

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 03 JUL 2019	DAY: Weep
TABLED BY:	LOMP
CLERK TO THE SPEAKER:	<i>[Signature]</i>

REPORT

PARLIAMENT
OF KENYA
LIBRARY

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
PETROLEUM TRAINING LEVY FUND

FOR THE YEAR ENDED
30 JUNE 2018

STATE DEPARTMENT FOR PETROLEUM



**Petroleum Training Levy Fund
Reports and Financial Statements
For the year ended June 30, 2018**



PETROLEUM TRAINING LEVY FUND

MINISTRY OF PETROLEUM AND MINING

STATE DEPARTMENT FOR PETROLEUM

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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



TABLE OF CONTENTS

TABLE OF CONTENTS	2
1. KEY ENTITY INFORMATION AND MANAGEMENT	3
2. MANAGEMENT TEAM	5
3. REPORT OF THE FUND ADMINISTRATOR	7
4. MANAGEMENT DISCUSSION AND ANALYSIS	10
5. REPORT OF THE MANAGEMENT	11
6. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES	12
7. REPORT OF THE INDEPENDENT AUDITOR	13
8. FINANCIAL STATEMENTS	14
8.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 th JUNE 2018	14
8.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018	15
8.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2018.....	16
8.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018	17
8.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 th JUNE 2018	18
8.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	19
8.7. NOTES TO THE FINANCIAL STATEMENTS.....	26
9. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	30



1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

The Ministry of Petroleum and Mining was created in 2018 through Executive Order No. 1 of June 2018. Prior to this The State Department of Petroleum fell under Ministry of Energy and Petroleum.

Under the Executive Order. At the Cabinet level, the Ministry is headed by the Cabinet Secretary, Mr John Munyes. EGH. Who is responsible for policy and strategic direction of the Ministry and administered by Andrew N Kamau CBS in the State Department of Petroleum. Who is the Principal Secretary

The fund is wholly owned by the government of Kenya and is domiciled in Kenya.

b) Principal Activities

The principal activity of the fund is to train the staff of the ministry on their core responsibilities.

Vision

Promote sustainable development of the extractives sector

Mission

Enhance commercialization of discoveries, development the requisite skills and infrastructure for production in the oil and gas and improve access to competitive, reliable and secure supply of petroleum products.

Core Values

The fund upholds the values of professional integrity and excellence, commitment to work, commitment to customer service, efficiency, transparency and accountability, zero tolerance to corruption and non-partisan.

c) Key Management

Ref	Name	Position
1	Mr. Andrew N. Kamau CBS	Principal Secretary
2	Ms Melisa M Musoma	Senior Chief Finance Officer
3	Ms Agnes Muthuo	DD/HRM & D
4	Ag Head, Accounting Unit	CPA Prisca Musau



d) Registered Offices

Ministry of Petroleum and Mining, Headquarters
P.O. Box 30582 – 00100
Nyayo House Building
Kenyatta Avenue
Nairobi, KENYA

e) Fund Contacts

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

f) Fund Bankers

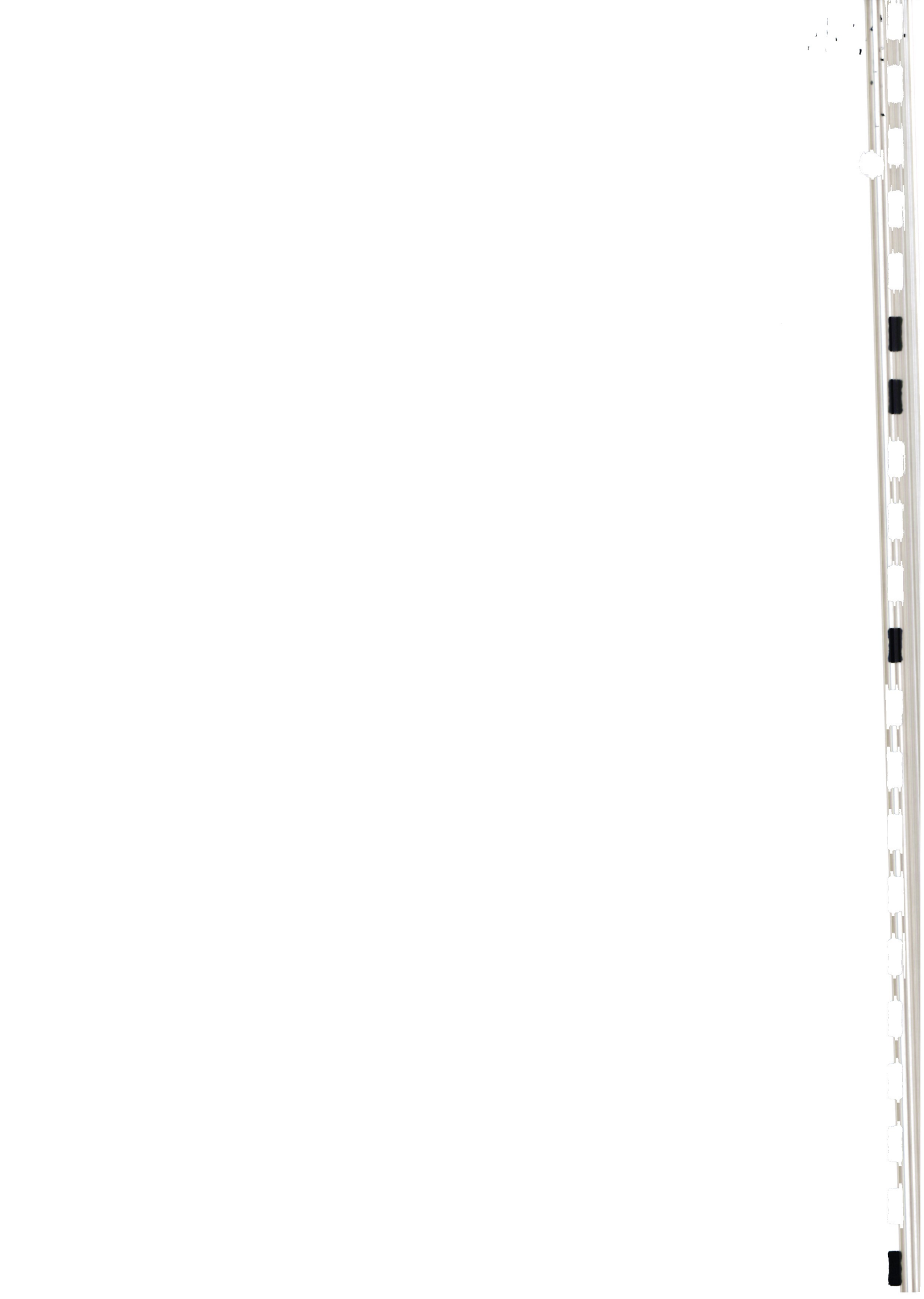
Kenya Commercial Bank
Kipande House Branch
P.O. Box 19828 - 00100
Nairobi, Kenya

