

REPUBLIC OF KENYA



Enhancing Accountability



THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 15 AUG 2024

TABLED BY: Hon. Owen Banyi, mp
Deputy Leader of Majority

CLERK-AT-THE-TABLE: Chebet Koskei

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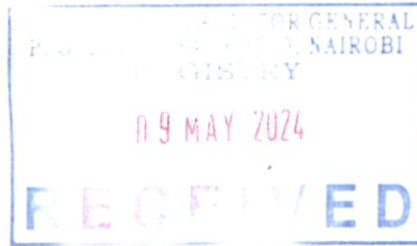
OF

THE AUDITOR-GENERAL

ON

**NATIONAL OIL CORPORATION
OF KENYA LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2023**



NATIONAL OIL CORPORATION OF KENYA LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2023

**Prepared in accordance with the Accrual Basis of Accounting Method under the International
Financial Reporting Standards (IFRS)**

**National Oil Corporation of Kenya
Annual Reports and Financial Statements
For the Financial year ended June 30, 2023**

National Oil Corporation of Kenya
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For the Financial year ended June 30, 2023

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1. Acronyms and Glossary of Terms

The following is the list of acronyms and glossary of terms used in annual report and financial statement for financial year ended June 30, 2023

IFRS	International Financial Reporting Standards
NT	National Treasury
PFM	Public Finance Management
PSASB	Public Sector Accounting Standard Board
CEO	Chief Executive Officer
NOC	National Oil Corporation of Kenya

2. Key Entity Information

a) Background information

The National Oil Corporation of Kenya was established by the Companies Act 2015 on 3/4/1981. At Cabinet level, the Corporation is represented by the Cabinet Secretary for Ministry of Energy and Petroleum, who is responsible for the general policy and strategic direction of the Corporation. The Corporation is domiciled in Kenya and has branches in Mombasa, Kisumu, Nakuru and Eldoret.

b) Principal Activities

The principal activity of the Corporation as stipulated in the Memorandum and Articles of Association is trading in refined petroleum products and participation in related petroleum business such as refining, distribution and marketing; provision of related services such as hospitality, storage, transport, product receipt and loading; oil and gas exploration; and promotion activities and participation in energy sector activities as directed by the Government from time to time

Our Vision

To be a fully integrated world class oil and gas company.

Our Mission

Providing security of supply of petroleum product in the country.

Living our values, growing a sustainable, responsible and profitable company that contributes to national development.

Exploring, developing and producing oil and gas resources for the benefit of the Kenyan people.

c) Directors

The directors who served the Corporation during the year were as follows:

- | | |
|---------------------------------|---|
| 1. Hon. Kiraitu Murungi E.G.H | Chairperson Appointed on 20 th April 2023 |
| 2. Eng. Patrick Obath, MBS, OGW | Former Chairperson –Left on 20 th April 2023 |
| 3. Prof. Njuguna Ndung'u CBS | CS, National Treasury and Planning |
| 4. Mr. Mohamed Liban | PS, Ministry of Energy and Petroleum |
| 5. Mr. Leperan Gideon Morintat | Chief Executive Officer- Re-appointed on 28.02.2023 |
| 6. Mr. Edward Wamweya | Alternate to CS, National Treasury & Planning |
| 7. Mr. Benjamin Oyile | Alternate to PS, Ministry of Energy & Petroleum |
| 8. Ms. Lilian Matagaro | Representative, Attorney General |

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9. Mr. James Sitiency	Representative, Inspectorate of State Corporations
10. Ms. Dorothy Marami Kiarie	Appointed on 06.10.2021
11. Ms. Victoria Karugu	Appointed on 06.10.2021
12. Mr. Godfrey Waluse	Appointed on 06.10.2021
13. Mr. Mundia Geteria	Appointed on 06.10.2021
14. Ms. Sureya Roble	Appointed on 06.10.2021
15. Eng. Elizabeth Rogo	Appointed on 21.04.2022
16. Eng. Abdulrazaq Ali	Appointed on 14.04.2022
17. Mr. Peter Ngugi Kimani	Appointed on 13.07.2022

d) Corporate Secretary

Leparan Gideon ole Morintat
Chief Executive Officer
P O Box 58567 – 00200
Nairobi

e) Registered Office

Kawi Complex, Popo Lane
Off Red Cross Road, South C
P O Box 58567 – 00200
Nairobi

f) Corporate Headquarters

Kawi Complex, Popo Lane
Off Red Cross Road, South C
P O Box 58567 – 00200
Nairobi

g) Corporate Contacts

Telephone: (254) -20-6952000
E-mail: ceo@nockenya.co.ke
Website: www.nationaloil.co.ke

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h) Corporate Bankers

Standard Chartered Bank Kenya Limited
P.O. Box 30003 – 00100
Nairobi

Stanbic Bank Limited
P.O. Box 72833 – 00200
Nairobi

KCB Bank Kenya Limited
P.O. Box 30081 – 00100
Nairobi

Equity Bank Kenya Limited
P.O.Box 78569 – 00507
Nairobi

The Co-operative Bank of Kenya Limited
P.O. Box 67881 – 00200
Nairobi

National Bank of Kenya
P.O. Box 72866-00200
Nairobi.

NCBA Bank
P.O. Box 44599-00100
Nairobi.

i) Independent Auditors



Auditor General

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


j) Principal Legal Advisers

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

3. The Board of Directors

Ref.	Directors	Details
1.	 <p>Hon. Kiraitu Murungi E.G.H Chairman of the Board. LLB and MML, University of Nairobi LLM, Harvard Law School</p>	<p>Kiraitu Murungi is a former Governor of Meru County. He previously served as Senator for Meru and was MP for Imenti South constituency for 20 years.</p> <p>One of the longest-serving Energy ministers, Mr Murungi issued several notices and circulars that helped reform the sector. They include Legal Notice No. 43 of 2008 which issued regulations guiding the establishment of the strategic petroleum reserves that required the National Oil Corporation to establish and manage reserves equivalent to 90-day consumption for the country.</p> <p>He also issued Legal Notice No. 96 of June 2010 which set aside a 30 percent petroleum imports allocation quota for the Corporation.</p> <p>It was also during Mr Murungi’s tenure that oil was discovered in Turkana and the ministry attributed the State’s 22.5 percent share in carried interest in the production sharing contract to National Oil.</p> <p>An alumnus of the prestigious Alliance High School, Murungi graduated with a Bachelor of Law from the University of Nairobi in 1977 and attained a Master of Law from the same university in 1982 before proceeding to Harvard Law School, where he attained another Master of Law in 1991</p> <p>Mr. Murungi is a senior in Humphrey & Company Advocates LLP, a law firm specializing in civil litigation, commercial law, conveyancing, transaction advisory, taxation and constitutional law.</p> <p>He is an independent director.</p>
2.		<p>Born 1960 Prof. Njuguna Ndung’u is the Cabinet Secretary, National Treasury & Economic Planning. He was appointed Cabinet Secretary by President William Samoei Ruto on September 27, 2022. Prior to the current appointment, Prof. Ndung’u was serving as the Executive Director of the African Economic Research Consortium (AERC), a Pan African premier capacity building network</p>

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	<p>Prof. Njuguna Ndung’u, CBS CS, National Treasury & Planning</p>	<p>of researchers, trainers, students, universities, policy makers and international resource persons. He is an associate professor of economics at the University of Nairobi, Kenya and the immediate former Governor, Central Bank of Kenya.</p> <p>Prof. Ndung’u has been a member of the Global Advisory Council of the World Economic Forum, Visiting Fellow of Practice at Blavatnik School of Government, Oxford University, Director of Training at AERC, Program specialist at IDRC and Team Leader in Macro-modelling at the Kenya Institute for Public Policy Research and Analysis. He holds a PhD in economics from University of Gothenburg, Sweden. He is a Member of Brookings Africa Growth Initiative, Member of the Advisory Committee of the Alliance for Financial Inclusion that coordinates financial inclusion policies in Africa, Asia and Latin America and Senior Advisor for the UNCDF-based Better Than Cash Alliance.</p> <p>He is a non-independent director</p>
<p>3.</p>	 <p>Mr. Mohamed Liban PS, State Department of Petroleum Ministry of Energy & Petroleum</p>	<p>Mr. Mohamed Liban is the Principal Secretary, State Department for Petroleum, Ministry of Energy and Petroleum. Prior to this appointment, Mr. Liban served as the Chairman of Ewaso Ngi’ro North Development Authority, of the Ministry of East African Community and Regional Development and previously of IEBC as the Regional Elections Co-ordinator in Isiolo and Upper Easter Region. His wealth of experience in leadership and governance spans to a period of over twenty-five (25) years, gained after lengthy engagements with both the Public Sectors and Non-Governmental Organizations in Africa.</p> <p>He is a non-independent director</p>

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<p>4.</p>	 <p>Leparan Gideon Morintat Chief Executive Officer MBA in Strategic Management</p>	<p>Born 1979, Leparan joined the Corporation in February 2020. Prior to joining the National Oil Corporation of Kenya, he was d.light SOLAR’s Country Manager for Ethiopia & Horn of Africa.</p> <p>He has over 18 years of leadership and management experience gained in the Oil & Gas, Energy, Infrastructure development, and ICT sectors in leading multinational companies among them Multi Choice Africa, Mitsui & Co. Ltd, Royal Dutch Shell Group and Equity Bank Group.</p> <p>He is a member of the Petroleum Institute of East Africa (PIEA), Kenya Institute of Management (KIM), Marketing Society of Kenya (MSK), Kenya Institute of Supplies Management (KISM) and Kenya Oil & Gas Association (KOGA).</p> <p>He is an executive director.</p>
<p>5.</p>	 <p>Mr. Edward Wamweya Alt. CS. The National Treasury and Planning MBA Finance; B.Com (Finance); CPA (K); CIFA (K)</p>	<p>CPA, FA. Edward Wamweya was born in 1984. He is the Alternate Director to the Cabinet Secretary National Treasury & Planning. He holds a Master of Business Administration (-Finance) degree, Bachelor of Commerce (-Finance) degree, Certified Public Accountant of Kenya (CPA-K) and Certified Investment and Financial Analyst (CIFA-K). He is a professional accountant and financial analyst who is a member in good standing of both ICPAK and ICIFA. He has served in several Boards of State Corporations as Alternate Director. Currently, he is a Principal Investment Officer in The National Treasury with vast experience in public financial management and State Corporations sector.</p> <p>He is a non-independent director.</p>



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<p>6</p>	 <p>Mr. Benjamin S. Oyile Odegi Alternate Director to the Principal Secretary - Ministry of Energy and Petroleum, State Department for Petroleum MBA(Finance), JKUAT</p>	<p>Mr. Odegi, Benjamin S. Oyile is a career public administrator. He started his career as a District Officer/Assistant Secretary Cadet and has risen through the ranks to the current position of Senior Deputy Secretary.</p> <p>He holds a Bachelor of Arts Degree in Government from the University of Nairobi and a Master of Business Administration (Finance Option) from the Jomo Kenyatta University of Agriculture and Technology.</p> <p>He has served in various capacities in the Central Government in Administration and Public Finance Functions. He has also served as County Secretary and head of County Public Service in Tana River County from the year 2013 to 2014 and thereafter as Director- Head of Vetting Secretariat at the National Police Service Commission from 2014 to 2017.</p> <p>He is currently in the Ministry of Energy and Petroleum, State Department for Petroleum and is the Alternate Director to the Secretary Administration.</p> <p>He is a non-independent director.</p>
<p>7.</p>	 <p>Ms. Lilian Matagaro Alt. Attorney General M.A. in International Studies; LLB;Dip in Law (KSL).</p>	<p>Born in 1976, Lilian is the Chief State Counsel and Parliamentary Liaison Officer at the Office of the Attorney General and Department of Justice. She has vast experience in policy development, public sector negotiation and drafting of legal and legislative instruments. She has consistently proffered legal advice for over 16 years to Government Ministries and Agencies on diverse aspects. In addition to being a Board Member in NOCK, she is currently a member of the Registration Committee, Institute of Human Resources Management and the Financial Law Review Panel (Capital Markets).</p> <p>She is a non-independent director.</p>


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<p>8.</p>	 <p>Ms. Dorothy Marami Kiarie MBA in Marketing and Strategic Management</p>	<p>Born 1963, Ms. Dorothy is a Lead Consultant with Prolific Solutions, a consultancy firm that provides supply chain management solutions to both the Private and Public sector. Dorothy has extensive expertise in the Oil and Energy sector having worked for over 20years with an international oil marketing company in Kenya where she was responsible for the East Africa Supply Optimization. Dorothy has sat on the Board of Kenya Petroleum Refineries Limited and is currently a Director of Zenith Ventures Limited, a property development company. Dorothy is highly experienced in crude oil and product importation, trading, contract negotiation, refining, pipeline distribution, export marketing and overall enterprise approach to business. She is an independent director.</p>
<p>9.</p>	 <p>Ms. Victoria Karugu, LLM in Energy, Environment & Natural Resource Law, University of Houston. MBA in Telecommunications, Management & International Marketing, Alaska Pacific University. Juris Doctor(J.D) Law, University of Kentucky College of Law.</p>	<p>Born 1967, Victoria Karugu is an Attorney at Law with over 25 years' experience in Corporate Litigation, Environmental, Telecommunications and Energy Law. She has lead teams of multidisciplinary professionals on local and international assignments. Her forte is in leveraging on good governance and technology when working in a fast-paced business environment. She has previously held senior leadership positions in the United States (Denver, Anchorage and Houston) and in Kenya. She is currently the Group CEO, Mathara Holdings Limited, and sits on the board NOCK as an independent director.</p> <p>Victoria holds a BA in Political Science and an MA in History from Miami University Oxford Ohio, and she took MBA courses in Telecommunications and International Marketing from Alaska Pacific University, Anchorage. She also holds a Juris Doctorate from University of Kentucky and an LLM in Environmental, Energy and Natural Resource Law from University of Houston Law Centre. She is currently a Doctoral candidate, DBA in Leadership and Management, and is expected to graduate in December 2023.</p>


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<p>10.</p>	 <p>Mr. Godfrey Waluse, MBA. Public Policy, Fletcher School of Law MBA. Diplomacy, Tufts University in Boston, MA and an MBA from the Sloan School of Management at Massachusetts Institute of Technology (MIT).</p>	<p>Born 1971, Godfrey Waluse is a global executive with over 25 years' experience in energy, power, infrastructure, financial services among others. Godfrey has managed complex global operations with specific expertise in project development in high-risk environments. He has worked in various capacities at Japan International Cooperation Agency (JICA); the Secretary-General's office at the United Nations Office in New York, the World Bank in Washington D.C., and at the Standard Bank in Johannesburg, South Africa where he was a strategic advisor on continental initiatives and investments to the bank's executives. Godfrey works for the Energy Business Unit at Mitsui & Co. Ltd, where he has overseen several projects such as; the development of Mozambique LNG and development of renewable energy projects in London. He currently helps run East Africa operations with active involvement in developing power, oil & gas, infrastructure, renewable energy, healthcare and ICT projects, among others.</p> <p>He is an independent director.</p>
<p>11.</p>	 <p>Mr. Mundia Geteria MBA in Strategic Management, Moi University B.COM, University of Nairobi CPA(K), FCS, ICISA, FCIS</p>	<p>Born 1949, Mundia Geteria has over 35 years experience in the business space with various investments in the tertiary training and education sector. Mundia is the founder of Dima College Ltd and currently runs Dima Driving School with branches in Runyenjes, Embu Town and Nairobi. Mundia has served in several senior leadership positions, which include; CEO and Board Secretary of the Institute of Certified Accountants of Kenya (ICPAK), Board Member of the Institute of Certified Secretaries (ICS), and Company Secretary of the Kenya Extelcoms among others.</p> <p>Mundia is the pioneer Chair of the Embu County Public Service Board and currently serves as the Chair of the Trustees of the Public Service Club Staff Retirement Benefits Scheme. He is a Certified Retirement Benefits Trustee (Kenya College of Insurance) and a Court Accredited Mediator.</p> <p>He is an independent director.</p>

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<p>12.</p>	 <p>Ms. Sureya Roble MBA in Public Policy BA. Public Administration and Political Science</p>	<p>Born 1967, Sureya Roble is a gender and public policy specialist. She is a certified mediator accredited by the judiciary. She is the founder of Advocacy for Women in Peace and Security –Africa (AWAPSA), an organization that supports women empowerment through capacity building. Sureya has served as the National Vice Chairperson of the <i>Maendeleo ya Wanawake</i> organization, and is also the Vice Chairperson of Sisters without Borders. Sureya currently runs a program that engages women to play a role in countering violent extremism through dialogue, mentorship, rehabilitation and re-integration and is an active lobbyist for women’s space in decision making both at the national and county levels. Sureya has over 30 years’ experience in community development, project management, training, lobbying and advocacy on issues affecting women and girls. Sureya has presented various papers both locally and on international platforms which include one on Muslim Family Law and Women Rights that was adopted by the CEDAW Committee for implementation. She is an independent director.</p>
<p>13.</p>	 <p>Eng. Elizabeth Rogo, BSc. (Mount Saint Vincent University) B.Eng.(Dalhousie University) both in Halifax, Nova Scotia, Canada.</p>	<p>Born 1963, Elizabeth is an accomplished energy professional with over twenty (20) years international experience in the Oil & Gas sector (engineering, operations, business development and management), and Geothermal. She brings vast international and senior management experience, including onshore and offshore, working with global Oilfield Services companies during her career in the US, Africa and Europe – BJ Services, Baker Hughes and Weatherford International. She is an independent director.</p>



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<p>14.</p>	 <p>Eng. Abdulrazaq Ali MSC(Civil Engineering), MBA BSC(Civil Engineering)</p>	<p>Born 1963, Abdulrazaq holds of Masters and Bachelor degree in Civil Engineering. He has over 34 years' experience in public service having served in the Kenya Government as a deputy and chief executive of various state corporations, and later as the Permanent Secretary in the Ministries of Transport and Trade. Eng. Ali is a registered Consulting Engineer with the Engineers Board of Kenya and is a fellow of the Institution of Engineers of Kenya. He is also an associate of the Chartered Institute of Arbitrators (UK). He is an independent director.</p>
<p>15.</p>	 <p>Mr. Peter Ngugi Kimani Diploma in Strategic Security Studies (SSS) East African Certificate of Education Examination (EACE)</p>	<p>Born in 1959, Ngugi is a Retired Principal Intelligence Officer (PIO) with the National Intelligence Service (NIS). He has over 30 years work experience with NIS where he rose through the ranks up to senior management level and previously worked for seven (7) years with the Kenya Police. He was Awarded- Order of Grand Warrior (OGW) in 2016 and Awarded- Head of State Commendation (HSC) in 1993. He is an independent director</p>
<p>16</p>	 <p>Mr. James Sitiency Master's Degree in Public policy administration (MPPA) Bachelor's degree in Economics and Business from University of Nairobi</p>	<p>Born in 1966, James holds Master's Degree in Public Policy and Administration (MPPA) from Kenyatta University; A Bachelor's degree in Economics and Business from the University of Nairobi, Senior Management Course from Kenya School of Government and a member of the Kenya Association for Public Administration and Management (KAPAM). He also possess a Certificate in Leadership and Policy Implementation from ESAMI; Effective Audit and Oversight (Institute of Directors); Computer Application and Proficiency from African Institute of Research and Development Studies. He held senior positions in the Ministry of Youth Affairs and Sports; Teachers Service Commission; Efficiency</p>

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		<p>Monitoring Unit as well as the Office of the Deputy President.</p> <p>He Currently works at the Inspectorate of State Corporations-Office of the Prime Cabinet Secretary (PCS)-Executive Office of the President.</p> <p>He is a non-independent director.</p>
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4. Key Management Team

Ref.	Management	Details
1.	 <p>Leparan Gideon Morintat Chief Executive Officer MBA in Strategic Management; B.Com Accounting</p>	<p>Born 1979, Leparan is the CEO of the National Oil Corporation of Kenya. Prior to joining the Corporation, he was d.light SOLAR’s Country Manager for Ethiopia & Horn of Africa.</p> <p>Leparan has over 18 years of leadership and management experience gained in the Oil & Gas, Energy, Infrastructure development, and ICT sectors in leading multinational companies among them Multi Choice Africa, Mitsui & Co. Ltd, Royal Dutch Shell Group and Equity Bank Group.</p> <p>He is a member of the Petroleum Institute of East Africa (PIEA), Kenya Institute of Management (KIM), Marketing Society of Kenya (MSK), Kenya Institute of Supplies Management (KISM) and Kenya Oil & Gas Association (KOGA).</p>
2.	 <p>Benson Theuri Manager-Commercial & Industrial MBA, Strategic Management; B.Com.</p>	<p>Benson is a petroleum enthusiast, proven sales leader, with 20+ years of leadership and management acumen in the FMCG and Oil and Gas.</p> <p>Has held senior leadership roles at Unilever and Shell for over 20 years and has extensive experience in leading sales teams, turnaround efforts, product launches, strategy development and implementation, project management among other key skills.</p> <p>During his short spell at National Oil, he has helped craft the retail and commercial strategy and is leading the team in the implementation and the corporation’s turnaround effort with outstanding success to date.</p>

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<p>3.</p>	 <p>Robai Shiakhutsa Company Secretary & Manager, Legal Affairs Master of Law (LL.M) International Law from the Uni. of Mysore. International Law and Legal studies from the Uni. of Nairobi Bachelor of Law (LL.B.)</p>	<p>Ms. Robai Shiakhutsa joined the Corporation in 2021 as the Company Secretary and Legal Affairs Manager. Ms. Robai is the secretary to the Corporation Board and also responsible for managing the Corporation’s legal functions, overseeing litigation and reviewing of contracts to ensure policy compliance.</p> <p>She is an Advocate of the High Court and a Certified Public Secretary (CPS) K. She is also a member of the Law Society of Kenya (LSK) and Institute of Certified Secretaries (ICPSK).</p> <p>Ms. Robai comes with a wealth of experience gathered from having served in senior positions both in the private sector and Government. She has a proven record in legal expertise.</p>
<p>4.</p>	 <p>Scoline Ojunga Manager, Internal Audit MBA in Finance; B.Com, Finance; CPA (K</p>	<p>Scoline joined the Corporation in 2020 and is responsible for internal audit including developing and implementing an annual risk-based audit plan as well as enterprise risk management planning, execution, monitoring, evaluation and consolidation of the Company’s Risk Management matrices.</p>
<p>5.</p>	 <p>Alex Musungu Manager, Procurement MSc. Procurement and Logistics;</p>	<p>He joined the Corporation in 2017 and is responsible for optimal and cost effective procurement of goods, works and services through the development and implementation of appropriate procurement strategies. Prior to joining the Corporation, Alex held various positions in different companies including Unclaimed Financial Assets Authority, Kenya Forest Service.</p>

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	BSc.; MCIPS of Chartered Institute of Purchasing and Supply; (CIPS-UK); Membership with (KISM)	Nairobi Hospital and Kenya Agricultural Research Organization.
6.	 <p>Duncan Waziri Ag GM-Finance, Treasury and ICT, MSc. Project Management; B.A. Building Economics</p>	Duncan is a seasoned business management professional with significant experience in oil & gas and logistics sectors. His work experience includes Business Analyst and Sales Manager at Kenya Shell, Consumer Manager at TOTAL Kenya and Director of Courier at G4S. He is a past recipient of The British Chevening Scholarship Award for postgraduate study in the UK from where he graduated with a distinction.
7.	 <p>Mr. Willis Otieno Anyango Manager, Human Resource & Administration, BSc. Education, Membership with (IHRM)</p>	<p>Willis joined the Corporation as the Manager Human Resources and Administration in November 2021 and is responsible for the Management of the Corporations Human Capital.</p> <p>He has a broad wealth of experience in Human Resource practice specializing in Organization Design, Talent Management, HR strategy development and performance Management spanning over 18 years in Human Resource Management cutting across various sectors. Prior to joining the Corporation, he held various Senior HR Management roles at Safaricom Ltd, Kenya Shell Ltd, Kenya Airways Ltd and the Karen Hospital.</p>

5. Chairman's Statement

I am pleased to present the Annual Report and Financial Statements of National Oil Corporation of Kenya ("National Oil" or the "Corporation") for the Fiscal Year ended 30th June 2023 on behalf of the Board of Directors. During the year under review, National Oil continued with its transformation journey to profitability and fulfilment of its full mandate. This will be achieved through operational excellence, market leadership, cost efficiency and strategic partnerships.

