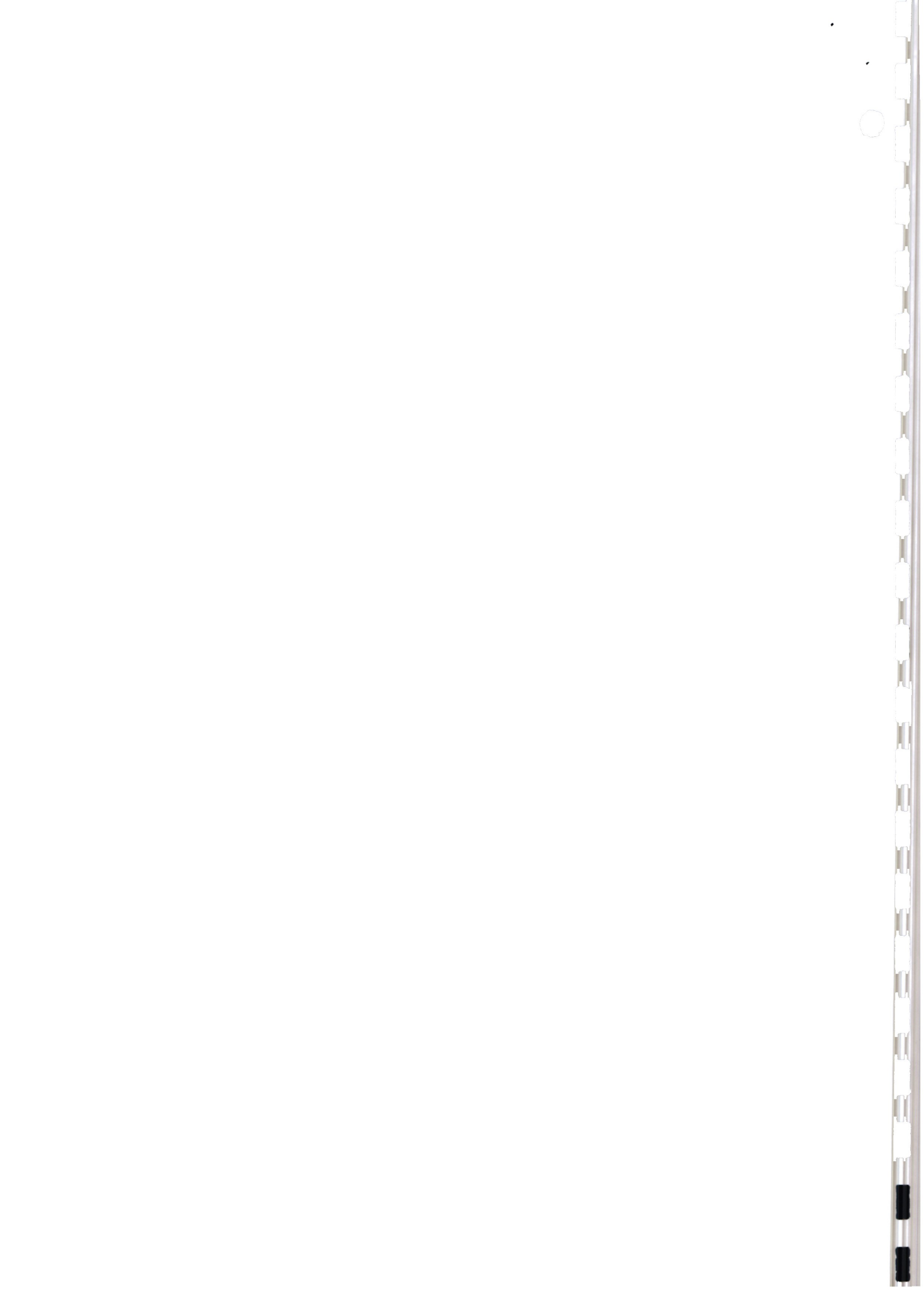
Mr. Charles Wanyoike, HSC,
Ag. Director of Administration

Mr. Charles Wanyoike, HSC, is the Ag. Director of Administration. He previously served as the Senior Deputy Secretary at the Ministry of Interior and Coordination of National Government. He holds a Master Degree in Business Administration and attended several administrative courses including Senior Strategic Leadership and Corporate Governance.



Eng. Isaac N. Kiva, OGW
Secretary for
Renewable Energy



Isaac Kiva is the Secretary for Renewable Energy since 1 June, 2017. Previously, he had served as the Director of Renewable Energy from 30th August, 2013. He heads the Directorate charged policy formulation, and promotion of development and utilization of renewable energy, energy efficiency and conservation, including facilitation of private sector investment. Eng. Kiva has wide experience in public sector management, having worked in energy and senior Government positions for over 20 years. He holds a Bachelor's Degree in Electrical Engineering from the University of Nairobi, and has undergone several professional courses in management, leadership, energy development and financial and economic analysis and modeling. He is a registered Professional Engineer



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	<p>with the Engineers Board of Kenya and a member of the Institution of Engineers of Kenya.</p>
 <p>Mr. Chrispin O. Lupe</p>	<p>Mr. Chrispin O. Lupe is heading the Geo-Exploration Directorate. He holds a BSc degree in Geology from the University of Nairobi and MSc degree in geoinformation from ITC, Netherlands. He is a Registered Geologist with the Geologist Registration Board and a Professional Member of the Geological Society of Kenya.</p> <p>Mr. Lupe joined the Ministry of Energy and Petroleum on 7th September, 2017 on promotion from Ministry of Mining. He has served in the Civil Service for 27 years as a Geologist at different levels in the Geological Survey Department.</p> <p>The Geo-Exploration Directorate is in charge of exploration and development of geo-energy resources from geothermal, coal and nuclear resources for power generation.</p>
 <p>Mr. William Mbaka, Senior Deputy Director of Budget</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 University (UK), A degree in Business Studies from Kenyatta University and an ACCA qualification.</p>

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Mr. Timothy Gakuu,OGW Head of Economic Planning

Mr. Timothy G. Gakuu joined the Ministry in October 2015 to Head the CPPMU. He coordinates and supervises Economic Planning functions in the ministry that include; Planning, analysis and review of government policies; Economic analysis, review and monitoring and evaluation of development programmes and projects; analysis of information on energy to advice the Principle Secretary on economic and strategic planning; performance contracting and budget management processes and reporting. He holds a Masters in Economics and a Bachelor’s degree from Nairobi University.



Mr. Stephen Lusweti, Director HRM&D



Mr. Stephen Lusweti assumed the position of Director, Human Resource Management & Development in March, 2015. He is responsible for the human resource management and development function at the State Department Energy. He holds a Bachelor of Arts degree from the University of Nairobi and Masters degree from Speyer University, German.



**Ms Jedida A.N.Macharia
Head of Accounting Unit**

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 & finance option) from KCA University.

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	<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>Ms. Rebecca Mounde Head of Procurement</p>	
	<p>Ms. Nancy Wachira is the Assistant Director Human Resource Management and Development since June 2016. She is in charge of trainings. She holds a Master and Bachelor degree in Education from Kenyatta University and a Higher Diploma in Human Resource Management from the College of Human Resource Management</p>
<p>Ms. Nancy Wachira, Head of Training.</p>	

(e) State Department for Energy Headquarters

P.O. Box 30582-00100
Nyayo House
Kenyatta Avenue
NAIROBI, KENYA

(f) State Department for Energy Contacts

Telephone: (254) (020)3310112
E-mail: ps@energy.go.ke
Website: www.energy.go.ke

(g) State Department for Energy Bankers

- Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

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- Kenya Commercial Bank
Kipande House Branch
Nairobi, Kenya

(h) Independent Auditors

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

(i) Principal Legal Adviser

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

II. FORWARD BY THE CABINET SECRETARY



Hon. Charles Keter, EGH Cabinet Secretary, Ministry of Energy

During the Financial Year 2017/2018, the Ministry through the State Department of Energy has implemented critical energy policy and large scale infrastructure development in wind and hydropower, geothermal exploration, and gas exploration, coal exploration, and erection of transmission lines. These activities have enhanced the national power generation capacity, expanded and reinforced the national transmission and distribution network, improved reliability of energy services, enhanced regional electricity interconnection, doubled the national electricity access rate, revamped the national energy mix in favour of renewable energy and smarter technologies, and put Kenya on the path to successfully produce and export oil.

In that regard, I am pleased to submit the annual reports and financial statements of the State Department for Energy for the financial year ended 30 June 2018 as per Section 81 of the Public Finance and Management Act, 2012.

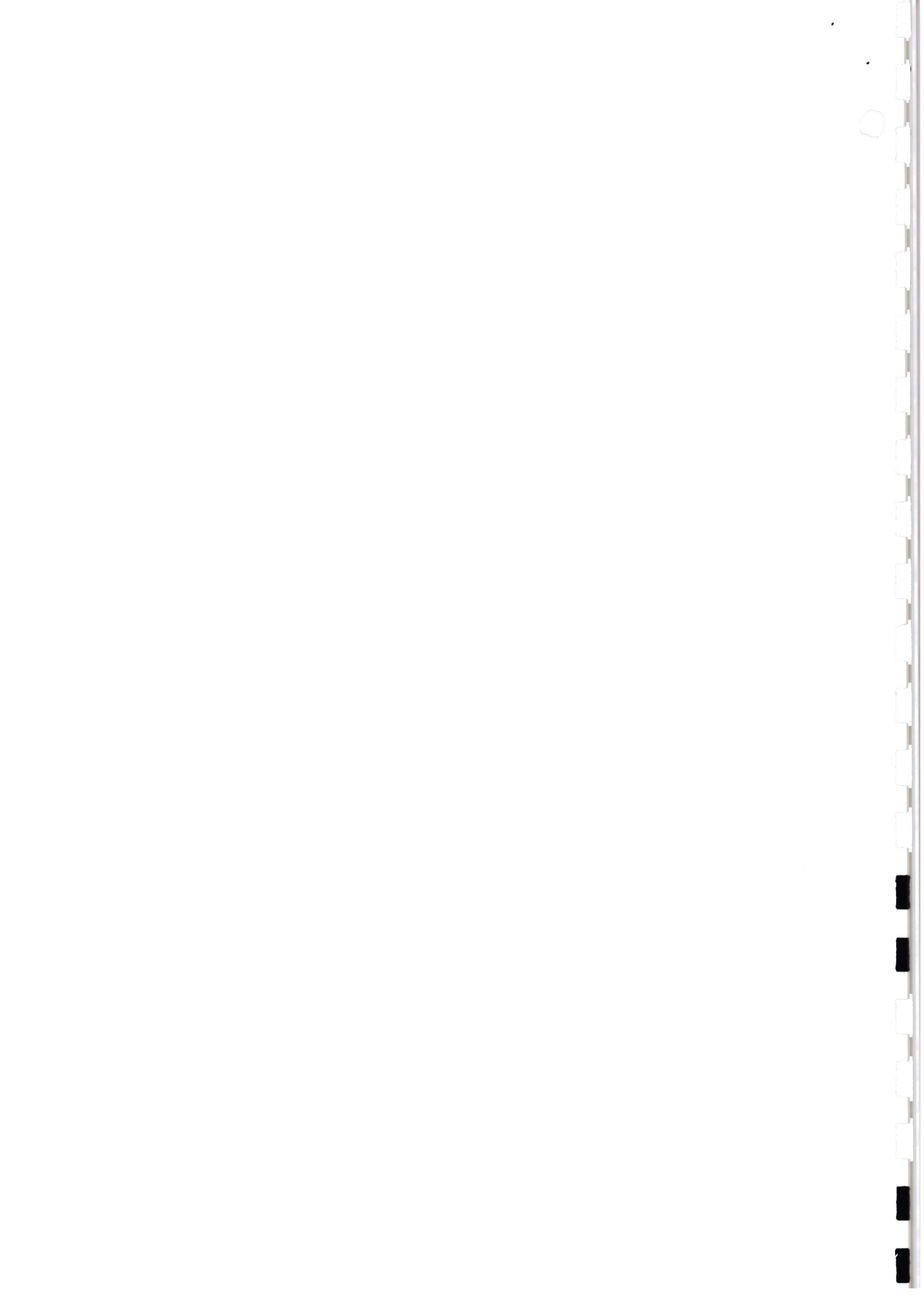
A. POLICY AND LEGISLATIVE CHANGES/NEW STRATEGIC INITIATIVE

Energy is prioritized as one of the infrastructure enablers for achievement of the objectives of Kenya Vision 2030 being implemented through five-year horizon Medium Term Plans. Improved access to energy sources especially electricity improves human development conditions through provision of water; industrial and agricultural productivity; disadvantaged groups empowerment; better health and education conditions and environmental sustainability. Approximately three (3) out of every four (4) Kenyans, of which two-third reside in the rural areas, lack access to electricity services resulting into unsustainable use of biomass and agricultural waste linked with exposure to indoor respiratory infections. The poor households lack adequate access to affordable, reliable, safe and quality energy services.

B. BUDGET ALLOCATION AND PERFORMANCE AGAINST ACTUAL AMOUNTS

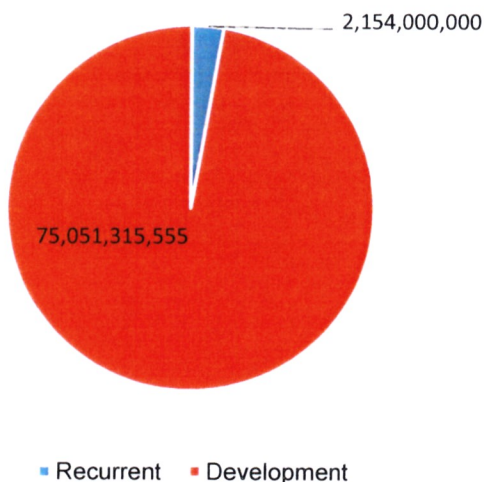
1. Budget Allocation

In the financial year 2017/2018 the State Department for Energy had a gross budget of Kshs.77.7 Billion which was made up of Kshs.2.2 Billion for recurrent vote and Kshs.75.5 Billion for development vote. These allocations are depicted in the pie chart below:



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2017/2018 BUDGET

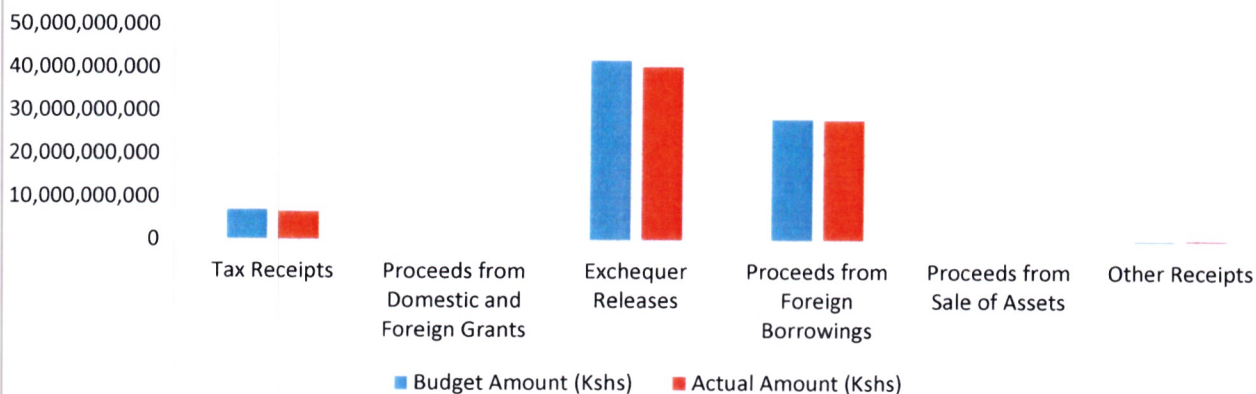


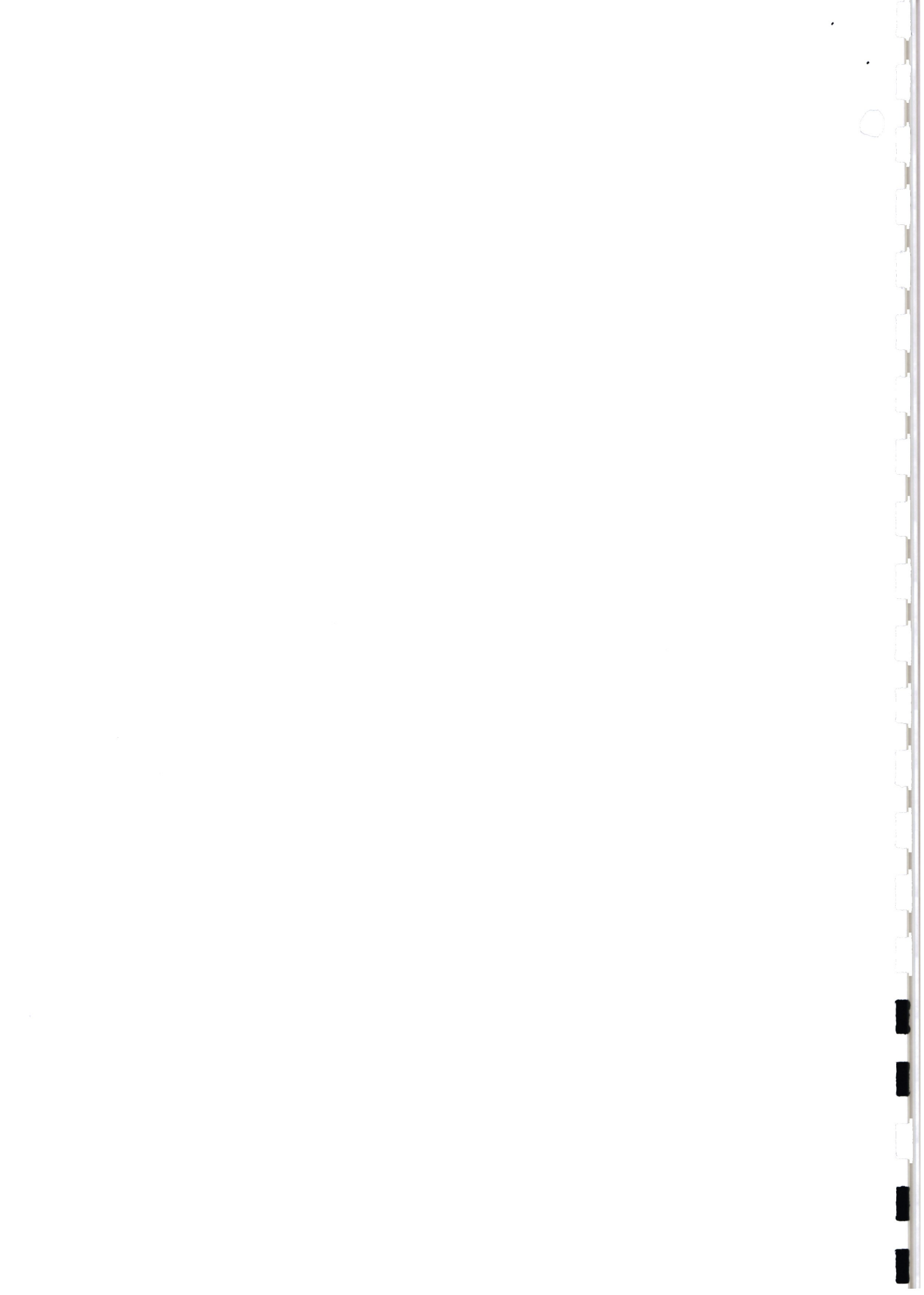
2. Budget Vs Actual Receipts

Out of the gross receipts budget of Kshs.77.7 Billion, Kshs.75,193,117,106 was actually realized as depicted in the table and chart below:

RECEIPTS	Budget Amount (Kshs)	Actual Amount (Kshs)
Tax Receipts	7,008,000,000	6,547,003,451
Proceeds from Domestic and Foreign Grants	251,250,000	-
Exchequer Releases	41,843,108,795	40,273,559,411
Proceeds from Foreign Borrowings	28,238,666,457	27,962,236,549
Proceeds from Sale of Assets	3,580,000	2,052,188
Other Receipts	359,320,000	408,265,507
Total	77,703,925,252	68,646,113,655

BUDGET VS ACTUAL RECEIPTS - 2017/2018





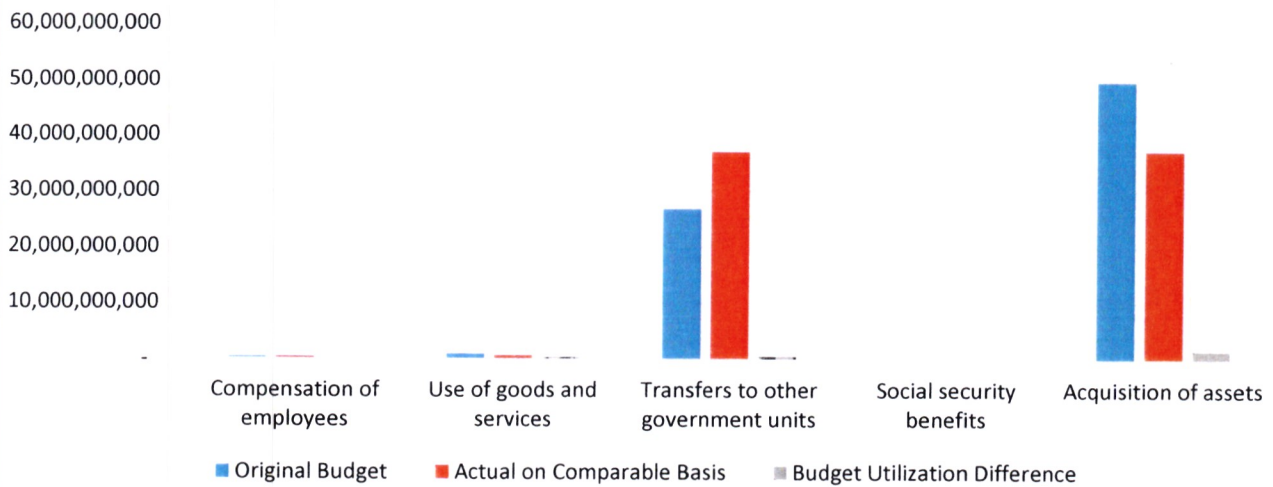
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3. Budget Utilization Based on Economic Classification