g) Independent Auditors

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


h) Principal Legal Adviser

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



2. MANAGEMENT TEAM

The management during the financial year consisted of:

	<p>Mr. Andrew N. Kamau, CBS Principal Secretary</p> <p>Mr. Andrew Ng'ang'a Kamau has wide experience in Petroleum energy gained from several years in leadership positions in the private sector. Prior to his appointment as Principal Secretary for Petroleum, he was the Chief Executive Officer of Bracewell Energy which has interests in mining, energy and natural resources. As PS, he steers the Petroleum docket at the Ministry where he will oversee implementation of Petroleum projects. He holds a Bachelor of Science degree in Chemistry from the University of Nairobi.</p>
	<p>Ms. Melisa Musoma Senior Chief Finance Officer</p> <p>Ms. Melisa Musoma has served in the Civil Service for over 30 years and as a Senior Chief Finance Officer for more than seven years. She joined the State Department for Petroleum in August 2016 where she is responsible for all Budget matters. Ms. Musoma holds a Bachelor's Degree in Economics from the University of Nairobi.</p>
	<p>Ms. Agnes Muthuo, Deputy Director/HRM&D</p> <p>Ms. Agnes Muthuo assumed the position of Head, Human Resource Management and Development in January, 2017. She is in charge of managing the HR function in the Department including Training and Development for effective service delivery. She holds a Master of Science degree in Human Resource Development from the Jomo Kenyatta University of Science and Technology and a Bachelor of Arts degree in Anthropology from the University of Nairobi. She is a Member of IHRM.</p>





Ms. Prisca M. Musau

Ag. Assistant Accountant General

CPA Prisca Musau assumed the position of Acting Head of Accounting Unit in June up to date. She is in charge of Accounting and Financial Reporting as well as designing, implementing and monitoring internal controls relevant to the preparation and for presentation of financial reports in line with the relevant International Public Sector Accounting Standards (IPSAS). She holds an MBA (Strategic Management Option) from The Catholic University of Eastern Africa and Bachelor of Commerce (Accounting) from Guru Nanak Dev University. She is a CPA (K), and also a member of the ICPAK.



3. REPORT OF THE PRINCIPAL SECRETARY

It is my pleasure to present the Petroleum Training Levy Fund financial statements for the year ended 30th June 2018. The financial statements present the financial performance of the fund over the past year.

Financial Performance

a) Revenue

In the year ended 30th June 2018, the fund had projected revenues of KShs 375,000,000. Out of the projected revenue, the fund was able to realise KShs 265,732,493 in actual revenues, representing 71% performance.

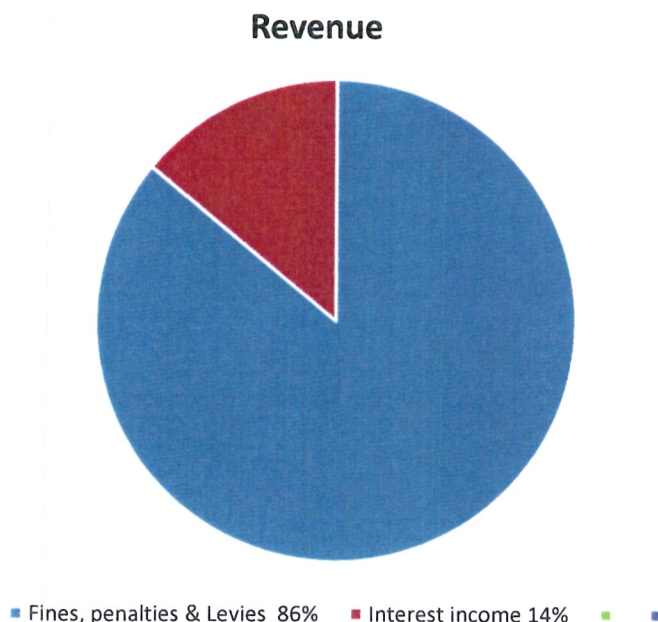
In the table below, we present an analysis of revenue performance during the year.

Revenue classification	Revenue budget (KShs)	Actual (KShs)	Realisation (%)
Revenue	KShs	KShs	
Fines, penalties and levies	375,000,000	265,732,493	71%
Interest income	-	42,960,426	N/A
Total income	375,000,000	308,692,919	71%



REPORT OF THE PRINCIPAL SECRETARY (Continued)

A graphical representation of the revenue budget is as shown below:



b) Expenditure

During the financial year 2017/2018, the fund disbursed Kshs 144,532, 604 for training expenditure. This was a 18% decrease from prior financial year due to stoppage of travel to Tanzania where most of the training were previously done.

c) Cash flows

In the FY 2017/2018, we have not had many liquidity disruptions as the training expenditure reduced by 18%. In addition, the collections for the current year remained relatively the same as prior year from Kshs 1,240,750,390 to Kshs. 1,287, 546, 321. The cash flow was adequate to meet the liquidity needs of the entity. The cash and cash equivalents reduced from KShs 997,794,524 as at 30th June 2017 to KShs 943,906,947 as at 30th June 2018.

d) Conclusion

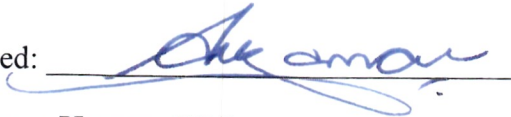
FY 2017/2018 was a good year in general. Good progress was made and the momentum has been created to enable Petroleum Training Levy Fund continue on a trajectory into prosperity. We have identified gaps and areas to improve on in the subsequent years.