Operating Environment

The continued increase in global oil prices during the period has led to a rise in fuel prices in the market, as well as working capital requirements that have remained a challenge for the Corporation. After Block 14T's Production Sharing Contract (PSC) was extended for a further two years, the upstream company saw increased activity, further solidifying our position in the industry. More significantly, the Corporation has completed the construction of a state-of-the-art geochemical and petro-physical laboratory that will be made available to other international oil companies and interested parties for commercial purposes.

The Transformation Plan

National Oil has come up with a robust turnaround plan that has placed the Corporation firmly on its transformational journey. The plan focuses on strengthening internal controls, operational excellence and revenue growth. Key to delivering this plan is the re-organization of the Corporation for effectiveness and efficiency and ensuring that seasoned industry professionals are in key management positions to spearhead the initiatives. We are certain that the successful implementation of this plan will help the Corporation to turn around its fortunes in order to play its rightful role and contribute to national development.

The Corporation's plans to commercialize the upstream business will complement downstream revenue. In the end, the production of commercially viable hydrocarbons will no doubt be one of the single largest contributors to the national economy.

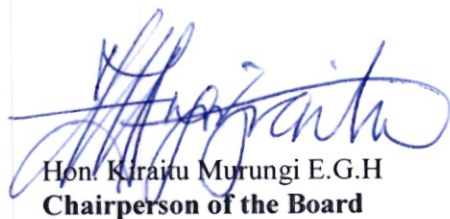
Outlook

The rising oil prices worldwide continue to make the economic environment challenging. Of particular concern is the company's huge debt load brought on by non-performing bank loans, and this is hurting its profitability. We are continuously engaging with our financiers and shareholders to come up with a workable solution for our portfolio of non-performing loans. The Board of Directors and Management have also taken steps to explore viable growth opportunities such as strategic partnerships, and we are confident that this long-term plan will provide favourable outcomes over time.

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Appreciation

I wish to thank the various stakeholders including our shareholders - the Ministry of Energy and Petroleum and the National Treasury & Planning – the Board of Directors, Management, Staff and our customers and suppliers and service providers for their loyalty and commitment even in the challenging business environment.



Hon. Kiraitu Murungi E.G.H
Chairperson of the Board

Date.....6/5/24.....

6. Report of the Chief Executive Officer

It is my pleasure to present to you the National Oil Corporation of Kenya's Annual Report and Financial Statements for the year ending 30th June 2023. National Oil began the year with high expectations and a determination to reverse the negative trend in our downstream business and return to profitability even as we aggressively ramp up our exploration activities in our upstream assets. Our primary focus remains "profitable downstream and more upstream", driven by operational excellence leading to growth in revenues, enhanced controls and efficiency.

Financial Performance

The Corporation recorded a decrease in gross profit from Kshs 463 million for the year ended 30th June 2022 to Kshs 106 million for the year ended 30th June 2023, representing a 77% drop. During the year under review, the Corporation's loss before tax increased from Kshs 1.5 billion in the financial year ended 30th June 2022 to Kshs 2.3 billion. The reported loss is primarily attributable to the huge bank penalties as a result of a non-performing loan portfolio.

Revenue

Sales revenue decreased by 68% to Kshs.3.14 billion during the year under review from KShs9.84 Billion recorded in FY 2021/22. This was due to continuous stock-out and insufficient working capital.

Operating Expenditure

Operating expenses decreased to Kshs 953 Million in the year ended 30 June 2023 compared to Kshs 965 million in the year ended 30th June 2022. This was due to proactive cost-effective measures put in place by Management that aligned the cost structure with the business size. Net financing costs increased from Kshs1.116 billion in FY2021/2022 to Kshs 1.611 billion in the year under review. This was as a result of higher bank penalties incurred during the year under review on account of non-payment of loans and capitalization of interest.

Upstream Operations

During the year under review, National Oil successfully applied for and obtained the extension of Block 14T's Production Sharing Contract (PSC) for a further two-year period. The Corporation subsequently embarked on further geophysical studies and data acquisition, which, when completed, will be packaged to aid in marketing the block to prospective farm-in partners. The Corporation has also been working closely with other licensed exploration and production companies in the other exploration blocks in the pursuit of making Kenya an oil and gas producer.

The Transformation Plan

The Corporation has embarked on a 15-year transformational plan that seeks to return its downstream business to profitability. Further, the implementation of the transformation plan will enable the Corporation to play its pivotal role in the growth of Kenya's Oil and Gas sector. A transformed National Oil Corporation of Kenya will be a key contributor to the country's economic development as envisioned in both the Bottom-Up Economic Transformational Agenda (BETA) and Vision 2030.

Our Transformation Plan is centred on the four Ps of People, Product, Processes and Profit. Its High-Level Implementation Plan focuses on commercialization of the upstream business, leadership in the LPG sector, profitable growth of the retail segment, profitable commercial business, oil trading in the midstream section, as well as being the aggregator of natural gas imports. The plan also seeks to transform NOC and make it the custodian of the country's strategic petroleum reserves – a critical component of our national security as a country. This will be achieved by having on board the right people with the right skills and competencies in the right jobs, enhancing controls and onboarding the right strategic partner. Leveraging on the potential strategic partner's skills base and capital, the future NOC will fulfil its legal mandate of importing a 30 percent import quota of the industry's petroleum requirements.

In our quest to achieve sustainable working capital and liquidity position, the Corporation will pursue its subsidiarizing plan to enhance its agility. Specifically, the creation of subsidiaries will lead to the diversification of operations to reduce risk and increase its resilience in a dynamic market; enhanced efficiency; better access to capital resources; improved risk management and internationalization that will enable NOC to contribute more to Kenya's global energy positioning.

The Corporation also plans to onboard a non-equity strategic partner on a profit-sharing basis to inject working capital, and ensure capacity building and technology transfer, while enhancing efficiency and controls through a robust ERP system. To achieve this, we will continue to engage with our bankers and shareholders. These engagements are at an advanced stage and will bear fruit in the coming financial year.

Appreciation

In conclusion, I take this opportunity to express my sincere appreciation to all our stakeholders led by our shareholders - The National Treasury & Planning and the Ministry of Energy & Petroleum - for their significant contribution through both policy and budgetary support to the Corporation.

On my own behalf and that of the Executive Management team, I also thank the Chairman and the Board of Directors for their continued support, steadfast leadership, and guidance throughout the financial year. I

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would also like to most sincerely appreciate our customers for believing in us even when we have had challenges. I also thank in a special way our suppliers, service providers, partners and bankers for their invaluable support during the financial year.

Last but not least, on behalf of the Board of Directors and Management, I congratulate our staff for their continued commitment and resilience that have yielded these results and urge them to redouble their efforts as we all strive to return the National Oil Corporation of Kenya back to profitability in the very near future.



Chief Executive Officer

Date.....6/5/2024.....

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7. Statement of Performance against Predetermined Objectives for FY 2022/2023

The corporation recorded a decrease in gross profit from Kshs 463 million for the year ended 30th June 2022 to Kshs 106 Million for the year ended 30th June 2023, representing a 77% decrease. During the year under review, the Corporation's loss before tax increased from Kshs 1.503 billion in the financial year, ended 30th June 2022 to Kshs 2.343 Billion however, the management is implementing the cabinet directives on revival and commercialisation of the corporation to return it to profitability. The reported loss is primarily attributable to the huge bank penalties as a result of non-performing loan portfolio and court cases awarded against the corporation

Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
Pillar/ theme/ issue 1: Grow shareholder value	Improve Financial Performance	On-boarded OMC partner(s)	Procuring an OMC Partner to ensure adequate working capital	OMC partner on boarded
	Grow core and related business revenues	Sales volumes Sales margins Non fuel revenue	Implementation of Retail Master plan	Retail Master plan not implemented due working capital challenges
			On board credit Commercial Customers	No credit customers on boarded due to lack of product
			Revamp convenience retailing segment	Limited number of convenience retailing segment revamped due to financial constrains
			Refine LPG Distribution model	LPG distribution model refine but was impacted by product availability
	Increase hydrocarbon assets of oil and gas	Project Milestones achieved	Farm out and develop block 14T	Prepared data package for presentation
			Develop upstream support services	Completed physical infrastructure of laboratory
Pillar/ theme/ issue 2: Deliver exceptional customer service	Enhance our customer experience	Social media interaction	Increase online customer interaction	Increased social media feedback
Pillar/ theme/ issue 3:		Revenue leakages	Daily stock reconciliations	Nil Stock Losses

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Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
Increase operational efficiency and effectiveness	Strengthen Internal Controls		and monthly stock takes	
			Continuous revenue assurance audit	Nil Revenue leakages
			Integrate Fuel Facts and Petrol plus to Oracle systems	Project put on hold due to financial constrains
Pillar/ theme/ issue 4: Embed a high-performance culture	Improve performance management	Performance scores	Target setting aligned to corporate objectives and appraisals conducted	All staff set targets and were appraised bi-annually and annually.
Pillar/ theme/ issue 5: Good governance and ethics	Enhance corporate governance and compliance	Compliance	undertake routine Board operations	Compliance to Board Almac

8. Corporate Governance Statement

Good corporate governance is integral in enabling the National Oil Corporation of Kenya Limited (NOC) to interact with both internal and external stakeholders. Corporate governance entails the systems, processes and structures used to direct and manage the affairs of the Corporation and delineate the respective roles of the Board and Management and the framework of internal controls. The Board and the Management regard good corporate governance as pivotal to the success of the Corporation and is committed to ensuring there is strict adherence to these processes.

The Corporation achieves good corporate governance by using a risk-based approach to establish a system of internal controls and by reviewing the effectiveness of the system on a regular basis. The Corporation has formulated and implemented sound internal corporate governance guidelines, which spell out the responsibilities of Management and the Board.

The Board meets regularly and has a formal schedule of its matters. Currently, the Board comprises of 14 (Fourteen) non-executive directors and the Chief Executive Officer. The Board meets at least four times a year.

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The Board has established Committees to assist in the implementation of its policy guidelines and strategy. These Committees meet regularly and are chaired by non-executive Board directors. The Committees submit their report to the Board for adoption and approval. All the non-executive Board directors are independent of management and free from any business or other relationship, which may materially interfere with the exercise of their judgment.

(1) Number of Board meetings held

During the period under review, the Board held the following number of meetings. Requisite approvals were obtained to hold the extra number of meetings as per the provisions of section A(1) to (3) of circular Ref. NO:OP/CAB.9/1A on Management of State Corporations.

NO	NAME OF COMMITTEE/BOARD MEETINGS	NUMBER OF MEETINGS
1.	Board meetings	10
2.	Finance Committee	7
3.	Strategy and Business Committee	5
4.	Human Resource Committee	4
5.	Audit & Risk Committee Meetings	6
6.	Special Ad-hoc Meetings	3
	TOTAL	35

The attendance to those meetings by members

Section 3 of the board charter provides that the quorum for the conduct of business at a meeting of the Board shall be 2/3rd the number of the members of the Board. The details of the members who attended the respective meetings were captured in the respective minutes of meetings held during the year 2022/2023FY.

Succession Plan

The Corporation has a well-defined Board Succession plan, as it is an important way of maintaining a healthy dynamic. The Board Members have difference appointment dates and hold various professional competencies.

Section 6(1) and (2) of the State Corporations Act, 1986 provides as follows-

“... A Board shall, subject to subsection (4), consist of—

- (a) a chairman appointed by the President who shall be non-executive unless the President otherwise directs;
 - (b) the chief executive;
 - (c) the Permanent Secretary of the Parent Ministry;
 - (d) the Permanent Secretary to the Treasury;
 - (da) the Attorney-General or his representative;
 - (e) not more than eleven other members not being employees of the state corporation, of whom not more than three shall be public officers, appointed by the Minister.
- (2) Every appointment under subsection (1)(a) and (e) shall be by name and by notice in the *Gazette* and shall be for a renewable period of five years or for such shorter period as may be specified in the notice...”

The appointment of the aforementioned members by the Cabinet Secretary has been cascaded in order to ensure continuity and smooth transaction of NOC’s Board’s roles and responsibilities.

Existence of a Board Charter

The NOC Board approved its Board Charter during its meeting held on 14th January 2022 in line with the provisions of Mwongozo, Code of Governance for State Corporations.

Process of Appointment and Removal of Directors

Section 3 of the NOC Board Charter provides that the relevant appointing authority shall select and appoint the respective directors. Every appointment shall be by name and by notice in the Kenya Gazette or nomination by a body mandated to do so but shall cease if the Board member:

- (i) Serves the appointing authority with written notice of resignation; or
- (ii) Is absent, without the permission of the Chairperson, from three consecutive meetings; or
- (iii) Is convicted of an offence by a court of competent jurisdiction and sentenced to imprisonment for a period exceeding six months without the option of a fine; or
- (iv) Is incapacitated by reason of infirmity of body or mind; or
- (v) Is otherwise unable or unfit to discharge the functions of the Board; or
- (vi) If the member dies.

Roles and functions of the Board

Section 10.2 of the NOC Board Charter provides the roles and duties of Board are as set out in the Companies Act, the State Corporations Act, Mwongozo Code of Governance for State Corporation's, National Oil's Memorandum and Articles of Association, other relevant legislation and policy documents.

Induction and Training

The NOC Board of Directors attended the below trainings in 2022/2023 FY:

1. Corporate Governance Training
2. Board Essential

Board and Member Performance

The Board was evaluated on 20th September, 2022 by *State Corporations Advisory Committee (SCAC)* overall performance and respective members was captured in the evaluation performance report that was submitted by SCAC during the Board meeting that was held on 14th October,2022.

Conflict of Interest

During 2022/2023FY, a no-conflict-of-interest register was kept by the Corporation Secretary and none of the members declared any conflict of interest in any of the agenda items that were presented for deliberations and guidance by the Board. In the event any member was conflicted on a particular matter, they recorded it on register on conflict of interest.

Board Remuneration

The Board was remunerated as per the prevailing SCAC guidelines on the remuneration of board members.

Ethics and Conduct

The board approved a Board Charter in its meeting held on 14th January 2022 that stipulated the code of conduct to be observed by the Board members.

Governance Audit

According to the Mwongozo Code of Conduct and Ethics for State Corporations, a governance audit is expected to be carried out on an annual basis. However, during the period under review, a governance audit was not undertaken though it was approved by the board in its almanac in the 2022/2023FY. Further, the Board in its approved work plan for 2023/24 FY has also approved a governance audit to be undertaken in the current financial year.

9. Management Discussion and Analysis

National Oil Corporation of Kenya Limited is a fully integrated State Corporation involved in all aspects of the petroleum value chain covering the upstream oil and gas exploration, midstream petroleum infrastructure development and downstream marketing of petroleum products.

National Oil has an active downstream business segment with a growing retail network of 73 service stations spread across Kenya. The Corporation also serves a cross-section of resellers, industrial, export and government businesses from its modern Nairobi National Terminal.

The Corporation is also actively involved in the upstream activities key among them being analysis and keeping of exploration data in the petroleum sector on behalf of the Government where there is collaboration with other stakeholders.

During the Period, the Corporation has focused more on turn around strategies with a view to competing effectively in the market space to ensure there is a positive trend in the business activities with a view to making a positive return for the shareholders.

Financial Key Performance Indicators

Revenue decreased from Kshs 9.8billion for the year ended 30th June 2022 to Kshs 3.1 billion for the year ended 30th June 2023. Gross profit declined from Kshs 463 Million in the year ended 30th June 2022 to Kshs 106 Million under the year under review translating to a decline of 77%.

Operating expenses decreased to Kshs 953 million from Kshs 972 million due to cost rationalization to be in line with level of business. Net financing costs increased from Kshs 1.1 billion in the previous year to Kshs 1.6 billion during the year under review. This was as a result of huge bank penalties incurred during the year under review due to increased non-performing loans.

The loss before tax for the year under review is Kshs 2.3 billion compared to a loss of Kshs 1.5 billion in the year ended June 2022. This is attributed majorly to financing costs, decline in gross margin due to stock out and fixed costs such as salaries, leases, county rates etc.

Principal risks and uncertainties facing the Corporation

- 1) Fluctuations of the local currency against the USD: - Petroleum products at the international markets are traded in USD and any appreciation of the USD against the local currency leads to a negative effect to the profitability of the Corporation due to decline in purchasing power as a result of working capital challenges.
- 2) Financial Constraints: - The Corporation is competing in the market place with multinationals who have very strong parent Companies and are able to fund them in the expansion program with low interest funds. The Corporation on the other hand has to borrow from the local banks at high interest. This increases the financing costs and minimizes the returns per litre of Petroleum products sold by the Corporation.
- 3) Independent marketers: - Quite a number of independent oil marketers are getting into the oil and gas industry. These Companies have low operating costs, which enable them to undercut the other oil marketers in the market and eventually eating into their market share.
- 4) Increase in global crude oil prices- Its contributed to Russia and Ukraine crises

10. Environmental and Sustainability Reporting

i) Sustainability strategy and profile

The concept of "sustainability" provides a perspective on the relationship between National Oil and its stakeholders. It allows the company to reflect on how social and environmental issues affect its operations and forms the driving force of NOC's strategy.

National Oil acknowledges the pressing need to take action in safeguarding our planet's well-being, all the while promoting inclusivity in accessing the fruits of development. This commitment remains unwavering, staying true to our dedication to shareholders and the advancement of responsible corporate citizenship. To this end, the Company is dedicated to embedding environmental, social, and governance (ESG) sustainability principles into our organizational and business reporting processes. Among the 17 Sustainable Development Goals (SDGs), the most pertinent objective for National Oil is SDG 7: "Ensure access to affordable, reliable, sustainable, and modern energy for all."

In alignment with SDG 7, our strategic emphasis revolves around promoting clean and affordable energy alternatives for the people of Kenya. Kenya boasts a range of natural gas resources distributed across the nation. It is imperative to embark on a comprehensive examination of these gas reservoirs, conducting a thorough viability analysis to assess their potential role in various clean energy solutions such as electric power generation, clean hydrogen production, and essential petrochemical applications.

Biofuel stands out as a pristine alternative fuel derived from trees. We amalgamate our Corporate Social Responsibility (CSR) initiatives with the establishment of forestry projects, aimed at constructing facilities to manufacture raw materials for biofuels. These forestry endeavor's take root on community-owned land, fostered through partnerships with landowners, ensuring the perpetuity of these forests. The products harvested from these forests are then procured by National Oil for the production of biofuels, benefiting both the community and the environment.

ii) Environmental performance

National Oil Corporation, in undertaking its mandate, has integrated environmental considerations in their operations to fulfil the requirements of a clean, healthy and sustainable environment for all as per Article 42 of the Constitution of Kenya, 2010 and Environmental Management and Coordination Act (EMCA) Cap. 387. The Corporation undertakes to uphold environmental standards that exceed the minimum legal and regulatory requirements. To this end, the Corporation shall adopt all reasonable and practical measures to endeavour to comply with and exceed the requirements of all

applicable environmental laws, regulations, permit and licence conditions and other requirements to which the organization subscribes to. National Oil Corporation recognizes that her operations have impacts on the environmental, social and financial aspects. In view of this, the Corporation has put in place several operational controls geared towards reducing pollution impacts. National Oil retail stations emit waste oils that, if not properly contained, could have adverse impact to underground and riparian water. This calls for implementation of measures such as: engaging a waste oil collection firm to periodically collect waste oil as well as conduct interceptor cleaning at National Oil retail sites and National Nairobi Terminal (NNT); and engaging a NEMA-designated laboratory to undertake effluent sampling and analysis to provide assurance that effluents into municipal waste drainage are within parameters as prescribed by Water Quality Regulations, 2006.

iii) Employee welfare

The Corporation has put in place a Human Resources & procedures manual which stipulates that the Corporation is an equal opportunity employer and shall not in its recruitment and selection process, discriminate on the basis of gender, race, religion, ethnicity or any other form of discrimination. The constitutional requirement on mainstreaming of gender and persons with disabilities as stipulated in Article 232 of the Constitution shall be observed alongside policies issued by any of the relevant Government Institutions. In addition the Corporation has a functional Gender Mainstreaming Policy that ensures gender parity is taken into account during hiring. The HR Policy Manual is reviewed every 3 years.

There is annual appraisal system out of which areas of staff development are identified and an implementation is put in place.

There is a clear policy on reward and recognition of outstanding performance

iv) Market place practices-

The organisation should outline its efforts to:

a) Responsible competition practice.

Fair Competitor and respect for completion

- ❖ The Corporation achieves this through conducting *price market surveys* in pricing products (white fuels, lpg and lubricants) this will ensure NOC doesn't undercut the market

- ❖ Industry bench marking –the corporation also ensure that it embraces best industry practices as it conduct its business operations. Such practices include charging throughput fees as opposed to rental based fees. The fees charged should also be within average range of the industry.
- ❖ Below the line and above the line market activities e.g. forecourt discounts and other incentives to the final consumer

Anti-corruption

There is policy in NOC in regards corruption activities and how they are reported

b) Responsible Supply chain and supplier relations

The Corporation has employed the following strategies in its supply chain management function;

- Purchase in volume for cost reduction- Common users goods and services are procured on framework contracts basis
- All purchases we use POs or contracts
- Increase penetration of technology in its operations.

Treats its own suppliers responsibility

- We endeavours to pay suppliers the amount agreed upon and on time
- We communicate regularly with our suppliers hence establishing and maintaining a business connection
- We treat our suppliers not just as vendors business partners
- Where payments are overdue/ pending we normally enter into a payment agreement which we adhere to

c) Responsible marketing and advertisement

The Corporation achieves this through:

- ❖ Response to customer complains within the SLA
- ❖ Being transparent ie access to information about safety and its effective use
- ❖ NOC websites is also accessible to the public for any information regarding all the activities in upstream and downstream operations
- ❖ Protecting customers data and privacy-NOC ensures confidentiality as far data and other sensitive information are concerned of its entire customer base
- ❖ Maximize benefits and minimize risks-NOC prioritize on safety first and is being driven by a slogan “if it is not safe it is not worth it”

d) Product stewardship

The Corporation achieves this through:

- ❖ Ensuring high quality and standard for her products that meets industry and KEBS standard.
- ❖ Timely response to customers complaints
- ❖ Disposing of used oil as per the approved NEMA procedures

e) Corporate Social Responsibility / Community Engagements

The National Oil Corporation of Kenya gives back to the communities through a hand up approach. This is through key Corporate Sustainability (CS) programs, projects and activities.

The Corporation is guided by a robust Corporate Sustainability (CS) strategic plan, focused on community living within its Block 14T in Magadi sub-basin.

The Corporation interacts with communities in Block 14T where it has been conducting Upstream exploration activities. These activities are conducted within land and conservancies owned or managed by three communities. In a bid to get the social license from the community to enable the operations run smoothly, the Corporation held extensive community engagements with the communities. The communities are namely Olkiramatian Group Ranch, Shompole Group Ranch and Musenke Community.

The Corporation proposed to give back to the communities through Corporate Sustainability (CS) projects that the community would come up with, within the budget capability of the Corporation.

During the period, Corporation constructed a modern girl's dormitory and installed 40 double deckers beds for Oloika Secondary School. In additional the Corporation provided 150 desks and chairs for Olkiramatian arid zone school.

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11. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2023, which show the state of the Corporation's affairs.

i) Principal activities

The core business of the Corporation as stipulated in the Memorandum and Articles of Association is trading in refined petroleum products and participation in related petroleum business such as refining, distribution and marketing; provision of related services such as hospitality, storage, transport, product receipt and loading; petroleum exploration; and promotion activities and participation in energy sector activities as directed by the Government from time to time.

ii) Results

The results of the Corporation for the year ended June 30, 2023 are set out on page below. Below is summary of the profit or loss made during the year.

	2023 Shs'000	2022 Shs'000
Loss before taxation	(2,334,502)	(1,503,068)
Taxation credit	677,502	421,040
	-----	-----
Loss for the year transferred to retained earnings	(1,657,001)	(1,082,028)
	=====	=====

iii) Dividends

The Directors do not recommend payment of dividend in respect of the current financial year (2022: nil).