The State Department spent Kshs.75.1 Billion against an approved budget of Kshs.77.7 Billion representing absorption of 97%. Utilization of the budget was carried out through various activities (economic classifications) as shown in the table and charts below:

Receipt/Expense Item	Original Budget Kshs	Actual on Comparable Basis Kshs	Budget Utilization Difference Kshs	% of Utilization
PAYMENTS				
Compensation of employees	315,500,000	341,474,313	14,425,687	96%
Use of goods and services	893,680,020	564,451,806	465,328,274	55%
Transfers to other government units	26,817,615,000	36,979,043,030	610,300,000	98%
Social security benefits	5,200,000	20,996,498	3,502	100%
Acquisition of assets	49,787,209,290	37,145,349,908	1,562,552,234	96%
Total	77,819,204,310	75,051,315,555	2,652,609,697	97%

BUDGET UTILIZATION BASED ON ECONOMIC CLASSIFICATION



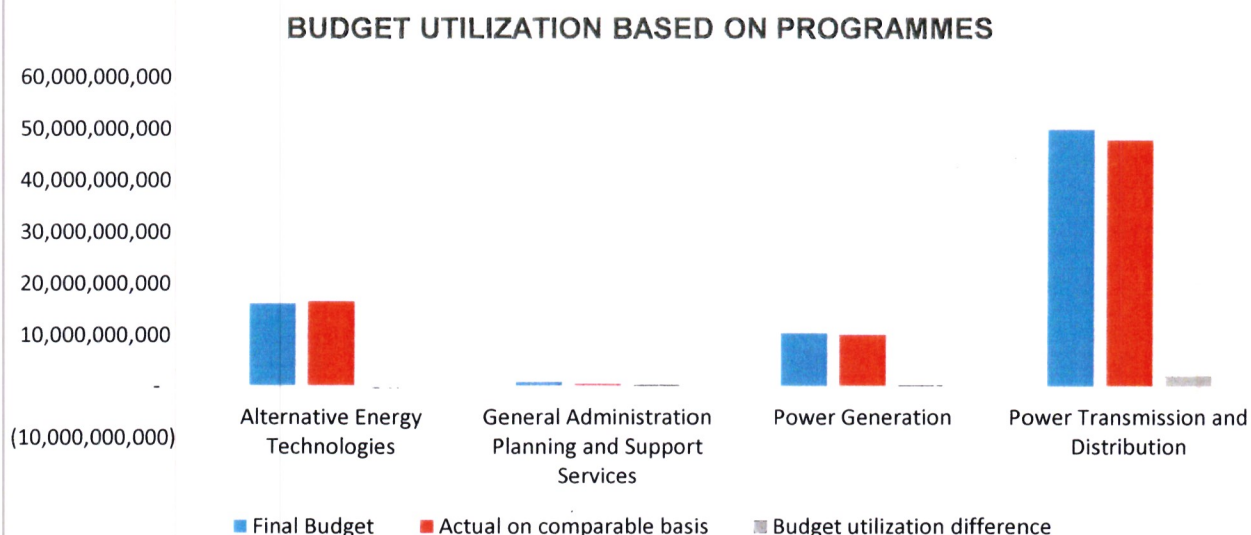
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4. Budget Utilization Based on Programmes

The State Department spent Kshs.8575.1 Billion against an approved budget of Kshs.77.7 Billion representing absorption of 97%. Utilization of the budget was carried out through various programmes as shown in the table and charts below:

Program/Sub-program	Final Budget	Actual on comparable basis	Budget utilization difference
	Kshs	Kshs	Kshs
Alternative Energy Technologies	16,194,004,501	16,536,035,958	(342,031,457)
General Administration Planning and Support Services	872,509,491	445,651,404	426,858,087
Power Generation	10,560,487,273	10,152,845,677	407,641,596
Power Transmission and Distribution	50,076,923,987	47,916,782,516	2,160,141,471
Total	77,703,925,252	75,051,315,555	2,652,609,697

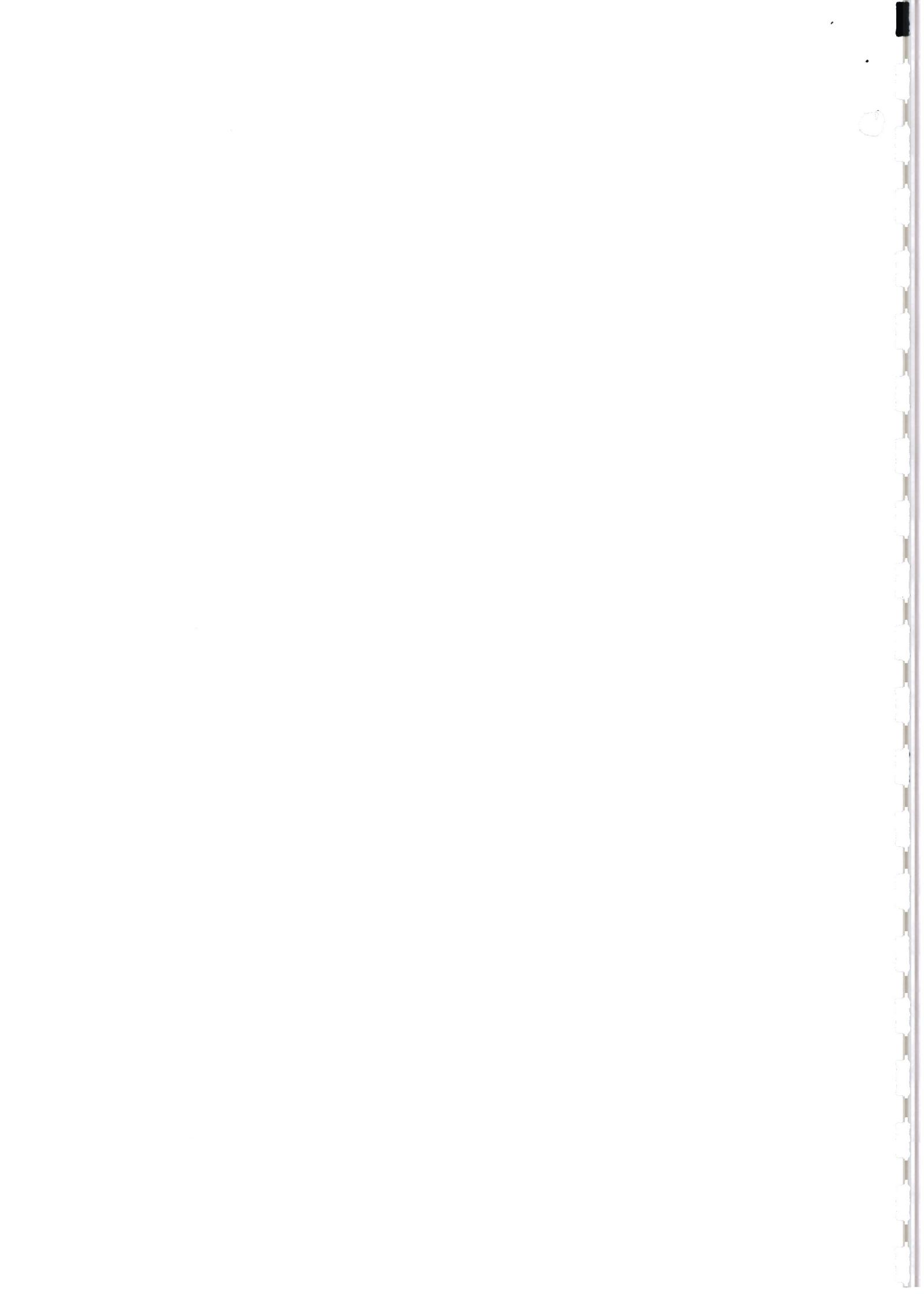


C. KEY ACHIEVEMENTS FOR STATE DEPARTMENT OF ENERGY FOR FY 2017/2018

The achievement of the State Department of Energy is in the following aspects: enhancing power generation capacity, transmission and distribution network reinforcement and expansion, enhancing regional trade through interconnection of regional electricity networks, enhancing access to electricity, promoting renewable energy and introduction of new technologies in electricity generation.

1. Power Generation

- a) Generation capacity added to the grid as at end of June 2018 was 10.25MW bringing the total installed to 2,341MW as at 30th June, 2018. The 10.25 MW was realized from Orpower4 plant IV Phase 2 (10MW) and Strathmore (0.25MW) Solar power plant. This procured capacity is



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below the expected target of 22MW because some planned power plants did not get the generating licenses on time leading to the expiry of the Power Purchase Agreements (PPAs). In an effort to supply electricity to towns and regions in off-grid areas five (5) off grid solar/diesel hybrid stations were constructed.



300MW Lake Turkana wind Power Project

b) Drilling of Geothermal Wells

During the year, a total of six (6) wells were drilled in Menengai. The wells are MW28A, MW12A, MW27, MW18B, MW19B, and MW8A. In addition, drilling of the following wells is currently on-going; MW15A, MW20B and MW 33

c) Increase cumulatively steam available for Geothermal Power Production

At the close of the 2016/2017 FY, GDC had cumulative steam available equivalent to 150.1MW in the Menengai field. As at 30th June 2018, GDC has increased the total steam available by 19.3 MW. This has brought the cumulative megawatts to 169.4 MW. The cumulative amount of steam is disaggregated as follows;

	Project Area	MWe
i.	Menengai Field	150.1
ii.	Additional steam FY 2017/18 in Menengai Field	19.3
Total		169.4

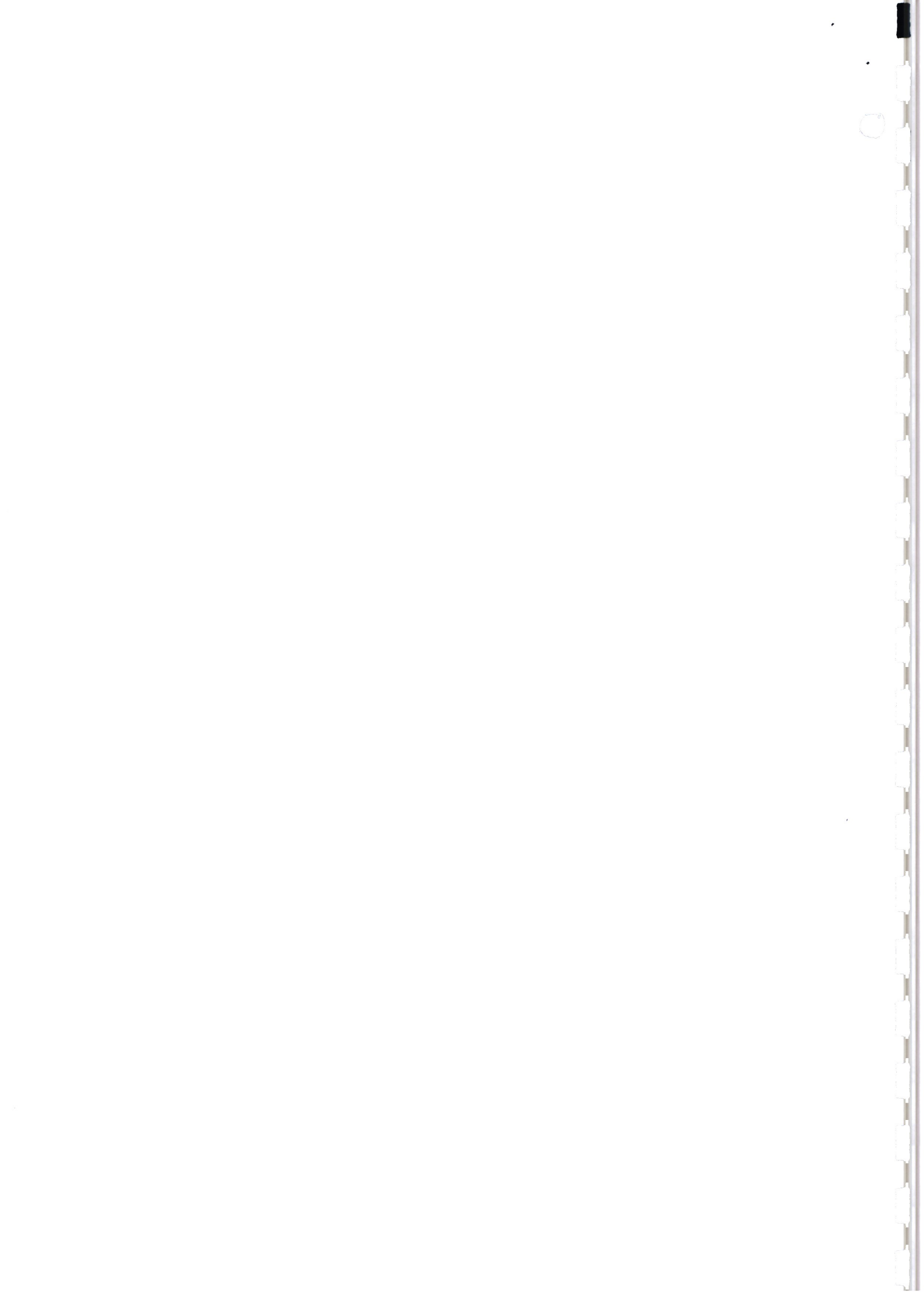
d) Off grid solar/diesel hybrid Stations

In an effort to supply electricity to towns and regions in off-grid areas five (5) off grid solar/diesel hybrid stations were constructed.

2. Expand and upgrade electricity Transmission

A total of 529.5Km of transmission lines and two (2) transmission substations were completed during the financial year: The 529.5Km comprised of;

- a) 8Km of 44km 132kV Kisii - Awendo transmission line
- b) 75Km of 431km 132kV Power Transmission System Improvement Projects
- c) 34Km of 436km 400kV Loiyangalani - Suswa transmission line



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- d) 37.3Km of Ndhiwa – Awendo transmission line
- e) 375.2Km of out 612Kms (Kenya section) of 500kV HVDC line from Ethiopia to Kenya to enhance regional power trade. The interconnectors, the Kenya – Uganda 127km 400kV and Kenya-Tanzania 94km 400kV were commenced.



400kV Loiyangalani - Suswa transmission line

3. Increased Access to Electricity

Under this component, expansion and upgrading of the distribution network and connectivity of the electricity to new customers were taken into consideration. Various projects were undertaken during the period under review. These were geared towards increasing access to electricity for social economic development in the country.

a) Expand and upgrade electricity distribution network

i. Distribution Lines

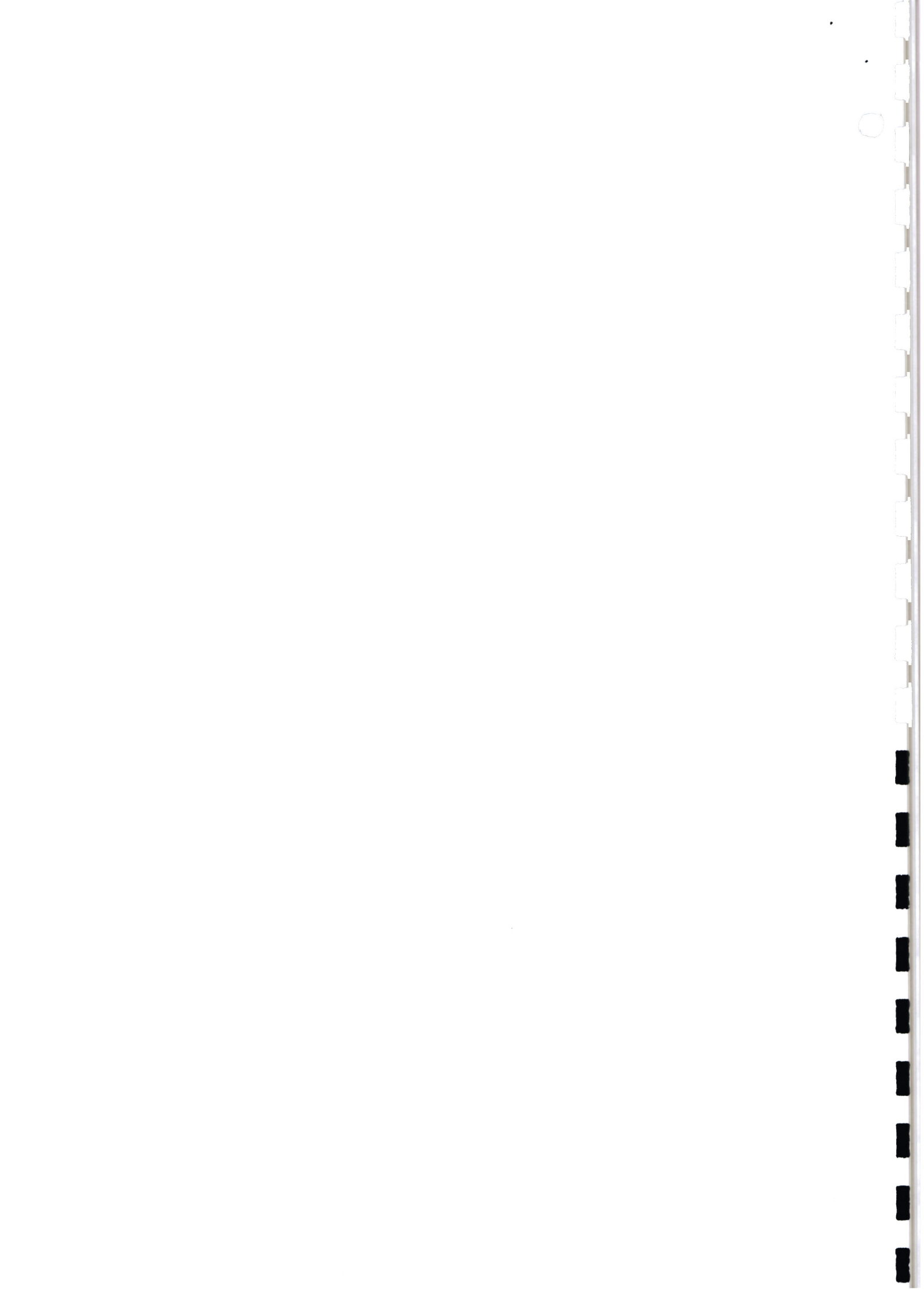
A total of 1174 Km of new medium voltage distribution lines were added into the existing grid network.

ii. New Distributions Substations

Six (6) new distribution substations out of the targeted fourteen (14) were completed during the period. The completed six(6) are Athi River 220/66kV, Likoni Road 66/11 KV, Kipevu GIS Rehabilitation, Meru 7.5MVar Reactor, Kibebetiet 33/11KV and Nyamira 33/11K. The remaining eight (8) substations are at different levels of implementation and are planned to be completed in the next financial year. The under achievement of the target was affected by difficulty in getting sites/wayleaves for the project and delay in disbursement of funds

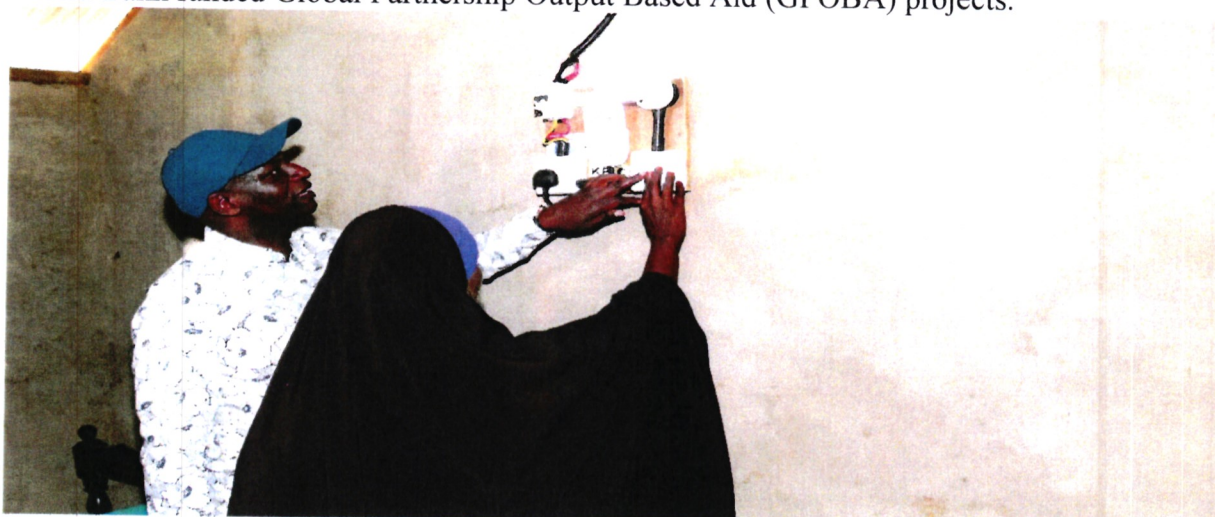
b) Customer Connection

The number of new customers connected to electricity during the period was 581,639 against a target of 1,200,000. The new connections bring the cumulative number of customers connected to the electricity to 6,763,921 as at 30th June, 2018 from 6,182,282 as at 30th June, 2017. The



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under achievement of this target was mainly as a result of slow disbursement for Last Mile and World Bank funded Global Partnership Output Based Aid (GPOBA) projects.