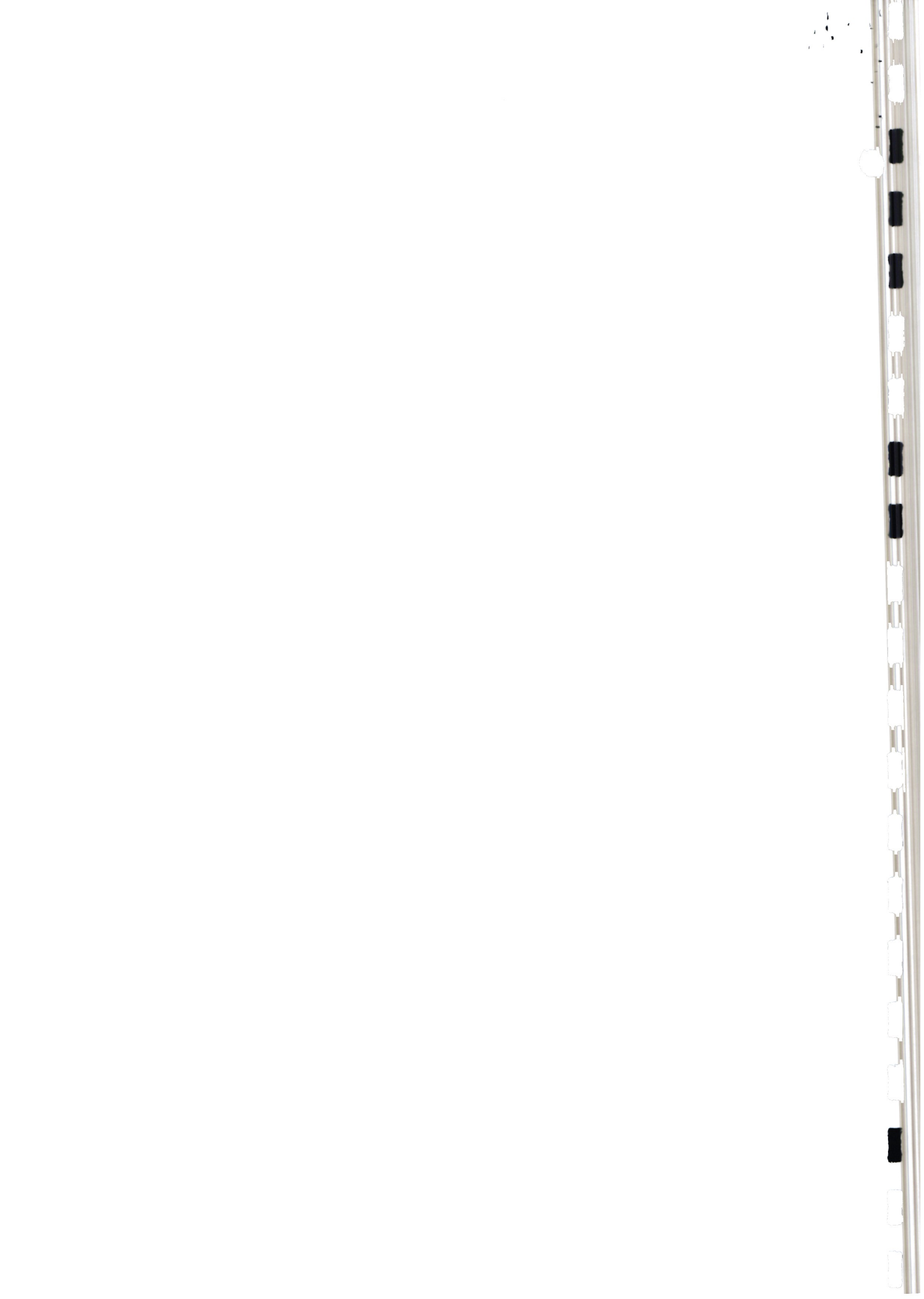
REPORT OF THE PRINCIPAL SECRETARY (Continued)

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

Signed: _____



**Andrew Kamau CBS
Principal Secretary**



4. MANAGEMENT DISCUSSION AND ANALYSIS

The fund has continued to grow over the years and the management has put measures in place to safeguard against risks.

The fund's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Fund does not hedge any risks and has in place policies to ensure that credit is only extended to staff with an established credit history.

The management has ensured that we comply with statutory requirements relating to the functions of the fund and also making sure that statutory deductions are remitted on time to avoid incurring penalties and interests for non-compliance.

BUSINESS PERFORMANCE

Revenue

The fund earned revenues amounting to KShs. 265,732,493 from levies from oil companies and Kshs. 42,960,426 from interest income from bank deposits. Revenue from non- exchange transactions was Kshs. 265,732,493 while transaction from exchange transactions was Kshs. 42,960,426.

Levies from Oil companies to the fund experienced a decrease of 72% from previous year while the other sources of income increased by 51%. The fund remained liquid throughout the year experiencing high liquidity towards the end of the financial year due to increased collections from staff and oil companies. The fund is projecting increased contributions from the oil companies.