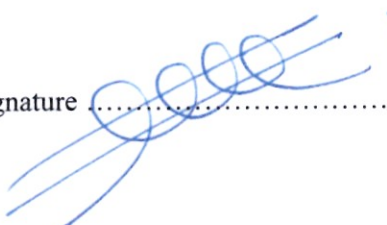
iv) Directors

The members of the Board of Directors who served during the year are shown on page v

v) Auditors

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

By Order of the Board

Name Leporan Ole Mwikitai Signature  Date 6/5/24
(Secretary to the Board)

12. Statement of Directors' Responsibilities

Section 81 of the Public Finance Management Act, 2012 and Companies Act 2015, require the Directors to prepare financial statements in respect of the Corporation, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year/period and the operating results of the Corporation for that year/period. The Directors are also required to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of the Corporation.

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the period ended on June 30, 2023. This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the Corporation;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the Companies Act 2015.

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Statement of Directors' Responsibilities (Continued)

The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the year ended June 30, 2023, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

The Corporation is currently experiencing financial challenges which has hindered its ability to deliver on its core mandate. The Cabinet has issued directives on revival and commercialization of the National Oil Corporation. The Cabinet has issued two directives on the revival and commercialization of National Oil Corporation, namely; i. On-boarding a non-equity strategic partner(s) to inject funds for working capital and capital expenditure. ii. Restructuring of National Oil Corporation through conversion of the parent company into a holding company and creating of three subsidiaries to derisk the business and increase efficiency and profitability. Based on above, nothing else has come to the attention of the Directors to indicate that the Corporation will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Corporation's financial statements were approved by the Board on 28/9/.....2023 and signed on its behalf by:


Hon. Kiraitu Murungi E.G.H
Chairperson of the Board


Léparan Gideon Morintat
Chief Executive Officer

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REPORT OF THE AUDITOR-GENERAL ON NATIONAL OIL CORPORATION OF KENYA LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Oil Corporation of Kenya Limited set out on pages 1 to 126, which comprise of the statement of financial

position as at 30 June, 2023, and the statement of profit or loss and other comprehensive income, the statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Oil Corporation of Kenya Limited as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Uncertainty Relating to Going Concern

The Corporation recorded a loss before taxation of Kshs.2,334,502,000 during the year under review (2022: Kshs.1,503,068,000) raising its accumulated losses to Kshs.6,766,468,000 from Kshs.5,109,467,000 in 2022. However, the Corporation's current liabilities totalling Kshs.11,456,781,000 exceeded the current assets balance of Kshs.2,352,222,000 by an amount of Kshs.9,104,559,000. These events or conditions indicate material uncertainty regarding the Corporation's ability to continue as a going concern. This material uncertainty in relation to going concern and any mitigating measures put in place by the directors to address the matter were not disclosed in the notes to the financial statements as required by the International Accounting Standards (IAS 1), presentation of financial statements.

In the circumstances, the Corporation was technically insolvent and its continued existence is dependent upon the financial support of the Government and its creditors unless Management puts in place measures to improve the performance of the Corporation and to reduce reliance on financial support from the shareholders.

2. Non-Compliance with Accounting Policy on Investment Property

The statement of financial position and as disclosed in Note 19 to the financial statements reflects investment property balance of Kshs.9,635,000. The property has been accounted for using the cost basis as per the International Accounting Standards (IAS) 16. However, International Accounting Standard (IAS) 40 and the Corporation's accounting policy on investment property provides for a fair value model of accounting.

In the circumstances, the accuracy and completeness of the investment property balance of Kshs.9,635,000 could not be confirmed.

3. Unsupported Decline in Value of Freehold Land

The statement of financial position reflects property, plant and equipment with a net book value of Kshs.5,405,623,000. As previously reported, the values are based on a

revaluation of assets which resulted in a decline in the value of ten (10) parcels of freehold land by Kshs.145,640,000 or 43%, from a previous value of Kshs.336,140,000 to Kshs.190,500,000. The decline was not supported or justified since it did not result from changes in sizes from the alienation of the parcels or any other adverse conditions. Management attributed the decline to premiums paid on the acquisition of the parcels. However, the reason could not be justified by the prevailing market conditions and differences in land measurements cited in the valuation reports and those in the title deeds.

In the circumstances, the accuracy and valuation of the property, plant and equipment balance of Kshs.5,405,623,000 could not be confirmed.

4. Inaccuracies in the Tax Recoverable Balance

The statement of financial position and as disclosed in Note 14(b) to the financial statements reflects a tax recoverable amount of Kshs.32,661,000. However, based on the corporation's iTax account at the Kenya Revenue Authority (KRA), there were no credits to be carried forward as at 30 June, 2023. Management indicated that reconciliation is currently ongoing with KRA to determine the correct position.

In the circumstances, the accuracy of the tax recoverable amount of Kshs.32,661,000 could not be confirmed.

5. Unsupported Hived-Off Petroleum Products

The statement of financial position and as disclosed in Note 21(a) to the financial statements reflects inventories balance of Kshs.237,251,000. Included in the inventory gross value of Kshs.2,586,057,000 is a balance of Kshs.1,494,624,828 being the value of products captured as hived off in the books of the Corporation. In October 2016, the Corporation Management resolved to hive off all historical non-reconciling items in a separate no-trading stock point to ensure new variances were not created. The historical non-reconciling items continue to be carried in the books of the Corporation and lacked documentation to support their physical existence. Although the Board of Directors approved the write-off through its resolution dated 24 May, 2017, which was also forwarded to the Cabinet Secretary for the Ministry of Petroleum and Mining on 23 September, 2022, the matter was still pending.

In the circumstances, the accuracy and completeness of the inventory balance of Kshs.237,251,000 could not be confirmed.

6. Inaccuracies in Deferred Income Computations

The statement of financial position reflects a deferred income balance of Kshs.3,134,782,000 which includes an amount of Kshs.3,052,754,000 in respect of exploration grants as disclosed in Note 23 to the financial statements. However, over the years, the Corporation utilized an amount of Kshs.2,209,278,000 as capital expenditures which were capitalized as Exploration Expenditure - Block 14T. The capitalized expenditures were not deducted from the deferred income and thus overstated the reported deferred income amount of Kshs.3,134,782,000 by an amount of Kshs.2,209,278,000.

Further, Management did not disclose in the notes to the financial statements, the accounting policy adopted for grants, including the method of balance sheet presentation, the nature and extent of grants recognized in the financial statements and unfulfilled conditions and contingencies attaching to recognized grants as required under paragraph 39 of the International Accounting Standards (IAS) 20- Accounting for Government Grants and Disclosure of Government Assistance.

In the circumstances, the accuracy of the reported deferred income balance of Kshs.3,134,782,000 could not be confirmed.

7. Unsupported Fund Balances

The statement of financial position reflects a non-current liabilities balance of Kshs.3,855,727,000 which, as disclosed in Notes to the financial statements constitutes fund balances amounting to Kshs.3,680,249,000 from activities and projects initiated by the Corporation in partnership with Government agencies and other donors as listed below;

No.	Fund Details	Note	Amounts (Kshs)
1	Deferred Income Fund	23	3,134,782,000
2	Ministry of Energy Headquarters Construction Fund	39	704,000
3	Single Buoy Mooring Jetty Fund	40	11,443,000
4	Corporate Social Responsibility Fund	41	72,955,000
5	Exploration and Capacity Building Fund	42	34,885,000
6	Laboratory Equipment Fund	43	425,480,000
	Total		3,680,249,000

However, guidelines on utilization and liquidation of balances upon closure of such projects were not provided for audit. The Corporation continues to hold funds for projects that were yet to be implemented or surplus funds for completed projects, thereby denying citizens access to services intended or additional services that could be implemented using the idle funds.

Although Management explained that the Funds were included in other Corporation's funds and some were invested in fixed deposits at various commercial banks, the corresponding cash and bank balances were not provided for audit.

In the circumstances, the accuracy, and completeness of the special fund's project balance of Kshs.3,855,727,000 could not be confirmed.

8. Irregular Utilisation of Social Responsibility Funds

The statement of financial position reflects a balance of Kshs.72,955,000 in respect of corporate social responsibility funds as disclosed in Note 41 to the financial statements. Review of records indicates that the Fund is created through funds paid by International Oil Companies (IOCs) undertaking oil and gas exploration activities in a region to undertake Corporate Social Responsibility activities that would benefit the local

communities as provided in the Production Sharing Contract signed between the Government of Kenya and an International Oil Companies (IOCs). This is in addition to paying for service rentals and training levy among other incidental costs and licence fees.

However, review of records revealed that the Corporation paid an amount of Kshs.2,000,000 to a Golfing Society as a donation. The donation was not in the approved work plan for Corporate Social Responsibility activities implemented by the Corporation on behalf of the IOCs undertaking oil and gas exploration activities.

Further, there was no documentary evidence to confirm that the donations benefited the local communities as required in the Production Sharing Contract signed between the Government of Kenya and an IOC operating an oil exploration block in the Coastal region.

In the circumstances, the regularity of the corporate social responsibility project fund utilisation amounting to Kshs.2,000,000 could not be confirmed.

9. Inaccuracies in Legal Expenses

The statement of profit and loss and other comprehensive income reflects administration expenses amounting to Ksh.952,922,000 as disclosed in Note 10(a) to the financial statements. Included in the expenditure is an amount of Kshs.113,134,000 in respect of legal expenses. Review of the expenses revealed that an arbitral award of Kshs.40,934,867 was issued against the Corporation in a matter of breach of contract in respect of transportation of petroleum products filed by a private company. The award was delivered in October, 2018 with a subsequent appeal dismissed during the year under review and the award affirmed. Although the decretal amount, interest arbitration costs, court fees and collection fees all amounted to Ksh.66,505,181, an amount of Kshs.70,000,000 was expensed, resulting in an unexplained and an unreconciled variance of Kshs.3,494,819. Management was directed by the arbiter to make an upfront payment of Kshs.2,000,000 and come up with a payment plan for the settlement of the award.

Further, the Corporation was sued for unfair termination by a former staff member. The matter went to trial and a ruling was delivered on 29 July, 2021, where the Court ordered the Corporation to pay the claimant his salary arrears. Review of documents relating to the case revealed that salary arrears due to the claimant amounted to Kshs.1,700,000. However, the legal expense reflected compensation of Kshs.5,000,000 in anticipation of the outcome of the case which was still ongoing showed the claimant win. The resultant variance of Ksh.3,300,000 was not explained or reconciled.

In the circumstances, the accuracy and completeness of legal expenses amounting to Kshs.113,134,000 could not be confirmed.

10. Irregular Payment of Other Personnel Allowances

The statement of profit or loss and other comprehensive income and as disclosed in Note 10(a) to the financial statements reflects staff cost of Kshs.395,297,000. Review of the ledger and the trial balance for the year under review reflects total payments to employees amounting to Kshs.62,258,868 described as "other allowances." However, the basis for the payment of these allowances, and the applicable rates were not provided for audit.

Further, approval from the State Corporations Advisory Committee (SCAC) was not provided to support the allowances.

In the circumstances, the accuracy and regularity of the other allowances payments amounting to Kshs.62,258,868 could not be confirmed.

11. Misclassification of Exploration Grants

The statement of profit or loss and other comprehensive income and as disclosed in Note 11 to the financial statements reflects exploration expenditure of Kshs.215,395,000. Included in the expenditure is an amount of Kshs.118,455,000 which was irregularly spent on payment of salaries and allowances of permanent employees contrary to the approved work plan upon which the disbursement was made. According to the approved work plan, the grants disbursed ought to have been utilized on exploration studies for geology, geophysics, geochemistry, petroleum engineering, data packaging and marketing, software license annual renewal, community engagement activities and purchase of motor vehicles.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.215,395,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Oil Corporation of Kenya Limited Management in accordance with ISSAI 130 on the 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.

Emphasis of Matter

Long Outstanding Trade Payables

The statement of financial position reflects the trade and other payables balance of Kshs.5,070,372,000 as disclosed in Note 31 to the financial statements. The balance includes a trade payables balance of Kshs.898,494,000 out of which, a balance of Kshs.777,085,321 related to amounts due to vendors that have been outstanding for more than 60 days without explanations

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the audit report of 2022/2023 financial year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to resolve them.

Other Information

The Directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the statement of the Directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

In connection with the audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, the knowledge obtained in the audit, or otherwise appears to be materially misstated. Based on the work I have performed on the other information obtained prior to the date of this auditor's report, if I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

The other information does not include financial statements and my audited report thereon.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else 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

1. Unaccounted for Mwananchi Gas Project Equipment

The Ministry of Petroleum and Mining delegated to the Corporation the responsibility of implementing the Mwananchi Gas Project on behalf of the National Government vide letter from the Ministry of Petroleum and Mining dated 16 September, 2021. The project was intended to promote the use of modern cooking fuels among low-income households

and entailed distribution of subsidized LPG cylinders, grills and burners purchased by the Ministry of Petroleum and Mining. The funds realized from sales were to be used to purchase additional gas.

Further, the pilot program for the project rollout was expected to kick off during the 2020/2021 financial year but the Corporation lacked sufficient working capital to purchase liquefied petroleum gas to be used in filling of the cylinders. Review of store records revealed inventories comprising 161,448 6kg cylinders, out of which 5,444 had been filled with gas, 329,303 burners, 330,115 6kg grills, 60,000 horse pipes and 84,499 double burner stoves. As at 30 June, 2023, only 11,675 6kg cylinders, 12,869 burners and 87,147 grills with an aggregate value of Kshs.20,501,191 had been included in the Corporation's financial statements. The rest of the items were not included in the Corporation's financial statements, a position Management attributed to a lack of formal authority from the Ministry of Petroleum and Mining to transfer ownership of the items to the Corporation. Management also indicated that 22 burners were said to have been collected as samples by the Kenya Bureau of Standards and Directorate of Criminal Investigation in 2018 and 2019 respectively but they were not supported with any documentary evidence.

In addition, review of records and physical verification revealed that the 6kg cylinders purchased in Module I and two-burner low-pressure tabletop cookers purchased under Module II of the project together with its accessories were yet to be distributed and were lying at the warehouses. There is uncertainty in the implementation of the project due to lack of sufficient working capital.

In the circumstances, the value for money on the expenditure incurred on the project could not be confirmed.

2. Breach of Repayment Terms on Borrowings

The statement of financial position and disclosed in Note 28 to the financial statements reflects borrowings balance of Kshs.6,376,024,000. Review of the loan account revealed that the Corporation was not servicing the loan contrary to the loan agreement, which may further increase the cost of borrowings. However, records provided indicated that Management had negotiated with the bank to restructure the outstanding loan and extension of the moratorium which had lapsed on 3 May, 2022. Management further requested the lender for extension of loan moratorium for an additional period of seven (7) months on both the principal and interest. However, the bank declined the extension until Management undertakes recommendations of the Liquidity and Independent Business Review which was conducted by a consultant on behalf of the lenders. The recommendations included: overhaul and modernization of ICT systems including effective stocks control systems, upgrade of management stocks control processes, customer service and product costing and pricing; re-organize the Corporation for effectiveness and efficiency while upgrading management capabilities and culture, and reducing overall payroll costs; address the matter of inadequate working capital; and come up with a business model that mostly focuses on prime retail stations, while paying attention to brand image enhancement.

Further, as a result of default on loan and interest repayment, the lenders charged default interest rate of 23% which is higher than the previous year interest rate of 13%. The Corporation had accrued a penalty of Kshs.1,342,310,000 thereby increasing the Corporation's liabilities.

In the circumstances, the Corporation could potentially be exposed if financiers were to act on non-compliance with the loan agreement.

3. Stalled Liquefied Petroleum Gas Project

Review of documents revealed that the Corporation incurred an expenditure of Kshs.5,604,000 in respect of the construction of LPG Skid at Kipkaren Service Station which comprised of the cost of civil works, two LPG Mini Skids and associated works. However, only the Skid foundation had been completed and the contractor had abandoned the site. Management did not assess the stalled project for impairment. Further, no clear roadmap was provided on how Management intends to address the matter and no plausible explanation was provided to explain why the project has been abandoned before completion.

In the circumstances, value for money has not been realized on the expenditure of Kshs.5,604,000 spent on civil works at Kipkaren Service Station.

4. Unauthorized Over-Expenditure

Review of the budget expenditure against actual expenditures incurred during the year under review revealed instances of over-expenditure on legal fees and finance costs amounting to Kshs.848,156,000. However, supplementary budget and approval were not provided to support the over-expenditure. Further, the Corporation budgeted to collect sales revenue amounting to Kshs.33,030,070,000. However, only Kshs.3,141,120,000 was realized resulting in an under-collection of Kshs.29,888,950,000.

The under-collection may have affected the planned activities during the year.

5. Non-Compliance with the One-Third of Basic Salary Rule

During the year under review, eleven (11) employees were paid net salaries that were less than a third (1/3) of their basic pay. This contravened Section 19(3) of the Employment Act, 2007. No sufficient explanation was provided for the failure to comply with the law on payment of salaries and allowances.

In the circumstances, Management was in breach of the law.

6. Non-Compliance with the Corporation's Human Resources and Procedures Manual

Review of the payroll data revealed that seven (7) employees had been in acting positions for more than six (6) months and paid a total of Kshs.2,248,485 as acting allowances during the year. This contravened Section 8.8.3 of the Corporation's Human Resources and Procedures Manual which provides that acting allowance will be payable to an

employee for not more than six (6) months within which the position should be advertised and filled competitively.

In the circumstances, Management was in breach of the procedure's manual.

7. Lack of an Approved Career Progression Guidelines

During the year under review, the Corporation filled nine (9) vacancies and promoted three (3) employees to various grades. However, an approved career progression guideline watermarked and sealed by the State Corporations Advisory Committee was not provided for audit. Although Management explained that the approved document was misplaced and yet to be replaced, the considerations that were used for the promotions and recruitment could not be confirmed.

In the circumstances, Management was in breach of the guidelines.

8. Delays in Implementation of Initial Exploration Period

The statement of financial position and as disclosed in Note 37 to the financial statements reflects exploration expenditure on Block 14T of Kshs.2,209,278,000. Review of documents revealed that the Corporation signed a Production Sharing Contract (PSC) with The Ministry of Energy and Petroleum on 15 November, 2010. The Corporation was authorized to conduct exploration operations within the contract area during an initial exploration period of three (3) years from the effective date. The Initial Exploration Period expired on 15 February, 2014 and subsequently, the PSC was extended with the latest one expiring on 14 February, 2023.

However, the Corporation has spent over thirteen (13) years in conducting exploration operations within the contract area. This was contrary to clause 2(1) of the Production Sharing Contract (PSC) which provides that the contractor is authorized to conduct exploration operations within the contract area during an initial exploration period of three (3) years from the effective date. The several extensions have been caused by the Corporation's failure to fulfill work and expenditure obligations under the contract during the initial exploration period of three (3) years.

In addition, an international investor who has been supporting the Corporation through a joint survey agreement terminated the agreement and decided not to exercise its right to participate in the PSC citing lack of interest from Japanese investors in the data obtained from the joint survey.

In the circumstances, the value for money on the expenditure of Kshs.2,209,278,000 spent on the initial exploration could not be confirmed.

9. Failure to Hold Minimum Operational Stock

Review of records revealed that Management did not meet the minimum operational stocks of the petroleum. This was contrary to Regulation 3(1) and (2) of the Energy (Minimum Operational Stock) Regulations, 2008 which states that all importers of petroleum products intended for use in Kenya shall maintain, at all times, physical operational stock, to be known as the minimum operational stock, in quantities not less

than the minimum amounts specified in the Schedule. The minimum operational stock shall be maintained to ensure short-term supply of petroleum products in the event of disruption of supply of the products.

In the circumstances, Management was in breach of the law.

10. Outdated Database and Application System

Review of the Corporation's information technology systems revealed that the Corporation has two (2) main systems in use that were outdated necessitating an upgrade. Further, a contract signed during the 2016/2017 financial year at a cost of Kshs.95,624,321 for fifteen (15) months and post-implementation services was terminated on 10 July, 2020 by Management based on non-performance. In addition, there was no evidence of recommendation from the Contract Implementation Team to terminate the contract as per Section 151(2)(g) of the Public Procurement and Asset Disposal Act, 2015. The Contractor filed a suit in the High Court against the Corporation for non-payment of outstanding invoices totalling Kshs.102,462,096 inclusive of interest.

Subsequently, the systems had attained their End of Life (EOL) which meant that updates and patches that enhance the system's security or any technical support from the supplier could no longer be received. Further, the Corporation had not paid the software vendor for three financial years and had accrued debts amounting to Kshs.157,039,695 in respect of annual software updates, technical support and additional license fees risking the data and business interruption in the case of a security attack.

In the circumstances, the value for money in the amount of Kshs.95,624,321 incurred on the system could not be confirmed.

11. Payment of Avoidable Penalties

The statement of profit or loss and other comprehensive income reflects the cost of sales totaling to Kshs.3,035,390,000 as disclosed in Note 7 to the financial statements. The costs include an amount of Kshs.14,833,000 in respect of penalties and fines incurred by the Corporation paid mainly to the Commissioner of Customs. This expenditure which could have been avoided with proper financial management led to increase in the cost of sales and affected cash flows negatively.

In the circumstances, the value for money on the expenditure of Kshs.14,833,000 in respect of penalties and fines incurred by the Corporation could not be confirmed.

12. Encroached Corporation Land

Review of records relating to a parcel of land valued at Kshs.126,697,274 revealed that the Corporation granted a six (6) month lease agreement on 15 September, 2017 to an individual at a monthly rent of Kshs.60,000 exclusive of Value Added Tax (VAT). The lease agreement was extended for a further six (6) months from 1 April, 2018 to 30 September, 2018. However, upon the expiry of the agreement, Management continued to receive rent without renewing the agreement or giving notice of intention not to renew the lease. Management later issued notice of intention not to renew the license, but the

tenant took the Corporation to court and obtained temporary order against the Corporation. The Corporation issued a new termination notice on 22 December, 2023 which at the time of the audit, the tenant had not complied but continued to operate business on the Corporation's land without paying any rent.

In the circumstances, the public may not realize value for money on the rented property.

13. Defective Cylinders

The statement of financial position and as disclosed in Note 21(a) to the financial statements reflects inventories gross value of Kshs.2,586,057,000. Included in this amount are 105,838 defective cylinders valued at Kshs.190,812,991 stored at the Corporation's Nairobi National Terminal. However, Management did not provide measures put in place regarding the defective cylinders, considering that their numbers have been increasing over the years.

In the circumstances, the value for money on the expenditure of Kshs.190,812,991 incurred on the defective cylinders could not be confirmed.

14. Irregular Meetings Held by the Board of Directors

During the year under review, the board held thirty -five (35) Board meetings. Out of these meetings, there were four extra Full Board meetings and one extra Finance Committee meeting which exceeded the maximum number of six (6) recommended by the Office of the President circular referenced OP/CAB.9/1A dated 11 March, 2020. Although the Board sought approval for the extra meetings, no approval by the relevant Cabinet Secretary, in consultation with the State Corporation Advisory Committee (SCAC) was provided for audit review.

In the circumstances, the effectiveness of the overall governance of the Corporation could not be confirmed.

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 about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Lack of Governance Audit

During the year under review, the Board did not carry out governance audit as per the Mwongozo guidelines. The audit is expected to address among other areas governance practices including leadership and strategic management, transparency and disclosure, compliance with laws and regulations, Board independence and governance, and consistent shareholder and stakeholders' value enhancement among others.

In the circumstances, the existence of an effective mechanism to monitor governance structures could not be confirmed.

2. Lack of Strategic Plan

Review of documents revealed that the Corporation's Strategic Plan expired in the year 2020 and Management was yet to develop another Strategic Plan to cover the current period. This is contrary to Section 68(2) of the Public Finance Management Act, 2012.

In the circumstances, the effectiveness and existence of an alternative strategic roadmap to steer the Corporation could not be confirmed.

3. Lack of Information Communication Technology Steering Committee

During the year under review, Management did not establish an Information Communication Technology Steering Committee which is mandated to oversee the development of the Information Communication Technology strategy of the Corporation. This implied that there exist gaps in information technology governance that might have affected the information technology management in achieving the organization's mandate.

In the circumstances, the effectiveness of the overall governance of the Corporation could not be confirmed.