Energy Cabinet Secretary Hon. Charles Keter launches the Last Mile Project in Garissa County.

c) Connection of Public Facilities

A total of 8 public primary schools and 174 other public facilities were connected to electricity. These facilities included markets, trading centres, health centres, Government offices, water points and tea buying centres. As at 30th June, 2018 a total of 19,148 public facilities which exclude public schools had been connected to electricity through the grid or solar.

d) Public Street Lighting Project

A total of 35,346 Street lighting points were installed across the Country against a target of 30,000 during the year. The project covers the three (3) cities, major town centres and county headquarters among others. The objective of the project is to promote 24hr economy in addition to enhancing security in designated public places.

4. Development of Renewable and Alternative Energy Technologies

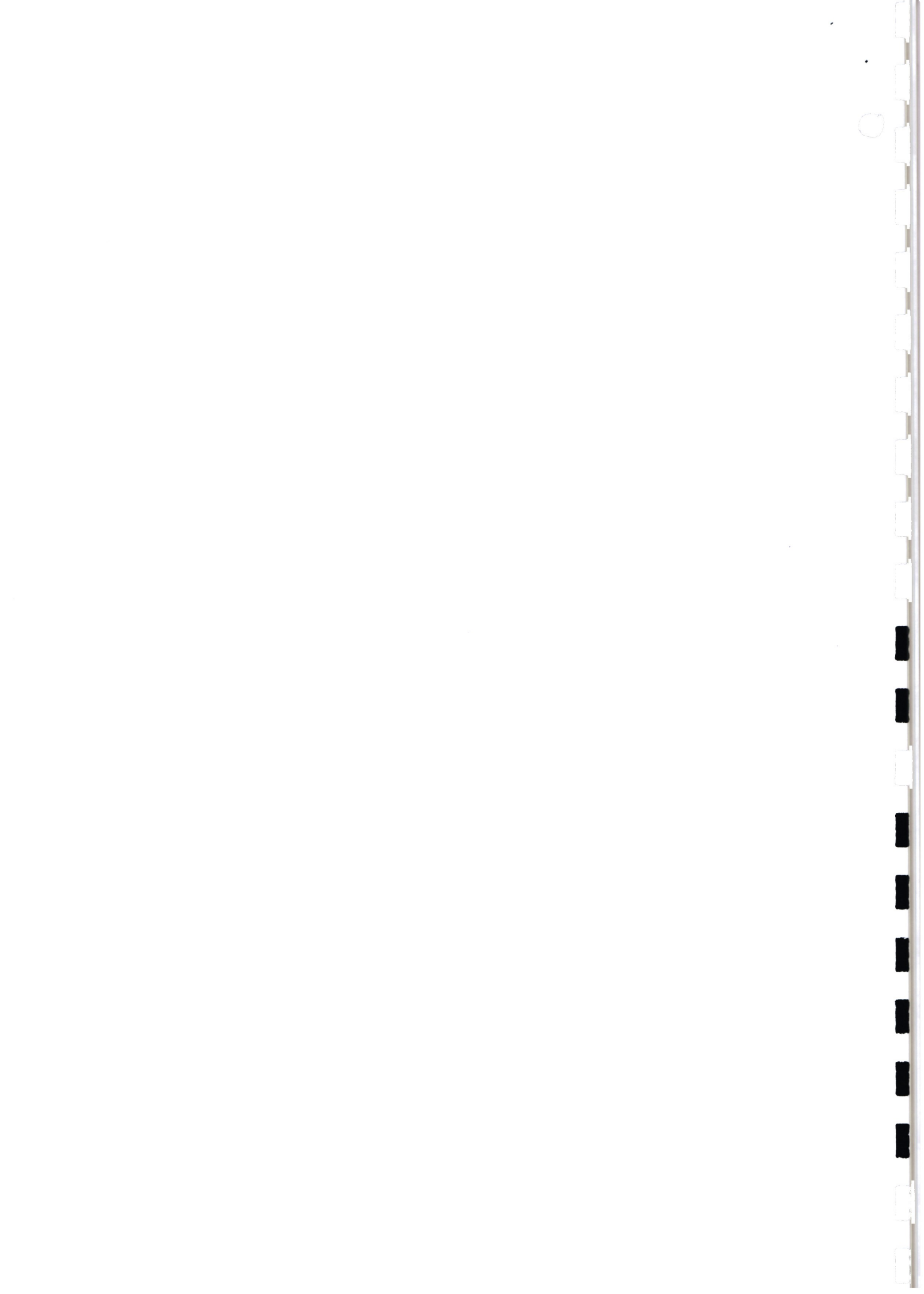
In order to enhance promotion and development of renewable energy as an alternative source of energy, during the period under review the following were achieved:

a) Solar Energy Development

The objective of this initiative is to electrify the areas far away from the main electricity grid. During 2017/18 FY, the tenders for the installation of new Solar PV systems in 75 Institutions and maintenance of the 50 previously installed Solar PVs were awarded.

b) Wind Energy Development

The objective of the Wind Masts is to collect data that will be key in determining the intensity of wind which will in turn help in decision making in as far as Wind Energy development is concerned. During the period under review, tenders for rehabilitation/construction of 10 wind



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masts and data loggers were awarded. Also collection and analysis of data from previously installed wind masts and data loggers across the country continued.

c) Community small hydropower hydro power projects

One (1) community small hydropower hydro power project was constructed in Ngerechi, Muranga County. In addition the Ministry carried out phased feasibility studies to establish the capacities as well as appraise the viability of various small hydro sites across the country.

d) Re-Afforestation of water towers

500 Ha of hydropower dam catchment areas were planted with Seedlings. The re-afforestation of these extensive areas of the hydropower dam catchment in the Tana basin ensures conservation and security of hydropower generation and water towers.



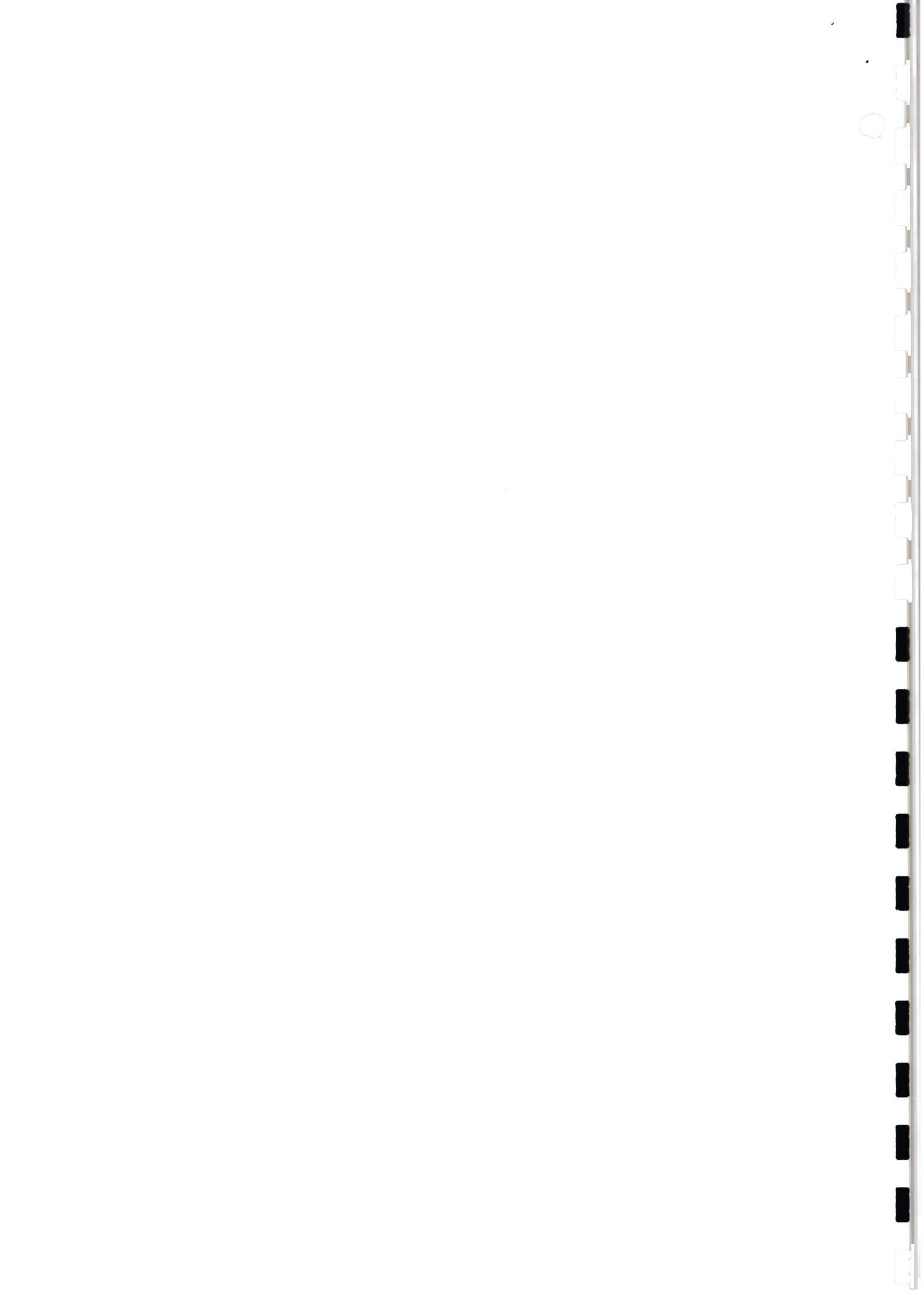
Sondu Miriu hydropower dam and re-afforested surrounding.

e) Energy Audits

Eighteen (18) energy investment Grade Audits and General Audits were conducted in collaboration with Kenya Association of Manufactures (KAM). This is aimed at promoting energy efficiency and conservation.

5. Coal Exploration and Development

Coal energy is projected to contribute to the energy mix to promote security of supply of electricity. During the year 3 drill holes with a cumulative depth of 1,140 meters drilled under coal exploration and semi-feasibility study in coastal region. In addition, stakeholders' engagements to promote coal exploration and development in the country were undertaken. Land adjudication, registration and issuance of title deeds in Mui Basin for Blocks C & D and Blocks A & B are 95% and 50% complete respectively. Once completed, the concessionaire will move to the ground.



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Section of Mui Basin Coal Field

6. Geothermal exploration and development

Geothermal energy is one of the cheapest sources of energy. In order to ensure affordability of the electricity, the government continued to promote the exploration and development of geothermal in the Country. During the year the acreage under Greenfield exploration was increase by 11,600 km². Exploration of geothermal continued in Nakuru and Baringo Counties.

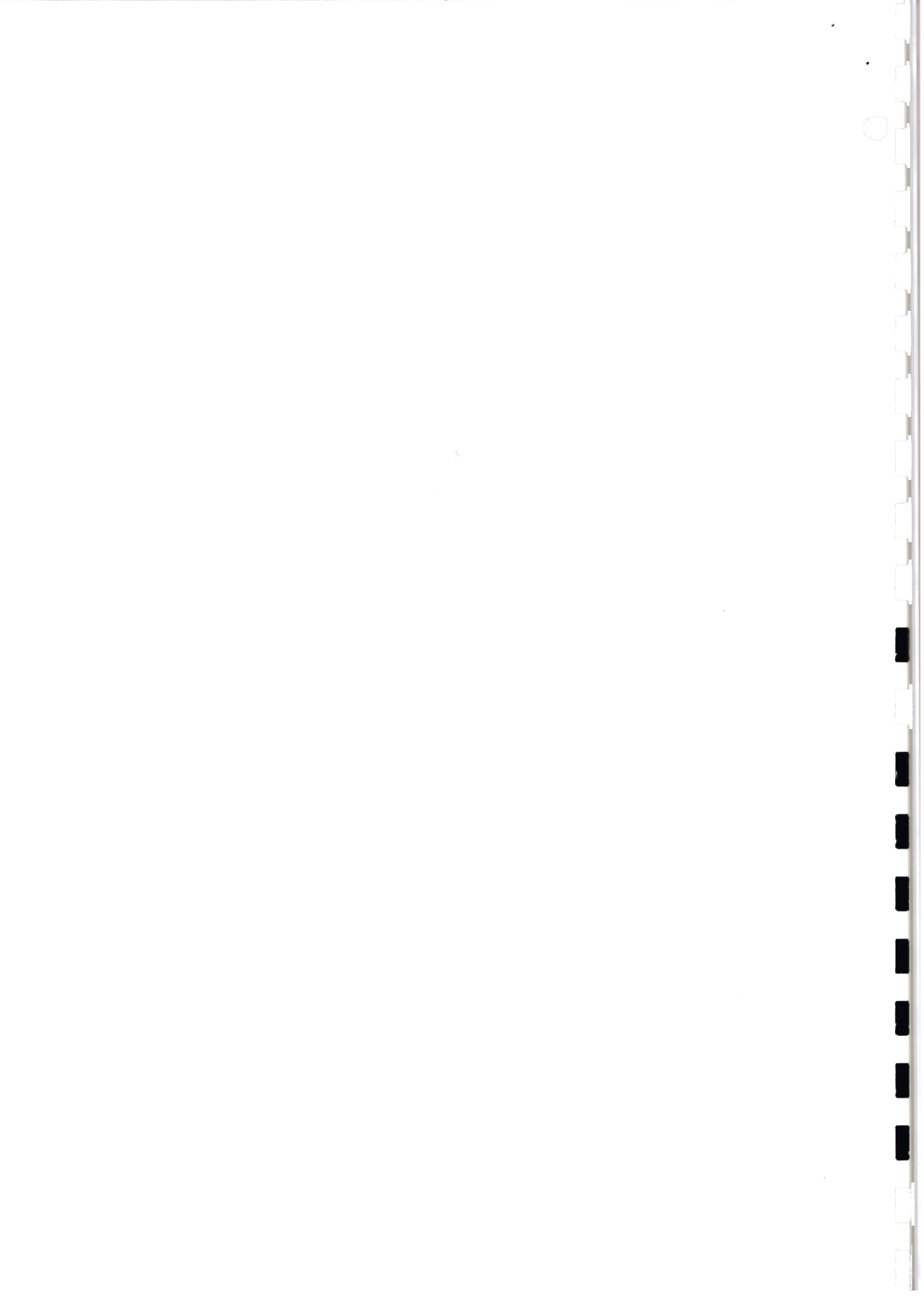


Geothermal drilling rig at Menengai field

7. Nuclear Resources Exploration and Development in Kenya

Nuclear energy has been identified as a future source of energy to meet the growing energy demand. The following activities were carried during the year:

- a) Conducted 23 public participation county visits to collect views on the environmental issues for the Nuclear Power Programme in the coastal, western/Nyanza, north and south rift, and central Kenya regions.
- b) Revised the Kenya Nuclear Power Programme Public Communication & Stakeholder Involvement Strategy;
- c) Organized thirteen (13) Stakeholders Forums on Nuclear Energy in Kenya;



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- d) Developed and disseminated Information, Education and Communication materials.
- e) Facilitated sixty-six (66) officers on training in nuclear related courses both abroad and locally.
- f) Identified twenty-nine (29) appropriate sites for Nuclear Power Plant
- g) Organized a workshop for MPs drawn from the Committee on Energy to update them on trends and developments in nuclear energy; and
- h) Organized a workshop for Senators drawn from the Senate Standing Committee on Energy to update them on trends and developments in nuclear energy.

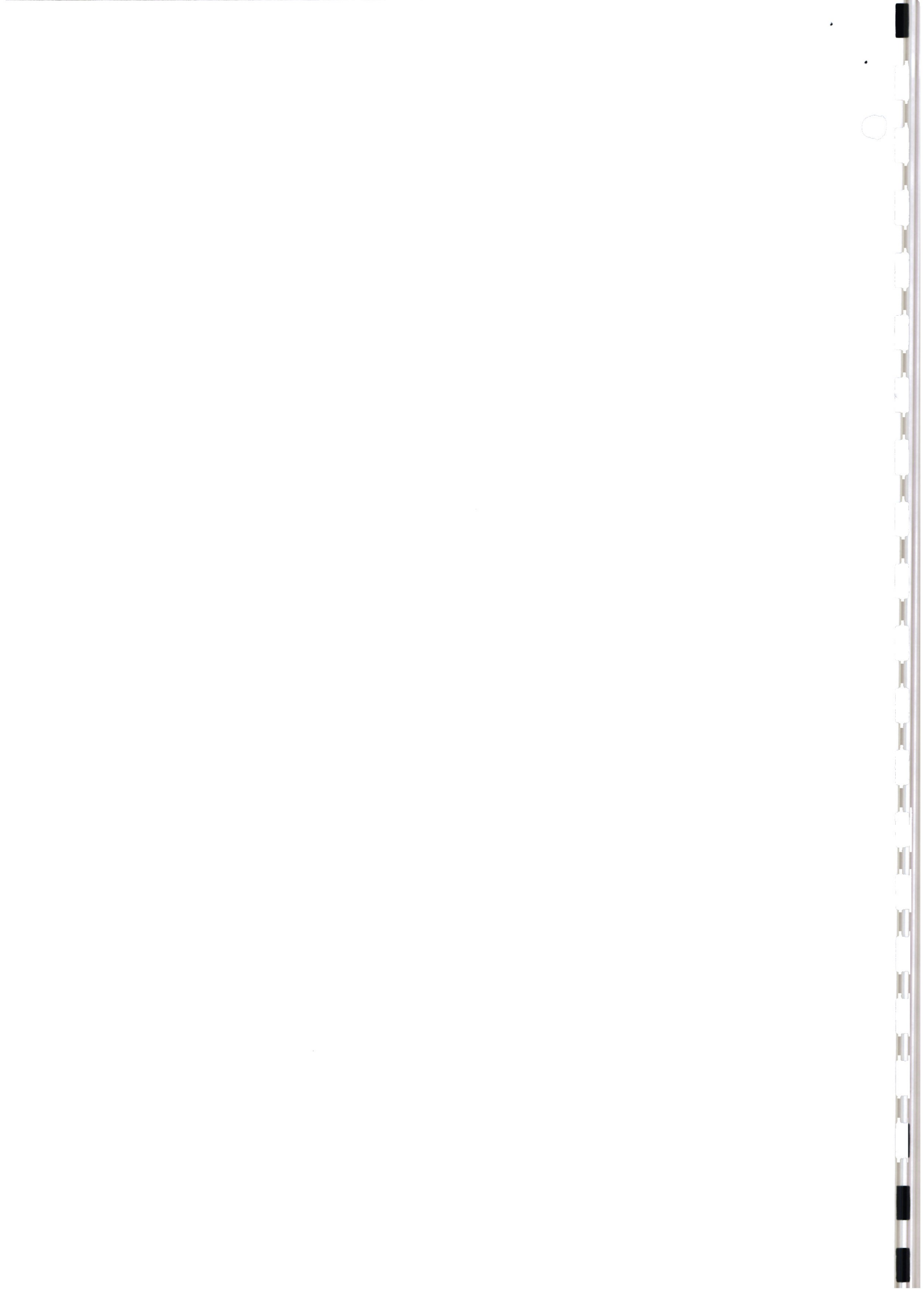
D. EMERGING ISSUES IN ENERGY SECTOR

During the implementation of the projects and programs, the following emerging issues were noted and documented:

1. The shift to PPP as a financing option for the sustainability of infrastructure development;
2. Growing concerns on safety, health and environmental issues during project implementation and operation;
3. The need for security of power infrastructure installations as a key national concern to guard against terror threats and safeguards against projects delivery timelines;
4. Economic integration and growth of regional power trade and taxation of cross-border power exchanges;
5. climate change related issues and significant shift towards production of clean and green renewable energy;
6. The collaboration between the National and County Governments in energy planning
7. Mainstreaming of cross-cutting issues such as gender, SDGs, disaster management among others the implementation of energy projects and programme.