Cash flow

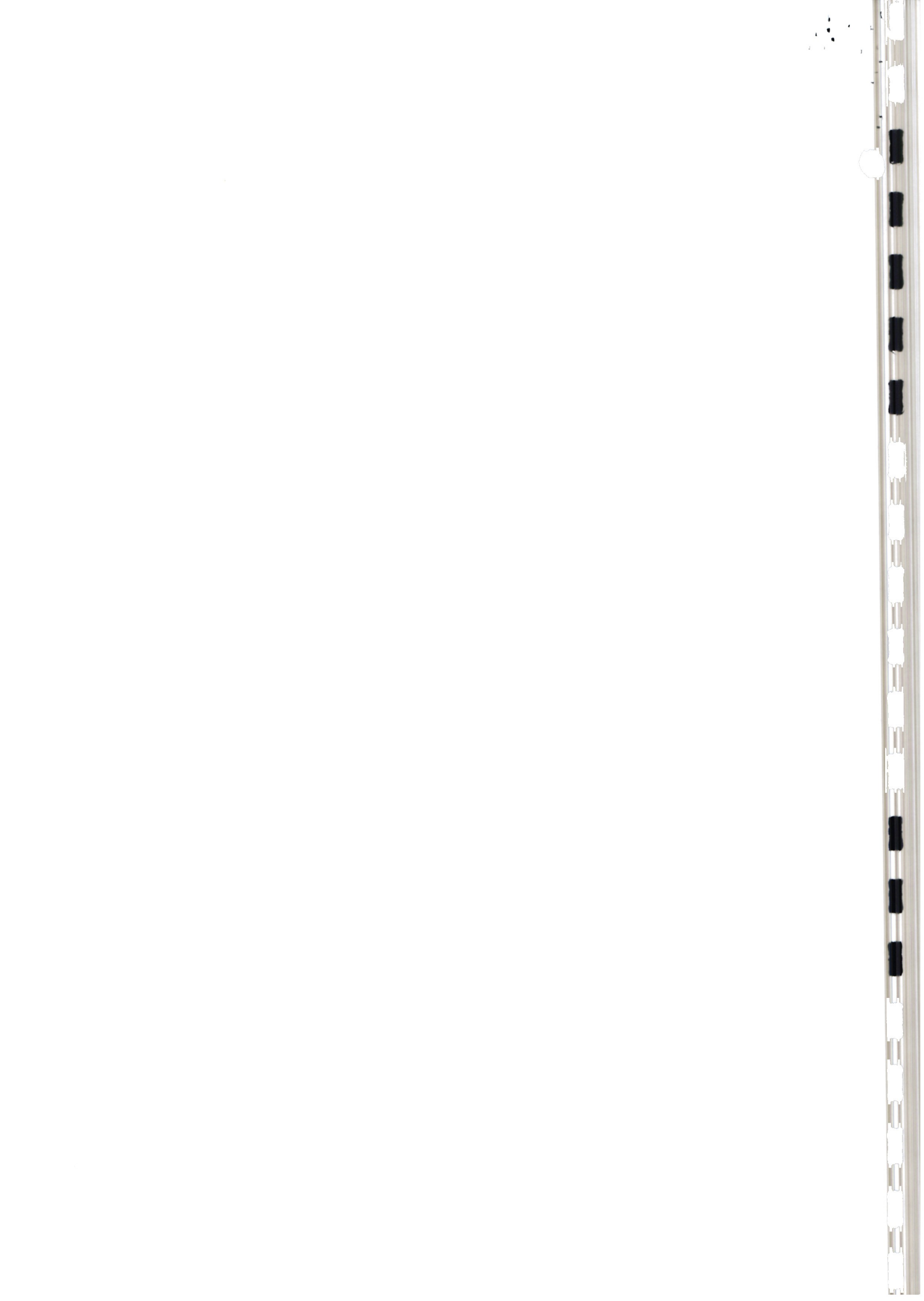
The cash and cash equivalents reduced from KShs 997,794,524 as at 30 June 2017 to KShs 943,906,947 as at 30 June 2018 due to revenue collections in the year. There was significant cash inflow from oil companies in the prior years who were paying in arrears.

OPERATIONAL PERFORMANCE

The fund's core operating activity has been the offering training to the ministry's staff. The ministry has supported the fund and increased collections from oil companies has also added to the fund's better performance.

Conclusion

We appreciate the unrelenting support from the management, staff, the Ministry and all the key stakeholders. We look forward to the continued partnerships and cooperation in areas of mutual interest in the FY 2018/2019.



5. REPORT OF THE MANAGEMENT

The management submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the Fund affairs.

Principal activities

The principal activity of the Fund is to provide training to the Ministry staff.

Results

The results of the Fund for the year ended June 30, 2018 are set out on pages 14 to 32.

Management Team

The management team who served during the year are shown on page 5 and 6.