4. Irregular Composition of Board Committees

The Corporation's Board of Directors comprised thirteen (13) members. Review of membership and record of minutes of committee meetings revealed that the membership of Board Committees is expected to be a maximum of one-third (1/3) of Board membership as guided by the Mwongozo Code of Governance for State Corporations. However, the Audit Committee has five (5) members, the Human Resource Committee and the Finance Committee have six (6) members each while the Strategy and Business Committee has seven (7) members instead of the Maximum four (4) members. Although the Board sought an exemption from one-third (1/3) requirement in the Constitution of the Board Committees, no written approval of the respective Cabinet Secretary in consultation with the State Corporation Advisory Committee (SCAC) was provided.

In the circumstances, the effectiveness of the overall governance of the Corporation could not be confirmed.

5. Management of Dealer Operated Petrol Stations

The Corporation entered into agreements with several dealers to operate its service stations across the Country. According to the agreements, the dealers were expected to purchase fuel products from the Corporation and compensate the Corporation where they purchase products from other Oil Marketing Companies. According to the volume sales for Company Owned Dealer Operated service stations, the Corporation did not have products from March, 2023 to June, 2023.

Review of records revealed that the Corporation entered into an agreement with several dealers to operate petrol stations. Review of a sample of the agreement revealed that three (3) of the agreements had expired. However, the Corporation continued to transact with the three parties without a valid lease contract. However, during the year under review, Management did not carry out monitoring, inspections and meter reading of the Company Owned Service Stations which are operated by the dealers to ensure that instances of product dumping are detected and fees charged. Review of records and reports provided for the audit revealed that the last inspections and meter readings were conducted in November, 2022.

In the circumstances, the effectiveness of the overall governance in managing the dealer-operated petrol stations could not be confirmed.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2015, I report based on my audit, that:

- i. 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;
- ii. In my opinion, adequate accounting records have been kept by the Corporation, so far as appears from the examination of those records; and,
- iii. The Corporation's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Corporation or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Corporation's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall 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 that 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 audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that 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 controls in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 controls would not necessarily disclose all matters in the internal controls that 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 that 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 controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness in 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 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 that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- 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 that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that 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 that may reasonably be thought to bear on my independence and where applicable, related safeguards.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

15 May, 2024

National Oil Corporation of Kenya
Annual Report and Financial Statements
For the Financial year ended June 30, 2023

14. Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2023

	Note	2022/2023	Restated 2021/2022
		Kshs'000'	Kshs'000'
REVENUES			
Revenue	6	3,141,120	9,841,696
Cost of sales	7	3,035,390	9,379,141
Gross profit		105,730	462,555
Other Income			
Release of Exploration Expenditure	11	215,395	250,890
Interest Income	8	3,162	6,221
Other Income	9	120,364	116,504
TOTAL REVENUES		444,650	836,170
OPERATING EXPENSES			
Exploration Expenditure	11	215,395	250,890
Administration Costs	10(a)	952,922	972,012
Finance Costs	12	1,610,835	1,116,336
TOTAL OPERATING EXPENSES		2,779,152	2,339,238
PROFIT/(LOSS) BEFORE TAXATION		(2,334,502)	(1,503,068)
Income Tax Expense/(Credit)	14(a)	677,502	421,040
PROFIT/(LOSS) AFTER TAXATION		(1,657,001)	(1,082,028)
Earnings Per Share – Basic and Diluted	15	(32)	(21)
OTHER COMPREHENSIVE INCOME			
Profit/ (Loss) after taxation		(1,657,001)	(1,082,028)
Surplus or Deficit on Revaluation of PPE		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(1,657,001)	(1,082,028)

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15. Statement of Financial Position as at 30 June 2023

	Note	2022/2023	Restated 2021/2022
		Kshs'000'	Kshs'000'
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	17	5,405,623	5,591,323
Intangible Assets	18	7,426	5,730
Investment Property	19	9,635	9,870
Right of Use of Leased Assets	20	247,391	277,641
Exploration Expenditure-Block 14T	37	2,209,278	2,149,447
Deferred Tax Asset	29	2,527,555	1,844,944
Total Non-Current Assets		10,406,908	9,878,955
Current Assets			
Inventories	21(a)	237,251	324,938
Trade and Other Receivables	22(a)	776,995	822,520
Tax Recoverable	14(b)	32,661	29,768
Short-term Deposits	24	795,733	800,383
Bank and Cash Balances	25	509,583	434,393
Total Current Assets		2,352,222	2,412,002
TOTAL ASSETS		12,759,130	12,290,957
EQUITY AND LIABILITIES			
Capital and Reserves			
Share Capital	26(a)	1,032,000	1,032,000
Share Premium	26(b)	1,183,000	1,183,000
Revaluation Reserve	27	1,998,088	1,998,087
Retained Earnings	44	(6,766,468)	(5,109,467)
Capital and Reserves		(2,553,380)	(896,380)
Non-Current Liabilities			
Deferred Income	23	3,134,782	1,655,312
Block 14T Fund	38	-	1,133,769
Lease Liability	30	167,999	175,510
MOE HQ Construction Fund	39	704	704
Gratuity provision	32	7,481	8,558
SBM Fund	40	11,443	11,443
CSR Projects Fund	41	34,885	22,939
Laboratory Equipment Fund	43	425,480	425,480


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E&P Capacity Building Fund	42	72,955	72,955
Total Non-Current Liabilities		3,855,729	3,506,670
Current Liabilities			
Borrowings	28	6,376,024	6,200,874
Trade and Other Payables	31	5,070,372	3,470,506
Gratuity provision	32	10,384	9,286
Total Current Liabilities		11,456,781	9,680,666
TOTAL EQUITY AND LIABILITIES		12,759,130	12,290,957

The financial statements were approved by the Board on 28/9/ 2023 and signed on its behalf by:

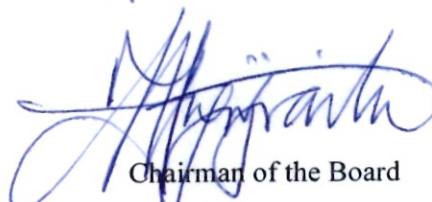

Chief Executive Officer

Leparan Gideon Ole Morintat


A.g Head of Finance

Andrew Ringera

ICPAK.M/NO:20208


Chairman of the Board

Hon. Kiraitu Murungi

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16. Statement of Changes in Equity for the year ended 30 June 2023

	Ordinary Share Capital	Revaluation Reserve	Share premium	Restated Accumulated Reserve	Total
Description	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
As at the beginning of the prior year (Jul 2021)	1,032,000	2,000,442	1,183,000	(4,027,439)	188,003
Issue of new share capital	-	-	-	-	-
Revaluation gain(Loss)	-	(2,355)	-	-	(2,355)
Profit (loss)for the year	-	-	-	(1,082,028)	(1,082,028)
As at the end of prior year (June 2022)	1,032,000	1,998,088	1,183,000	(5,109,467)	(896,379)
As at the beginning of the current year(Jul 2022)	1,032,000	1,998,088	1,183,000	(5,109,467)	(896,379)
Issue of new share capital	-	-	-	-	-
Profit (Loss)for the year	-	-	-	(1,657,001)	(1,657,001)
As at the end of current year (June 2023)	1,032,000	1,998,088	1,183,000	(6,766,468)	(2,553,380)

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17. Statement of Cash Flows for the year ended 30 June 2023

Description	Note	2022/2023 Kshs'000'	Restated 2021/2022 Kshs'000'
Cash Flows from Operating Activities	33	1,072,887	236,353
Interest received	8	3,162	6,221
Interest accrued	12	(1,610,835)	(1,116,336)
Tax paid	14(b)	(8,001)	(6,523)
Net Cash Generated from/(used in) Operating Activities		(542,788)	(880,285)
Cash Flows from Investing Activities			
Purchase of property, plant and equipment	17	(31,275)	(73,266)
Proceeds from disposal of property, plant and equipment		630	2,231
Purchase of Intangible assets	18	(10,799)	-
Increase(decrease)in Block 14T Exploration Expenditure	37	(59,831)	273,592
Payment of Leases	30	(33,587)	(58,339)
Net increase(Decrease in CSR)	41	11,946	(7,298)
Net Cash Generated from/(used in) Investing Activities		(122,917)	136,921
Cash Flows from Financing Activities			
GOK Grants	23	426,500	250,000
Proceeds from borrowings/Interest capitalized	28	175,150	472,998
Net increase(decrease) from MOE Construction Fund	39	-	704
Interest received under deferred income	23	13,136	17,218
Unrealized gains on fixed deposit held on call	23	104,516	-
Receipts from sales of Multi client data	23	24,743	-
Charge out to profit & Loss account	23	(7,800)	-
Net Cash Generated from/(used in) Financing Activities		736,245	740,920
Increase/(Decrease) in Cash and Cash Equivalents		70,540	(2,444)
Cash and Cash Equivalents at Beginning of Year		1,234,776	1,237,220
Cash and Cash Equivalents at end of the Year	33(b)	1,305,315	1,234,776

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18. Statement of Comparison of Budget and Actual Amounts for the year ended 30 June, 2023

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	% of utilisation
	a	b	c=a+b	d	e=d/c
Depreciation	Kshs000	Kshs000	Kshs000	Kshs000	
Revenue					
Sales of goods	33,030,070	-	33,030,070	3,141,120	10%
Other Income	203,849	-	203,849	123,525	61%
Total income	33,233,919	-	33,233,919	3,264,646	10%
Operating Expenses		-			
Cost of Sales	30,783,433	-	30,783,433	3,035,390	10%
Staff costs	548,760	-	548,760	395,297	72%
Rents and Services	45,429	-	45,429	37,393	82%
Repairs and maintenance	99,036	-	89,036	1,044	1%
Insurance	32,000	-	32,000	21,714	68%
Security charges	12,972	-	12,972	9,567	74%
Utility Costs:- Electricity & Water	12,296	-	12,296	6,401	52%
Sanitary and Cleaning Services	10,757	-	10,757	6,870	64%
Traveling & Accommodation	57,126	-	57,126	14,913	26%
Telephone and fax	13,164	-	13,164	7,145	54%
Printing and stationary	8,917	-	8,917	1,043	12%
Books and newspaper	971	-	971	320	33%
Postage and Courier	1,010	-	1,010	295	29%
Office expenses	3,970	-	3,970	752	19%
Subscription and Donations	6,131	-	6,131	2,999	49%
Audit Fee	10,654	-	10,654	6,752	63%

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Legal fees	8,600	-	8,600	113,134	1316%
Advertising and publicity	46,393	-	46,393	5,526	12%
Groceries and drinks	5,254	-	5,254	4,574	87%
Board Expenses	20,000	-	20,000	11,797	59%
Professional fee	73,964	-	73,964	21,332	29%
Staff uniforms	2,160	-	2,160	162	7%
Hire and rentals	9,286	-	19,286	17,033	183%
Depreciation-PPE	280,965	-	280,965	263,809	94%
Amortization-Intangible	6,200	-	6,200	3,051	49%
Finance Costs	867,213	-	867,213	1,610,835	186%
Total expenditure	32,966,662	-	32,966,662	5,599,148	17%
Surplus for the period	267,256	-	267,256	(2,334,502)	(874)%

Explanatory notes to Budget

- a) Total income is 10% of the budget income. The low sales is attributed to low sales due to working capital challenges.
- b) Cost of sales is 10% of the budget. This due lack working capital constraints.
- c) Financing Costs is at 186% compared with the Budget. This is due to default penalties on non-performing loans.
- d) Legal fees and related costs stands at 1316% of the Budget. Kshs 113Million related court award against Corporation.
- e) Total Expenditure is 17% of the total budget. This is attributed to low level business

19. Notes to the Financial Statements

1. General Information

National Oil Corporation of Kenya Limited (“the Corporation”) is incorporated as a limited Corporation in Kenya under the Kenyan Companies Act 2015, and is domiciled in Kenya. The Corporation is involved in both the upstream and downstream activities in the oil industry in Kenya. In the Upstream activities, the Corporation is involved in the exploration of oil in one of the exploration blocks i.e. Block 14T in Magadi. In the downstream activities, the Corporation is involved in the purchase and sale of white products, liquefied petroleum gas, lubricants and other by-products of the refining process. The address of its registered office is as follows:

Kawi Complex, Popo Lane
Off Red Cross Road, South C
P O Box 58567 – 00200
Nairobi

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity’s accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in *various notes*.

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented

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3. Application of New and Revised International Financial Reporting Standards (IFRS)

(i) *New and amended standards and interpretations in issue and effective in the year ended 30 June 2023.*

Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	<p>The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts.</p> <p><i>The Corporation is not an insurance company and therefore does not issue insurance contracts and therefore adoption of IFRS 17 is applicable.</i></p>	Effective for annual periods beginning on or after 1 st January 2023.
IAS 8- Accounting Policies, Errors, and Estimates	<p>The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of ‘accounting estimates’ and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.</p> <p><i>The Corporation has not made any amendments in respect to accounting policies, error and estimates during the period under review.</i></p>	The amendments are effective for annual reporting periods beginning on or after January 1, 2023.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	<p>The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies.</p>	The amendments are effective for annual periods beginning on or after January 1, 2023.

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Title	Description	Effective Date
	<i>The Corporation has not made any amendment in its accounting policy during the period under review.</i>	
Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	The amendments are effective for annual periods beginning on or after January 1, 2023.

The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

**National Oil Corporation of Kenya
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Notes to the Financial Statements (Continued)

Application of New and Revised International Financial Reporting Standards (IFRS)

(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.

Title	Description	Effective Date
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)	The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.

(The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements).

(iii) Early adoption of standards

The Entity did not early – adopt any new or amended standards in the financial year or *the entity adopted the following standards early (state the standards, reason for early adoption and impact on entity's financial statements.)*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Summary of Material Accounting Policies

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

a) Revenue recognition

Revenue is measured based on the consideration to which the entity expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The entity recognizes revenue when it transfers control of a product or service to a customer.

- i) Revenue from the sale of goods and services** is recognised in the period in which the *entity* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) Grants from National Government** are recognised in the period in which the *entity* actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) Dividend income** is recognised in the income statement in the period in which the right to receive the payment is established.
- v) Rental income** is recognised in the income statement as it accrues using the effective interest implicit in lease agreements.
- vi) Other income** is recognised as it accrues.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
Summary of Significant Accounting Policies**

b) 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 comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement. Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognized in profit or loss in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

d) Depreciation and impairment of property, plant and equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are:

Freehold Land	Nil
Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

A full year's depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal.

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

e) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

f) Amortization and impairment of intangible assets

Amortization is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

g) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

h) Right of Use Asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

j) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities that are not quoted in the Securities Exchange.

l) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

m) Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the period end. Bad debts are written off after all efforts at recovery have been exhausted.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

n) Taxation

i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

o) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

Deferred Tax

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q) 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 reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the period..

r) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the

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carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

s) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

t) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2012. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act.

u) Provision for staff leave pay

Employees' entitlements to annual leave are recognized as they accrue at the employees. At provision is made for the estimated liability for annual leave at the reporting date.

v) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

w) Budget information

The original budget for FY 2022-2023 was approved by the National Treasury in June 2022. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of NIL on the 2022-2023 budget following the governing body's approval.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on page 6 of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

b) Comparative figures

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

5. Significant Judgments and Sources of Estimation Uncertainty

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

State all judgments, estimates and assumptions made:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Estimates and assumptions

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

b) Useful lives and residual values

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

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

c) Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 18(a).

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

(include provisions applicable for your organization e.g provision for bad debts, provisions of obsolete stocks and how management estimates these provisions)

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6. Revenue

	2022/2023	2021/2022
Description	Kshs000	Kshs000
Sales of goods	3,141,120	9,841,696
Total	3,141,120	9,841,696

7. Cost of Sales

	2022/2023	Restated 2021/2022
Description	Kshs000	Kshs000
Cost of sales on goods	3,035,390	9,379,141
Total	3,035,390	9,379,141

8. Interest Income

	2022/2023	2021/2022
Description	Kshs000	Kshs000
Interest from commercial banks	3,162	6,221
Total	3,162	6,221

9. Other Income

	2022/2023	2021/2022
Description	Kshs000	Kshs000
Fines and penalties	12,732	12,031
Rental income	60,955	50,466
Throughput	6,786	39,118
Reversal of bad debt provision	31,201	9,804
Capital gain	489	2,573
Sundry income	8,200	2,512
Total	120,364	116,504

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

10(a) Administrative Costs

	2022/2023	Restated 2021/2022
Description	Kshs000	Kshs000
Staff costs	395,297	465,803
Rents and services	37,393	39,714
Repairs and maintenance	1,044	27,815
Insurance	21,714	29,129
Security charges	9,567	6,269
Utility Costs:- electricity & water	6,401	6,269
Sanitary and cleaning services	6,870	6,303
Traveling & accommodation	14,913	19,306
Telephone and internet	7,145	2,657
Printing and stationary	1,043	3,854
Books and newspaper	320	394
Postage and courier	295	556
Office expenses	752	287
Subscription and donations	2,999	1,975
Audit fees	6,752	6,237
Legal fees	113,134	70
Advertising and publicity	5,526	11,014
Groceries and drinks	4,574	4,712
Director costs and emoluments	11,797	13,947
Professional fee	21,332	9,851
Staff uniforms	162	485
Hire and rentals	17,033	20,859
Depreciation & amortization	263,809	278,035
Amortization-Intangible Assets	3,051	16,471
Total	952,922	972,012

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

10(b) Staff Costs

	2022/2023	Restated 2021/2022
Description	Kshs000	Kshs000
Salaries and allowances of permanent employees	355,668	432,243
Employer's contributions to NSSF scheme	1,025	463
Employer's contributions to pension scheme- Define contribution plan	20,584	21,001
Leave pay	4,603	5,423
Gratuity provisions	13,417	6,673
Total	395,297	465,803

The average number of employees at the end of the period was:	2022/2023	2021/2022
Permanent employees – management	150	155
Permanent employees – Unionisable	20	21
Temporary and contracted employees(included in the management and unionisable)	25	27
Total	170	176

11. Exploration Expenditure

	2022/2023	Restated 2021/2022
Description	Kshs000	Kshs000
Staff Expenses	118,455	140,468
Facilities Expenses	16,415	26,890
Administrative Expenses	64,886	62,969
Depreciation and Amortization	15,639	20,562
Total	215,395	250,890

12. Finance Costs

	2022/2023	2021/2022
Description	Kshs000	Kshs000
Interest expense on loans	1,342,310	892,683
Interest expense on overdraft	128,071	91,083
Bank charges & LC commission charges	18,947	67,591
Net foreign exchange loss	121,508	64,978
Total	1,610,835	1,116,336

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. Operating Profit/Loss

	2022/2023	Restated 2021/2022
Description	Kshs000	Kshs000
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 10b)	395,297	465,803
Depreciation of property, plant and equipment	263,574	277,800
Depreciation of investment property	235	235
Amortization of intangible assets	3,051	16,471
Provision for bad and doubtful debts	(31,201)	(9,804)
Inventory provision	-	-
Directors' emoluments -fees	-	-
- other	11,797	13,947
Auditors' remuneration - current year fees	6,752	6,237
Totals	673,719	770,689

14. Income Tax Expense/ (Credit)

(a)Current taxation

	2022/2023	2021/2022
Description	Kshs000	Kshs000
Current taxation based on the adjusted profit for the year at 30%	5,109	11,047
Tax effect of expenses not deductible for tax rate	-	-
Effect of change in tax rate	-	-
Prior year under/over provision for deferred tax	-	-
Deferred tax on losses, utilized	(682,610)	(432,087)
Total	(677,502)	(421,040)

(b)Tax Recoverable

	2022/2023	2021/2022
Description	Kshs000	Kshs 000
At beginning of the year	29,768	34,292
Income tax charge for the year	(5,109)	(11,047)
Under/(over) provision in prior year/s	-	-
Income tax paid during the year	8,001	6,523
At end of the year	32,661	29,768

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Earnings /Loss per share

Description	2022/2023 Kshs000	2021/2022 Kshs000
Loss attributable to ordinary shareholders	(1,657,001)	(1,082,028)
Weighted average number of ordinary shares used in the calculation of basic loss per share ('000)	51,600	51,600
Basic loss per share (Shs)	(32)	(21)

The earnings per share is calculated by dividing the profit /(loss) after tax of Kshs.(1,657,001,000) (2022/2023: by the average number of ordinary shares 51,600,000

There is no dilutive or potentially dilutive ordinary share as at the reporting date.

16. Dividend Per share

No dividends were declared in the year under review.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. Property, Plant and Equipment

	Free hold Land	lease hold	Building & Civil Works	Plant & Machinery	Motor Vehicles	Computers	Office Equipment & Furniture	Capital Work in progress	Total
Description	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Cost or Valuation									
At 1 July 2021	518,200	2,986,997	1,559,078	1,809,435	16,720	240,792	233,419	26,284	7,390,924
Additions	-	-	26,033	-	-	1,969	31,904	13,359	73,266
Disposals	-	-	-	-	(2,350)	(201)	-	-	(2,551)
Transfer from CIP	-	-	13,359	20,680	-	-	-	(34,039)	-
At June 2022 (Restated)	518,200	2,986,997	1,598,470	1,830,114	14,370	242,560	265,324	5,604	7,461,638
Depreciation and impairment									
At 1 July 2021	-	94,525	48,763	1,094,776	9,805	212,472	175,413	-	1,635,754
Depreciation	-	58,355	73,304	64,430	2,461	19,901	16,651	-	235,102
On Disposals	-	-	-	-	(338)	(201)	-	-	(539)
At June 2022 (Restated)	-	152,880	122,067	1,159,206	11,928	232,171	192,064	-	1,870,316
At 30 June 2022	518,200	2,834,117	1,476,403	670,908	2,442	10,389	73,260	5,604	5,591,323

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	Free hold Land	lease hold	Building & Civil Works	Plant & Machinery	Motor Vehicles	Computers	Equipment & Furniture	Capital Work in progress	Total
Description	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Cost or Valuation									
At 1 July 2022	518,200	2,986,996	1,598,470	1,830,114	14,370	242,560	265,324	5,604	7,461,638
Additions	-	-	-	-	17,991	769	12,020	495	31,275
Disposals	-	-	-	-	(450)	-	-	-	(450)
At June 2023	518,200	2,986,996	1,598,470	1,830,114	31,911	243,329	277,344	6,099	7,492,464
Depreciation and impairment									
At 1 July 2022	-	152,880	122,067	1,159,206	11,928	232,171	192,064	-	1,870,316
Depreciation	-	58,029	73,196	53,449	5,348	7,841	18,745	-	216,608
On Disposals	-	-	-	-	(84)	-	-	-	(84)
At June 2023	-	210,909	195,263	1,212,656	17,192	240,012	210,810	-	2,086,841
At 30 June 2023	518,200	2,776,088	1,403,207	617,459	14,719	3,317	66,534	6,099	5,405,623

Property , Plant and Equipment Includes the following Assets that are fully depreciated		
Description	Cost (Kshs.000)	Normal Annual Depreciation Charge (Kshs.000)
Plant & Machinery	800,500	100,063
Furniture & Fixtures	67,121	8,390
Equipments	66,832	8,354
Computers	230,047	76,682
Total	1,164,500	193,489

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. Intangible Assets

	2022/2023	Restated 2021/2022
Description	Kshs000	Kshs000
COST		
As at the beginning of the year	696,549	696,549
Additions	10,799	-
Disposals	-	-
As at the end of the year	707,348	696,549
AMORTISATION		
As at the beginning of the year	690,820	667,536
Charge for the year	9,102	23,283
Disposals	-	-
As at the end of the year	699,922	690,820
NET BOOK VALUE		
As at the end of the year	7,426	5,730

Intangible Assets Includes the following Assets that are fully depreciated

Description	Cost(Kshs.000)	Normal Annual Depreciation Charge(Ksh.000)
Intangible Assets	691,894	230,631

19. Investment Property

	2022/2023	2021/2022
Description	Kshs000	Kshs000
Opening Costs	13,531	13,531
Movements during the year	-	-
Additions	-	-
Disposals	-	-
Closing Costs	13,531	13,531
Depreciation		
As at the beginning of the year	3,661	3,425
Charge for the year	235	235
Disposals	-	-
As at the end of the year	3,896	3,661
Net Book Value at year end	9,635	9,870

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Investment property relate to a building held for rental purposes. The Corporation applies cost model as provided by IAS 40

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. Right of Use of Leased Assets

	2022/2023	2021/2022
Description	Kshs000	Kshs000
Cost		
As at the beginning of the year	366,256	341,037
Additions	-	25,219
As at the end of the year	366,256	366,256
Accumulated Depreciation		
As at the beginning of the year	88,615	59,135
Charge for the year	30,251	29,480
As at the end of the year	118,866	88,615
Carrying Amount		
As at the end of the year	247,391	277,641

21. (a) Inventories

	2022/2023	2021/2022
Description	Kshs000	Kshs000
White Products, Lubricants and LPG Gas	2,586,057	2,664,174
Inventory in Transit and WIP	-	-
Provision of stocks(Note 21b)	(2,348,806)	(2,339,236)
Total	237,251	324,938

(b).Reconciliation of impairment allowance for Inventories

	2022/2023	2021/2022
Description	Kshs000	Kshs000
At the beginning of the year	(2,339,236)	(2,348,693)
Additional provisions during the year	(9,571)	-
Recovered during the year	-	9,457
Written off during the year	-	-
At the end of the year	(2,348,806)	(2,339,236)

22. (a) Trade and Other Receivables

	2022/2023	2021/2022
Description	Kshs000	Kshs000
Trade receivables	849,150	807,787
Deposits and prepayments	406,387	524,477

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Gross trade and other receivables	1,255,537	1,332,264
Provision for bad and doubtful receivable	(478,542)	(509,744)
Net trade and other receivables	776,995	822,520

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(b) Trade Receivables

	2022/2023	2021/2022
Description	Kshs000	Kshs 000
Gross trade receivables	849,150	807,787
Provision for doubtful receivables	(478,542)	(509,744)
Net trade receivables	370,608	298,044
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	75,766	193,659
Between 30 and 60 days	2,132	47,740
Between 61 and 90 days	4,652	28,474
Between 91 and 120 days	119,068	52,328
Over 120 days	647,531	485,586
Total	849,150	807,787

(c) Reconciliation of Impairment Allowance for Trade Receivables

	2022/2023	2021/2022
Description	Kshs000	Kshs 000
At the beginning of the year	(509,744)	(519,548)
Additional/reduction of provisions during the year	31,201	9,804
At the end of the year	(478,542)	(509,744)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. Deferred Income

Description	Training funds grants Shs(000)	Exploration grants Shs(000)	Government recurrent grants (000)	Total Deferred Income Shs000
At 1 July 2021	10,225	1,625,656	3,104	1,638,984
Receipts during the year	-	250,000	-	250,000
Interest Income	-	17,218	-	17,218
Exploration Expenditure	-	(250,890)	-	(250,890)
At 30 June 202(Restated)	10,225	1,641,984	3,104	1,655,312
At 1 July 2022	10,225	1,641,984	3,104	1,655,312
Receipts during the year	-	350,000	76,500	426,500
Interest Income	-	13,136	-	13,136
Unrealized gain on fixed cash deposit	-	104,516	-	104,516
Income from Data Sales	-	24,743	-	24,743
Charge out to profit & Loss account	-	-	(7,800)	(7,800)
Write on of Jogmec Contribution to Block 14T	-	1,133,769	-	1,133,769
Exploration Expenditure during the year	-	(215,394)	-	(215,394)
At 30 June 2023	10,225	3,052,754	71,804	3,134,782

The Corporation applies IAS 20 in accounting for government grants. The Capital grants are presented as deferred income with a corresponding Asset, however recurrent grants are charged to income statement.