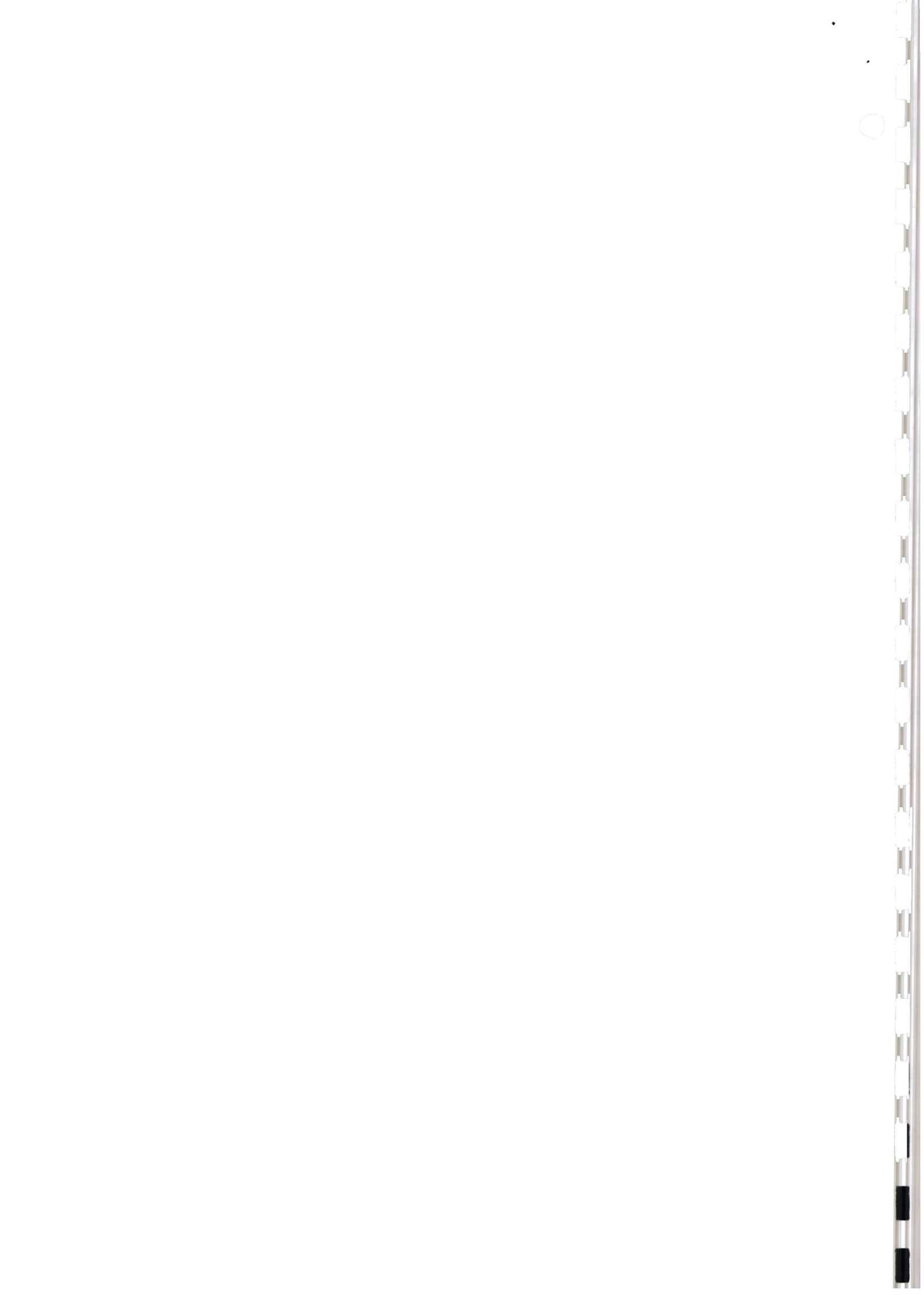
E. CHALLENGES AND MITIGATION MEASURES

Challenges/Risks	Mitigation Measures (Way Forward)
Mismatch in electricity demand and generation capacity expansion.	<ul style="list-style-type: none">▪ Actualisation of vision 2030 flagship projects▪ Pursue capacity expansion strategies that ensure balancing of supply and demand
Multiple Levies demanded by various Government entities for power infrastructure	<ul style="list-style-type: none">▪ Intervention by Government to resolve disputes, set relevant policy and harmonise relevant laws
Right of Way for power infrastructure projects, (way leaves acquisition, encroachment, trace clearance) and land acquisition, leading to huge claims by Contractors due to stoppage of works.	<ul style="list-style-type: none">▪ Review of the existing legal and institutional frameworks that govern wayleave and land acquisition.▪ Enactment of Public Participation Bill, 2016▪ Public Education▪ Engaging Government, County and other public bodies▪ Enforcement of Land Laws (Amendment) Act No. 28 of 2016.▪ Undertake due diligence on the projects.▪ There is need to plan and acquire land in advance to meet the current and future infrastructure expansion requirements given its ever increasing costs.



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High initial connection costs	<ul style="list-style-type: none"> ▪ Loan facilities for customers ▪ Support from GOK to meet connectivity costs ▪ Review costs to increase efficiencies ▪ Pre-investment by the government especially in Greenfield.
Balancing competing objectives in the sector such as rapid capacity expansion against the need for lower tariffs and the need for greening our generation against the desire for cheaper reliable capacities that are not necessarily green such as coal	<ul style="list-style-type: none"> ▪ Timely review of tariffs ▪ Target low cost generation sources. ▪ Balancing policy objectives through periodic and timely review of targeted policies.
Vandalism of electricity infrastructure	<ul style="list-style-type: none"> ▪ Need for punitive legislation to guard against vandalism ▪ Apply anti-vandalism technology ▪ Sensitise local communities on protecting/policing power infrastructure ▪ Establish security intelligence system and community informers' frameworks ▪ Install security alarm and surveillance systems in all substations and strategic points along the lines
Inadequate financial resources and delayed disbursements	<ul style="list-style-type: none"> ▪ Review of the Public Financial Management (PFM) Act, 2012 and the Regulations to increase efficiency in disbursements. ▪ Lobby National Treasury and National Parliament and Development Partners for more budgetary allocations ▪ Explore new business models e.g. formation of subsidiaries for off balance sheet financing, EPC+Finance and Public Private Partnerships (PPPs). ▪ Diversification of revenue sources – Exchequer, development partners, freeway leaves, partnerships with county governments, enhanced customer connections
Insecurity and community conflicts in project areas	<ul style="list-style-type: none"> ▪ Need for security arrangements for power infrastructure projects and guard against potential terror attacks. ▪ Conflict management measures.
Inadequate human resource capacity	<ul style="list-style-type: none"> ▪ Establishment of National Centres of Excellence in the Energy sector. ▪ Capacity building programmes through Benchmarking and partnerships
High pre-development costs for Energy Projects	<ul style="list-style-type: none"> ▪ Continued GOK support in mobilizing resources to fund the upfront costs through Government to Government grant propositions and other innovative approaches. ▪ Promote Public Private Partnerships (PPPs).
High electricity tariff	<ul style="list-style-type: none"> ▪ Promote the development of cheap sources of electricity such as geothermal, nuclear, LNG and coal. ▪ Deliberate interventions in the energy market through fiscal incentives (taxes, duties, levies) and non-fiscal incentives (subsidies, fees, guarantees, credits).

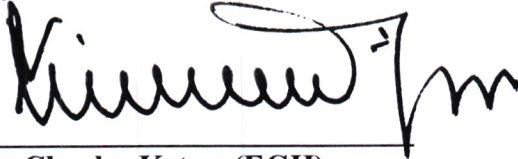


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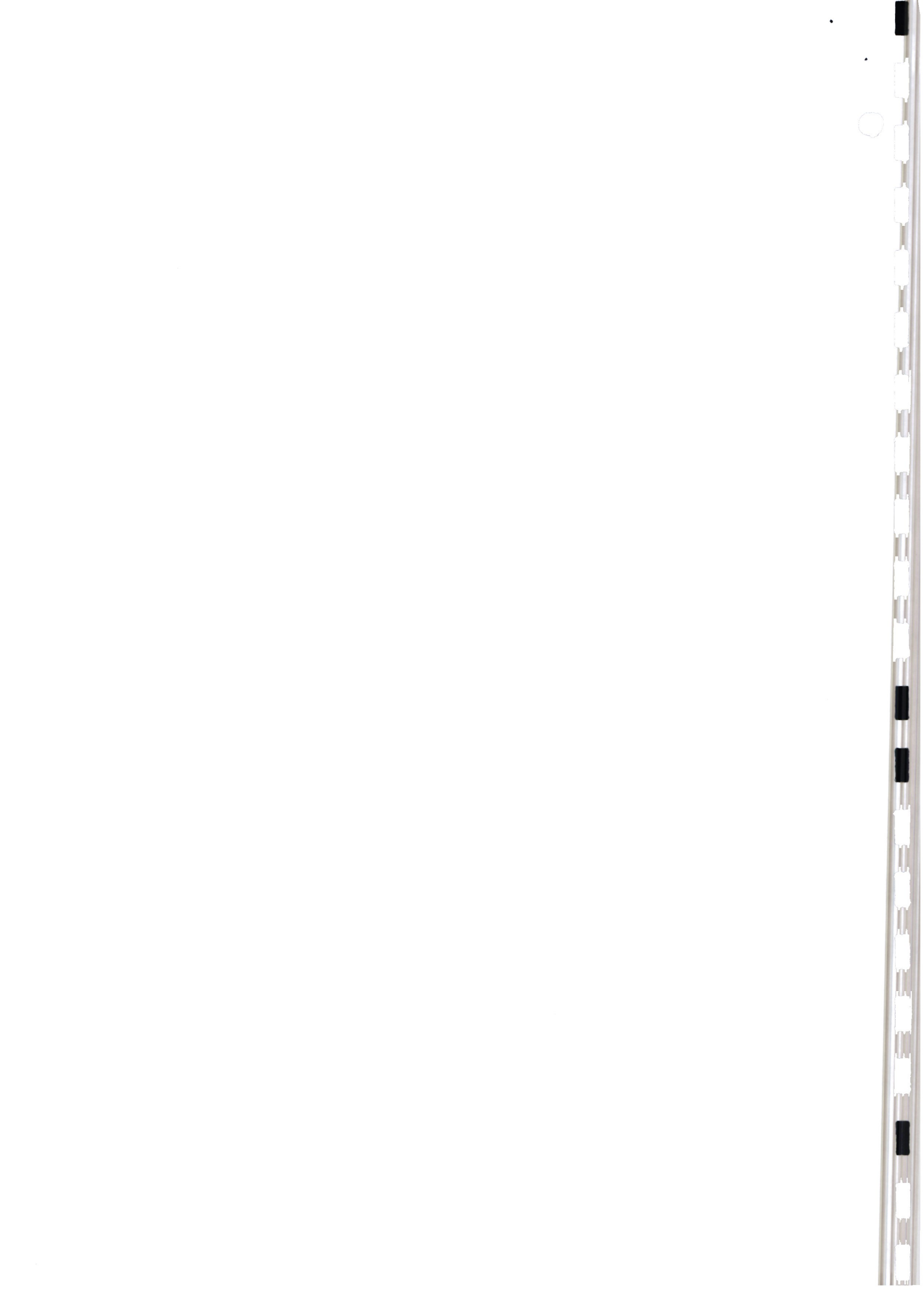
Inadequate Legal and regulatory framework to address emerging issues in the energy sector.

- Review the legal, regulatory, policy and institutional framework in the energy sector to address the emerging issues in the sector.

Finally, I urge all the stakeholders to collaborate in the implementation of the various energy sector strategies and plans with a view to delivering, on a sustainable basis, affordable quality energy for all Kenyans.



Hon. Charles Keter, (EGH)
CABINET SECRETARY



STATE DEPARTMENT FOR ENERGY
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III. STATEMENT OF STATE DEPARTMENT FOR ENERGY 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 Ministry of Energy and Petroleum, State Department for Energy shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

The Accounting Officer in charge of the Ministry of Energy and Petroleum, State Department for Energy is responsible for the preparation and presentation of the ministry's financial statements, which give a true and fair view of the state of affairs of the ministry for and as at the end of the financial year (period) 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 ministry; (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 ministry; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

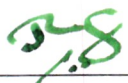
The Accounting Officer in charge of the Ministry of Energy - State Department for Energy accepts responsibility for the ministry's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the Ministry's financial statements give a true and fair view of the state of Ministry's transactions during the financial year ended June 30, 2018, and of the Ministry's financial position as at that date. The Accounting Officer in charge of the Ministry of Energy and Petroleum further confirms the completeness of the accounting records maintained for the Ministry, which have been relied upon in the preparation of the Ministry's financial statements as well as the adequacy of the systems of internal financial control.


The Accounting Officer in charge of the Ministry of Energy -State Department for Energy confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

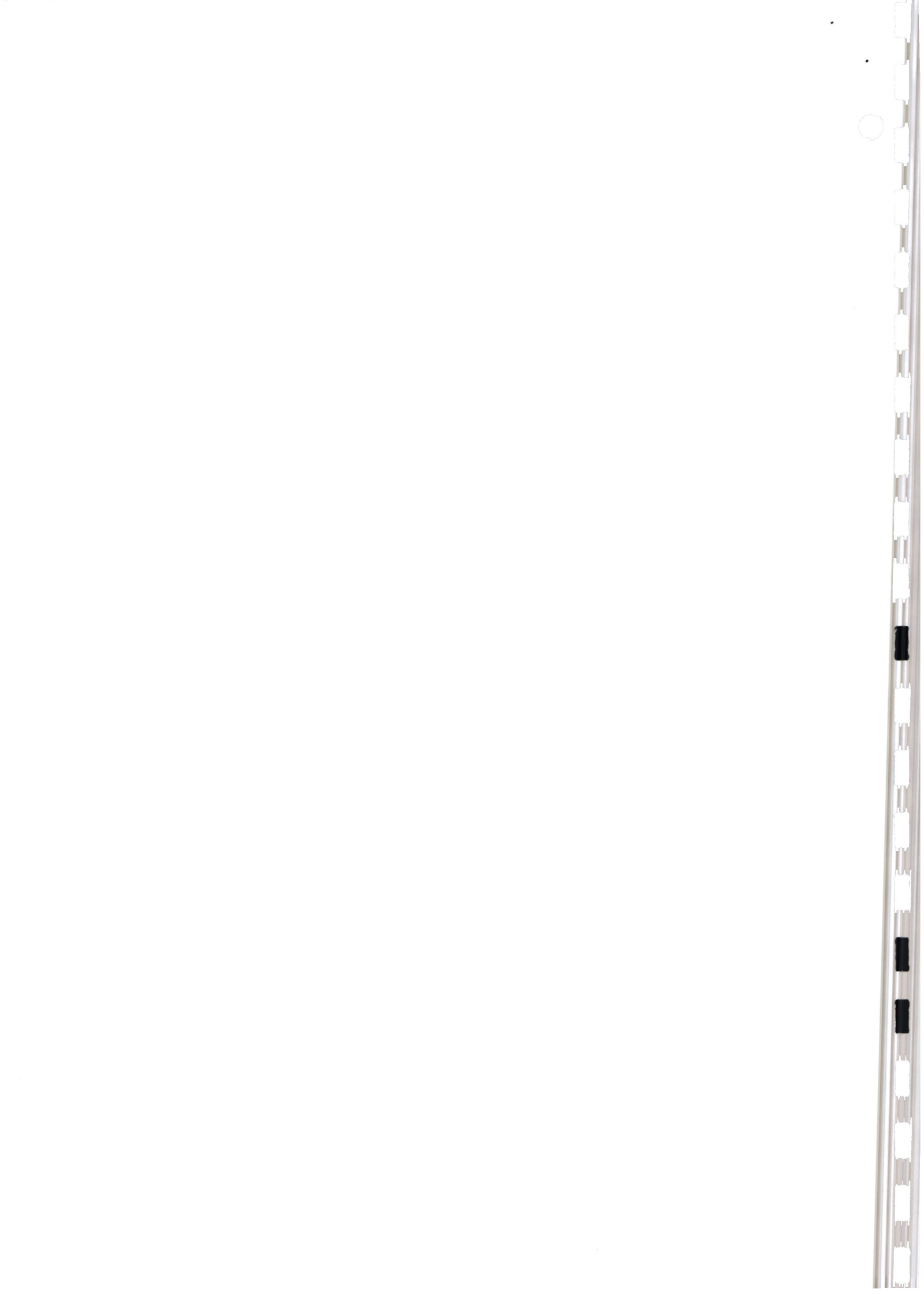
Further the Accounting Officer confirms that the Ministry's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The Ministry of Energy and Petroleum, State Department for Energy's revised financial statements were approved and signed by the Accounting Officer on 24th January, 2019


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


Principal Accounts Controller
Name: Jedidah A.N. Macharia
ICPAK Member Number: 8805



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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON STATE DEPARTMENT FOR ENERGY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of State Department for Energy set out on pages 1 to 32, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation: recurrent and development combined, budget execution by programmes and sub-programmes for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of State Department for Energy 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 (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Land without Title Deeds

As reported in 2016/2017, the State Department for Energy does not have title deeds for eight (8) parcels of land it occupies totaling 21.42 hectares, with book value of approximately Kshs.180,700,000. Particulars and current status of the parcels of land, which are located in Kericho, Kisii, Migori, Kakamega, Uasin Gishu, Kitui, Nyeri and Meru counties, are as detailed out below:

No.	Land Parcel	Size (Hectares)	Location (County)	Approximate Value (Kshs)	Condition
1.	Kericho Energy Centre	0.80	Kericho	15,000,000	Developed and fenced
2.	Kisii Energy Centre	1.00	Kisii	12,000,000	Developed and fenced

Report of the Auditor-General on the Financial Statements of State Department for Energy for the year ended 30 June 2018

No.	Land Parcel	Size (Hectares)	Location (County)	Approximate Value (Kshs)	Condition
3.	Migori Energy Centre	0.40	Migori	2,200,000	Developed and fenced
4.	Bukura Energy Centre	2.00	Kakamega	3,500,000	Developed and fenced
5.	Uasin Gishu Energy Centre	0.80	Uasin Gishu	12,000,000	Developed and fenced
6.	Kitui Energy Centre	10.40	Kitui	53,000,000	Developed and fenced
7.	Wambugu Energy Centre	4.00	Nyeri	80,000,000	Developed and fenced
8.	Mitunguu Energy Centre	2.02	Meru	3,000,000	Developed and fenced
	Total	21.42		180,700,000	

Information available indicate that the process of acquiring titles for some of the land parcels has been underway for significantly long duration. From the foregoing, it has not been possible to confirm the rightful ownership of these parcels as well as the risk exposure of being encroached upon by squatters and land grabbers.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of 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 significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1. Accounts Receivables

The financial statements reflect accounts receivables of Kshs.139,114,483, as disclosed in Note 12. This balance which relates to outstanding imprests, includes district suspense balance of Kshs.137,586,321 which had not been surrendered to the head office by the time of concluding the audit. Under the circumstances, it was not possible to confirm that the imprest is free from risk of misappropriation.

2. Budget Performance

During the year under review, the approved final budget for use of goods and services was Kshs.1,029,780,080. Out of this, only Kshs.564,451,806 (55%) was absorbed, resulting in under absorption of Kshs.465,328,274 (45%) as summarized below:

Report of the Auditor-General on the Financial Statements of State Department for Energy for the year ended 30 June 2018

Item	Budget Kshs.	Actual Kshs.	Variance Kshs.	Absorption
Utilities, Supplies and Services	8,762,586	7,464,287	(1,298,299)	85%
Communication, Supplies and Services	15,657,873	10,974,527	(4,683,346)	70%
Domestic Travel and Subsistence, and Other Transportation Costs	68,959,673	35,805,308	(33,154,365)	52%
Foreign Travel and Subsistence, and other transportation costs	8,272,142	5,609,047	(2,663,095)	68%
Printing , Advertising and Information Supplies and Services	12,187,481	2,240,982	(9,946,499)	18%
Rentals of Produced Assets	352,000	352,000	-	100%
Training Expenses	235,122,110	102,273,596	(132,848,514)	43%
Hospitality Supplies and Service	40,635,940	25,469,082	(15,166,858)	63%
Specialized Materials and Supplier	14,158,778	11,470,075	(2,688,703)	81%
Office and General Supplies and Services	17,448,069	11,476,891	(5,971,178)	66%
Fuel Oil and Lubricants	11,801,538	10,393,497	(1,408,041)	88%
Other Operating Expenses	492,527,990	258,077,787	(234,450,203)	52%
Routine Maintenance – Vehicles and Other Transport Equipment	16,061,304	12,784,086	(3,277,218)	80%
Routine Maintenance - Other Assets	87,832,596	70,060,641	(17,771,955)	80%
Total	1,029,780,080	564,451,806	(465,328,274)	55%

According to management, the under absorption of Kshs.465,328,274 arose from delayed commencement of Off-grid Solar Access Project in Underserved Counties, delays in procurements under donor funded projects, delay in release of exchequer in the fourth quarter of the year under review and part release of budgeted recurrent exchequer.

The under-absorption of the approved budget may have resulted to slowed down implementation of activities and projects in the Department's work-plan, for which the funds were budgeted. This may have impacted negatively on service delivery to the people of Kenya.

3. Pending Bills

The statement of receipts and payments reflects payments totaling Kshs.75,051,315,555 for the year ended 30 June 2018. This amount excludes pending bills of Kshs.133,684,202 as disclosed in Annex 1 to the financial statements, which have been carried forward to

2018/2019 financial year. Had the pending bills been settled in the year under review, the statement would have reflected a reduced surplus of Kshs.8,117,349 instead of the reported surplus of Kshs.141,801,551. Failure to settle bills in the year to which they relate adversely affects the following year's budget provision to which they have to be charged.

4. Solar DC Systems Not in Use

The State Department spent Kshs.4,358,328 during the year under review to install solar DC systems in six (6) dispensaries in Kitui and Makueni Counties, as detailed below:

Dispensary	County	Cost (Kshs)
Maviaume	Makueni	313,502
Mulengu	Makueni	605,740
Ndumoini	Makueni	691,499
Ngatie	Kitui	599,059
Mwaathe	Kitui	1,263,750
Katumbi	Kitui	884,778
Total		4,358,328

These six systems were part of contract No.MOEP/SDE/ONT/03/2017-2018 for Supply, installation, testing and commissioning of solar PV power systems to 75 schools, health facilities, police stations and sub-county offices in arid and semi-arid counties and they were to provide electric power to run refrigerators.

An audit inspection conducted in late January and early February, 2019 revealed that, although the six solar DC systems had been tested and commissioned, they were yet to be utilized for the benefit of the local community because refrigerators which were to be energized were yet to be acquired. According to management, the responsibility for provision of the refrigerators to the dispensaries lie with the Ministry of Health, as per an undertaking made by the latter. Under the circumstances, it is not possible to confirm there was value for money in the expenditure of Kshs.4,358,328 incurred by the State Department on the solar power systems.

5. Twin Biogas Digesters Plant – Siana Primary School, Narok County

The State Department entered into a contract on 29 June 2016, for an amount of Kshs.7,923,405 for the supply, construction, testing and commissioning of twin biogas digesters plant in Siana Primary School - Narok County. The objective of the digester was to generate biogas using cow dung and sewage for use by the school. The contract provided for twenty (20) weeks for construction and eight (8) weeks for testing to its functional use. Records available at the State Department indicate that the contractor had been paid Kshs.5,351,300 as at 30 June 2017, based on engineer's assessment with the balance being payable upon testing of the system. However, although the biogas plant construction and installation was completed in January 2017, its testing and commissioning was still pending. According to the school management, the delay in testing arose from inability of the system to generate biogas as a result of inadequate cow dung supply. According to the project management, the school had at the project design stage undertaken to maintain

sufficient herd of cattle to adequately supply the digester with cow dung, but they explained measures have been put in place to ensure that the plant is tested and commissioned. However, the completion of this project is significantly behind schedule.