Auditors

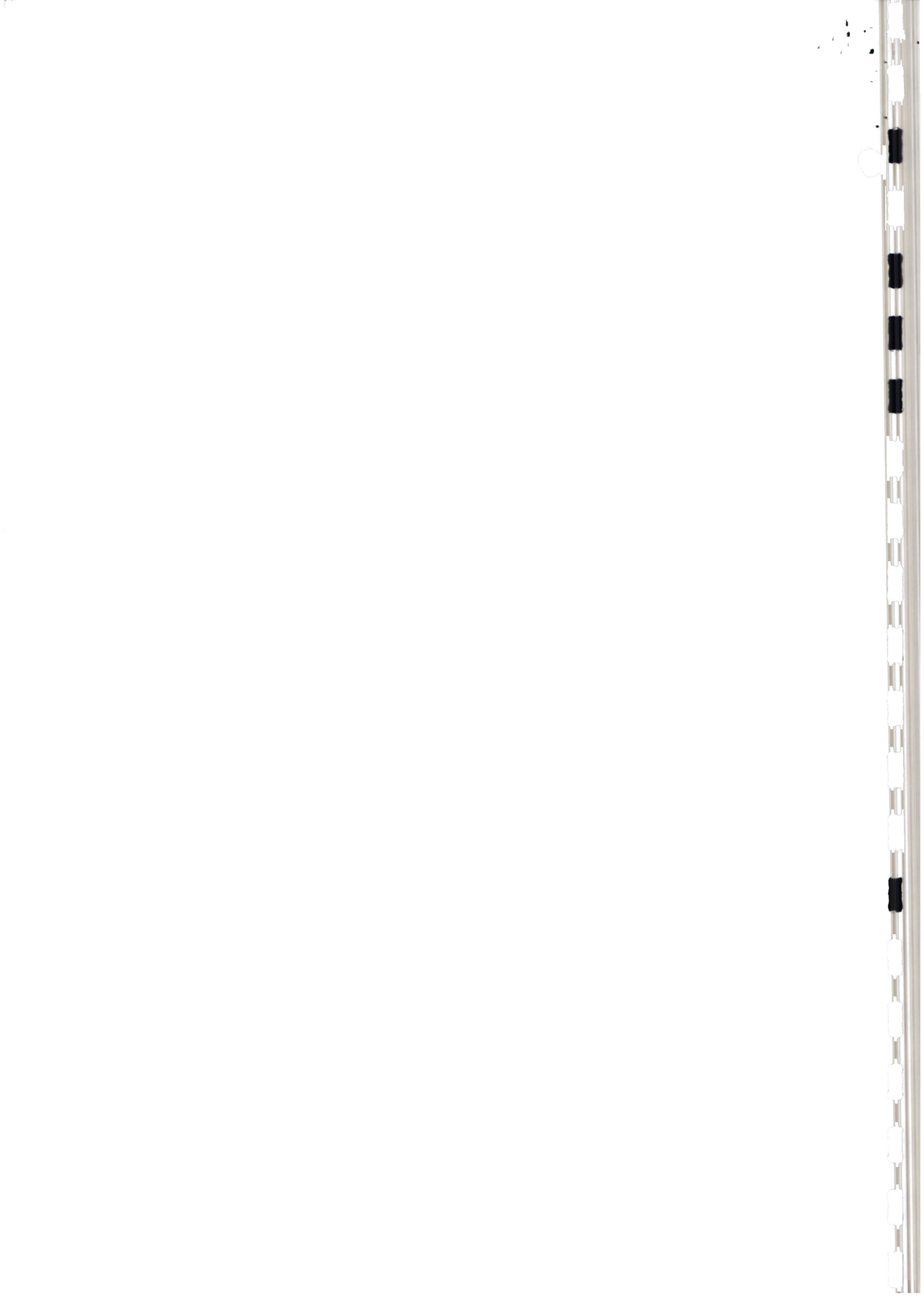
The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

For the Management

Andrew Kamau, CBS

Principal Secretary

Date: 



6. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Administrator of a Public Fund shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.


The Administrator of the Public Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Administrator of the Public Fund accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Administrator of the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2018, and of the Fund's financial position as at that date. The Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Fund's financial statements were approved by the Principal Secretary on 22nd MARCH 2018 and signed on its behalf by:



Andrew Kamau CBS
Principal Secretary



REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON PETROLEUM TRAINING LEVY FUND – STATE DEPARTMENT FOR PETROLEUM FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Petroleum Training Levy Fund-State Department for Petroleum set out on pages 14 to 29, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, 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 Petroleum Training Levy Fund – State Department for Petroleum as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS) and comply with the Petroleum (Exploration and Production) Act, Cap 308.

Basis for Qualified Opinion

1. Non-Conformity with the State Department's Financial Statements

International Public Sector Accounting Standards (IPSAS)18-Segment Reporting requires audited entity segment information to conform to the accounting policies used in preparing and presenting the financial statements of the consolidated entity. The financial statements of Petroleum Training Levy Fund for the year under review have been prepared on Accrual Basis of Accounting under IPSAS, a change from the Cash Basis of Accounting used in prior years. Since the Fund's financial performance and financial position are also disclosed in the State Department's financial statements for the year under review, the respective statements should conform to the reporting format applied by the State Department which manages the Fund in accordance with IPSAS 18.

2. Incorrect Revenue Recognition

The statement of financial performance reflects revenue from non-exchange transactions totaling Kshs.451,594,351. Although, the Petroleum (Exploration and

Production) Act, Cap 308 provides that only monies remitted by contractors as training contribution are to be paid into the Fund, the sum of Kshs.451,594,351 includes Kshs.176,656,640 relating to oil-block surface fees. Apparently, the State Department accounted for the whole income received, including the surface fee component, as training levy. As a result, the revenue collected in the year under review is overstated by Kshs.176, 656,640. In addition, an undetermined amount of oil-block surface fees was incorrectly expended as appropriations-in-aid under the authority of the Cabinet Secretary contrary to provisions of the Public Finance Management Act, 2012 and the Appropriation Act, 2017. The State Department has acknowledged the anomaly and has indicated its intention to report the two revenue streams separately starting from the 2018/19 financial year.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Report on Compliance with Lawfulness and Effectiveness in Use of Public Resources sections 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 Grants and Subsidies

The statement of financial performance for the year under review reflects expenditure totaling Kshs.227,080,300 under grants and subsidies which includes Kshs.120,000,000 being transfers made from the Fund to National Oil Corporation of Kenya (NOCK). However, the purpose of the grants provided by the Department to the Corporation has not been disclosed to explain the purposes of the remittances. In addition, National Oil Corporation (NOCK) has not submitted expenditure returns to account for amounts received from the Fund. In view of these anomalies, it is not possible to confirm whether the grants were remitted in accordance with public financial

management regulations, and further, that the Corporation used the monies for the intended purpose.

2. Difference between Training Fund Budget and Voted Provisions

The statement of comparison of budgeted and actual amounts for the year under review reflects budgeted training and oil-block surface fee receipts totaling Kshs.375,000,000. However, the voted appropriations for Vote D1153 - State Department of Petroleum for the year under review had provided for Appropriations-in-Aid (A-I-A) totaling Kshs.255,000,000 in royalties on oil exploration and training fees. As a result, there is an unexplained difference of Kshs.120,000,000 between the two budget estimates. In addition, receipts totaling Kshs.308,693,141 were collected during the financial year, resulting in excess A-I-A amounting to Kshs.164,653,567. However, the excess A-I-A balance was not surrendered to the National Treasury as required by the Public Finance Management Act, 2012. Instead, the sum was held in a local bank account operated by the State Department. The financial statements indicate that as at 30 June 2018, the Fund had since its inception accumulated cash surpluses totaling to Kshs.943,906,947, inclusive of bank interest earned on the deposits.