Training fund grants relates to amounts received from oil exploration companies as part of the contractual commitments between the oil exploration companies and government. Withdrawals from these funds are utilized for training staff involved in exploration activities.

Oil exploration grants funds are received from the government for exploration activities (upstream business).

Government downstream grants relates to funds received from the Government for recurrent expenditure.

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24. Short Term Deposits

	2022-2023	2021-2022
Description	Kshs000	Kshs 000
Other commercial banks		
KCB Bank Kenya Limited	779,084	775,013
Stanbic Bank Kenya Limited	12,698	11,917
NCBA Bank Kenya Limited	556	556
Equity Bank Limited	3,395	12,208
Total	795,733	800,383

The weighted average interest rate received on call deposits during the year was 5% (2023:5%)

25. Bank and Cash Balances

	2022-2023	2021-2022
Description	Kshs000	Kshs 000
Staff Mortgage and Car Loan Scheme Deposit	264,632	259,941
Cash at Bank	244,220	168,989
Cash in Hand	730	5,462
Total	509,583	434,393

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

(a) Detailed analysis of the cash and cash equivalents

a) Current Account		2022-2023	2021-2022
Financial institution	Account Numbers	Kshs 000	Kshs 000
KCB Bank Kenya Limited - Kshs.	1107169380	4,064	(1731)
KCB Bank Kenya Limited - USD	1109158068	144	2,764
Equity Bank of Kenya-Kshs	560292466991	6,210	45,580
Cooperative Bank of Kenya-Kshs	1120002167901	4,716	14,614
Cooperative Bank of Kenya-Kshs	1120002167902	145,929	80,739
Stanbic Bank of Kenya Limited -Kshs	100001516439	96	(3)
Stanbic Bank of Kenya Limited -USD	100001516447	206	(23)
Stanbic Bank of Kenya Limited - KES Escrow	1000004398186	19,842	-
Stanbic Bank of Kenya Limited -USD - Escrow	1000004398194	116	97
NCBA Bank Kenya PLC-Kshs	8110800013	1,511	713
NCBA Bank Kenya PLC-Kshs (Mwananchi Gas)	8110800029	41,000	-
National Bank of Kenya-Kshs	1020056960000	197	3706
Standard Chartered Bank -Kshs	106004961200	874	22,532
Standard Chartered Bank of Kenya Limited -USD	8706004961200	19,316	-
Grand total		244,220	168,989
b) Staff Car Loan/ Mortgage Scheme			
KCB Staff Mortgage	MM1714569496	108,848	96,781
KCB Staff Mortgage	MM1833959258	33,955	44,660
KCB Staff Mortgage	1119821548	339	339
HF Staff Mortgage	2,000085373	54,709	50,228
HF Staff Mortgage	3000011572	21,400	24,845
CFC staff Car Loan	MM1529518225	45,381	43,088
Sub- Total		264,632	259,941
c) Others (Specify)			
Cash in Hand		728	728
Mpesa		2	4,733
Sub- Total		730	5,462
Grand total		509,583	434,393

NOTES TO THE FINANCIAL STATEMENTS (Continued)

b) Mortgage Scheme Facility-Housing Finance

	2022/2023	2021/2022
Description	Kshs'000'	Kshs'000'
Opening Balance	75,073	73,865
Addition	-	-
Interest earned during the year	1,036	1,208
Closing Balance	76,109	75,073

	2022/2023	2021/2022
Description	Kshs'000'	Kshs'000'
Utilised Funds	54,709	50,228
Available for lending	21,400	24,845
Closing Balance	76,109	75,073

c) Mortgage Scheme Facility -KCB
Kenya Limited

	2022/2023	2021/2022
Description	Kshs'000'	Kshs'000'
Opening Balance	141,781	140,431
Addition	-	-
Interest earned during the year	1,362	39,716
Closing Balance	143,143	141,781

Funds Summary-KCB Kenya Limited

	2022/2023	2021/2022
Description	Kshs'000'	Kshs'000'
Utilised Funds	108,848	102,065
Available for lending	34,295	39,716
Closing Balance	143,143	141,781

d)Funds Summary-CFC Car Loan
Facility

	2022/2023	2021/2022
Description	Kshs'000'	Kshs'000'
Opening Balance	43,088	42,367
Interest earned during the year	2,293	721
Closing Balance	45,381	43,088

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Funds Summary-CFC Car Loan Facility

	2022/2023	2021/2022
Description	Kshs'000'	Kshs'000'
Utilized Fund	3,927	42,367
Available for lending	41,454	721
Closing Balance	45,381	43,088

26(a) Ordinary Share Capital

	2022/2023	2021/2022
Description	Kshs'000'	Kshs'000'
Authorized:		
51,600,000 ordinary shares of KShs 20 par value each	1,032,000	1,032,000
Issued and fully paid:		
51,600,000 ordinary shares of KShs 20 par value each	1,032,000	1,032,000

(b) Share premium

	2022/2023	2021/2022
Description	Kshs'000'	Kshs'000'
9,100,000 ordinary shares of KShs 150 per value each	1,183,000	1,183,000
Issued and fully paid:		
	1,183,000	1,183,000

On 29 October 2008, the general meeting of shareholders approved the issuance of 9,100,000 ordinary shares at a price of Shs 150 per share resulting in a share premium of Shs 130 per share totalling to a share premium of Shs.1, 183,000,000

SHAREHOLDING STRUCTURE

	2023 No. of shares '000'	2022 No. of shares '000'
National Treasury (99%)	51,084	51,084
Ministry of Energy and Petroleum (1%)	516	516
	51,600	51,600

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. Revaluation Reserve

	2022/2023	2021/2022
Description	Kshs'000'	Kshs'000'
At the beginning of the year	1,998,088	2,000,442
New capital issued	-	-
Revaluation gain/Loss	-	(2,355)
Profit(Loss) for the year	-	-
	1,998,088	1,998,088

28. Borrowings

	2022/2023	2021/2022
Description	Kshs'000'	Kshs'000'
a) External Borrowings		
Balance at beginning of the year	-	-
External borrowings during the year	-	-
Repayments of during the year	-	-
Balance at end of the year	-	-
b) Domestic Borrowings		
Balance at beginning of the year	6,200,874	5,727,876
Interest Capitalized during the year	175,150	472,998
Repayments during the year	-	-
Balance at end of the year	6,376,024	6,200,874
Balance at end of the period- Domestic and External borrowings c = a+b	6,376,024	6,200,874

Borrowing interest rate

	2022-23	2022/2023	2021-22	2021/2022
Description	Avr int rates %	Kshs'000'	Avr int rates %	Kshs'000'
CFC short Term Loan	18	1,678,494	13	1,550,423
KCB Term out 2	23	4,697,530	13	4,650,451
At end of the year		6,376,024		6,200,874

The current loan interest rates are 18% and 23% for Stanbic Bank Limited and KCB Bank Limited respectively due to additional default interest rate on non-performing loans.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Borrowings from KCB Bank Kenya Limited are secured over the following Corporation's land.

Location	Description	Net book Value
Nakuru	L.R. NO: NAKURU MUN/BLOCK 16/263	64,791,762
Nakuru	RAVINE SERVICE STATION- LR NO: NAKURU MUN BLOCK 21/581	39,196,989
Mombasa	L.R NO: KWALE/UKUNDA/3061	9,820,628
Nairobi	NAIROBI NATIONAL TERMINAL-L.R NO: 209/12298	839,239,631
Nakuru	New Gilgil PSS-L.R NO: 1317/19/1/11	17,000,000
Eldoret	Highway PSS-L.R NO: ELD MUN/BLOCK 2/73/1	47,653,959
Eldoret	West Indies PSS-L.R NO: ELD MUN/BLOCK 5/628	44,116,564
Eldoret	Kipkaren PSS-LR NO: ELD MUN/BLOCK 13/417 & 689	49,442,748
Eldoret	L.R NO: ELD MUN BLOCK 21/Kingongo875	56,944,255
Mombasa	Magongon PSS Land-LR NO: MAINLAND NORTH/SECTION VI/2495/2& 29/1	53,500,000
Kisumu	Magharibi PSS –LR NO:KIS MUN/BLOCK 4/73	58,004,158
Kisumu	Kisumu Market PSS-LR NO:KIS MUNBLOCK 9/6	76,743,003
Kisumu	Kisumu Family –LR NO: KIS MUN BLOCK 8/7	57,377,049
Kisumu	Kisumu Lake PSS-LR NO: KISUMU MUN BLOCK 7/7	47,826,087
Thika	Bidco Thika station- LR NO: THIKA MUN/BLOCK 12/176	19,638,418
Mombasa	Gulshan Kenyattah Avenue PSS-LR NO:MOMBASA/BLOCK/XVI/136	34,951,557
Mombasa	Ganjoni PSS Land-LR NO:MOMBASA BLOCK/XX11/127	35,000,000
Mombasa	Mwembe Tayari PSS Land- LR NO:MOMBASA/BLOCK/XVIII/424	70,000,000
Mombasa	Mackinon PSS Land-LR NO:MOMBASA/BLOCK XVII/390,391&629	43,800,000
Nairobi	Ngong Road PSS Land L.R NO: 209/7753	218,949,580
Nairobi	Tassia Nairobi Vacant Plot-LR NO:NRB/BLOCK/97/59.60,61,&62	128,969,871
TOTAL		2,012,966,259

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. Deferred Tax Asset

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributable to the following items

Description	2022/2023 Kshs'000'	2021/2022 Kshs'000'
Assets:		
Temporary provisions	859,011	871,373
Tax losses	1,843,798	1,206,678
Deferred tax adjustment on IFRS 16	50,220	33,322
Unrealized exchange loss	23,536	-
Deferred tax asset(liability)	<u>2,776,565</u>	<u>2,111,374</u>
Liabilities		
Unrealized exchange gain	-	(3,656)
Revaluation surplus	161,081	161,081
Accelerated capital allowances	(410,091)	(423,854)
Deferred tax liability	(249,011)	(266,430)
Net deferred tax asset	<u>2,527,554</u>	<u>1,844,944</u>
Reconciliation of deferred asset		
At beginning of the year	1,844,944	1,412,856
Deferred tax credit	682,610	432,088
Prior year under/(over) provision of deferred tax note	-	-
	<u>2,527,554</u>	<u>1,844,944</u>
Deferred tax on tax losses (derecognized)/ not recognized now utilized		
At end of year	2,527,554	1,844,944

30. Lease Liability

Description	2022/2023 Kshs'000'	2021/2022 Kshs'000'
At the start of the year	175,510	181,884
Addition during the period	-	25,219
Interest on lease liability	26,077	26,745
Paid during the year	(33,587)	(58,339)
At end of the year	167,999	175,510

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31. Trade and Other Payables

	2022/2023	Restated 2021/2022
Description	Kshs 000	Kshs
Trade payables	898,494	1,020,625
Accrued expenses	2,890,644	1,374,443
Payables Provisions	18,156	37,754
Other payables	1,263,078	1,037,684
Total	5,070,372	3,470,506

Analysis of Trade payables

Total	0-30 Days	31-60 Days	61-90 Days	91-120 Days	121-180 Days	181 and above
731,727,895	6,393,861	27,491,847	14,540,038	27,295,165	9,151,689	646,855,295

32. Gratuity Provisions & Other provisions

	2022/2023	Restated 2021/2022
Description	Kshs'000'	Kshs'000'
Balance at the beginning of the year	17,844	22,921
Additional Provisions	10,406	9,217
Payments during the year	(10,384)	(14,295)
Balance at the end of the year	17,865	17,844
The amounts are due as Bellow		
Within one year	10,384	9,286
After one year	7,481	8,558
At the end of the year	17,865	17,844

The gratuity represents the value of future obligations in respect to employees work are employed on contract basis by the corporation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. Notes to the Statement of Cash Flows

	2022/23	Restated 2021/22
Description	Kshs 000	Kshs000
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Profit or Loss before tax	(2,334,502)	(1,503,068)
Depreciation-PPE	207,247	221,351
Amortization-Intangible	3,051	16,471
Amortization-IP	235	235
Amortization-ROUA	30,251	29,480
Interest on Leased Assets	26,077	26,745
Capital Gain	(489)	(2,573)
Release of deferred income	(199,755)	(230,328)
Finance income recognized in the profit & Loss	(3,162)	(6,221)
Finance cost recognized in profit & Loss	1,610,835	1,116,336
Adjustment on the Revaluation Reserve	0	-
(Increase)/decrease in inventories	87,688	327,978
(Increase)/decrease in trade and other receivables	45,525	(70,184)
Increase/(decrease) in trade and other payables	1,599,866	315,208
Increase/(decrease) in gratuity provision	21	(5,077)
Cash generated from/(used in) operations	1,072,887	236,353
(b) Analysis of cash and cash equivalents		
Short term deposits	795,733	800,383
Cash at Bank	508,852	428,931
Cash in hand	730	5,462
Balance at end of the year	1,305,315	1,234,776

34. Related Party Disclosures

The Government of Kenya is the sole shareholder of the Corporation.

The Corporation's sales include sales made to Government agencies, departments and companies.

The amounts due from/(to) related parties have been included in the trade and other receivables and the trade and other payables respectively in the statement of financial position.

Other related parties include:

- i) The Parent Ministry

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- ii) Key management
- iii) Board of directors
- iv) County Government

Description	2022/2023 Kshs 000	2021/2022 Kshs000
a) Sales to related parties		
Sales-fuel card lifting's and bulk sales to government agencies	1,198,659	2,229,642
Rent income from govt. agencies	-	0
Water sales to govt. agencies	-	0
Interest income from govt commercial banks	-	0
Interest income from bills and bonds	-	0
Others (<i>specify</i>)	-	0
Total	1,198,659	2,229,642
b) Purchases from related parties		
Purchases of electricity from KPLC	6,055	4,651
Purchase of water from govt service providers	1,432	1,145
Rates and licenses to County government	12,101	7,171
Training and conference fees paid to govt. Agencies	-	-
Bank charges paid to govt commercial banks	-	-
Interest expense to investments by other govt. Entities	-	-
Others (<i>specify</i>)	-	-
Total	19,588	12,967
c) Grants from the government		
Grants from national government	426,500	250,000
Grants from county government	-	-
Donations in kind	-	-
Total	426,500	250,000
d) Expenses incurred on behalf of related party		
Payments of salaries and wages for xxx employees	-	-
Payments for goods and services for xxx	-	-
Total	-	-
e) Key management compensation		
Directors' emoluments	11,797	13,947
Compensation to key management	49,547	58,310
Total	61,344	72,257

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35. Capital Commitments

Capital commitments at the year- end for which no provision has been made in these financial statements are:

	2022/2023	2021/2022
Description	Kshs 000	Kshs 000
Amounts authorized and Contracted for	-	-
Amounts authorizes but not contracted for	-	-
less: Amounts included in work in progress	-	-
	-	-
At the end of the period	-	-

Commitment related to construction work and purchase of assets at the year-end for which no provision has been made in these financial statements

36. Contingent Liabilities

	2022/2023	2021/2022
Description	Kshs 000	Kshs 000
Opening Balance	34,598	36,727
Addition	5,000	-
Decrease in Contingent liabilities	(24,598)	(2,129)
At the end of the year	15,000	34,598

The Corporation is a defendant in several legal suits in which the claimants are claiming total sh. 582 million. Based on the legal advice and information currently available, the Directors do not expect any significant amounts to crystalize from assessments and therefore no provision has been made on these financial statements. The Directors have disclosed the nature of the disputes as they do not want to prejudice the position of the Corporation over these matters that are currently in court.

37. Block 14T Exploration Expenditure

(a) Capitalised exploration expenses

In November 2010, the Corporation entered into an agreement with the Government of Kenya (GoK) giving the Corporation the rights of tenure to an exploration block in Magadi i.e. Block 14T. Under this agreement, the Corporation:

- (a) Is responsible to the GoK for execution of petroleum operations;

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- (b) Will provide all capital, machinery, equipment, technology and personnel necessary for petroleum operations; and
- (c) Will bear all the risks of the petroleum costs required in carrying out petroleum operations and therefore have an economic interest in the development of petroleum deposits in the contract area. Such costs shall be included in petroleum costs recoverable.

The exploration activity began during the year ended 30 June 2012. The exploration and evaluation expenses incurred to date with regards to this block are as follows:

Description	2022/2023 Kshs 000	2021/2022 Kshs 000
COST		
As at the beginning of the year	2,149,447	2,423,039
Additions	59,831	37,370
Adjustment of over accrued expenses	-	(310,962)
Disposals	-	-
As at the end of the year	2,209,278	2,149,447

The value of Corporation's interest in exploration expenditure is dependent upon the:

- Continuance of the economic entity rights to tenure of the areas of interest;
- Results of future exploration; and
- Recoupment costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

38. Block 14T Fund

The Government of Kenya in partnership with Japan Oil Gas and Metals National Company (JOGMEC) has funded the exploration activities through the Block 14T as follows:

Description	2022/2023 Kshs 000	2021/2022 Kshs 000
At the beginning of the year	1,133,769	1,133,769
Additional during the year	-	-
Recovered during the year	(1,133,769)	-
At the end of the year	-	1,133,769

On 13th January 2023, the Japan Oil, Gas and Metals National Corporation (JOGMEC) terminated their rights to participate in PSC in accordance with article 5.3 stipulated in the implementation agreement for Joint survey dated 27th April 2012 and amended by the addendum dated 26th January 2015.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39. Ministry Of Energy and Petroleum Headquarter Construction Fund

The Corporation receives funds from the Ministry of Energy and Petroleum (Ministry) for the construction of both headquarters offices and a laboratory for the Ministry. The Corporation holds these funds on behalf of the Ministry. The movement in the funds is as follows:

Description	2022-2023 Kshs 000	2021-2022 Kshs 000
At the beginning of the year	704	-
Additional during the year	-	22,753
Utilized during the year	-	(22,049)
At the end of the year	704	704

40. Single Buoy Mooring Jetty Fund

The Government has undertaken to put up a floating jetty at the port of Mombasa, with the Corporation being the facilitator of the project. National Oil arranges the operational works with the contractor, and pays the contractors using the funds which the Government has advanced to it and which it maintains in a fiduciary capacity.

Description	2022/2023 Kshs 000	2021/2022 Kshs 000
At the beginning of the year	11,443	11,443
Additional during the year	-	-
Recovered during the year	-	-
At the end of the year	11,443	11,443

41. Corporate Social Responsibility Project Fund

As guided by the Production Sharing Contracts (PSC), Exploration Companies are required to spend a percentage of their funds in CSR projects within the communities where they are carrying out exploration.

ENI is one of the exploration companies in the coast region who's its CSR activities in their block is administered by the Corporation into the current year.

Description	2022/2023 Kshs 000	2021/2022 Kshs 000
At the beginning of the year	22,939	30,237
Additional during the year	15,262	28,242
Recovered during the year	(3,316)	(35,540)
At the end of the year	34,885	22,939

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

42. Exploration and Production Capacity Building Fund

The Corporation received funds from the Ministry of Energy and Petroleum which are meant to equip the Exploration department staff with the requisite knowledge. In 2013, the Corporation enhanced the capacity of the Exploration department by among other things recruiting 32 management trainees. The Corporation uses this fund for training and salaries to these staff.