Under the circumstances, it has not been possible to confirm whether there was value for money in the expenditure of Kshs.7,923,405.

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 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 (Cash 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 State Department'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 State Department, 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 State Department'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 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 State Department'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 State Department'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 State Department 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 State Department 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

09 April 2019

STATE DEPARTMENT OF ENERGY
Reports and Financial Statements
For the year ended June 30, 2018

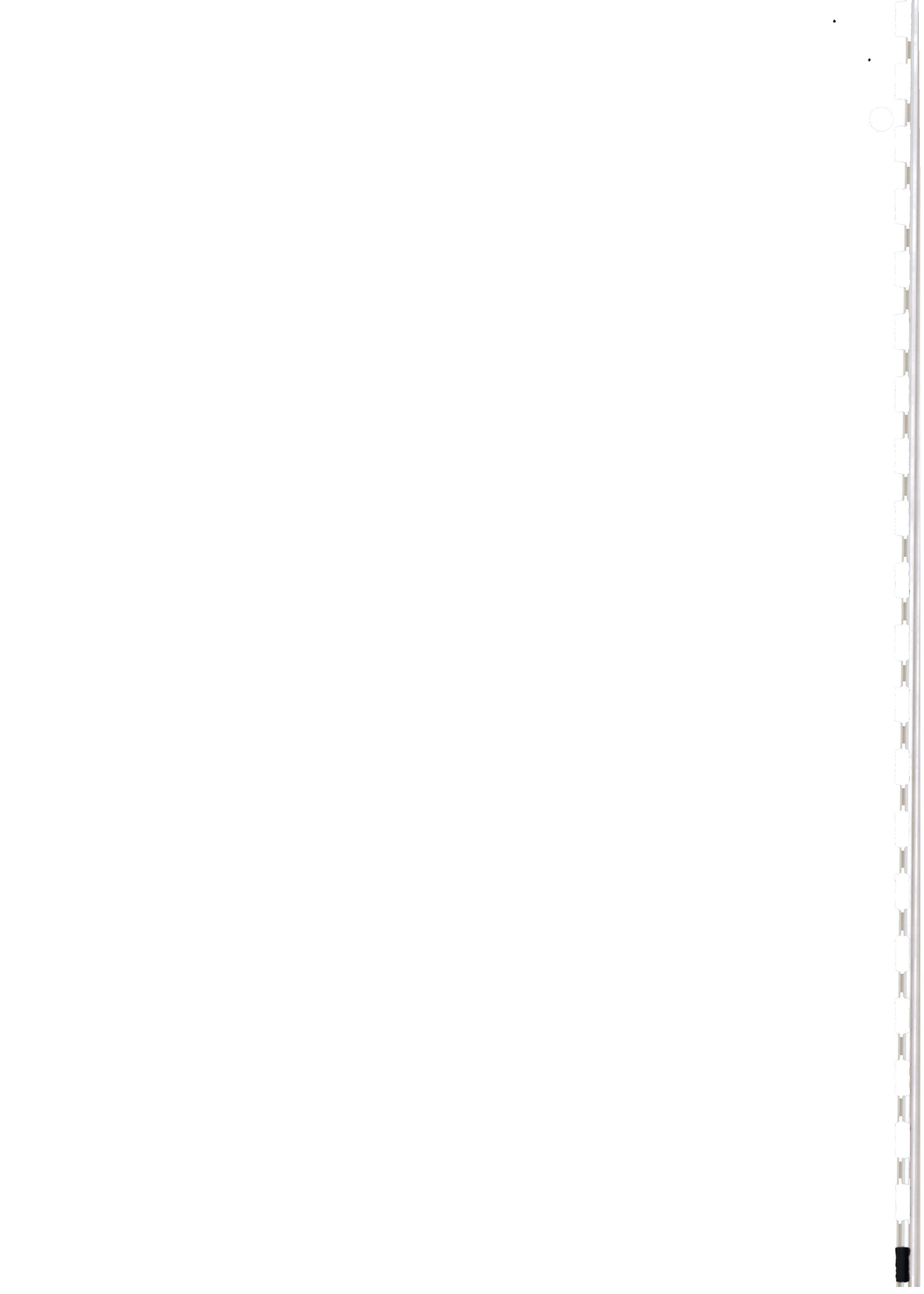
V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2017-2018	2016-2017
		Kshs	Kshs
RECEIPTS			
Tax Receipts	1	6,547,003,451	4,062,458,470
Exchequer releases	2	40,273,559,411	42,241,752,654
Proceeds from Foreign Borrowings	3	27,962,236,549	35,828,369,271
Proceeds from Sale of Assets	4	2,052,188	175,775
Other Receipts	5	408,265,507	3,494,415,553
TOTAL RECEIPTS		75,193,117,106	85,627,171,723
PAYMENTS			
Compensation of Employees	6	341,474,313	354,202,079
Use of goods and services	7	564,451,806	1,503,055,393
Transfers to Other Government Units	8	36,979,043,030	37,796,467,017
Social Security Benefits	9	20,996,498	-
Acquisition of Assets	10	37,145,349,908	45,972,650,549
TOTAL PAYMENTS		75,051,315,555	85,626,375,038
SURPLUS		141,801,551	796,686

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 24th January 2019 and signed by:

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

Principal Accounts Controller
 Jedidah A.N. Macharia
 ICPAK Member Number: 8805



STATE DEPARTMENT FOR ENERGY
Reports and Financial Statements
For the year ended June 30, 2018

VI. STATEMENT OF ASSETS AND LIABILITIES

	Note	2017-2018	2016-2017
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	11A	113,054,280	116,633,717
Total Cash and cash equivalent		113,054,280	116,633,717
Accounts receivables	12	139,114,483	1,237,413
TOTAL FINANCIAL ASSETS		252,168,763	117,871,130
FINANCIAL LIABILITIES			
Accounts Payables – Deposits	13	93,117,256	100,621,173
NET FINANCIAL ASSETS		159,051,507	17,249,956
REPRESENTED BY			
Fund balance b/fwd	14	17,249,956	16,453,270
Surplus for the year		141,801,551	796,686
NET FINANCIAL POSITION		159,051,507	17,249,956

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 24th January, 2019 and signed by:

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STATE DEPARTMENT FOR ENERGY
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For the year ended June 30, 2018

VII. STATEMENT OF CASH FLOWS

		2017-2018	2016-2017
	Notes	Kshs	Kshs
CASHFLOW FROM OPERATING ACTIVITIES			
Receipts for operating income			
Tax Revenues	1	6,547,003,451	4,062,458,470
Exchequer Releases	2	40,273,559,411	42,241,752,654
Other Revenues	5	408,265,507	3,494,415,553
Payments for operating expenses			
Compensation of Employees	6	(341,474,313)	(354,202,079)
Use of goods and services	7	(564,451,806)	(1,503,055,393)
Transfers to Other Government Units	8	(36,979,043,030)	(37,796,467,01)
Social Security Benefits	9	(20,996,498)	-
Adjusted for:			
Changes in receivables		(137,877,070)	2,846,533
Changes in payables		(7,503,917)	(19,787,751)
Net cash flow from operating activities		9,177,481,735	47,924,427,987
CASHFLOW FROM INVESTING ACTIVITIES			
Proceeds from Sale of Assets	4	2,052,188	175,775
Acquisition of Assets	10	(37,145,349,908)	(45,972,650,549)
Net cash flows from Investing Activities		(37,143,297,720)	(45,972,474,774)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	3	27,962,236,549	35,828,369,271
Net cash flow from financing activities		27,962,236,549	35,828,369,271
NET INCREASE IN CASH AND CASH EQUIVALENT			
		(3,579,437)	(16,144,532)
Cash and cash equivalent at BEGINNING of the year		116,633,717	132,778,249
Cash and cash equivalent at END of the year		113,054,280	116,633,717

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 24th January, 2019 and signed by:

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

Principal Accounts Controller
 Jedidah A.N. Macharia
 ICPAK Member Number: 8805

VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on	Budget Utilization	% of
	a Kshs	b Kshs	c=a+b Kshs	Comparable Basis d Kshs	e=c-d Kshs	f=d/c %
RECEIPTS						
Tax receipts	7,008,000,000	-	7,008,000,000	6,547,003,451	460,996,549	93%
Proceeds from domestic and foreign Grants(AIA)	251,250,000	-	251,250,000	-	251,250,000	0%
Exchequer releases	33,146,404,658	8,696,704,137	41,843,108,795	40,273,559,411	1,569,549,384	96%
Proceeds from foreign borrowings (AIA)	37,072,449,652	(8,833,783,195)	28,238,666,457	27,962,236,549	276,429,908	99%
Proceeds from sale of assets (AIA)	3,580,000	-	3,580,000	2,052,188	1,527,812	57%
Other receipts (AIA)	337,520,000	21,800,000	359,320,000	408,265,507	(48,945,507)	114%
TOTAL RECEIPTS	77,819,204,310	(115,279,058)	77,703,925,252	75,193,117,106	2,510,808,146	97%
PAYMENTS						
Compensation of employees	315,500,000	40,400,000	355,900,000	341,474,313	14,425,687	96%
Use of goods and services	893,680,020	136,100,060	1,029,780,080	564,451,806	465,328,274	55%
Transfers to other government units	26,817,615,000	10,771,728,030	37,589,343,030	36,979,043,030	610,300,000	98%
Social security benefits	5,200,000	15,800,000	21,000,000	20,996,498	3,502	100%
Acquisition of assets	49,787,209,290	(11,079,307,148)	38,707,902,142	37,145,349,908	1,562,552,234	96%
TOTAL PAYMENTS	77,819,204,310	(115,279,058)	77,703,925,252	75,051,315,555	2,652,609,697	97%

Commentary on Significant Underutilization (Below 90% of Utilization) and any Overutilization (Above 100%)

- (i) The non-receipt of the budgeted proceeds from domestic and foreign grants of Kshs.251,250,000 was due to non-disbursement of the same by the donors
 - (ii) The under collection of proceed from sale of assets of Kshs.1,527,812 (43% of budget) was as a result of failure to find buyers
 - (iii) The over collection of other receipts by Kshs.48,945,507 (14% of budget) was due to receipt of amounts relating to previous year
 - (iv) The underutilization of use of goods and services budget by Kshs.465,328,274 (45%) was brought about by delays in commencement of Off-grid Solar Access Project, delays in procurements and late release of exchequer in quarter 4.
- The changes between original and final budgets were due to budget cuts.

The State Department for Energy's financial statements were approved on 24th January, 2019 and signed by:



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



Principal Accounts Controller
Jedidah A. N. Macharia
ICPAK Member Number: 8805




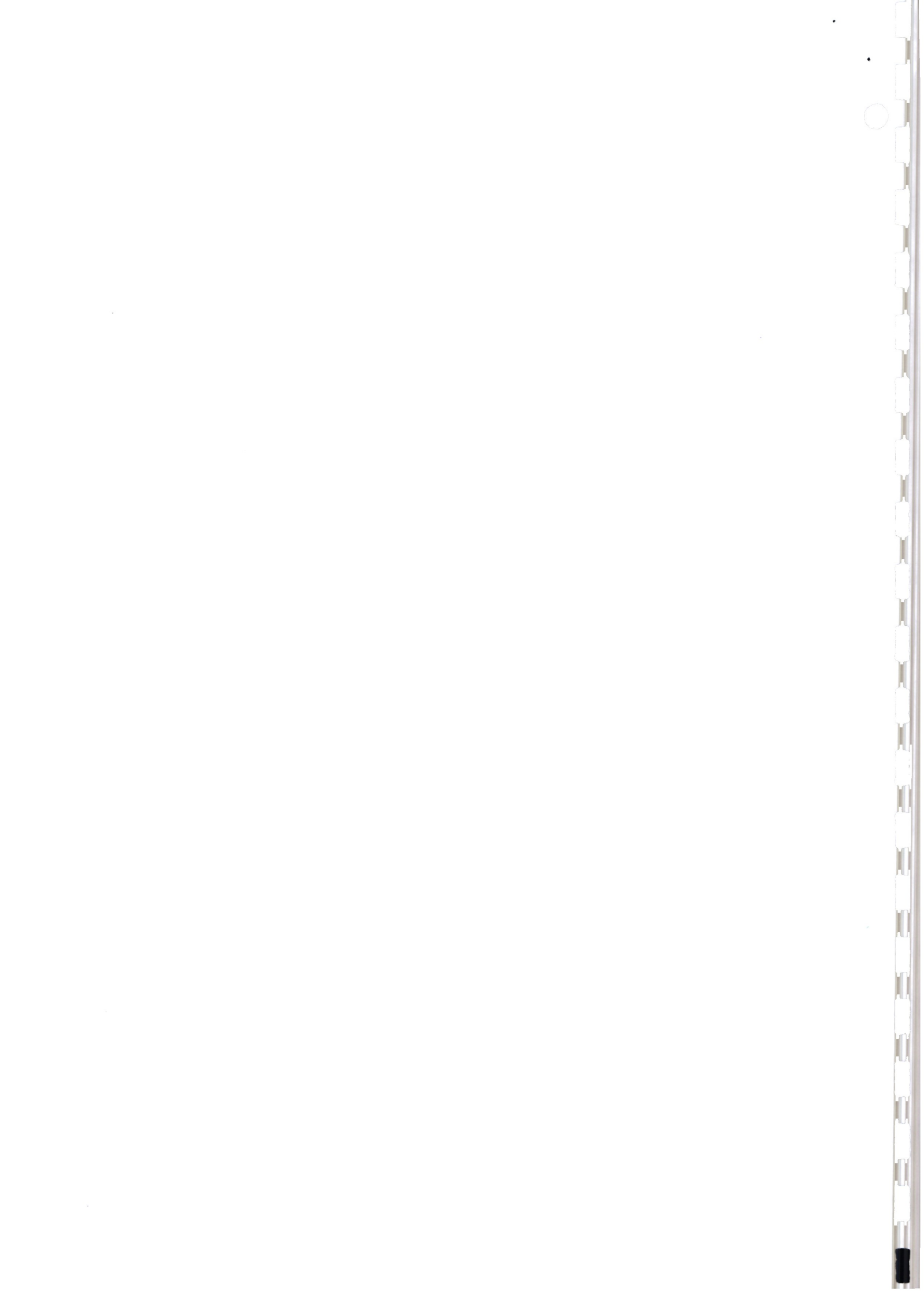
IX. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Receipt/Expense Item	Original Budget a Kshs	Adjustments b Kshs	Final Budget c=a+b Kshs	Comparable Basis d Kshs	Utilization Difference e=c-d Kshs	% of Utilization f=d/c %
RECEIPTS						
Exchequer releases	1,845,400,000	79,700,000	1,925,100,000	1,715,561,546	209,538,454	89%
Proceeds from sale of assets (AIA)	3,580,000	-	3,580,000	2,052,188	1,527,812	57%
Other receipts (AIA)	203,520,000	21,800,000	225,320,000	-	225,320,000	0%
TOTAL RECEIPTS	2,052,500,000	101,500,000	2,154,000,000	1,717,613,734	436,386,266	80%
PAYMENTS						
Compensation of employees	313,500,000	40,400,000	353,900,000	341,004,238	12,895,762	96%
Use of goods and services	189,680,020	6,000,000	195,680,020	153,688,864	41,991,156	79%
Transfers to other government units	1,528,000,000	22,300,000	1,550,300,000	1,194,000,000	356,300,000	77%
Social security benefits	5,200,000	15,800,000	21,000,000	20,996,498	3,502	100%
Acquisition of assets	16,119,980	17,000,000	33,119,980	22,660,394	10,459,586	68%
TOTAL PAYMENTS	2,052,500,000	101,500,000	2,154,000,000	1,732,349,994	421,650,006	80%

The State Department for Energy's financial statements were approved on 24th January 2019 and signed by:


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


Principal Accounts Controller
Jedidah A. N. Macharia
ICPAK Member Number: 8805



Reports and Financial Statements
For the year ended June 30, 2018

X. SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on	Budget Utilization	% of
	a	b	c=a+b	d	e=c-d	f=d/c %
	Kshs	Kshs	Kshs	Kshs	Kshs	
RECEIPTS						
Tax Receipts	7,008,000,000	-	7,008,000,000	6,547,003,451	460,996,549	93%
Proceeds from domestic and foreign grants (AIA)	251,250,000	-	251,250,000	-	251,250,000	0%
Exchequer releases	31,301,004,658	8,617,004,137	39,918,008,795	38,557,997,865	1,360,010,930	97%
Proceeds from foreign borrowings (AIA)	37,072,449,652	(8,833,783,195)	28,238,666,457	27,962,236,549	276,429,908	99%
Other Receipts (AIA)	134,000,000	-	134,000,000	408,265,507	(274,265,507)	305%
TOTAL RECEIPTS	75,766,704,310	(216,779,058)	75,549,925,252	73,475,503,372	2,074,421,880	97%
PAYMENTS						
Compensation of employees	2,000,000	-	2,000,000	470,075	1,529,925	24%
Use of goods and services	704,000,000	130,100,060	834,100,060	410,762,942	423,337,118	49%
Transfers to other government units	25,289,615,000	10,749,428,030	36,039,043,030	35,785,043,030	254,000,000	99%
Acquisition of assets	49,771,089,310	(11,096,307,148)	38,674,782,162	37,122,689,514	1,552,092,648	96%
TOTAL PAYMENTS	75,766,704,310	(216,779,058)	75,549,925,252	73,318,965,561	2,230,959,691	97%

The State Department for Energy's financial statements were approved on 24th January, 2019 and signed by:



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

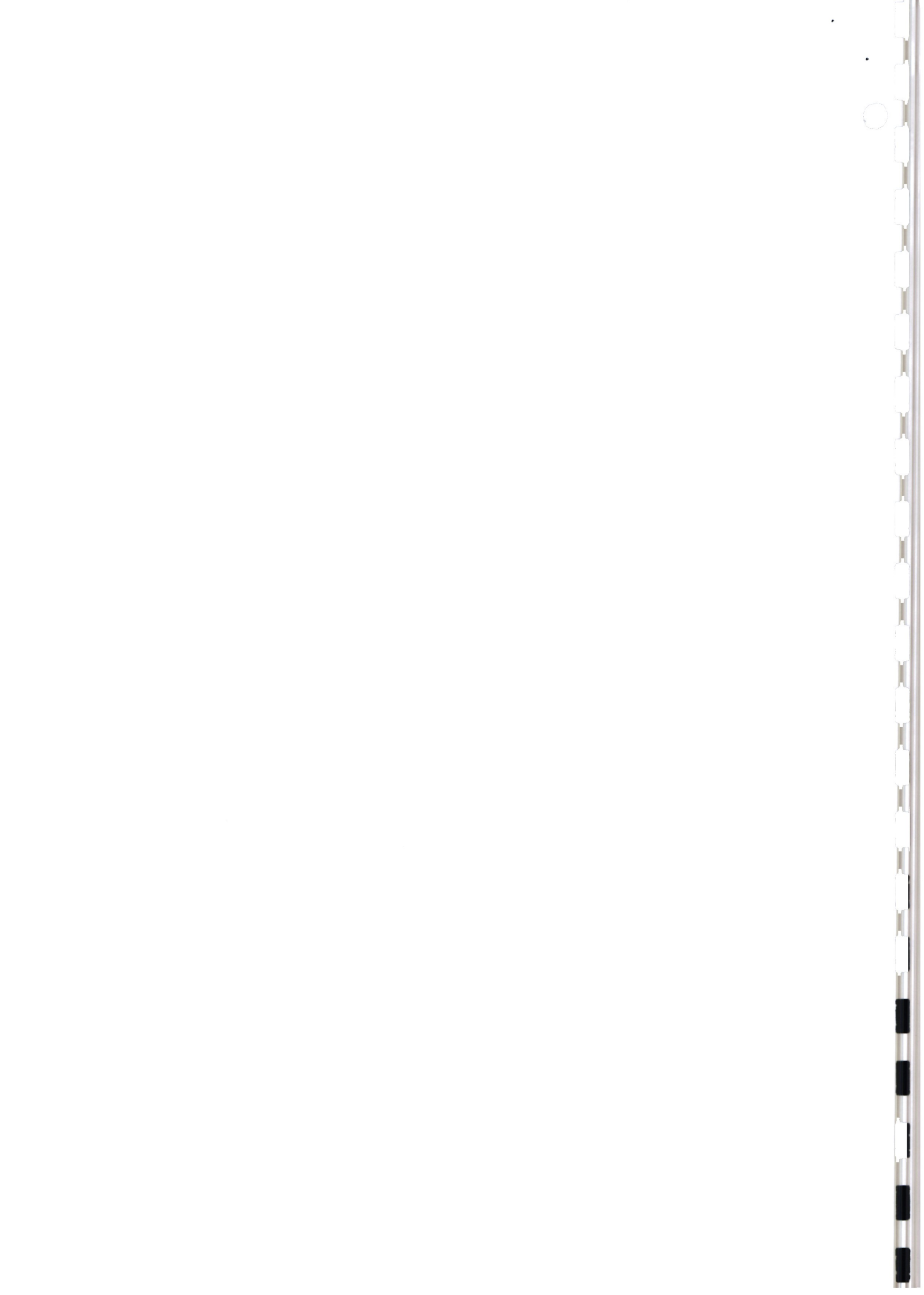


Principal Accounts Controller
Jedidah A. N. Macharia
ICPAK Member Number: 8805

XI. BUDGET EXECUTION BY PROGRAMMES AND SUB-PROGRAMMES

Program/Sub-program	Original Budget	Adjustment	Final Budget	Actual on	Budget
	2017-2018 Kshs	Kshs	2017-2018 Kshs	comparable basis 2017-2018 Kshs	utilization difference Kshs
Alternative Energy Technologies	4,220,320,093	12,083,684,408	16,194,004,501	16,536,035,958	(342,031,457)
Alternative energy technologies	4,220,320,093	12,083,684,408	16,194,004,501	16,536,035,958	(342,031,457)
General Administration Planning and Support Services	460,889,337	411,620,154	872,509,491	445,651,404	426,858,087
Administrative services	260,748,515	55,900,000	316,648,515	270,737,401	45,911,114
Financial management and procurement services	72,921,742	12,800,000	85,721,742	74,702,049	11,019,693
Planning and project monitoring	127,219,080	342,920,154	470,139,234	100,211,954	369,927,281
Power Generation	17,419,486,926	(6,858,999,653)	10,560,487,273	10,152,845,677	407,641,596
Development of nuclear energy	321,270,000	129,050,000	450,320,000	330,202,500	120,117,500
Geothermal and coal resource exploration and development	17,098,216,926	(6,988,049,653)	10,110,167,273	9,822,643,177	287,524,096
Power Transmission and Distribution	55,718,507,954	(5,751,583,967)	50,076,923,987	47,916,782,516	2,160,141,471
National grid system	47,567,892,954	(3,950,292,763)	43,685,430,191	42,380,890,463	1,304,539,728
Rural electrification	8,150,615,000	(1,801,291,204)	6,391,493,796	5,535,892,053	855,601,743
Total	77,819,204,310	(115,279,058)	77,703,925,252	75,051,315,555	2,652,609,697