3. Underutilization of Training Levy Funds

The Exploration and Production Act, Cap 308 provides for establishment of the Petroleum Training Levy Fund for the purpose of training Kenyans on petroleum operations. Examination of training programs carried out in 2016/2017 and 2017/2018 financial years revealed that expenditures totaling to Kshs.320,764,864 were incurred on training 55 staff drawn from the State Department of Petroleum. The staff were trained on financial as well as human resource management and oil exploration activities, although some of the trainees had previously attended similar courses. However, no trainees were drawn from Universities and Colleges or other learning or research institutions and there is no indication that any support was provided by the Department to these or other institutions well-placed to enhance knowledge and skills on petroleum operations among Kenyans.

In addition, the cumulative training expenditure amounting to Kshs.320,764,864 as at 30 June 2018 accounted for a lowly 22% absorption ratio for the fees totaling Kshs.1,484,234,905 collected from oil and gas exploration companies in the two financial years ended 30 June 2018.

The narrowed selection of training beneficiaries and low rate of absorption of the funds has cast doubt on the State Department's capacity and preparedness to effectively utilize monies collected into the Fund. The Department had accumulated training levy cash totaling Kshs.943,906,947 in a local bank account as at 30 June 2018. Therefore, contributions to the Petroleum Training Levy Fund have not been utilized in the most effective way. Nonetheless management has indicated that they are drawing plans to widen the categories of trainees that benefit from the Fund.

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 comply, 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 matter described in Report on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Uncollected Training Levy

The statement of financial position as at 30 June 2018 reflects accounts receivable balance amounting to Kshs.1,021,813,827 being outstanding levies owed by oil exploration companies and out of which a sum of Kshs.230,960,649 is for the year under review. The debts have accumulated over several years in spite of demand notices issued by the State Department to the seven oil companies that hold active licenses in eleven (11) oil exploration blocks. Inability by the Department to collect all the levies due from the companies as provided for in the respective Production Sharing Contracts (PSCs) has denied the Government revenue to finance delivery of services to citizens.

2. Weaknesses in Revenue Collection and Recording

The statement of financial performance reflects revenue totaling Kshs.496,693,141 being training levy and oil-block surface fees collected or due from oil exploration companies. However, audit review of internal controls on revenue collection revealed that procedures for identifying, collecting and accurately recording revenue from oil companies for reporting in the State Department's annual financial statements have not been established as the Department's system cannot accurately determine levies and fees due from contractors.

Instead, the Department relies on voluntary reporting by the companies. In addition, a functional system has not been established to raise fee notes when payments from the companies are due. Instead the finance and accounts sections of the Department rely on the Fund's bank statements as their primary source of data on revenue collections. However, the bank statements do not provide details on the category of revenues deposited or the periods to which the revenues relate. Until the database management system that the management plans to install is installed and put to good use, the Department may not reliably determine revenues due from the oil-exploration companies.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards and for maintaining effective internal control 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 assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Fund or have its operations cease.

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 preparing and presenting the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity 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 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 comply 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all internal control matters 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 control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

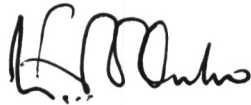
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the appropriate 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 ability of the Fund to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund not to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control 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 Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

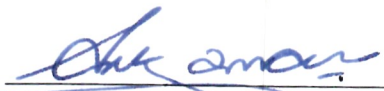
09 April 2019

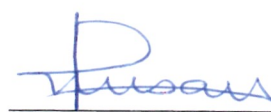


8. FINANCIAL STATEMENTS

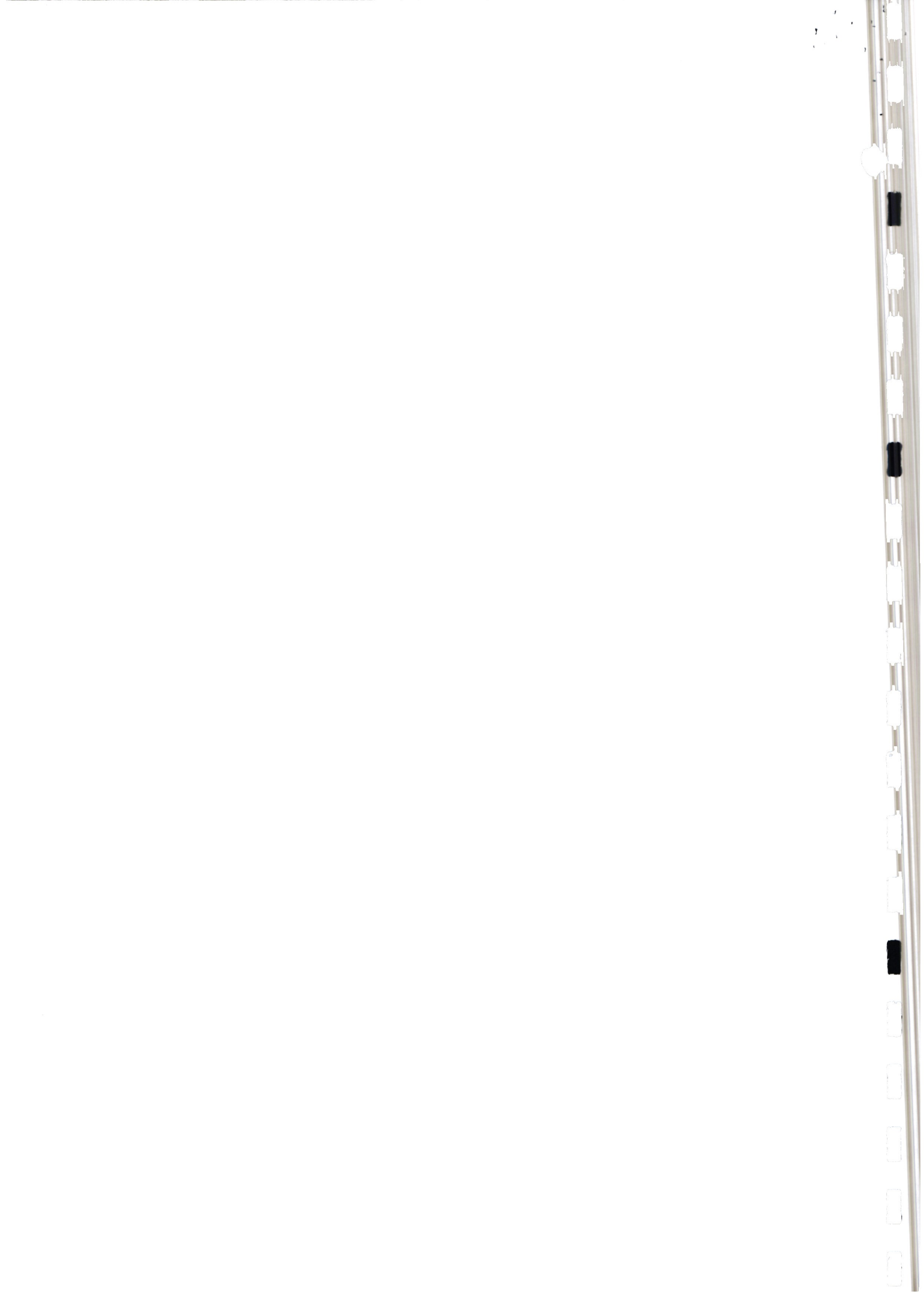
8.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2018