	2022/2023	2021/2022
Description	Kshs 000	Kshs 000
At the beginning of the year	72,955	72,955
Additional during the year	-	-
Recovered during the year	-	-
At the end of the year	72,955	72,955

43. Laboratory Equipment Fund

The funds from the Ministry of Energy and Petroleum which are meant for Laboratory Equipment amounting to Shs 425,480,000

	2022/2023	2021/2022
Description	Kshs 000	Kshs 000
At the beginning of the year	425,480	425,480
Additional during the year	-	-
Recovered during the year	-	-
At the end of the year	425,480	425,480

44. Retained Earning

	2022/2023	Restated 2021/2022
Description	Kshs 000	Kshs 000
At the beginning of the year	(5,109,467)	(4,027,439)
New capital issued	-	-
Revaluation gain/Loss	-	-
Profit(Loss) for the year	(1,657,001)	(1,082,028)
At the end of the year	(6,766,468)	(5,109,467)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

45. Prior Year Adjustments

(a) Restatement of audited statement of Profit and Loss and other Comprehensive Income for the year ended 30th June 2022

For the year ended 30 June 2022	As previously Reported Kshs'000'	Prior Year Adjustment Kshs'000'	Restated Kshs'000'
Cost of Sales (i)	9,284,655	94,486	9,379,141
Gross profit(ii)	557,041	(94,486)	462,555
Operating expenses(iii)	961,947	10,065	972,012
Loss before taxation(iv)	(1,398,517)	(104,551)	(1,503,068)
Income tax expense(credit)(v)	355,977	65,063	421,040

(b). Restatement of the Audited Statement of Financial Position for the year ended 30th June 2022

For the year ended 30 June 2022	As previously Reported Kshs'000'	Prior Year Adjustment Kshs'000'	Restated Kshs'000'
Intangible assets(vi)	87,651	(81,922)	5,730
Exploration expenditure-Block 14T(vii)	2,147,148	2,299	2,149,447
Deferred tax asset(viii)	1,779,881	65,063	1,844,944
Trade and other receivables(ix)	914,222	(91,702)	822,520
Retained earnings/ deficit (x)	(4,993,995)	(115,472)	(5,109,467)
Gratuity provision(xi)	11,635	(3,077)	8,558
Trade and other payables(xii)	3,458,219	12,287	3,470,506

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

(c).Restatement of the Audited Statement of Changes in Equity for the year ended 30th June 2022

For the year ended 30 June 2022	As previously Reported Kshs'000'	Prior Year Adjustment Kshs'000'	Restated Kshs'000'
Retained earnings (xiii)	(4,993,995)	(115,472)	(5,109,467)

(d). Restatement of the Audited Cash flow statement for the year ended 30th June 2022

For the year ended 30 June 2022	As previously Reported Kshs'000'	Prior Year Adjustment Kshs'000'	Restated Kshs'000'
Cash generated from/(used in) operations(xiv)	234,055	2,298	236,353
Net cash generated from/(used in) investing activities(xv)	139,220	(2,298)	136,921

Notes:

- i. Relates to increase in cost of sales on white products and lubricants which were accounted in FY2022/2023.
- ii. A reduction in gross margin is due to increase in cost of sales.
- iii. Relates to the impact of the reversal of accrued expenses accounted in FY 2022/2023
- iv. Relates to the impact on changes in cost of sales and operating expenses.
- v. Relates to changes in deferred tax asset arising from changes taxable losses.
- vi. This relates to correction of misstated (understated) software's amortization for previous periods. As per IAS 8. It state that if a change in accounting policy is required by a new IASB standard or interpretation, the change is accounted for as required by that new pronouncement or, if the new pronouncement does not include specific transition provisions, then the change in accounting policy is applied retrospectively. Retrospective application means adjusting the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. In this regard, the restated opening balances for accumulated amortization for Intangible Asset have been updated from 592Million to 668M, The adjustment impacted on subsequent amortization for both comparable periods by reduction of both net book values.
- vii. Relates to restatement of Block 14T capital expenditure accounted in FY2022/2023.
- viii. Relates to changes in deferred assets due to changes in taxable loss for FY 2021/2022.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- ix. The decrease is as results of reclassification Trade and other receivables to cost of sales.
- x. The decline in retained earnings is due to increase in loss after tax.
- xi. Relates to the impact of the reversal of overstated gratuity provision.
- xii. Relates to the impact of the increase in reversal of accrued expenses.
- xiii. The decline in retained earnings is due to increase in loss after tax.
- xiv. Relates to net increase in cash generated from/(used in) operations .
- xv. Related to net increase in cash generated from/ (used in) investing activities.

46. Financial Risk Management

The Corporation's activities expose it to a variety of financial risks, including credit risk, liquidity risk and market risk. The Corporation's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Management identifies, evaluates and mitigates the financial risks under general principles for overall risk management.

(a) Fair Values

(i) Comparison by class of the carrying amounts and fair values of the financial instruments is as set out below.

	Carrying amount		Fair value	
	2023	2022	2023	2022
	Shs'000	Shs'000	Shs'000	Shs'000
<i>Financial assets</i>				
Trade receivables	760,364	822,520	760,364	822,520
Call deposits	795,733	790,486	795,733	800,383
Bank and cash balances	509,583	434,392	509,583	434,392
	=====	=====	=====	=====
<i>Financial liabilities</i>				
Borrowings	6,376,024	6,200,874	6,376,024	6,200,874
Trade payables	5,058,478	3,478,332	5,058,478	3,478,332
	=====	=====	=====	=====

Trade and other receivables are evaluated regularly to assess the likelihood of impairment. Based on this evaluation, allowances are taken to account for the expected losses on these receivables. As at 30 June 2023, the carrying amounts of such receivables, net of allowances, approximates their fair value.

The fair values of term deposits, bank and cash balances and trade and other payables approximates their carrying amounts largely due to the short term maturities of these instruments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(ii) Fair value hierarchy

The Corporate uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Disclosures of non-financial assets recorded at fair value by level of the fair value hierarchy have been made under note 17.

x) Capital Risk Management

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Corporation consists of borrowings (net of cash and cash equivalents) and equity attributable to equity holders comprising issued share capital, share premium, shareholders' funds awaiting allotment of shares and revenue reserve.

The Corporation monitors capital adequacy on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. Note 8 summarises the procedures the Directors' are putting in place to address the solvency challenges facing the Corporation.

The composition of capital managed by the Corporation is as shown below

	2023 Shs'000	2022 Shs'000
Share capital	1,032,000	1,032,000
Share premium	1,183,000	1,183,000
Revaluation surplus	1,998,088	1,998,088
Accumulated deficit	(6,713,304)	(5,055,905)
	<hr/>	<hr/>
Equity	(2,500,216)	(842,817)
	<hr/>	<hr/>
Borrowings	6,376,024	6,200,874
Structured trade finance facility	-	-
Less: Cash and cash equivalents (excluding borrowings)	(1,305,315)	(1,234,775)
	<hr/>	<hr/>

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Net debt	5,070,709	4,966,099
	—————	—————
Gearing ratio	Over 100%	Over 100%
	=====	=====

y) Operational Risk Management

Operational risk is the risk of the direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Corporation's operations.

The Corporation's objective is to manage the operational risk so as to balance the avoidance of financial losses and damage to the Corporation's reputation with overall costs effectiveness and to avoid control procedures that restrict initiative and creativity.

The ultimate accountability for operational risk management within the Corporation rests with the Board of Directors. Consequently, the level of risk that the Corporation accepts, together with the basis for managing those risks are assigned to senior management. The responsibility is supported by the development of overall standards for the management of operational risk.

z) Credit Risk

Credit risk refers to the risk that a counter party will default on their contractual obligations resulting in financial loss to the Corporation.

Credit risk arises from cash and cash equivalents, deposits with banks, as well as trade and other receivables. The Corporation's exposure to credit risk is minimal because the Corporation assesses potential customers' creditworthiness prior to granting credit. In addition the Corporation closely monitors customer's accounts to ensure no exposure exists above the approved credit limits established by credit control.

The Corporation's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognizing expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12 month ECL
Doubtful	Amount is past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit impaired
In default	Amount is >180 days past due or there is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit impaired
Write off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery.	Amount is written off

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The tables below detail the credit quality of the Corporation's financial assets as well as the Corporation's maximum exposure to credit risk by credit risk rating grades;

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
2023				Sh	Sh	Sh
Trade receivables	N/A	Doubtful	Lifetime ECL	1,233,053	(468,427)	764,626
Bank balances	A, BBB, B+, B-	Performing	12 month ECL	509,583	-	509,583
Call deposits	AA	Performing	12 month ECL	795,733	-	795,733
				<u>2,538,369</u>	<u>(468,427)</u>	<u>2,069,942</u>

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
2022				Sh	Sh	Sh
Trade receivables	N/A	Doubtful	Lifetime ECL	1,332,264	(509,744)	822,520
Bank balances	A, BBB, B+, B-	Performing	12 month ECL	434,392	-	434,392
Call deposits	AA	Performing	12 month ECL	800,383	-	800,383
				<u>2,567,049</u>	<u>(509,744)</u>	<u>2,567,049</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Corporation's Board of Directors who have built an appropriate liquidity risk management framework for the management of the Corporation's short, medium and long-term funding and liquidity requirements.

The table below analyses the Corporation's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	1 – 3 Months Shs'000	3-12 Months Shs'000	Over 12 months Shs'000	Total Shs'000
At 30 June 2023:				
Ministry of Energy and Petroleum				
Headquarters construction fund	-	704	-	704
SBM Jetty fund	-	11,443	-	11,443
CSR Funds		29,937		29,937
Exploration and Production		-		-
Capacity Building fund	-	72,955	-	72,955
Laboratory equipment fund	-	425,480	-	425,480
Trade payables	-	5,058,478	-	5,058,478
Borrowings	-	6,376,024	-	6,376,024
Structured trade financing	-	-	-	-
	-	11,975,021	-	11,975,021
At 30 June 2022:				
Ministry of Energy and Petroleum				
Headquarters construction fund	-	704	-	704
SBM Jetty fund	-	11,443	-	11,443
CSR Funds		22,939		22,939
Exploration and Production		-		-
Capacity Building fund	-	72,955	-	72,955
Laboratory equipment fund	-	425,480	-	425,480
Trade payables	109,600	1,368,732	-	3,478,332
Borrowings	4,772,593	1,428,281	-	6,200,874
	4,882,193	3,307,595	-	8,189,788

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

b) Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market related factors. Market risk includes currency risk, other price risk and interest rate risk.

(i) Currency risk

The Corporation is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (US Dollar or USD). Currency risk arises from future commercial transactions, recognised assets and liabilities.

To manage the foreign exchange risk, the Corporation maintains a bank account in US Dollars to facilitate transactions in foreign currency. The Corporation also negotiates with its bankers to get favourable exchange rates when converting foreign currencies to the Kenya shilling.

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market related factors. Market risk includes currency risk, other price risk and interest rate risk.

The Corporation purchases its products in US Dollars and mainly buys US Dollars via spot deals as opposed to forward deals. However, when there is reliable information in the market about the anticipated exchange rate movements in the US Dollar to the Kenya Shilling, the Corporation enters into short term forward deals to mitigate foreign exchange risks.

	2023 Sh'000'	2022 Sh'000'
Assets		
Bank and cash balances	509,583	434,392
Trade and other receivables	760,364	822,520
	<u>1,269,947</u>	<u>1,256,912</u>
Liabilities		
Trade and other payables	5,058,478	3,478,332
Borrowings	6,376,024	6,200,874
	<u>11,434,502</u>	<u>9,679,206</u>

10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis covers only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(ii) *Other price risk*

The Corporation does not hold investments that would be subject to market price risk. Therefore, the Corporation is not exposed to this financial risk.

(iii) *Interest rate risk*

The Corporation holds interest earning assets in form of call deposits. The risk of fluctuation in the interest rates is mitigated by the fact that the interest rates are pre-fixed for the term of the call deposits by the banks prior to the Corporation placing these deposits.

Interest rate risks arise from fluctuations in the bank borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. Since the base rates charged by the banks are determined by the market forces, the Corporation negotiates with its bankers to get favourable interest rates

(iv) *Interest rate risk*

Exposure to interest rate risk

The weighted average interest rate profile of the Corporation's interest bearing financial instruments as reported to management of the Corporation is as follows:

	Nominal amount			
	30 June 2023		30 June 2022	
	Effective interest rate	Sh'000	Effective interest rate	Sh'000
Call deposits	7.88%	507,306	7.88%	790,486
Term loans	13.00%	(6,376,024)	13.00%	(6,200,874)
Bank overdrafts	13.00%		13.00%	
Total exposure		(6,376,024)		(6,200,874)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Sensitivity Analysis

A 1% increase/decrease in the interest rates at the reporting date would have increased/ decreased profit or loss and equity by the amounts shown below. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant and is applied on interest bearing instruments.

	Profit or loss/equity	
	30 June 2023	30 June 2022
	Sh'000	Sh'000
1% increase	(5,410)	(5,410)
1% decrease	5,410	5,410
	<u> </u>	<u> </u>

The entity manages foreign exchange foreign risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

a) Foreign currency sensitivity analysis

The above table demonstrate the effect of sensitivity of exchange rate on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in exchange rate of the three main transaction currencies, with all other variables held constant

b) Interest rate risk

Interest rate is the risk that the entity financial condition may be adversely affected as results of changes interest rate levels. The company interest rate risk arises from bank deposits .This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company deposit

c) Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

46. Incorporation

The entity is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

47. Events after the Reporting Period

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

48. Currency

The financial statements are presented in Kenya Shillings (Kshs).

20. Appendices

Appendix 1: Implementation Status of Auditor-General prior year recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	<p>Inaccuracies in Bank and Cash Balances - Stale Cheques</p> <p>The statement of financial position reflects bank and cash balances of Kshs.434, 393,000 as disclosed in Note 25 to the financial statements. Review of bank reconciliation statements for the month of June, 2022 for various banks revealed a total of Kshs. 10,965,903 reconciling items dated 3 December, 2021. The cheques had exceeded their statutory validity period of six (6) months and ought to have been reversed in the cashbooks. The overdrafts were included in cash and bank balances instead of being disclosed separately as required in International</p>	<p>The long outstanding items are majorly made up of unidentified customer deposits that we have sought for the identity of the depositors from the receiving banks to be able to receipt to the respective customers' accounts. They are not cheques as indicated above and therefore the statutory</p>	Resolved	N/A

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Accounting standard (IAS) 1 Presentation of Financial Statements.</p> <p>In addition, the accounts which were overdrawn in contravened Section 28(4) of Public Finance Management Act, 2012 which states that an accounting officer for a national Government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by The National Treasury or a Board of a national Government entity.</p> <p>In the circumstances, the accuracy and completeness of the cash and bank balances of</p> <p>Kshs.434, 393,000 could not be confirmed.</p>	<p>period of six months does not apply.</p> <p>The delay in receipting is therefore due to lack full of details as pertains the depositors and we have already engaged by banks who have already provided the details of the depositor. The payments have been received. The overdrawn bank account was a result of Bank charges however this has been corrected.</p>		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2.	<p>Unsupported Decline in Value of Freehold Land</p> <p>As previously reported, the statement of financial position reflects property, plant and equipment with a net book value of Kshs. 5,591,323,000. The values are based on revaluation of assets that resulted in decline in value of ten (10) parcels of freehold land by an amount of Kshs. 145,640,000 or 43%, from a previous value of Kshs.336,140,000 to Kshs. 190,500.00 The decline was not justified since it did not result from change in sizes from alienation of the parcels or any other adverse conditions. Management attributed the decline to premiums paid on acquisition of the parcels. However, the reason could not be justified by the prevailing market conditions and differences in land measurements cited in the valuation reports and those in the title deeds.</p> <p>In the circumstances, the accuracy and valuation of property, plant and equipment balance of Kshs.5,591,323,000 could not be confirmed.</p>	<p>The assets revaluation exercise was carried out by Ebony Estates Limited who are registered valuers. The valuers gave justification for their final report which was adopted by the management.</p> <p>The valuation report was meant for accounting purposes only and no assets has been disposed based on the report.</p> <p>The Corporation will carry out the assets valuation once the funds are available to validate the market values</p>	Not Resolved	30 th June 2024

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
3.	<p>Unsupported Tax Recoverable Balance</p> <p>The statement of financial position and disclosure Note 14(b) to the financial statements reflects a tax recoverable balance of Kshs. 29,768,000. However, the balance was not supported by relevant documentation including tax returns, withholding tax certificates and correspondences with the Kenya Revenue Authority (KRA) among others. Additionally, review of tax computation provided for audit revealed that the Corporation had no tax recoverable for the year under review.</p> <p>In the circumstances, the accuracy and completeness of the tax recoverable balance of Kshs. 29,768,000 could not be confirmed.</p>	<p>Kenya Revenue Authority does not allow credit carried forward to be utilized for subsequent tax liability. However, the credit should be processed and refunded to the taxpayer.</p> <p>The National Oil engaged Kenya Revenue Authority through KPMG on reconciliation of total tax credit refunded. After the confirmation the National Oil will lodge the claim for the credit refundable.</p>	Not Resolved	30 th September 2023

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
4.	<p>Unsupported Fund Balances. The statement of financial position and as disclosed in Notes 23, 38,39,40,41, 42 and 43 to the financial statements reflects non-current liabilities in respect of deferred income fund balance of Kshs. 1,655,537,000. The block 14T Fund of Kshs 1,133,769,000. The Ministry of Energy and Petroleum construction fund balance of kshs704,000, single buoy mooring jetty fund balance of Kshs11,443,000, Corporate Social Responsibility fund balance of Kshs 22,939,000, Exploration and capacity building fund balance of Kshs 72,955,000 and Laboratory Equipment fund balance of Kshs 425,480,000 respectively, all totalling to Kshs 3,322,827,000. However , the corresponding cash and bank balances were not provided for audit. in partnership with Government agencies and other donors. However, guidelines on utilization and liquidation of balances upon closure of such projects were not provided for audit. The Corporation continue hold funds for projects that were yet to be implemented or surplus funds for completed ones in its books, thereby</p>	<p>The balance in the Deferred Income Fund of Kshs. 1,655,312,259 was used to fund Block 14T exploration activities to the tune of Kshs. 1,297,830,603 the balance of Kshs.357,481,656 is held in call deposit account at KCB account and Kshs 85,639,818.90 in Cooperative Bank Account. The balance in the Deferred Income Fund of Kshs. 1,655,312,259 was used to fund Block 14T exploration activities to the tune of Kshs. 1,297,830,603 the balance of Kshs.357,481,656 is held in call deposit account at KCB account and Kshs</p>	Resolved	N/A

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	denying citizens access to services intended or additional services that can be implemented using the idle funds. In the circumstances, the accuracy, and completeness of the special funds projects balance of Kshs.3, 3,322,827,000 could not be confirmed	85,639,818.90 in Cooperative Bank Account. The balance in Block 14T Fund of Kshs. 1,133,769,146 relates to the funds received from the Japan Oil Gas Metals Exploration Company (JOGMEC).The amount was used to finance Block 14T exploration activities to the tune of Kshs.1, 133,769,146. Ministry of Energy Construction Fund of Kshs. 704,230 relates to construction of Kawi Complex and the balance was held in Cooperative Bank account. Singly Buoy Mooring Jetty Fund balance of Kshs.		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		<p>11,443,275. The balance is held in Stanbic Bank fixed deposit account.</p> <p>The balance in Corporate Social Responsibility Fund of Kshs. 22,938,784 is held in two Standard Chartered Bank account in the following currency: USD185,289.61@117Kshs/USD and Kshs892,409.10</p> <p>The balance in Exploration and Capacity Building Fund of Kshs.72,995,012 and and Laboratory Equipment Fund of Kshs.425,480,473</p> <p>The funds are held in KCB call deposit account</p>		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
5.	<p>Unaccounted for Deferred Income</p> <p>The statement of financial position and as disclosed in Note 23 to the financial statements reflects Kshs.1, 655,537,000 in respect of deferred income. The amount includes Kshs.250, 000,000 additional grants from Ministry of Petroleum and Mining towards support of company's upstream operations which comprise of Kshs.220, 000,000 from Petroleum Development Levy Fund for exploration activities in Block 14T and Kshs.30, 000,000 from Petroleum Training Levy Fund for training activities in upstream petroleum operations respectively. During the year under review, an amount of Kshs.250, 890,000 was utilized. However, expenditure returns, approved training plans, training attendance registers and work plans, cost statements for oil and gas exploration activities, oil exploration and monitoring reports were not provided for audit review to show how the funds were utilized as required. Further, review of upstream records revealed that the funds were mixed up with the rest of deferred income grants.</p>	<p>The Corporation used the Kshs 250Million received from the State Department of Petroleum for Exploration expenditure as per approved 2021/2022 budget. The confirmation letter from the State Department of Petroleum indicated that the Kshs 250Million was meant for exploration activities.</p> <p>Further, the receipt GOK grant for exploration activities amounting to Kshs 250Million was banked in a specific bank account for exploration activities at Cooperative Bank of Kenya. (All bank statement were</p>	Resolved	N/A

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	In the circumstances, the accuracy and proper utilization of an expenditure of Kshs.250, 890,000 relating to training and exploration activities in upstream petroleum operations could not be confirmed.	share to auditors for verification)		
6.	<p>Hived-off Petroleum Products</p> <p>The statement of financial position reflects inventories valued at Kshs.324, 938,000 held by the Corporation as disclosed in Note 21 to the financial statements. The balance includes inventories valued at Kshs. 2,664,174,000 out of which, a balance of Kshs.1, 494,664,922 relates to the total value of products captured as hived-off in the books of the Corporation. In October 2016, the Management resolved to hive-off all historical non-reconciling items in a separate no-trading stock point to ensure new variances were not created. These historical non-reconciling items continue to be carried forward in the books of the Corporation without documentation to support their physical existence. Although the Board of</p>	The Corporation has submitted request for write off approval in accordance with section 69 of the Public Finance Management Act 2012.	Not Resolved	31th Dec 2023

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	<p>Directors approved the write-offs through its resolution dated 24 May, 2017, which was also forwarded to the Cabinet Secretary for the Ministry of Petroleum and Mining on 23 September, 2022, the matter was still pending.</p> <p>In the circumstances, the accuracy and completeness of the inventories balance of Kshs.324, 938,000 could not be confirmed.</p>			
7.	<p>Unresolved Loss of Products</p> <p>As reported in the previous years, the Corporation recorded losses of at least 4,097,221 litres of diesel and 341, 063 litres of super petrol valued at Kshs.365, 957,917 in aggregate between July, 2017 and December, 2018. The losses were mainly through non-delivery of transporter's consignments to Kenya Ports Authority (KPA) sites. Despite the losses having been a subject of forensic</p>	<p>Based on the terms and conditions of the agreement between the transporter and National Oil, any product lost under the custody of the transporter will be recovered from the transporter. The</p>	Resolved	N/A

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	<p>investigations, a further loss of 32,000 litres of diesel valued Kshs.3, 268,160 was reported in June, 2019, whereby the matter was a subject of High Court process under case No. E029 of 2021.</p> <p>In addition, an estimated 390,000 litres of diesel destined for Geothermal Development Corporation was lost while in custody of the contracted transporter- This was disputed by the transporter in 2019 and the matter was still pending before the High Court. However, the Management did not recognize contingent liabilities in respect of the court cases.</p> <p>In the circumstances, the accuracy of the financial statements could not be confirmed.</p>	<p>recovery was done and the balance is outstanding which has been provided for under provision for bad debts.</p>		
8.	<p>Unsupported Payments for Historical Pending Bills</p> <p>Note 39 to the financial statements reflects a balance of Kshs.704, 000 in respect of Ministry of Energy and Petroleum Construction Fund. Review of records</p>	<p>National Oil's role was facilitating disbursement based on State Department</p>	Resolved	N/A

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>relating to the fund revealed that during the year under review, the Corporation received Kshs.22,753,000 into the fund and utilized Kshs.22,049,000 in settlement of historical pending bills for works completed in 2016 relating to completion of Ministry of Energy Headquarters. The payments comprised of Kshs. 16,413,378 and Kshs.5,635,324.40 paid to two private companies. However, the expenditure was not supported by invoices, contracts and works certificates. In addition, the payment vouchers used to pay the expenditures were photocopies from the Ministry of Energy.</p> <p>In the circumstances, the accuracy and regularity of the payment of historical pending bills amounting to Kshs.22,049,000 could not be confirmed.</p>	<p>of Energy payment instructions. The National Oil did not have any contract with the suppliers and was not involved in the procurement process and therefore it's not the custodian of the invoices and contract documents. The procurement process was handled by the State Department of Energy. The payment was made against original payment voucher from the state department of Energy and original confirmation from the National Treasury the pending bills as genuine. The payment voucher and</p>		

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		the confirmation from the National Treasury was forwarded to National Oil through a formal official letter.		
9.	<p>Payment of Unspecified Allowances The ledger and the trial balance provided for audit reflected total payments to employees amounting to Kshs.103, 540,988 described as "other allowances." However, the basis of payment of the allowances, and the applicable rates were not provided for audit. In addition, approval from State Corporations Advisory Committee (SCAC) was not provided to support the allowances.</p> <p>In the circumstances, the accuracy, completeness and regularity of other allowances amounting to Kshs. 103,540,988 could not be confirmed</p>	<p>NOC reviewed and rationalized its salary structure in the year 2007 in line with the circular 'Guidelines on Terms and Conditions of Service for State Corporations Chief Executive Officers, Chairmen and Board Members, Management Staff, Union sable Staff' 23rd November 2004</p> <p>As per the above recommendation all</p>	Not Resolved	30 th September 2023