(NB: This statement is a disclosure statement indicating the utilisation in the same format at the Entity's budgets which are programme based. Ensure that this document is completed to enable consolidation by the National Treasury)



STATE DEPARTMENT OF ENERGY
Reports and Financial Statements
For the year ended June 30, 2018

XII. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of Compliance and Basis of Preparation

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

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

2. Reporting Entity

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

- i) Petroleum Levy Fund
- ii) Kenya Electricity Modernisation Project
- iii) Kenya Energy Sector Environmental Responsibility Programme
- iv) Kenya Electricity Expansion Project
- v) Equalization Fund
- vi) Kenya Off Grid and Solar Access Project

3. Reporting Currency

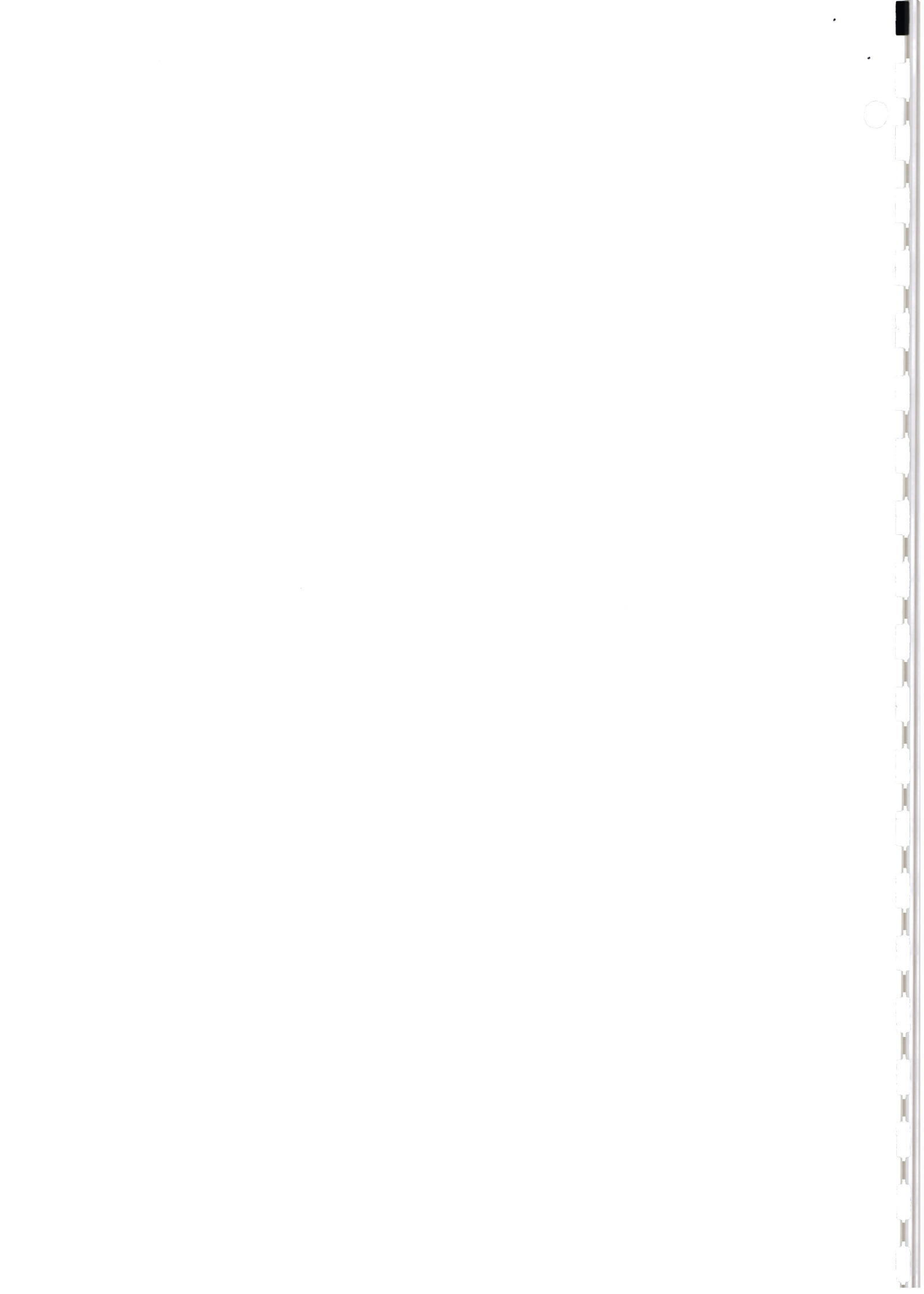
The financial statements are presented in Kenya Shillings (Kshs), which is the functional and reporting currency of the Government and all values are rounded to the nearest Kenya Shilling.

4. Significant Accounting Policies

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

a) Recognition of Rreceipts

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



STATE DEPARTMENT FOR ENERGY
Reports and Financial Statements
For the year ended June 30, 2018

SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Tax Receipts**

Tax receipts are recognized in the books of accounts when returns are submitted from the receiving entities.

- **Transfers from the Exchequer**

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

- **External Assistance**

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

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

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

During the year ended 30th June 2018, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

- **Other receipts**

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

b) Recognition of payments

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

- **Compensation of Employees**

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

- **Use of Goods and Services**

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



STATE DEPARTMENT FOR ENERGY
Reports and Financial Statements
For the year ended June 30, 2018

SIGNIFICANT ACCOUNTING POLICIES (Continued)

● **Interest on Borrowing**

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

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

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

● **Acquisition of Fixed Assets**

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

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

5. In-kind Contributions

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

6. Third Party Payments

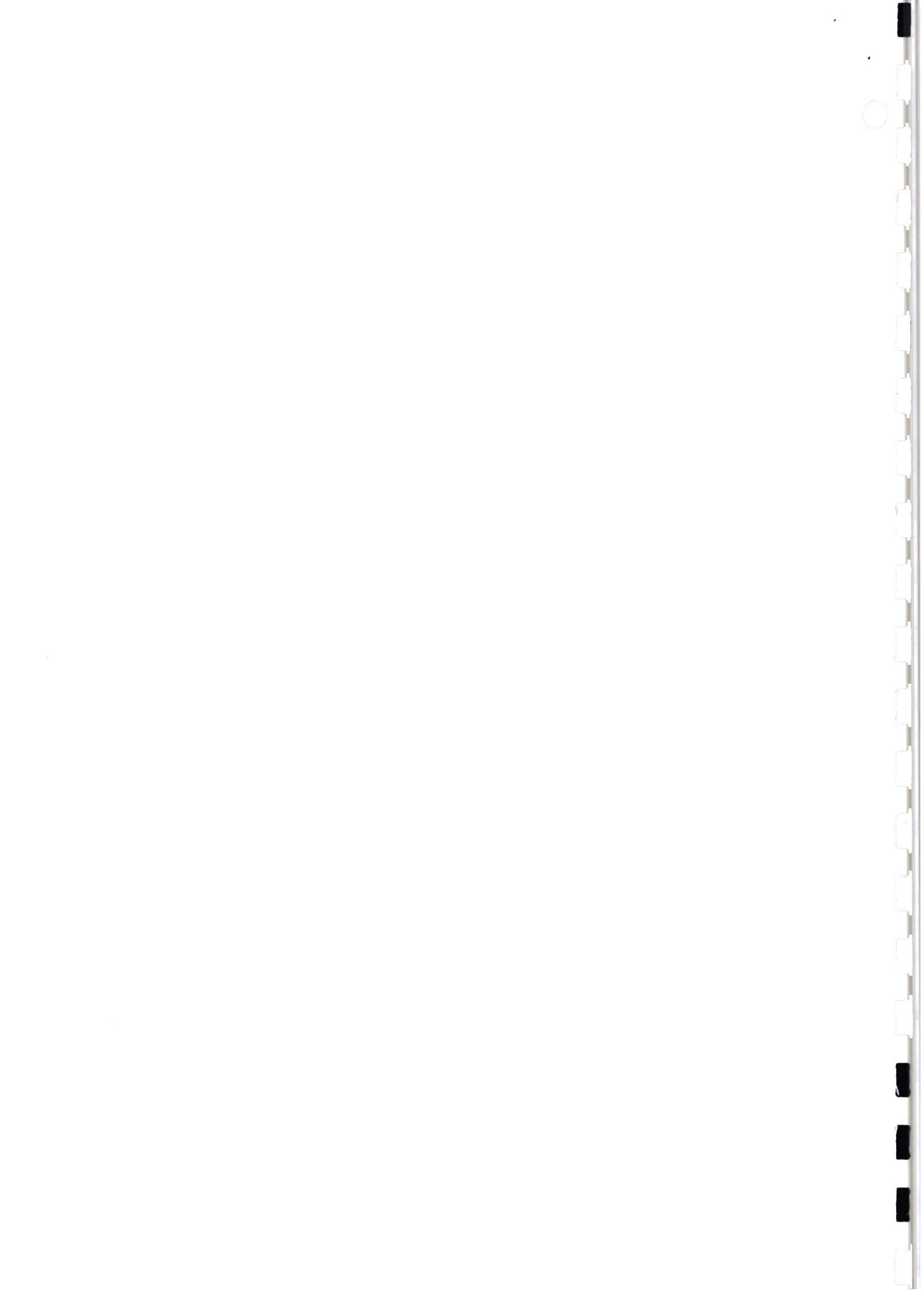
Included in the receipts and payments, are payments made on its behalf to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties in the statement of receipts and payments as proceeds from foreign borrowings.

7. Cash and Cash Equivalents

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

Restriction on Cash

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



STATE DEPARTMENT FOR ENERGY
Reports and Financial Statements
For the year ended June 30, 2018

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits. As at 30th June 2018, this amounted to Kshs.93,117,256 compared to Kshs.100,621,173 in prior period as indicated in note 13.

There were no other restrictions on cash during the year.

8. Accounts Receivable

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

9. Accounts Payable

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

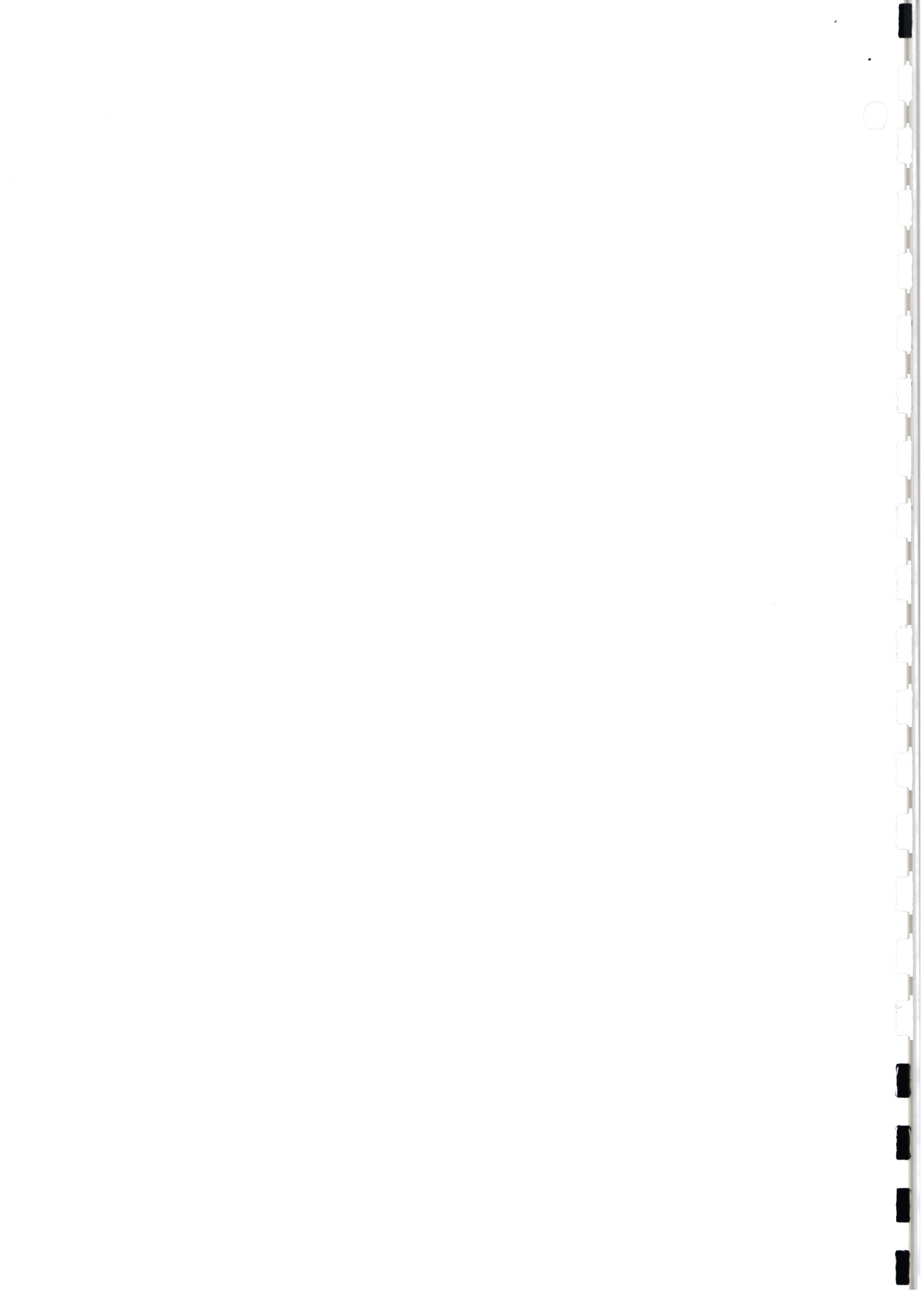
10. Pending Bills

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

11. Budget

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget was approved by Parliament on June 2016 for the period 1st July 2017 to 30th June 2018 as required by Law and there were two supplementary adjustments to the original budget during the year.

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



STATE DEPARTMENT FOR ENERGY
Reports and Financial Statements
For the year ended June 30, 2018

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

12. Comparative Figures

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

13. 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 30th June 2018.

14. Errors

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

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

15. Related Party Transactions

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

STATE DEPARTMENT FOR ENERGY
 Reports and Financial Statements
 For the year ended June 30, 2018

XIII. NOTES TO THE FINANCIAL STATEMENTS

1 TAX REVENUES

	2017 -2018	2016 -2017
	Kshs	Kshs
Taxes on International Trade and Transactions		3,808,625,195
Taxes on goods and services	6,547,003,451	253,833,275
Total	6,547,003,451	4,062,458,470

2. EXCHEQUER RELEASES

Description	2017 -2018	2016 -2017
	Kshs	Kshs
Total Exchequer Releases for quarter 1	7,122,595,511	7,390,368,976
Total Exchequer Releases for quarter 2	6,932,592,959	7,353,971,045
Total Exchequer Releases for quarter 3	20,317,887,019	7,503,002,280
Total Exchequer Releases for quarter 4	5,900,483,922	19,994,410,353
Total	40,273,559,411	42,241,752,654

3. PROCEEDS FROM FOREIGN BORROWINGS

	2017 -2018	2016 -2017
	Kshs	Kshs
Foreign Borrowing – Draw-downs Through Exchequer	4,942,848	-
Foreign Borrowing - Direct Payments	27,957,293,701	35,828,369,271
Total	27,962,236,549	35,828,369,271

4. PROCEEDS FROM SALE OF ASSETS

	2017 -2018	2016 -2017
	Kshs	Kshs
Receipts from the Sale of Inventories, Stocks and Commodities	2,052,188	175,775
Total	2,052,188	175,775

STATE DEPARTMENT FOR ENERGY
Reports and Financial Statements
For the year ended June 30, 2018

TO THE FINANCIAL STATEMENTS (Continued)

5. OTHER REVENUES

Description	2017 -2018	2016 -2017
	Kshs	Kshs
Receipts from Incidental Sales by Non-Market Establishments	408,265,507	590,584,164.00
Proceeds from Sale of Steam	-	2,903,831,389
Total	408,265,507	3,494,415,553

6. COMPENSATION OF EMPLOYEES

	2017 -2018	2016 -2017
	Kshs	Kshs
Basic salaries of permanent employees	209,325,483	238,071,887
Basic wages of temporary employees	750,075.00	1,315,125
Personal allowances paid as part of salary	131,398,755	114,815,067
Total	341,474,313	354,202,079

7. USE OF GOODS AND SERVICES

	2017 -2018	2016 -2017
	Kshs	Kshs
Utilities, Supplies and Services	7,464,287	6,149,971.00
Communication, Supplies and Services	10,974,527	14,142,445
Domestic Travel and Subsistence, and Other Transportation Costs	35,805,308	31,983,213
Foreign Travel and Subsistence, and other transportation costs	5,609,047	4,828,441
Printing , Advertising and Information Supplies and Services	2,240,982	2,022,733
Rentals of Produced Assets	352,000	2,940
Training Expenses	102,273,596	101,096,027
Hospitality Supplies and Service	25,469,082	23,623,950.00
Specialised Materials and Supplier	11,470,075	8,032,793
Office and General Supplies and Services	11,476,891	8,221,887
Fuel Oil and Lubricants	10,393,497	5,340,702
Other Operating Expenses	258,077,787	1,213,990,385
Routine Maintenance - Vehicles	12,784,086	6,868,181
Routine Maintenance - Other Assets	70,060,641	76,751,725
Total	564,451,806	1,503,055,393



STATE DEPARTMENT FOR ENERGY
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For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. GRANTS AND TRANSFERS TO OTHER GOVERNMENT ENTITIES

Description	2017 -2018	2016 -2017
	Kshs	Kshs
Transfers to National Government entities	35,785,043,030	36,268,917,017
TOTAL	36,979,043,030	37,796,467,017

The above transfers were made to the following self-reporting entities in the year:

Description	2017-2018			2016-2017
	Recurrent Kshs	Development Kshs	Total Kshs	Kshs
Transfers to SAGAs and SCs				
Kenya Electricity Transmission Company	225,000,000	10,546,649,235	10,771,649,235	12,144,037,323
Kenya Power and Lighting Company	-	16,661,565,000	16,661,565,000	13,129,000,000
Geothermal Development Company	500,047,500	2,670,500,262	3,170,547,762	3,313,730,000
Kenya Nuclear Electricity Board	116,452,500	271,249,737	387,702,237	522,000,000
Rural Electrification	352,500,000	5,600,078,796	5,952,578,796	8,605,335,000
Kenya Association of Manufacturers	-	35,000,000	35,000,000	35,000,000
State Department for Petroleum	-	-	-	47,364,694
Total	1,194,000,000	35,785,043,030	36,979,043,030	37,796,467,017

9. SOCIAL SECURITY BENEFITS

Description	2017 -2018	2016 -2017
	Kshs	Kshs
Government pension and retirement benefits	20,996,498	-
Total	20,996,498	-

STATE DEPARTMENT FOR ENERGY
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For the year ended June 30, 2018