	Note	FY2017/2018	Restated 2016/2017	FY2016/2017
		KShs	Kshs	KShs
Revenue from non-exchange transactions				
Fines, penalties & Levies 2017/2018	1	265,732,493	215,705,546	215,705,546
Fines, penalties & Levies Receivable 2017/2018	1	185,861,858	835,951,970	-
		451,594,351.00	1,051,657,516	215,705,546
Revenue from exchange transactions				
Interest income	2	42,960,426	22,247,768	22,247,768
Other income	3	-	1,002,796,866	1,002,796,866
		42,960,426	1,025,044,634	1,025,044,634
Total revenue		494,554,777	2,076,702,150	1,240,750,180
Expenses				
Grant and subsidies	4	227,080,300	130,000,000	130,000,000
General expenses	5	154,596,115	176,232,260	176,232,260
Total expenses		381,676,415	306,232,260	306,232,260
Surplus for the Year		112,878,362	1,770,469,890	934,517,920


Principal Secretary
Andrew N. Kamau (CBS)


Principal Accounts Controller
Prisca M. Musau
ICPAK Member Number:21056

The notes set out on pages 13 to 22 form an integral part of these Financial Statements

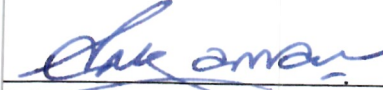



**Petroleum Training Levy Fund
Reports and Financial Statements
For the year ended June 30, 2018**

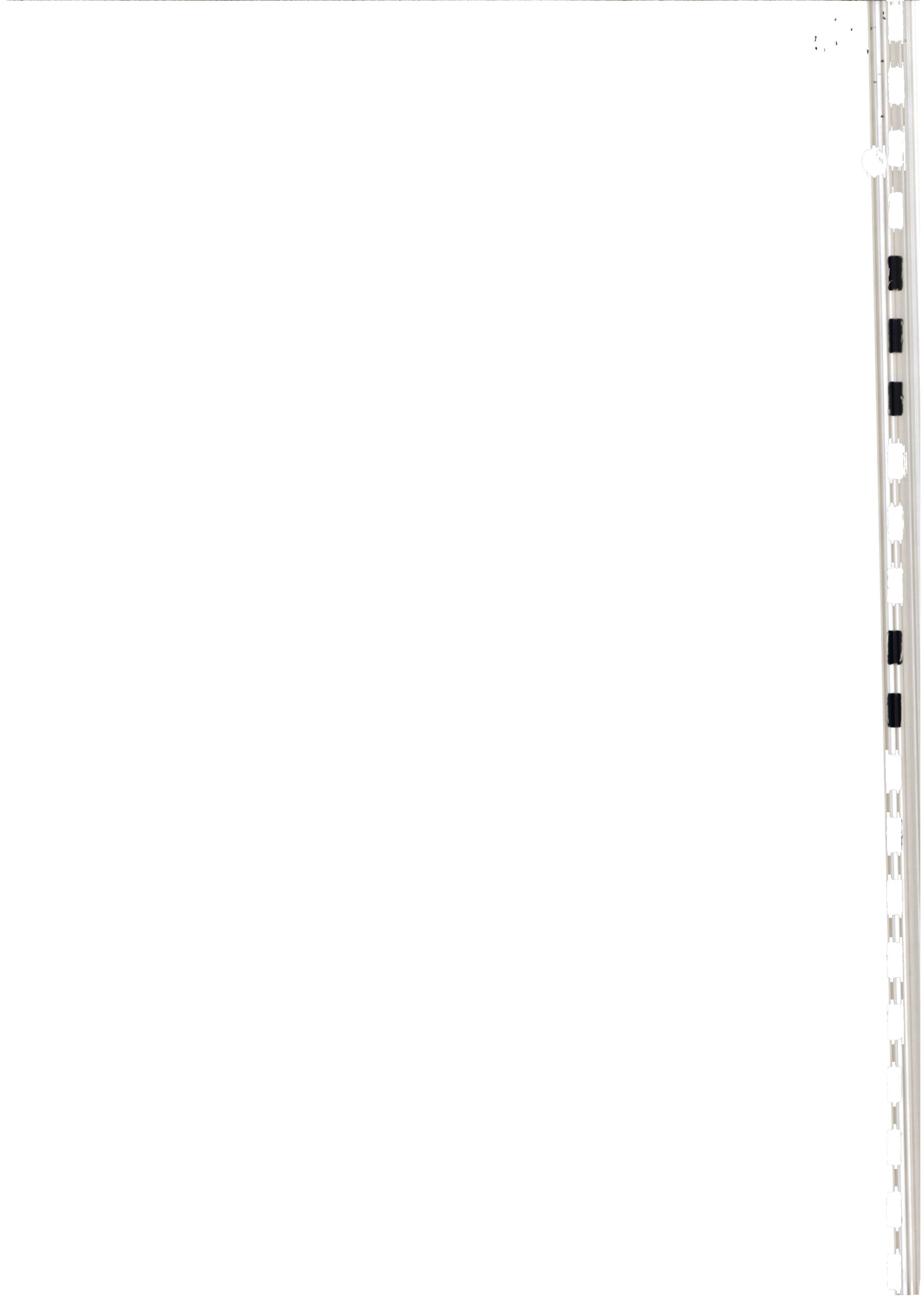
8.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	FY2017/2018	Reinstated 2016/2017	FY2016/2017
		KShs	KShs	KShs
Assets				
Current assets				
Cash and cash equivalents	6	943,906,947	997,794,524	997,794,524
Accounts receivables- Outstanding imprests	7	656,040	656,040	656,040
Accounts Receivables – Fines, penalties and levies	8	1,021,813,827	835,951,970	-
		1,966,376,814	1,834,402,534	998,450,564
Total assets		1,966,376,814	1,834,402,534	998,450,564
Liabilities				
Current liabilities				
Payments received in advance	9	19,095,919		-
Total liabilities		19,095,919		-
Net assets				
Accumulated surplus		1,947,280,895	1,834,402,534	998,450,564
Total liabilities and equity		1,966,376,814	1,834,402,534	998,450,564