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
		<p>allowances exception of housing were lumped into other remunerative allowances which NOC adopted.</p> <p>The Director of Pension recommended that the Basic salary to be 65% (the 35% was split between Housing Allowance and other allowances).</p> <p>The src in line with its policy on allowances policy guideline for the public service 2021 is reviewing all allowances in Public Service. NOC submitted its current allowances to SRC and is awaiting SRC feedback on consolidation of allowances.</p>		

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10.	<p>Unsupported Board Expenses The statement of profit or loss and other comprehensive income reflects administrative costs amounting to Kshs.13, 947,000. As disclosed in Note 10 (a) to the financial statements, the costs include Kshs.13, 487,000 in respect of directors' costs and emoluments. Review of the expenditure revealed that an amount of Kshs. 1,605,813 lacked supporting documents such as boarding passes and copies of passports as evidence of travel. In the circumstances, the accuracy and regularity of the Board expenses amounting to Kshs. 1,605,813 could not be confirmed.</p>	Copies of passport & all supporting documents were shared to auditors for review.	Resolved	N/A
11	<p>Unregistered Leased Land The statement of profit or loss and other comprehensive income and as disclosed in Note 10 (a) to the financial statements reflects an amount of</p>	National Oil's interest in the subject property is duly registered as item No. 4 on the Title as a " <i>transfer of</i>	Resolved	N/A

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Kshs. 39,714,000 in respect of rents and services. Included in this amount is Kshs. 3,600,000 paid to an individual in respect of a lease rental. Review of the payment voucher and its supporting documents revealed that the title had no lease charge registered in favour of the Corporation.</p> <p>In the circumstances, the regularity of the lease agreement between the Corporation and lessee could not be confirmed.</p>	<p><i>lease</i>” from Total Kenya Limited to National Oil, this is legally sufficient and the Corporation’s interests in the subject are legally protected.</p>		
12	<p>Lack of Ownership Documents for a Motor Vehicle Included in motor vehicles net book value of Kshs 2,442,000 as reported under Note 17 to the financial statements is a motor vehicle valued at Kshs. 225,000 whose logbook is registered in the name of a third party instead of the Corporation's name as per the search conducted by a valuer during the valuation exercise conducted in 2019. Management indicated that the vehicle was repossessed from a staff who after separating with the</p>	<p>This vehicle was repossessed from a staff who after separating with NOC failed to repay his car loan as per the terms of agreement with KCB Bank at the time. This was after KCB bank recovered the outstanding loan from Nock. However, the log book still</p>	Resolved	N/A

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Corporation failed to repay his car loan as per the terms of agreement with a commercial bank at the time and the bank recovered the outstanding loan from the Corporation. However, the logbook still remains with the bank and is yet to be transferred to Corporation.</p> <p>In the circumstances, the regularity and ownership of the motor vehicles valued at ksh Kshs.2,442,000 could not be confirmed.</p>	<p>remains with the bank and is yet to be transferred to Nock. The issue is being followed up so as to ensure the transfer is affected.</p> <p>To avoid similar exposure, the Corporation has since revised the agreement with the lenders so that ultimate liability is with the staff. However the vehicle was disposed by the corporation and collected the item in accordance with the law</p>		
	<p>Emphasis of Matter</p> <p>Uncertainty Relating to Going Concern</p> <p>The Corporation recorded a loss of Kshs.1, 042,539,000 during the year under review (2021: Kshs.896, 019,000)</p>	<p>The Board and Management have aggressively engaged</p>	<p>Not Resolved</p>	<p>30th Oct 2023</p>

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	<p>raising its accumulated losses to Kshs.4, 993,995,000 from Kshs.3, 951,455,000 in 2021. In addition, the Corporation's current liabilities totalling Kshs.9, 668,379,000 exceeded the current assets balance of Kshs.2, 503,704,000 by an amount of Kshs.7, 164,675,000. These events or conditions indicate material uncertainty regarding the Corporation's ability to continue as a going concern. The Corporation therefore, was technically insolvent and its continued existence as a going concern is dependent upon the financial support of the Government, bankers, and its creditors unless Management puts in place measures to improve the performance of the Corporation and to reduce reliance on financial support from the shareholders.</p> <p>Further, this material uncertainty in relation to going concern and any mitigating measures put in place by the directors to address the matter were not disclosed in the notes to the financial statements as required by the International Accounting Standards (IAS 1), presentation of financial statements.</p>	<p>with the Ministry of energy and petroleum, National Treasury and KCB in an effort to turnaround the Corporation back to profitability.</p> <p>Through the Ministry of Energy and Petroleum cabinet approved the revival and commercialisation of National oil through on boarding of Non-equity strategic partner who is expected to inject funds for recurrent and capital expenditure. This will enable corporation to return to profitability</p>		

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1.	<p>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</p> <p>Unaccounted for Mwananchi Gas Project Equipment</p> <p>The Ministry of Petroleum and Mining delegated to the Corporation the responsibility of implementing Mwananchi gas Project on behalf of the National Government vide letter from the Ministry of Petroleum and Mining dated 16 September, 2021. The project was intended to promote the use of modern cooking fuels among low-income households, and entailed distribution of subsidized LPG cylinders, grills and burners purchased by the Ministry of Petroleum and Mining. According to the Ministry, funds realized from sales were to be used to purchase additional gas.</p> <p>The pilot programme for the project roll out was expected to be during the 2020/2021 financial year. However, Management indicated that the Corporation lacked sufficient working capital to purchase Liquefied petroleum</p>	<p>By end of June 2022, the inspection and acceptance of LPG cylinders and accessories had not taken place and therefore the Corporation could not have included the cylinders and accessories in its books. After the inspection, the Corporation has sought guidance from State Department of petroleum on the treatment of Mwananchi Gas cylinders and accessories. However we have not yet receive any response.</p>	<p>Not Resolved</p>	<p>30th September 2023</p>

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	<p>gas to be used in filing of the cylinders. Review of records at the Corporation relating to the project revealed that the items under the custody of the Corporation comprised of 179,684 6kg cylinders, of which 3,170 had been filled with gas, 329,325 burners, 330,115 6kg grills, 60,000 horse pipes and 71,999 double burner stoves. As at 30 June, 2022, only 11,675 6kg cylinders, 12,869 burners and 87,147 grills with an aggregate value of Kshs.20,501,191 had been included in the Corporation's financial statements. The rest of the items were not included in the Corporation's financial statements, a position Management attributed to lack of formal authority from the Ministry of Petroleum and Mining to transfer ownership of the items to the Corporation.</p> <p>In the circumstances, the value for money on the expenditure incurred on the project could not be confirmed.</p>			

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2	<p>Breach of Repayment Terms on Borrowings The statement of financial position reflects borrowings amounting to Kshs.6, 200,874,000. Review of the loan account revealed that the Corporation was not servicing the loan as required in the loan agreement. Further Management had negotiated with the bank to restructure the outstanding loan and extend the moratorium which had elapsed on 3 May, 2022 for an additional seven (7) months on both the principal and interest.</p> <p>However, the bank declined the extension until Management undertakes recommendations of the liquidity and independent business review which was conducted by a consultant on behalf of the lenders. The recommendations included: overhaul and modernization of ICT systems including effective stocks control systems, upgrade of management stocks control processes, customer service and product costing and pricing; re-organize the Corporation for effectiveness and efficiency</p>	<p>The management is implementing the cabinet directives on revival and commercialisation. It envisaged the Corporation will return to profitability and be in position to engage the Bank for Loan restructuring and start servicing the loans. In addition, the Corporation is engaging the shareholders through the parent ministry for bail out of the NPL</p>	Unresolved	31 st December 2023

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	<p>while upgrading management capabilities and culture, and reducing overall payroll costs; address the matter of inadequate working capital; and come up with a business model that mostly focuses on prime retail stations, while paying attention to brand image enhancement.</p> <p>In addition, because of default on loan and interest repayment, the lenders confirmed that the Corporation had accrued a penalty of Kshs.92, 446,966 thereby increasing the Corporation's liabilities.</p> <p>In the circumstances, the Corporation could be exposed if financiers were to act on noncompliance with the loan agreement.</p>			
3	<p>Stalled Liquefied Petroleum Gas (LPG) Project</p> <p>The statement of financial position and as disclosed in Note 17 to the financial statements reflects property, plant and equipment with a net book value of Kshs.5, 591,323,000. The balance includes capital work-in-progress of Kshs.5,</p>	Out of financial prudence it is recommended not to incur	Resolved	N/A

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	<p>603,000 in respect of construction of LPG Skid at Kipkaren Service Station comprising costs of civil works, two LPG Mini Skids and associated works. Although the skid foundation had been completed, no other works had been carried out, and the contractor had abandoned the site. Further, no clear road map was provided on how the Management intends to address the matter, neither was a plausible explanation provided on why the project was abandoned before completion.</p> <p>In the circumstances, value for money on the expenditure of Kshs.5, 603,000 spent on civil works could not be confirmed</p>	<p>more cost by installing the LPG skid project at Kipkaren SS because we are able to service LPG orders from our Nairobi LPG Plant that is grossly underutilized.</p>		
4	<p>Irregular Leasing of Land The statement of financial position reflects property plant and equipment net book value of Kshs.5,591,323,000 As disclosed in Note 17 to the financial statements, the balance includes freehold land valued at Kshs.518,200,000 which further includes a vacant parcel of land valued at</p>	<p>The above transaction does not fall under Public Procurement and Asset Disposal Act 2015 pursuant to section 163 and 165 on disposal of asset as there was</p>	Resolved	N/A

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	<p>kshs 55,000,000 The parcel was leased to a private individual for a period of six (6) years with effect from 1 November, 2021 to 31 October, 2027 for purposes of putting up a semi-permanent mixed-use commercial space. Although Management received expression of interest or offers from various parties and had Government valuer undertake rental assessment, there was no evidence that the Corporation used any of the methods of procurement prescribed in Part IX of Public Procurement and Assets Disposal Act, 2015.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>no transfer nor sale of the asset.</p> <p>To ensure fairness, the following process was undertaken:</p> <ul style="list-style-type: none"> a) Receipt offers from interested parties to lease the land with offers ranging Kshs200, 000 to Kshs300, 000 per month. b) We engaged GOK valuer who returned a rental assessment report indicating a market rate per month of Kshs80, 000. c) The Corporation awarded the highest bidder of Kshs300, 		

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		000 per month against the government valuation of Kshs80,000.		
5	<p>Failure to Adhere to Procurement Procedures Review of documents revealed that the Corporation paid an amount of Kshs.3, 796,290 to two (2) private appointed retailers, operating the Corporation's stations, as reimbursement for station refurbishment and renovations. However, review of the documents for the works revealed that the renovation and refurbishment of the stations were not done in accordance with the Public Procurement and Asset Disposal Act, 2015. Instead, Management approved the renovations and refurbishment to be undertaken by the dealers who would thereafter be reimbursed the costs incurred. This was despite the Corporation having a framework contract for provision of civil works for all its service stations.</p>	The corporation shall ensure total compliance to procurement procedures as set out in PPADA 2015 and the 2020 regulations in all proposed and future refurbishment activities across the network.	Resolved	N/A

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	<p>Further. One of the operators quoted an amount of Kshs.1,676,290 as the cost incurred for the works. A field inspection report prepared by the Corporation's engineering team dated 7 December, 2021, stated that the rates used for plaster works and concrete works by the dealer were higher than the average market rates therefore it recommended the Corporation to reimburse the dealer based on average market rates. However, the reimbursement was based on rates quoted by the dealer, In addition, there was no evidence provided to show the scope of works done, pre-inspection and post inspection reports.</p> <p>In addition. The reimbursements of Kshs.3,796,290 were not supported by evidence of payments to the contractors by the service stations' dealers. In the circumstances, the value for money on the expenditure of Kshs.3,796,290 incurred on renovation and refurbishment of the stations could not be confirmed</p>			
6	Un-Procedural Recruitment of Maternity Reliever	The HR Policy Manual 3.16.3 (ii) provides for 'shortlisting	Resolved	N/A

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	Review of human resource records revealed that the Management engaged an employee to serve as senior administrative assistant on six (6) months commencing 22 March, 2022 to 21 September, 2022 for a gross salary of Kshs.120, 000 per month, to stand in for a staff who was proceeding on maternity leave. However, advertisement for the position, a shortlist of applicants and interview of applicants and results thereon were not provided for audit. In the circumstances, the competitiveness and fairness of the recruitment process could not be confirmed.	of available CV's in the data bank' as a method for sourcing for candidates. The Corporation sourced for the reliever from amongst the unsolicited applications the Corporation receives.		
7	<p>Irregular Termination of Tender for Provision of Medical Insurance Cover</p> <p>The Corporation tendered for framework contract for staff medical insurance services via tender through an open tender on 11 May, 2022. Twelve (12) bidders responded and were taken through the opening, preliminary, technical, and financial evaluation processes upon which the evaluation committee vide minutes dated 27 June,</p>	<p>Section 63 PPADA, 2015 and Section 39 of the tender document provided grounds for termination of procurement proceedings.</p> <p>Therefore, National Oil Terminate the procurement</p>	Resolved	N/A

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	<p>2022 recommended the award of the contract to the lowest evaluated bidder at a contract sum of Kshs.104,933,923 for a period of 2 years. However, a professional opinion issued on 4 July, 2022 by the head of procurement to the Accounting Officer recommending award of the tender was rejected based on a whistle blower information, who claimed that the recommended bidder compromised employees in human resource and procurement</p> <p>Departments. However, the allegations were not supported by an investigation report for validity and authenticity. In addition, review of the whistle blower information revealed disparities between dates of termination of tender and the email date of 8 July, 2022 which was three (3) days earlier than termination date of 5 July, 2022. Following the termination of the contract, the Management subsequently procured the services through a direct procurement from an existing insurer at a cost of Kshs.14,899,985 for a period of three (3) months. Had the Management awarded the tender to the lowest bidder</p>	<p>proceedings for the tender for Provision of Medical Insurance Cover in line with Section 63 (e) of PPADA, 2015, Section 101(3) of PPADR, 2020 and the tender document.</p>		

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	<p>under the terminated open tender, the three (3) months' premiums chargeable would have amounted to Kshs.12, 301, 008. The Company therefore incurred Kshs.2, 598,977 more than it would have spent under the terminated tender.</p> <p>In the circumstances, it could not be confirmed whether the procurement process was fair, equitable, transparent, competitive and cost-effective.</p>			
8	<p>Unauthorized Over Expenditures Review of the budget against expenditures incurred during the year under review revealed instances of over expenditure on insurances, software licenses, training and education, finance costs and medical expenses. However, no supplementary budget nor approval were provided to support the over expenditure. Further, the Corporation budgeted to collect sales revenue of Kshs.24, 951,499,000. However, only Kshs.9, 841,696,000 was realized resulting in under collection of Kshs. 1 5,109,803,000.</p>	Sales revenue for the year was below the budgeted target. The low sales are attributed to the following; reduced sales volumes due to stock outs, constrained working capital and the delayed price stabilization	Resolved	N/A

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	The under collection may have affected the planned activities during the year.	<p>compensation during the year.</p> <p>Medical expenses surpassed the budget to the additional medical expenses due to unanticipated increase of Covid-19 cases during the year.</p> <p>Finance costs expenses surpassed the budget, the increase relates to unanticipated loan fines and penalties arising from the KCB bank Kenya limited and Stanbic Bank Kenya Limited Non-performing loans.</p> <p>Software licenses expenses surpassed the budget, this</p>		

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		<p>relate to high cost of oracles licenses, which are accrued as pending bill</p> <p>General Insurance costs who's increased the rates beyond antic</p>		
9	<p>Irregular Procurement of Fuel through Spot Purchase Review of the sales volumes of refined petroleum products (white products) revealed that during the year under review, 1,179,000 litres of Automotive Gas Oil (AGO) commonly known as diesel product and 646,000 litres of fuel oil were procured and sold under spot purchase arrangement. Review of purchase orders revealed that these products were purchased from five (5) different oil marketers, whereby only one (1) had been prequalified. The prequalification list consisted of only two (2) oil marketing companies. It was not clear why Management maintained a lean prequalification list while it sourced for products from oil marketing companies not prequalified.</p>	<p>The procurement of the petroleum products to the country is through open tender system (OTS) which is managed by the State Department of Petroleum. The Corporation</p> <p>The Cabinet Secretary Ministry of Energy and</p>	Resolved	N/A

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	<p>In addition, there was no evidence that the National Treasury granted the corporation exemption for specially permitted procurement procedure.</p> <p>Further, analysis of pricing of volumes traded under the product purchase arrangement revealed that the Corporation sold some products at a price that was less than the unit cost resulting in a loss of Kshs.1, 489, 120.</p> <p>In the circumstances, the Management did not apply the funds effectively, and was in breach of the law.</p>	<p>Petroleum wrote to the Cabinet Secretary National Treasury requesting for exemption to be granted to National Oil for purposes of allowing them to procure petroleum products using specially permitted procurement processes. In addition to this, the Corporation has developed the commercial policy that has been presented to the Board for approval. The policy has outlined the procurement processes envisaged to fall under the specially permitted processes. One of the procurement</p>		

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		<p>envisage under the policy is spot purchases.</p> <p>Section 114A. (1) Of the Public Procurement and Asset Disposal Act provides that a procuring entity may use a procurement procedure specially permitted by the National Treasury.</p>		
10	<p>Irregular Payment for Skilled Labour The Corporation entered into a framework contract with a consultancy firm on 15 February, 2021 for provision of manpower services for a period of two years. The Contract prescribed rates applicable for semi-skilled labour and the scope of work. However, a sample of payments examined revealed that the Corporation made payments in respect of skilled labour comprising overall</p>			

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	<p>supervisor, LPG plant supervisor and stocks supervisor amounting to Kshs.648, 935 yet their scope of work and rates applicable were not included in the contract. There was no amendment to the framework agreement provided to support the additional payments.</p> <p>In the circumstances, the regularity of the payments made in respect of skilled labour could not be confirmed.</p>			
11	<p>Irregular Procurement of Transporters The Corporation engaged three (3) transporters through a spot-hire arrangements for a period of six (6) months to transport petroleum products. Review of the procurement process revealed that Management engaged the transporters through an approval for spot method of procurement. Further, Management did not adhere to procedures of variation of contracts stipulated under Section 139(2) of the Public Procurement and Asset Disposal Act, 2015 which requires the Accounting Officer to approve a request for the extension of contract period</p>	<p>We confirm that the contract extensions made complied with the requirement of Section 139 of PPADA, 2015 and Section 132 of PPADR, 2020</p>	resolved	N/A

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	<p>after the recommendation of the evaluation committee. The extensions for two (2) transporters were not evaluated by an evaluation committee as required.</p> <p>In addition, the transporters did not provide performance securities, goods-in-transit insurance policy and fidelity guarantee cover upon expiry of the contracts for the extended contract period as was provided in the signed agreement.</p> <p>In the circumstances, Management was in breach of the law.</p>			
12	<p>Irregular Extension of Individual Consultant Contract The Management engaged an individual consultant for upstream petroleum activities for a period of one (1) year from 1 October, 2020 to 30 September, 2021 at a contract price of Kshs.900, 000 per month plus reimbursable total of Kshs.10, 800,000 for the contract period. Upon expiry of the contract, the consultant requested for one-year to</p>	The consultant delivered the scope of work and services as per the contract within the time frame of the contract and therefore subsequent extension provided for additional deliverables that	Resolved	N/A

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	<p>ensure reorganization of the entire upstream department and training and mentoring of a new upstream team However, under clause 7.2 of the contract on general terms of reference, the consultant was expected to review organization structure for the upstream division and provide recommendations, prioritize talent development and recruiting initiative, prepare training plan for the upstream department and mentorship and guidance to the upstream team during the contract period. Therefore, the Consultant was seeking extension on complete contract deliverables</p> <p>In addition, the extension of the contract period was approved by the Accounting Officer without reference to an evaluation committee contrary to Section 139(2) of the Public Procurement and Asset Disposal Act, 2015 where the Accounting Officer of a procuring entity is required to approve a request for extension of contract period, which request shall be accompanied by a certificate from the tenderer making justifications for such cost, on the recommendation of an evaluation committee.</p>	<p>arose from implementation of the initial scope of work and recommendations therein. These additional deliverables that were not part of the scope of the initial contract could not be covered under a limited unpaid extended engagement.</p>		

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	In the circumstances, Management was in breach of the law.			
13	<p>Non-Remittance of Statutory Deductions</p> <p>Review of the Corporation's payables ageing analysis revealed long outstanding taxes amounting to Kshs. 21,706,255 comprising of Value Added Tax (VAT) of 16,552,398 and domestic tax of Kshs. 5,153,856. Non-remittance of the deductions on a timely basis puts the Corporation at risk of being penalized by the Kenya Revenue Authority (KRA).</p> <p>In the circumstances, Management was in breach of the law</p>	<p>This relates to withholding VAT for the unpaid suppliers invoices. The withholding VAT is deducted and remittance to KRA at the time payment to suppliers. The suppliers have not been paid due constrained working capital.</p> <p>The tax liabilities relates to the amounts held in Our Accounts Payables vouchers for Suppliers for the two categories namely;</p>	Resolved	N/A

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		The amounts will be paid upon the subsequent payments of suppliers in the subsequent periods.		
14	<p>Non-Compliance with the One-Third of Basic Salary Rule During the year under review, at least twelve (12) employees were paid net salaries that were less than third (1/3) of their basic pay. This contravened Section 19(3) of the Employment Act, 2007. No sufficient explanation was given for failure to comply with the law on payment of salaries and allowances</p> <p>In the circumstances, Management was in breach of the law.</p>	National Oil employees benefit from a fuel facility where by employees get fuel on credit and the same is recovered from their salary based on consumptions (each employees has a set limit based on his net salary) at the end of each month. There were a few instances whereby an employee may acquire new loan facility or imprest deduction and these	Resolved	N/A

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		<p>deductions may lead to the violation of the rule.</p> <p>Corrective measure have been put in place to ensure that we prioritize NOC related deductions/recoveries e.g. Fuel benefit, advances, imprest etc while advising the staff to manage other external obligations e.g. Bank loans where necessary.</p>		
15	<p>Officers Acting for More than Six Months Review of the payroll data revealed that five (5) employees had been in acting positions for more than six (6) months and were paid a total of Kshs.538, 038 acting allowance during the year which contravened Section 8.8.3 of the Corporation's Human Resources and</p>	<p>Due to the current financial constrains the Corporation is experiencing, we are not in a position to replace all the exiting staff and/or fill vacant positions. To ensure business</p>	Resolved	N/A

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	<p>Procedures Manual which provides that acting allowance will be payable to an employee for a period of not more than six (6) months within which the position should be advertised and competitively filled.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>continuity, the Management has appointed some staff to hold these positions in acting capacity for a slightly longer period with the hope that once our financial position and ability to pay improves then the roles can be substantively recruited for.</p>		
16	<p>Overpayment of Airtime Allowance</p> <p>Analysis of the payroll data revealed that five (5) employees were overpaid airtime allowance amounting to Kshs.94, 000 during the year under review contrary to Section 8.16.3 of the Corporation's Human Resources and Procedures Manual which provides that employees will be eligible for airtime allowance according to the respective employee's job grades.</p>	<p>The Corporation revised the airtime policy and rates effective from 01st July 2020. The applicable rates/Eligibility Criteria are as per NOC HR Policy Manual Clause 8.16 on Telephone Airtime Allowance There were some employees who's old airtime allowance</p>	Resolved	N/A

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	In the circumstances, Management was in breach of the law.	<p>rates were higher than the revised airtime allowance rates, thus in this instance, it was not possible to reduce those employees benefits. (Staff No. 357, 583, 625, 627, 650) A decision was then made to let the affected employee continue getting their earlier approved rates.</p> <p>Some of the staff are holding senior roles in acting capacity hence are given commensurate allowance for position they are acting at in line with PSC regulations on acting e.g. Staff no. 499 is holding a NOC 3 role</p>		