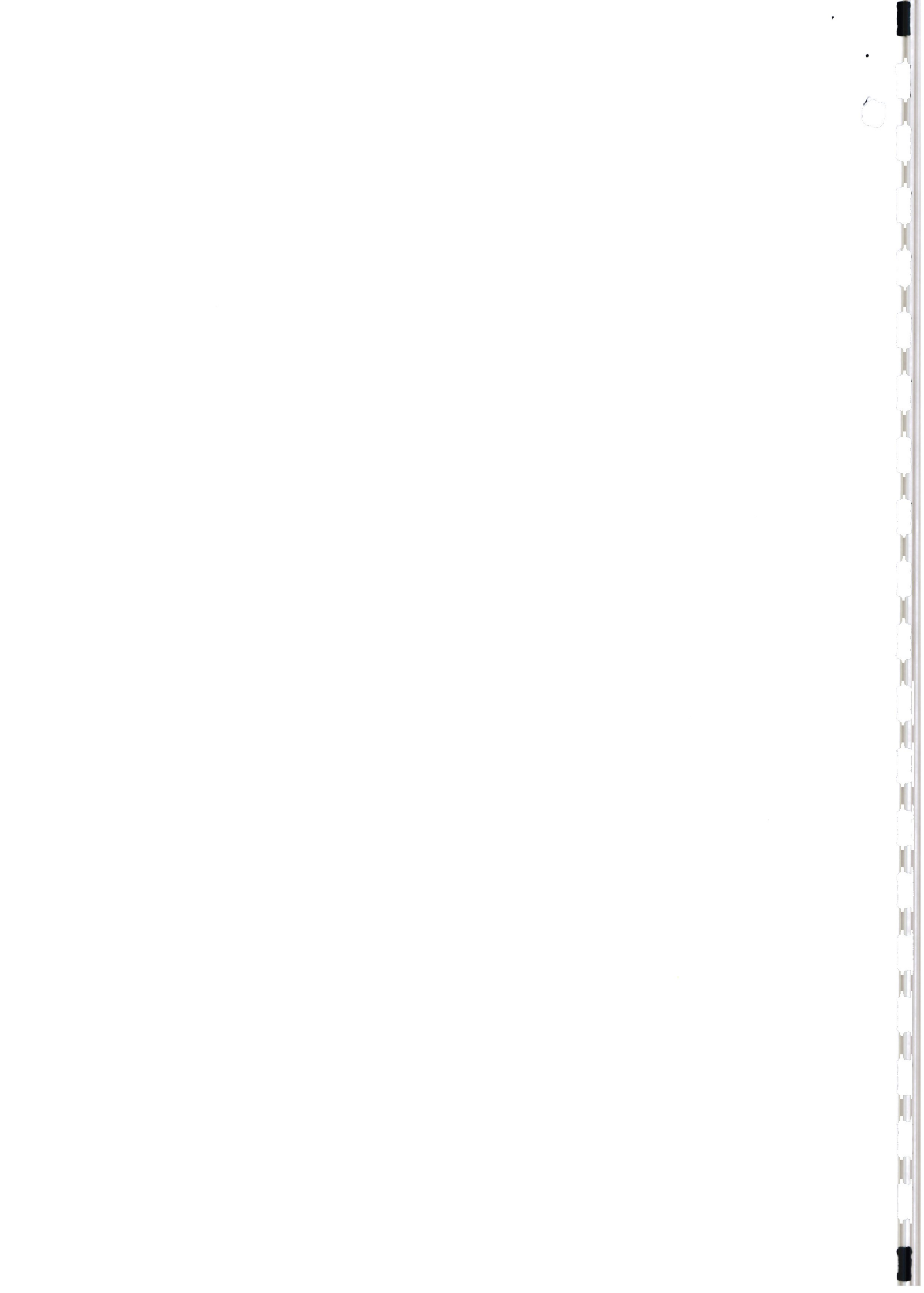
NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. ACQUISITION OF ASSETS

Non-Financial Assets	2017 -2018	2016 -2017
	Kshs	Kshs
Refurbishment of Buildings	4,643,411	-
Construction and Civil Works	36,469,360,040	45,193,474,305
Purchase of Vehicles and Other Transport Equipment	32,275,000	-
Overhaul of vehicles and other Transport Equipment	4,178,295	1,470,546
Purchase of Office Furniture and General Equipment	8,131,759	1,372,340
Purchase of Specialised Plant, Equipment and Machinery	9,058,743	16,780,620
Purchase of Certified Seeds, Breeding Stock and Live Animals	60,000,000	81,616,047
Research, Studies, Project Preparation, Design & Supervision	430,883,817.90	583,537,042
Purchase of Buildings	-	94,399,649
Rehabilitation of civil works	126,818,843	-
Total	37,145,349,908	45,972,650,549

11. BANK ACCOUNTS

Name of bank, account number & currency	Amount in bank account currency	Indicate whether recurrent, Development, deposit e.t.c	2017 -2018	2016 -2017
			Kshs	Kshs
Central bank of Kenya, 1000302615, Kshs	7,223,761	Recurrent	7,223,761	(16,868,555)
Central bank of Kenya, 1000302647, Kshs	250,393	Development	250,393	32,881,099
Central bank of Kenya, 1000302666, Kshs	93,117,256	Deposit	93,117,256	100,621,173
Central bank of Kenya, 1000309539, Kshs	6,027,478	Kenya Electricity Expansion Project	6,027,478	-
Central bank of Kenya, 1000309547, Kshs	6,435,392	Kenya Electricity Modernization Project	6,435,392	-
Total	113,054,280		113,054,280	116,633,717



STATE DEPARTMENT FOR ENERGY
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12: ACCOUNTS RECEIVABLE - OUTSTANDING IMPRESTS

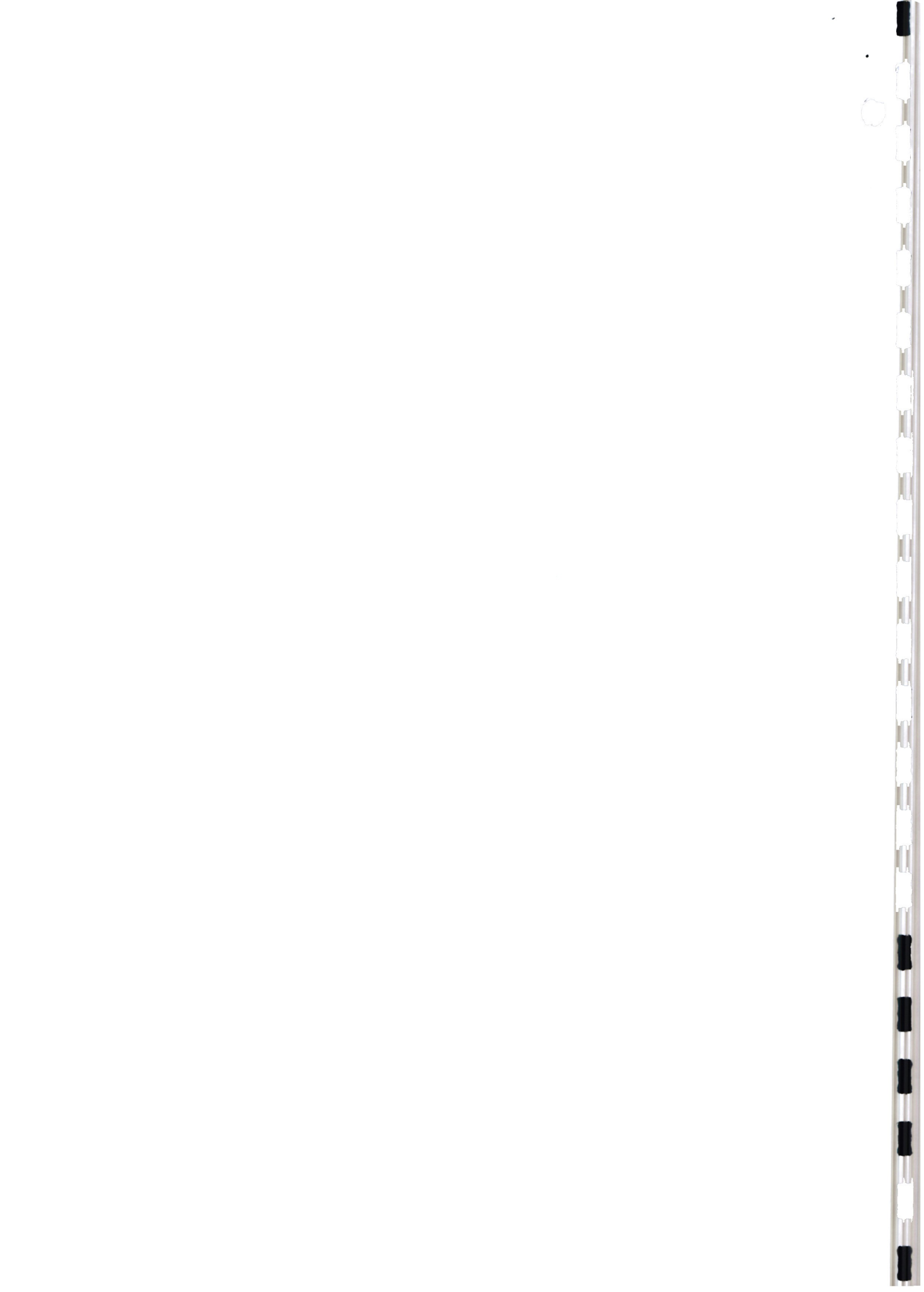
Description	2017 -2018	2016 -2017
	Kshs	Kshs
		-
HQS temporary	1,528,162	1,237,413
District suspense	137,586,321	-
Total	139,114,483	1,237,413

Below is a breakdown of the outstanding imprests:-

No.	Name of officer	Amount taken	Amount surrendered	Balance
1.	John Lesharana Makite	70,400	-	70,400
2.	Julius Koech	22,400	-	20,400
3.	Tom Wafula Maruti	56,000	-	56,000
4.	Ronald Kiprotich Tonui	56,000	-	56,000
5.	Jason Okengo Oumo	33,600	-	33,600
6.	John Otieno Oyomba	300,000	-	300,000
7.	Nduta Njenga	42,000	-	42,000
8.	Derrick Nzioka Kioko	33,600	-	33,600
9.	Nevis Obino Ombasa	557,058	-	557,058
10.	Nicodemus Kusimba	200,504	-	200,504
11	Fauzia Shauri	105,000	-	105,000
12	Julia Ayuma	33,600	-	33,600
13	Dennis Othieno	18,000	-	18,000
	Total	1,528,162		1,528,162

13. ACCOUNTS PAYABLE

Description	2017 -2018	2016 -2017
	Kshs	Kshs
Deposits	93,117,256	100,621,173
Total	93,117,256	100,621,173



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. FUND BALANCE BROUGHT FORWARD

Description	2017 -2018	2016 -2017
	Kshs	Kshs
Bank accounts	116,633,717	132,663,901
Cash in hand	1,237,413	4,083,945
Cash equivalent (short term deposits)	-	114,348
Accounts Payables	(100,621,173)	(120,408,924)
Total	17,249,957	16,453,270

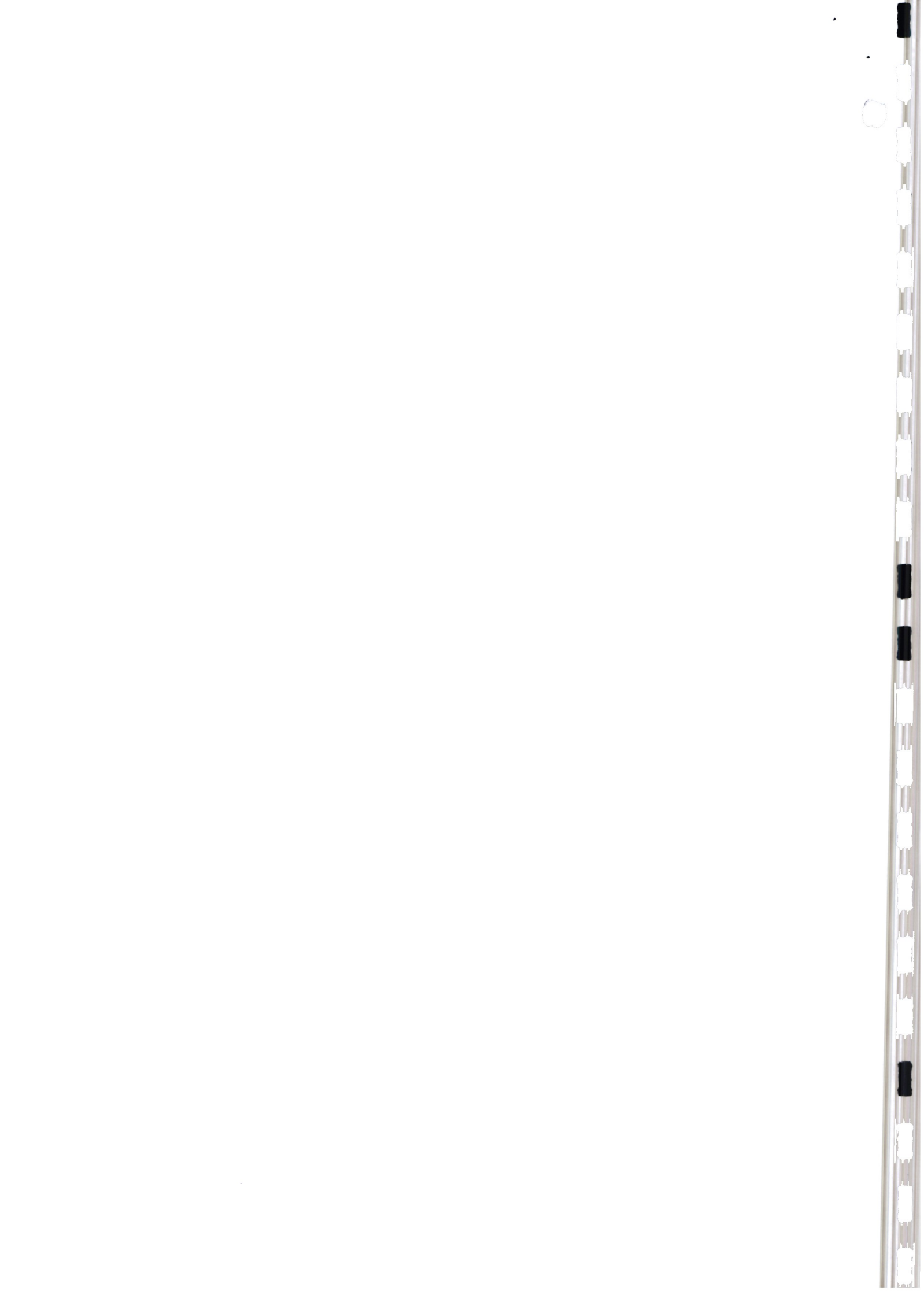
15. RELATED PARTY DISCLOSURES

Related party disclosure is encouraged under non-mandatory section of the Cash Basis IPSAS. The following comprise of related parties to the State Department for Energy

- Key management personnel that include the Cabinet Secretaries and Accounting Officers
- Other Ministries Departments and Agencies and Development Projects;
- County Governments; and
- State Corporations and Semi-Autonomous Government Agencies.

Related Party Transactions:

	2017- 2018	2016- 2017
	Kshs	Kshs
<u>Transfers to Related Parties</u>		
Transfers to SCs and SAGAs	36,979,043,030	37,796,467,017
Total Transfers to Related Parties	36,979,043,030	37,796,467,017
<u>Transfers from related parties</u>		
Transfers from the Exchequer	40,273,559,411	42,241,752,654
Total Transfers from Related Parties	40,273,559,411	42,241,752,654



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NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. OTHER IMPORTANT DISCLOSURES

16.1: PENDING ACCOUNTS PAYABLE (See Annex 1)

Description	2017- 2018	2016- 2017
	Kshs	Kshs
Construction of civil works and supply of goods & services	133,684,202	28,769,225
Total	133,684,202	28,769,225



NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

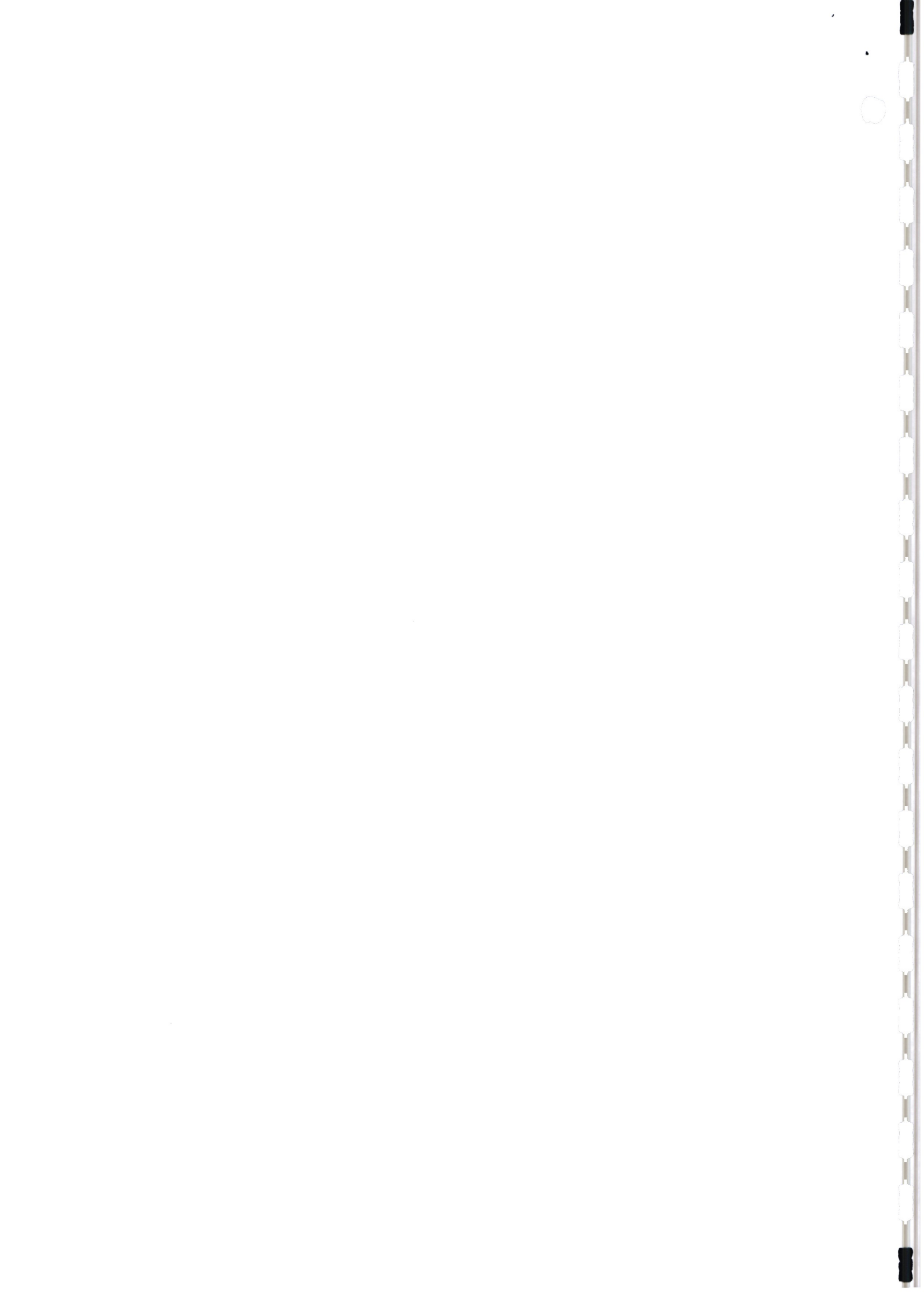
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	<p>Basis for Qualified opinion</p> <p>Land without Title Deeds As reported in 2015/16, the State Department for Energy does not have title deeds for eight (8) parcels of land it occupies totaling 40.11 hectares valued at approximately Kshs.336,549,200.</p> <p>Information available indicate that the process of acquiring titles for some of the land parcels has been underway for significantly long duration. From the foregoing, it has not been possible to confirm the rightful ownership of these parcels as well as the risk exposure of being encroached upon by squatters and land grabbers.</p>	The Issues have been responded and awaiting clearance from the PAC	Jedidah Macharia , Principal Accountant	Not Resolved	Depends on PAC timetable

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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)
2	<p>Pending Accounts Payable The statement of receipts and payments reflects payments totalling to Kshs.85,626,375,038 for the year ended 30 June 2017. This amount excludes pending accounts payables of Kshs.40,171,588 disclosed under Note 19.1 to the financial statements which have been carried forward to 2017/2018 financial year. Had the pending accounts payables been settled in the year under review, the statement would have reflected a deficit of Kshs.39,374,902 instead of the reported surplus of Kshs.796,686. This is indicative of the State Department failure to adhere to Public Financial Management guidelines on budgeting by incurring expenditure in excess of the approved budget. In addition, failure to settle accounts payables in the year to which they relate adversely affects the following year's budget provision to which they have to be charged.</p>	<p>The Issues have been responded and awaiting clearance from the PAC</p>	<p>Jedidah Macharia , Principal Accountant</p>	<p>Not Resolved</p>	<p>Depends on PAC timetable</p>



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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)
1	<p>Other Matter</p> <p>Twin Biogas Digesters Plant - Narok County, Siana Primary School</p> <p>The State Department entered into a local contract on 29 June 2016, for an amount of Kshs 7,923,405 for the supply, construction, testing and commissioning of twin biogas digesters plant in Narok County-Siana Primary School. The objective of the digester was to generate biogas for use by the school using cow dung and sewage. The contract provided for twenty (20) and eight (8) weeks for the construction and testing to its functional use respectively. Available records at the State Department indicate that the contractor had been paid Kshs.5,351,300 as at 30 June 2017, based on engineer's assessment with the balance being payable upon testing of the system.</p> <p>However, although the biogas construction and installation was completed in January 2017, it was yet to be tested by the time of concluding this report. According to the school management, the delay in testing resulted from inability of the system to generate biogas as a result of inadequate cow dung supply. According to the project</p>	<p>The Issues have been responded to and awaiting clearance from the PAC</p>	<p>Jedidah Macharia, Principal Accountant</p>	<p>Not Resolved</p>	<p>Depends on PAC timetable</p>