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17.	<p>Delays in Implementation of Initial Exploration Period The statement of financial position and as disclosed in Note 37 to the financial statements reflects exploration expenditure on block 14T of kshs.2,458,110,000. Review of documents relating to the Block revealed that the Corporation signed a Production Sharing Contract (PSC) with The Ministry of Energy and Petroleum on 15 November, 2010. The Corporation was authorized to conduct exploration operations within the contract area during an initial exploration period of three (3) years from the effective date. The Initial Exploration Period expired on 15 February, 2014 and subsequently, the PSC was extended with the latest one expiring on 14 February, 2023.</p> <p>However, the Corporation has spent over twelve (12) years in conducting exploration operations within the contract area contrary to clause 2(1) of the Production Sharing Contract (PSC) which provides that the contractor is</p>	As per the terms of PSC agreement and industry practice, the exploration process is divided into phases. (Initial, 1st additional and 2nd additional Phases). Each phase has a minimum obligation but no maximum obligation. Several factors come into play in determining when an entity is ready to move into the next phase and in the event that an entity has justifiable reasons not to proceed to the next phase, such reasons are sighted in official letters to secure a stay in the initial phase through subsequent extensions. In the	Resolved	N/A

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	<p>authorized to conduct exploration operations within the contract area during an initial exploration period of three (3) years from the effective date. The several extensions have been caused by the Corporation's failure to fulfil work and expenditure obligations under the contract during the initial exploration period of three (3) years.</p> <p>This is an indication of the Corporation's lack of the capacity to undertake exploration activities in block 14T despite receiving funding from the Government of Kenya and Japan Oil, Gas and Metal</p> <p>National Corporation (JOGMEC). The Corporation currently holds an amount of Kshs.2, 789,306,000 in respect of the block comprising of Kshs. 1, 655,537,000 from the Government and Kshs.1, 133,769,000 from Japan Oil, Gas and Metal National Corporation (JOGMEC).</p> <p>In the circumstances, the value for money on the expenditure of Kshs.2, 458,110,000 spent over a period of</p>	<p>case of NOCK, the reasons include the rate of data acquisition against the resources availed by the government to enable NOCK meet the next phase obligations. Due to minimal budgetary support to NOC's exploration budget, it took a longer time than 3 years to accumulate data with enough information to warrant proceeding to the 1st additional phase activities. The actual asset value in exploration is vested in the data acquired and made available to stakeholders to make decisions in search of oil and gas resources</p>		

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	twelve (12) years during the Initial Exploration Period could not be confirmed.	regardless of time. The amount and variety of data NOC has acquired for the last 12 years is perpetual while providing the very first exploration information in a frontier area that had no data at all before NOC went in and therefore surpasses the initial investment costs especially when resources are located and developed.		
18	Petroleum Strategic Stock Review of records revealed that Management did not hold any strategic stocks of the petroleum stocks. It was further noted that the Corporation's license to import and export Petroleum Products (Except LPG) expired on 28 July, 2021 and was yet to be renewed. This was contrary to	Management is engaging in sorting out the working capital challenges basis the Board resolution outline in (Emphasis of Matter No. 1	Resolved	N/A

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	<p>Regulation 4 of the Energy (Petroleum Strategic Stock) Regulations, 2008 which states that the strategic stock shall be maintained in respect of each of the following petroleum products, at a level equivalent to up to ninety (90) days of consumption. Further, Regulation 5 stipulates that the strategic stock shall be procured by the National Oil Corporation of Kenya and stored by the Kenya Pipeline Company Limited, and, in case of consumption or draw down, shall be replenished accordingly to its optimal level.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>Correspondences above above). Management prepared a draft strategic plan and shared the same with the Board for review and approval.</p>		
19	<p>Minimum Operational Stock Review of records revealed that Management did not meet the minimum operational stocks of the petroleum contrary to Regulation 3(1) and (2) of the Energy (Minimum Operational Stock) Regulations, 2008 which states that all importers of petroleum products intended for use in Kenya</p>	<p>Management is engaging in sorting out the working capital challenges basis the Board resolution outline in (Emphasis of Matter No. 1 Correspondences above)</p>	Resolved	N/A

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	<p>shall maintain at all times physical operational stock, to be known as the minimum operational stock, in quantities not less than the minimum amounts specified in the Schedule. The minimum operational stock shall be maintained in order to ensure short term supply of petroleum products in the event of disruption of supply of the products.</p> <p>In the circumstances, Management was in breach of the law.</p>			
20	<p>Database and ERP Application System Review of the Corporation's information technology systems revealed that two (2) main systems in use were outdated necessitating an upgrade. The use of an outdated system increases vulnerability of losing crucial data and interruption of business operations. Further, a contract signed during 2016/2017 financial year at a cost of Kshs.95, 624,321 for a period of fifteen (15) months and</p>	<p>Management is engaging in sorting out the working capital challenges basis the Board resolution outline in (Emphasis of Matter No. 1 Correspondences above). Database and ERP application systems updates will be implemented when working</p>	Resolved	N/A

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	<p>post-implementation services was terminated 10 July, 2020 by Management on the basis of non-performance. In addition, there was no evidence of recommendation from contract implementation team to terminate the contract as per Section 151 (2) (g) of the Public Procurement and Asset Disposal Act, 2015. The Contractor filed a suit in the High Court against the Corporation for non-payment of outstanding invoices totalling Kshs. 102,462,096 inclusive of interest.</p> <p>In addition, the systems had attained their End of Life (EOL) which meant that updates and patches that enhance the system's security or any technical support from Oracle could no longer be received. Further, the Corporation had not paid the software vendor for two financial years and had accrued debts amounting to Kshs.146, 217,220 in respect of annual software updates, technical support and additional license fees risking the data and business interruption in the case of a security attack.</p>	capital for the Corporation improves		

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	In the circumstances, the value for money on the amount of Kshs.95, 624,321 incurred on the system could not be confirmed.			
21	<p>Payment of Avoidable Penalties The statement of profit or loss and other comprehensive income reflects cost of sales totalling to Kshs. 9,284,655,000. As disclosed in Note 7 to the financial statements. The costs include Kshs. 19,383,000 in respect of penalties and fines incurred by the Corporation paid mainly to the Commissioner of Customs and Oil Marketing Companies. This expenditure which could have been avoided with proper financial management led to increase in the cost of sales and affected cash flows negatively.</p> <p>In the circumstances, efficiency and effectiveness in financial management could not be confirmed.</p>	<p>In the financial year ended 30th June 2022, the Corporation was facing working capital challenges .This was as a result of withdrawal of funding by the Corporation financiers (KCB and Stanbic Banks) due to non-repayment of loans.</p> <p>However, in the absence of the financing from the banks the Management sourced for alternative financing arrangements (Oil Marketers) to sustain the business and</p>	Resolved	N/A

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		<p>avoid further payment of penalties due to late payments for product and duty due to Commissioner of Customs.</p> <p>The Corporation prepared its budget on assumption that the working capital financing would be in place.</p>		
22	<p>Irregular Payment of Contingency Allowances</p> <p>Review of payments made through petty cash revealed payments totalling Kshs.959, 042 described as contingency allowances to two (2) employees while on foreign travel. However, contingency allowance was not among allowances provided for in the Corporation's Human Resources Policies and Procedures Manual. No authority was provided from Salaries and Remuneration</p>	<p>The contingency indicated above is an imprest advanced to staff members for business purposes while traveling. The amounts must be accounted for upon return and unused amount should be surrendered. This is not an allowance. The payment of USD 2500 was investigated</p>	Resolved	N/A

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	<p>Commission (SRC) to support the payment of the allowances.</p> <p>In addition, review of user requisition workflow and approval system revealed that the allowances above were approved by the General Manager, Internal audit who was beneficiary of the allowances and was paid a total of USD 2500 or Kshs.278, 439. No explanation was provided on why the head of internal audit was defined as approver of payments which amounted to conflict of interest and contradicts the internal audit oversight function.</p> <p>In the circumstances, the regularity of the contingency allowance's payments amounting to Kshs.959,042 could not be confirmed</p>	<p>and it was found out to be an illegal payment. The corporation has initiated the process of claiming the amount from the beneficiaries.</p>		
23	<p>Un-procedural Recruitment</p> <p>During the year under review, the Corporation had four (4) drivers recruited over the years. Review of the recruitment process during the year revealed that recruitment of one of the drivers in December, 2021 was not done in accordance with the Corporation polices as there was no advertisement of vacant position, receipt of applications for the position,</p>			

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	<p>shortlisting and interviewing of candidates to fill the position.</p> <p>In the circumstances, the Management contravened Corporation's Human Resource policies.</p>			
24	<p>Un-Procedural Salary Increment</p> <p>A review of human resource records showed that the Corporation advertised for the position of senior territory officer on 25 March, 2021. The shortlisted candidates were taken through interviews and the successful applicant was confirmed to the position in January, 2022 with a remuneration of Kshs.230, 000 per month. However, one and half month after the officer was confirmed, the acting General Manager downstream operations made a recommendation to the Accounting Officer to have the employee's salary raised to a maximum of Kshs.272,000 per month with effect from 1 March, 2022. The justification for the salary increment was that the retail network territory managed by the officer was the largest.</p>	<p>The method used to recruit the driver was done based on advisory received from SCAC that CEO's are allowed to recruit staff on person's specific terms through direct appointment.</p> <p>The SCAC advisory was based on PSC Human Resource Policies and Procedures Manual for the Public Service (2016) on Appointment on Contract Terms B10 (V) which states</p>	Resolved	N/A

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	<p>This was contrary to the Corporation's policy on salary increment.</p> <p>In the circumstances, the Management contravened Corporation's Human Resource policies.</p>	<p>that 'Personal staff of specified state officers as determined by the Commission from time to time. Such staff shall serve during the tenure of the state officers'</p>		
25	<p>Encroached Corporation Land</p> <p>Review of records relating to a parcel of land valued at Kshs.28,969,871 revealed that the Corporation granted a six (6) month lease agreement on 15 September, 2017 to an individual to operate a car wash and garage at a monthly rent of Kshs.60,000 exclusive of Value Added Tax (VAT). The lease agreement was extended for a further six (6) months from 1 April, 2018 to 30 September, 2018.</p> <p>However, upon expiry of the agreement, Management continued to receive rent without renewing the agreement or giving notice of intention not to renew the lease.</p>	<p>The Corporation issued the Tenant with the requisite notice of Termination of Lease. The Tenant challenged the same at the Business Premises Rent Tribunal.</p> <p>On its part the Corporation filed an application for an order of eviction against the tenant on the main ground that the Tenant was utilizing the</p>	Resolved	N/A

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	<p>Management later issued notice of intention not to renew the license but the tenant took the Corporation to court and obtained a temporary order restraining/prohibiting the Corporation from trespassing on, entering into, taking possession, harassing, intimidating and or evicting the claimant from the plot. Therefore, the tenant continues to operate business on the Corporation land without paying any rent.</p> <p>In the circumstances, the public may not realize value for money on the rented property while the ownership of the parcel of land is at risk</p>	<p>property in breach of the prescribed use and authorisation (the lease was granted to the tenant to operate a car wash, without approvals and Authority of the Corporation the tenant erected shops and temporary structures which he has sub-leased to third parties to conduct various businesses).</p> <p>The Tenant filed a Notice of Preliminary objection to the Corporations Application, claiming that the Corporation's application is based on a defective notice which was neither filed with</p>		

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		<p>the Tribunal nor served upon him.</p> <p>The Tribunal rendered its decision on 08th July, 2022 (see attached Ruling) upholding the Tenant's objection to the termination Notice and ordering the Corporation to issue another Notice in compliance to Section 9(3) of the Landlord and Tenant (Shops, Hotels and Catering Establishments) Cap 301 Laws of Kenya, which provides:-</p> <p>Where a tribunal has made a determination upon a reference, no further tenancy notice shall be given in respect</p>		

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		<p>of the premises concerned, which is based on any of the matters affected by the determination-;</p> <p>(a) In the case of an assessment of rent, until after the expiration of two years; or</p> <p>(b) In any case until after the expiration of 12 months.</p> <p>In the circumstances, NOC cannot act further regarding the subject property until expiration of 12 months from the date the Ruling was delivered i.e. 07th July, 2023.</p>		
26	<p>Non-Implementation of E-Procurement System Review of the procurement process carried out during the financial year under review revealed that procurements</p>	National Oil in FY 2017 - 2018, commenced the process	Resolved	N/A

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	<p>done by the Management were carried outside the Procurement system. This was contrary to Regulation 49(2) of the Public Procurement and Assets Disposal Act Regulations, 2020 which requires works and services carried out by a procuring entity to be done through an e-procurement system integrated to the State Portal.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>of implementing the sourcing model in the Oracle ERP System. However, the due financial constraints, National Oil has not been able to finalize integration of sourcing model in its Oracle ERP system.</p> <p>Apart from the Oracle system, National Oil Corporation of Kenya has been utilizing the Public Procurement Information Portal (PPIP) to</p>		

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		<p>publicize tenders and report on contract awards and terminations of tenders.</p> <p>The National Treasury is at an advanced stage in process of procuring an E-G Procurement system. This is expected to be rolled out to all government entities in January 2023. NOC will benefit from this initiative then</p>		
	<p>Report on Effectiveness of internal controls, Risk Management and governance</p> <p>Basis for Conclusion</p>			
1	<p>Duplicate Vendor Names Review of the vendors' list in the Enterprise resource planning (ERP) revealed that sixty-one (61) vendors had</p>	Procurement department is now solely responsible for vendor creation to enhance	Resolved	N/A

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	<p>duplicate names but different vendor codes in the system and were still active. This indicates that the creation of vendor codes was decentralized, and no internal checks are in place to confirm the accuracy.</p> <p>Further analysis of vendor payments confirmed that three (3) vendors were paid by both vendor codes, totalling to Kshs. 1,614,386</p> <p>In the circumstances, the effectiveness of the internal controls in the ERP system could not be confirmed.</p>	<p>controls and segregation of duties. In addition, the duplicate vendor names (Appendix xx) have been merged to mitigate the risks associated with duplicated vendor names.</p>		
2	<p>Inaccurate Payroll Data and Bank Remittances</p> <p>Comparison between the payroll data and bank remittances provided for audit revealed differences between the net amount paid to various employees in payroll and the bank remittances. According to the analysis, one hundred and ninety-five (195) employees with total net pay of Kshs.215,977,714 in the payroll had a total net pay amount in bank remittance data of Kshs.186,492,170 resulting in unexplained positive and negative variances of</p>	<p>The NOC Payroll Earnings and Deductions Report is not the primary report used to make payments to the bank (The issues inherent in this report has since been resolved by our Internal ICT Developer).</p>	Resolved	N/A

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	<p>Kshs.29,520,023 and Kshs.29,485,544 respectively. The variances resulted from the system reports which excluded including some allowances for some of the employees and the omission of various deductions reflected in payroll data extracted from the Oracle ERP HRM.</p> <p>In the circumstances, the accuracy and effectiveness of the internal controls in the Oracle ERP HRM system could not be confirmed</p>	<p>In processing salaries we run the KCB quick pay report from Oracle which is subsequently uploaded in KCB portal.</p> <p>The Primary report used to make monthly payroll payments is the Gross to Net Summary Report (includes all the Total earning & deduction elements), the NOC payroll reconciliation schedule report (tracks any changes in the payroll) and the respective earning elements & deduction elements reports.</p> <p>The Gross to Net Summary Report must always tally with the quick pay report</p>		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
3	<p>Lack of a Legal Compliance Audit Review of records at the Corporation relating to Board activities revealed no evidence of the Board having undertaken an annual legal compliance audit during the year under review. The audit is expected to establish the level of adherence to applicable laws, rules, regulations and standards by the Corporation. In the circumstances, the effectiveness of the overall governance of the Corporation could not be confirmed.</p>	<p>Please note that under the introduction and background section of Mwongozo, it is provided that the code will be implemented on a “comply or explain” basis. The “comply or explain” approach recognizes that at the implementation of Mwongozo, SCs will be at different levels of compliance with corporate governance norms. This approach, therefore, allows organizations time to fully comply at a pace that is realistic in their circumstances and to learn from the experience of others,</p>		

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		<p>whilst at the same time taking responsibility and ownership for any non-compliance. While full compliance is expected, the approach positively recognizes that a satisfactory explanation, coupled with a roadmap to full compliance will, in certain circumstances be acceptable. To Effect the gradual compliance of the requirements, an approved board work-plan was developed (Attached is copy of the approved work-plan marke</p> <p>An internal legal audit was carried out for the financial</p>		

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		<p>year 2020-2021. (Find attached for ease of reference marked as This is in accordance with the provisions of section 8.4(b) of Mwongozo, Code of Governance for State Corporations which provides that a comprehensive and independent legal audit is carried out at least once every two years.</p> <p>The Corporation has scheduled an independent legal audit to be carried out in 2022/23FY in line with the provisions of section 8.4(c) of Mwongozo, Code of</p>		

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		Governance for State Corporations		
4	<p>Lack of Strategic Plan Review of the Corporation's strategic plan confirmed that it expired in the year 2020. The Management was yet to develop another strategic plan to cover the current period contrary to Section 68(2) of Public Finance Management Act, 2012. Therefore, achievement of the Corporation's strategic goal may not be possible.</p> <p>In the circumstances, the effectiveness and direction of the Corporations' strategy could not be confirmed.</p>	The management is reviewing the draft strategic plan to align it to the revised strategic planning guidelines issued by the National Treasury and Economic planning	Not resolved	30 th September 2023
5	<p>Lack of Information Communication Technology Steering Committee During the year under review, Management did not establish Information Communication Technology Steering Committee which is mandated to oversee the development of the Information Communication</p>	The Corporation has established information communication technology steering committee as per ICT policy.	Resolved	N/A

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	<p>Technology strategy of the Corporation. This implied that there exist gaps in information technology governance that might have affected the information technology management in achieving the organization's mandate.</p> <p>In the circumstances, the effectiveness of the overall governance of the Corporation could not be confirmed.</p>			
6	<p>Irregular Meetings Held by the Board of Directors During the year under review, the Board of Directors held a total of twelve (12) full board meetings which exceeded the maximum number of six (6) recommended by the Office of the President circular referenced OP/CAB.9/1A dated 11 March, 2020. In addition, no approval by the relevant Cabinet Secretary, in consultation with State Corporation Advisory Committee (SCAC) was provided for the excess meetings held. The result of the irregular meetings held led to unauthorized expenditure of Kshs. 1,260,000</p>	<p>We would like to confirm that the Corporation wrote to the Cabinet Secretary and copied the SCAC seeking for exoneration and approval of the meetings due to the prevailing business circumstances and the need for the board to provide guidance and play its</p>	Resolved	N/A

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	In the circumstances, the effectiveness of the overall governance of the Corporation could not be confirmed.	oversight role effectively. The quarterly board meetings were held for purposes of approving the statutory reports in line with the prevailing legislations and Government requirements.		
7	<p>Irregular Composition of Board Committees</p> <p>The Corporation's Board of Directors comprised thirteen (13) members. Review of membership and record of minutes of committee meetings revealed that the membership of board committees is expected to be a maximum of one third (1/3) of Board membership as guided by the Mwongozo code of governance for state corporations. However, the Audit committee, the Human Resource Committee and the Finance Committee have six (6) members each while the Strategy and Business Committee has five (5) members instead of the Maximum three (4) members. Further, a non-member of the</p>	International Standards for the Professional Practice of Internal Auditing 112 – Chief Audit Executive Roles beyond Internal Auditing defines the following: Where the Chief Audit Executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be put in place to limit impairments to independence or objective.	Resolved	N/A

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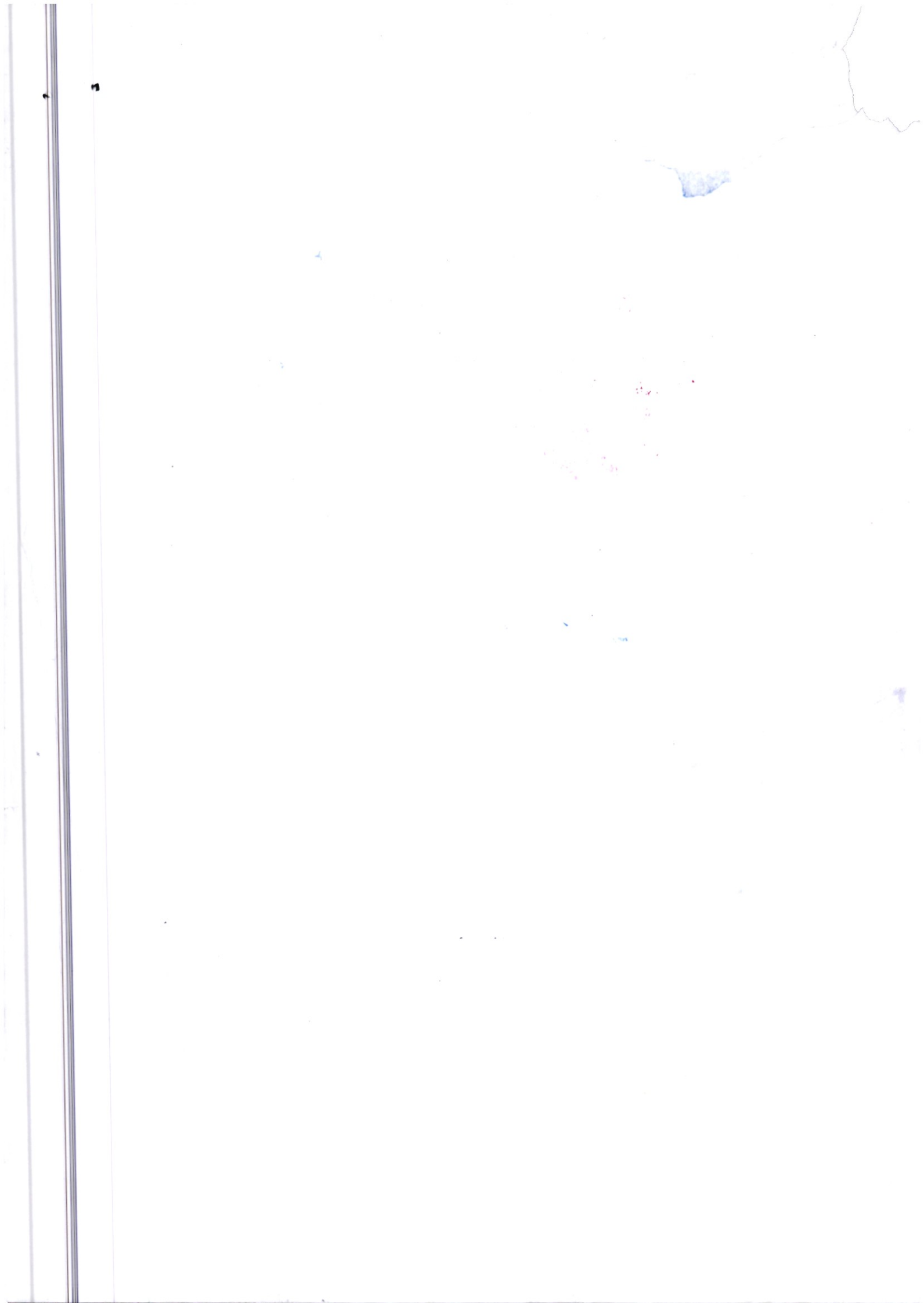
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>committee attended its meetings held on 7 February, 2022 and 7 April, 2022 and a sitting allowance of Kshs.40, 000 was paid to the non-member.</p> <p>In addition, the head of internal audit un procedurally acted as a Chief Executive Officer (CEO) and attended board finance committee meeting held on 14 December, 2021. No explanation was provided on why the head of internal audit was appointed to act as a CEO which contradicts the internal audit oversight function.</p> <p>In the circumstances, the effectiveness of the overall governance of the Corporation could not be confirmed.</p>	<p>Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments which were applied in this instance.</p>		

Name

Accounting Officer

(National Oil Corporation of Kenya)

Date.....



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APPENDIX II: TRANSFER FROM OTHER GOVERNMENT ENTITIES

ENTITY NAME:			
Break down of Transfers from the State Department of Petroleum			
FY 2022/23			
a. Recurrent Grants	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
Mwananchi LPG	19.05.2023	76,500,000	2022/2023
	Total	76,500,000	
b. Development Grants	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
Block 14TExploration Grants	06/10/2022	15,000,000	2022/2023
	13/10/2022	125,000,000	2022/2023
	03/03/2023	55,000,000	2022/2023
	06/03/2023	15,000,000	2022/2023
	19/05/2023	55,000,000	2022/2023
	30/06/2023	100,000,000	2022/2023
	Total	350,000,000	

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

 Finance Manager

National Oil Corporation of Kenya

Sign 