STATE DEPARTMENT FOR ENERGY

Reports and Financial Statements

For the year ended June 30, 2018

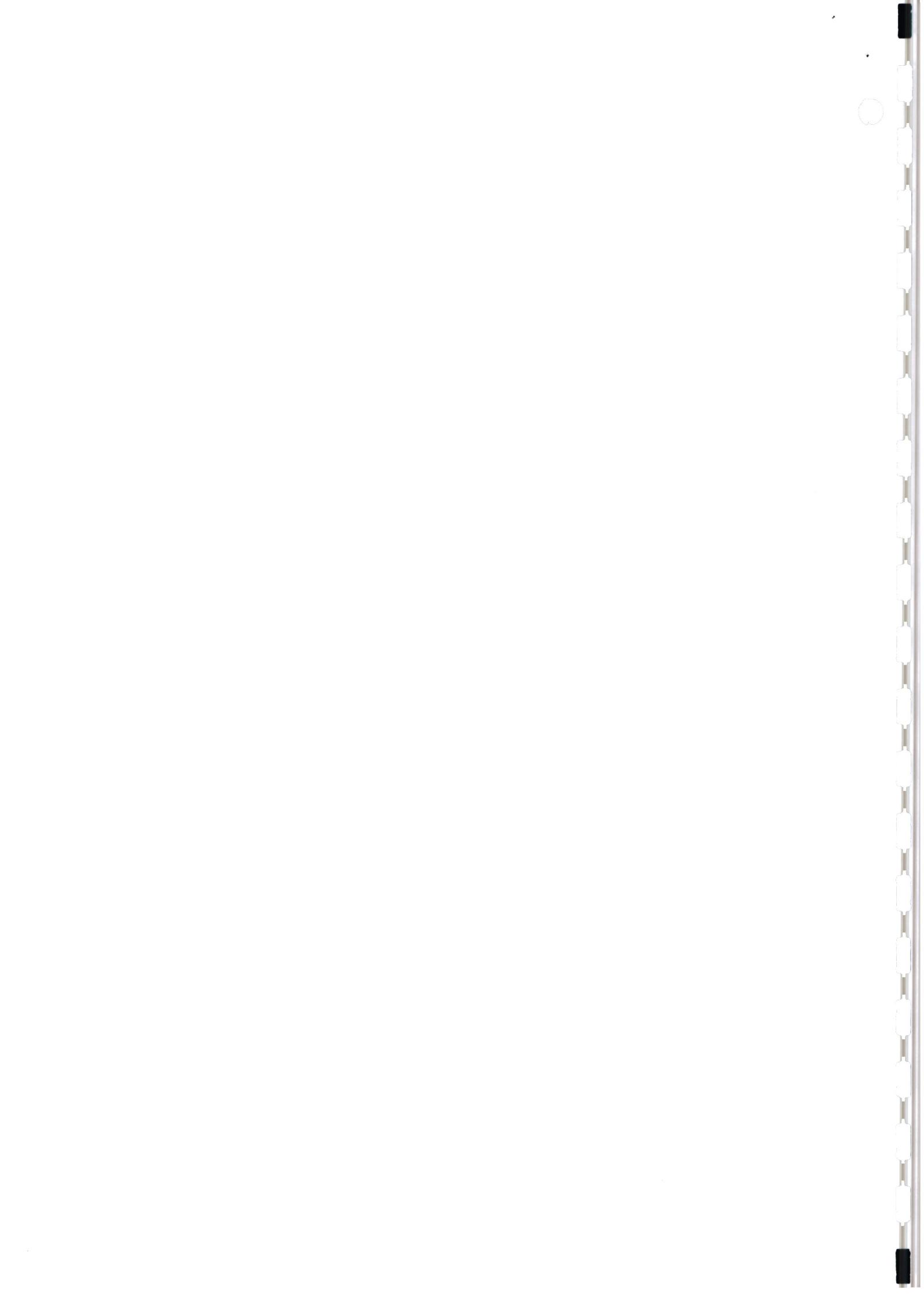
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>management, the school had at the project design stage undertaken to maintain sufficient herd of cattle to adequately supply the digester. Consequently, it has not been possible to confirm whether value for money will be realized from the expenditure of Kshs.7,923,405 on the biogas project.</p>				
2	<p>Utilization of Training Facility at Mirangine - Nyandarua County</p> <p>During the 2013/2014 financial year, the Ministry of Energy and Petroleum commenced the development of a modern office complex and training Centre in Nyandarua County at Mirangine Energy Centre. The Centre has since been completed but is yet to be utilized due for lack of furniture and fittings. Although, management has indicated having budgeted for it in the 2017/18 and 2018/19 financial year, no documentary evidence was made available for audit review.</p> <p>Under the circumstances, it has not been possible to ascertain whether the State Department received or will receive value for money on the investment on Mirangine Energy Centre.</p>	<p>The Issues have been addressed but awaiting clearance from PAC</p>	<p>Jedidah Macharia, Principal Accountant</p>	<p>Not Resolved</p>	<p>Depends on PAC timetable</p>

STATE DEPARTMENT FOR ENERGY

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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)
3	<p>Budget Control and Performance</p> <p>3.1. Budgetary Absorption The State Department's total approved budget for the year ended 30 June 2017 amounted to Kshs.111,425,574,252, as disclosed in the summary statement of appropriation: recurrent and development combined. Of the amount, recurrent and development expenditures amounted to Kshs.2,083,052,046 and Kshs.109,342,522,206 representing 2% and 98% of the total budget respectively. However, the total actual expenditure during the period amounted to Kshs.85,626,375,038 representing under absorption of Kshs.25,799,199,214 or 23% of the total budget. The table below compares the budget against the actuals:- The under-absorption of Kshs.25,799,199,214 may have resulted into slowed down implementation of activities and projects in</p>	<p>The Issues have been responded to and awaiting clearance from the PAC</p>	<p>Jedidah Macharia , Principal Accountant</p>	<p>Not Resolved</p>	<p>Depends on PAC timetable</p>



STATE DEPARTMENT FOR ENERGY
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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)
	<p>the Department's annual work-plan, for which the funds were budgeted. This may have impacted negatively on service delivery to the people of Kenya.</p> <p>Consequently, it has not been possible to confirm if the Department's objectives for the year ended 30 June 2017 were achieved.</p> <p>3.2. Development Budget The State Department's development budget for the year amounted to Kshs.109,342,522,206, as disclosed in the summary statement of appropriation: development. This differs with actual expenditure of Kshs.83,611,805,951, resulting into an under-absorption of Kshs.25,730,716,255, representing 24% of the development budget, as detailed below:- The under-absorption of Kshs.25,730,716,255 may have resulted into slowed down implementation of activities and projects in the Department's annual work-plans for which the funds were budgeted. This may have impacted negatively on service delivery to the people of Kenya. Consequently, it has not been possible to confirm if the Department's</p>				

STATE DEPARTMENT FOR ENERGY

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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)
	<p>objectives for the year ended 30 June 2017 were achieved.</p>				

J.S.

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

J.S.

Principal Accounts Controller
Name: Jedidah A.N.Macharia
ICPAK Member Number: 8805



STATE DEPARTMENT FOR ENERGY

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ANNEX 1 - ANALYSIS OF PENDING ACCOUNTS PAYABLE

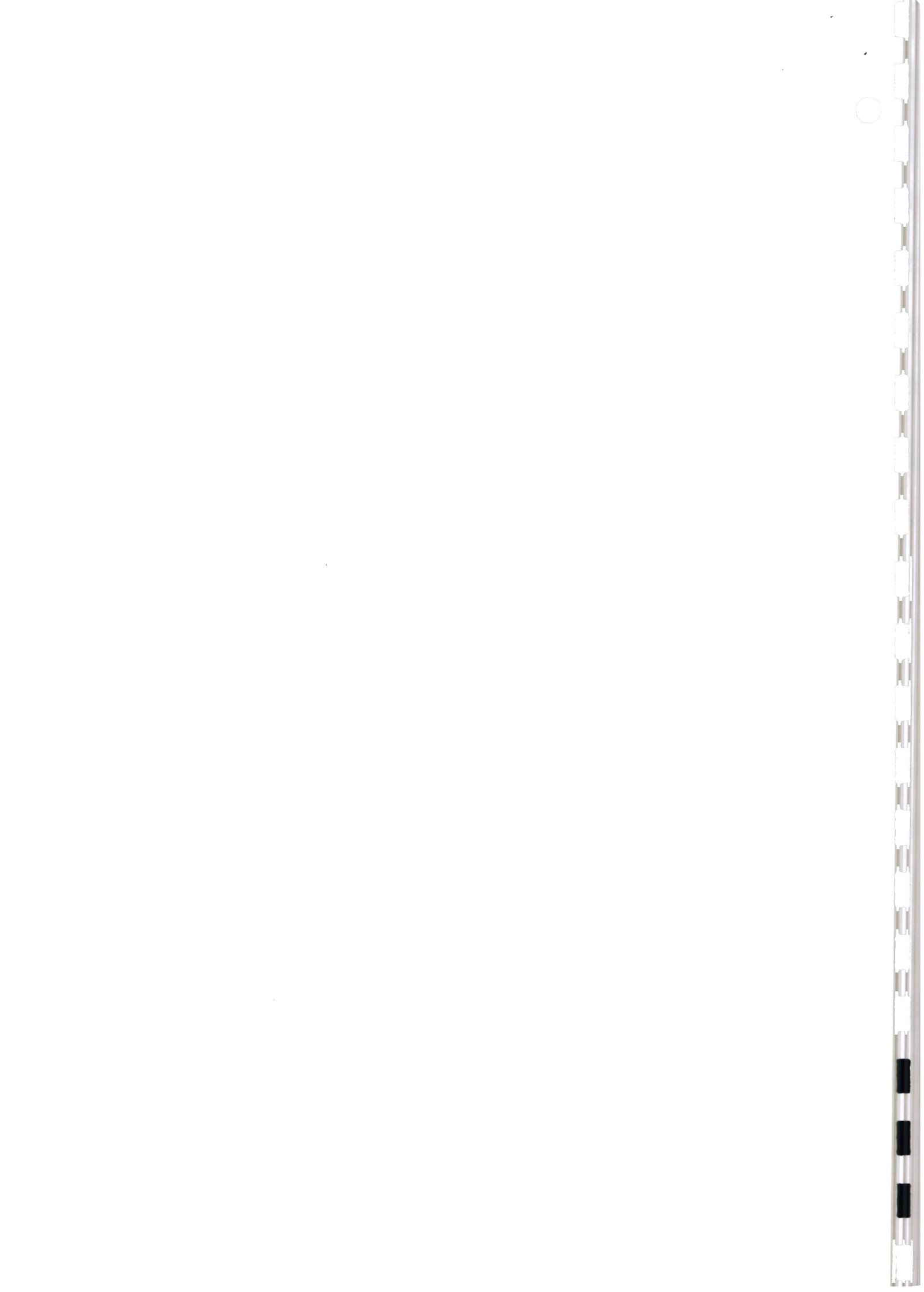
Supply of Goods	Supplier	Amount (Kshs)
Office Equipment	M/s Reabs Investments Ltd	97,455.00
Software	M/s Caktis Enterprises	550,000.00
Software	M/s Intermass Printers and Stationers	96,582.00
Stationery	Liberty Group	3,230,380.00
Stationery	M/s Kimjoy Ventures	230,425.00
Stationery	M/s Suvary Enterprises	134,450.00
Stationery	Timrose Investment	82,200.00
Stationery	M/s Kenwin Ventures Limited	599,850.00
Stationery	M/s Sarjos Investments	640,000.00
Stationery	MFI Office Solution	489,000.00
Works	Green log Solutions	9,103,550.00
Works	M/s Dimension Data	1,568,876.80
Sub-Total		16,822,768.80
Supply of Services	Service Provider	Amount (Kshs)
Airtickets	African Touch Safaris	107,850.00
Airtickets	Bush and Beach Travel	17,400.00
Airtickets	M/s African Touch Safaris	63,370.00
Airtickets	M/s Angaani Tours Travel	178,055.00
Airtickets	M/s ATS Travel	19,250.00
Airtickets	M/s Bush and Beach Travel	57,080.00
Airtickets	M/s Jubatus Travel Limited	260,086.00
Airtickets	M/s Jubilly Tours	294,800.00
Airtickets	M/s Jubilly tours and travel	70,400.00
Airtickets	M/s Pago Airways	512,175.00
Airtickets	M/s Ride on Agency Co. Ltd	123,600.00
Airtickets	M/s Silver Africa tours and Safaris	64,050.00
Airtickets	M/s Sweetlake Resort	112,000.00
Airtickets	M/s Travel Plaza Ltd	456,525.00



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Airtickets	Madrone Tours	2,871,815.00
Airtickets	Mara ways	47,810.00
Airtickets	Tsumo Travel Tours	52,000.00
Conference facilities	Astorian Grand Hotel	238,000.00
Conference facilities	Intercontinental Hotel	76,000.00
Conference facilities	Laico Regency	59,999.00
Conference facilities	M/s Astorian Grand Hotel	722,400.00
Conference facilities	Prideinn Hotels	117,600.00
Conference facilities	Simba lodges hotel	450,000.00
Conference facilities	The Kyaka Hotels	67,200.00
Conference facilities	Intercontinental Hotel	108,000.00
Conference facilities	M/s KSG - Mombasa	3,590,200.00
Conference facilities	M/s Lake naivasha panorama park	261,000.00
Conference facilities	M/s Machakos University College	385,000.00
Conference facilities	M/s Sweetlake Resort	734,000.00
Conference facilities	Naivasha Country Hotel Ltd (SAWELA)	1,559,550.00
Contracted services	Ambe Merchants Limited	7,308,987.50
Contracted services	Convergent Investment	5,796,210.00
Contracted services	Elgon Nyanza Construction	1,476,414.00
Contracted services	Eunivy Resources Limited	11,785,279.00
Contracted services	Go-solar Systems ltd	9,426,815.20
Contracted services	Green camel Ltd	26,453,942.40
Contracted services	KSG - Embu	1,687,200.00
Contracted services	M/s Albatross Aviation Ltd	506,480.00
Contracted services	M/s Byron Trustkett Investment Limited	100,800.00
Contracted services	M/s Elevator General Services	1,807,566.00
Contracted services	M/s Genex Cleaning Services	584,456.00
Contracted services	M/s Telkom	1,045,330.00
Contracted services	Marsar Venture	2,311,830.00
Contracted services	Pharma Consulting Engineer	10,231,320.00
Contracted services	Quick Pasha	1,369,843.20



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Contracted services	Restah Company	4,886,625.00
Maintenance of other assets	Go-solar Systems ltd	14,393,285.00
Maintenance of other assets	M/s Pong Agencies Limited	111,540.00
Maintenance of other assets	MFI Solutions	74,295.00
Maintenance of other assets	Sunrays Solar Ltd	929,000.00
Maintenance of vehicles	M/s Rodanis Ventures	897,000.00
Sub-Total		116,861,433.30
GRAND TOTAL		133,684,202.10



STATE DEPARTMENT FOR ENERGY

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ANNEX 2. SUMMARY OF FIXED ASSET REGISTER

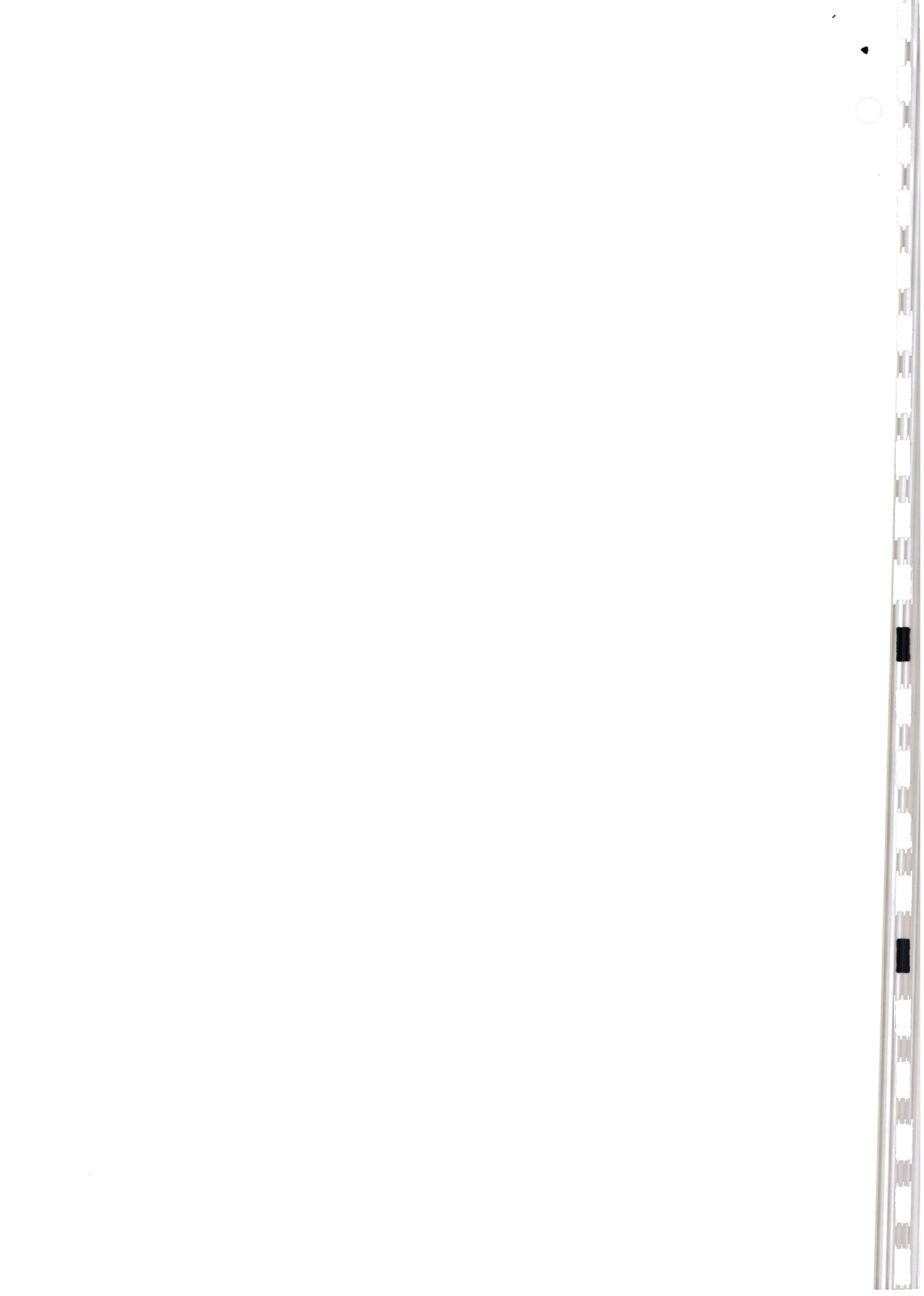
Asset class	Historical Cost b/f	Additions during the year	Disposals during the year	Historical Cost c/f
	(Kshs)			(Kshs)
	2016/2017			2017/2018
Land	121,780,634	-	-	121,780,634
Buildings and structures	1,528,562,974	4,643,411	-	1,533,206,385
Transport equipment	122,160,211	36,453,295	-	158,613,506
Office equipment, furniture and fittings	34,803,465	8,131,759	2,052,188	40,883,036
ICT Equipment, Software and Other ICT Assets	52,574,386	9,058,743	-	61,633,129
Other Machinery and Equipment	175,457,545,675	36,596,178,883	-	212,053,724,558
Certified seeds, Breeding stock and line Animals	107,941,083	60,000,000	-	167,941,083
Intangible assets	2,814,979,036	430,883,818	-	3,245,862,854
Total	180,240,347,464	37,145,349,908	2,052,188	217,383,645,184

NB: The balance as at the end of the year is the cumulative cost of all assets bought and inherited by the State Department for Energy. Additions during the year tie to note 10 on acquisition of assets during the year.



STATE DEPARTMENT FOR ENERGY**Reports and Financial Statements****For the year ended June 30, 2018****ANNEX 3. LIST OF PROJECTS IMPLEMENTED BY THE ENTITY**

Ref	Project Name	Principal activity of the project	Accounting Officer	Project consolidated in these financial statements(yes/no)
1	Kenya Electricity Expansion Project	Increase capacity, efficiency and quality of electricity supply and expand access to electricity in Urban, Peri-Urban and Rural areas	Dr.(Eng.) Joseph Njoroge,(CBS)	Yes
2	Kenya Electricity Modernization Project	Increase access to electricity, improve reliability of electricity services and to strengthen KPLC's financial situation	Dr.(Eng.) Joseph Njoroge,(CBS)	Yes
3	Off-grid Solar Access Project for Underserved Counties	Electrification of areas not served with electric power from the national grid	Dr.(Eng.) Joseph Njoroge,(CBS)	Yes



STATE DEPARTMENT FOR ENERGY

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ANNEX 4. LIST OF SCs AND SAGAs AND PUBLIC FUNDS UNDER THE STATE DEPARTMENT FOR ENERGY

Ref	SC, SAGA Name	Principal activity of entity	Accounting officers	Amount transferred during the year (Kshs)	Inter-entity reconciliations (yes/no)
1.	Geothermal Development Company Ltd	Development of Steam for sales	Eng. Johnson P Ole Nchoe	3,170,547,762	yes
2.	Kenya Electricity Transmitting Company Ltd	Transmission of generated electric power	FCPA Fernandes Barasa	10,771,649,235	yes
3.	Kenya Nuclear Electricity Board	Fast-tracking the development of nuclear power in order to enhance the production of affordable and reliable electricity	Eng. Collins Juma	387,702,237	yes
4.	Kenya Power and Lighting Co. Ltd	Distribution of electric power to consumers	Eng. Jared Othieno	16,661,565,000	yes
5	Rural Electrification Authority	Implementation of governments rural electrification programme through construction of rural electrification projects	Mr. Peter Mbugua	5,952,578,796	yes
6	Kenya Association of Manufacturers	Supervision of manufacturing companies	Ms. Phyllis Wakiaga	35,000,000.00	yes
Total				36,979,043,030	