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 22nd MARCH 2018 and signed by:


Principal Secretary
Name: Andrew Kamau CBS

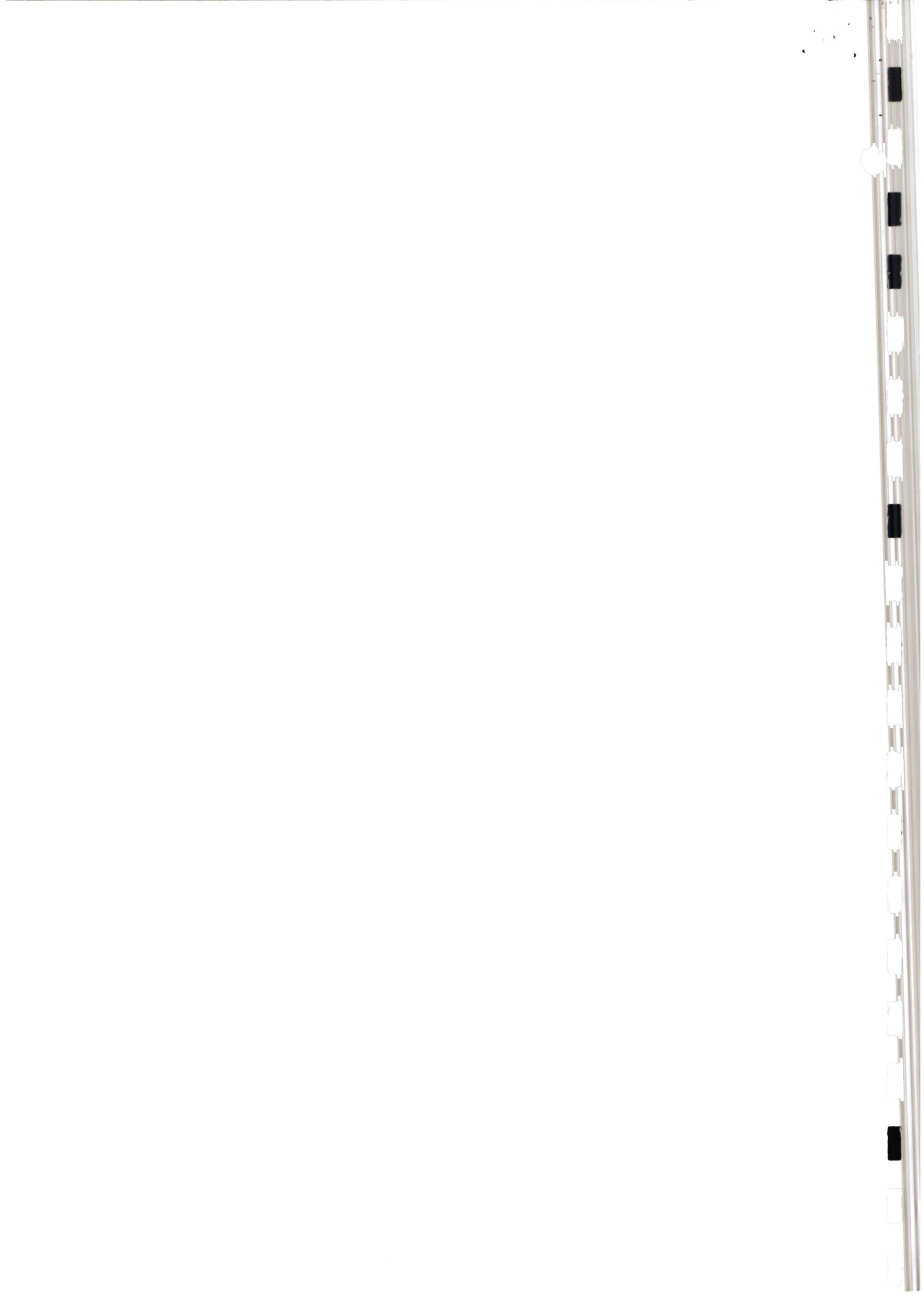

Fund Accountant
Name: Prisca M Musau
ICPAK Member Number:21056



**Petroleum Training Levy Fund
Reports and Financial Statements
For the year ended June 30, 2018**


8.3. STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2018

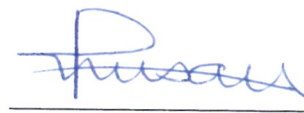
	Accumulated surplus 2017/2018 KShs
Balance as at 1 July 2016	63,932,644
Surplus for the Year	1,770,469,890
Balance as at 30 June 2017	1,834,402,534
Balance as at 1 July 2017	1,834,402,534
Surplus for the Year	112,878,362
Balance as at 30 June 2018	1,947,280,896

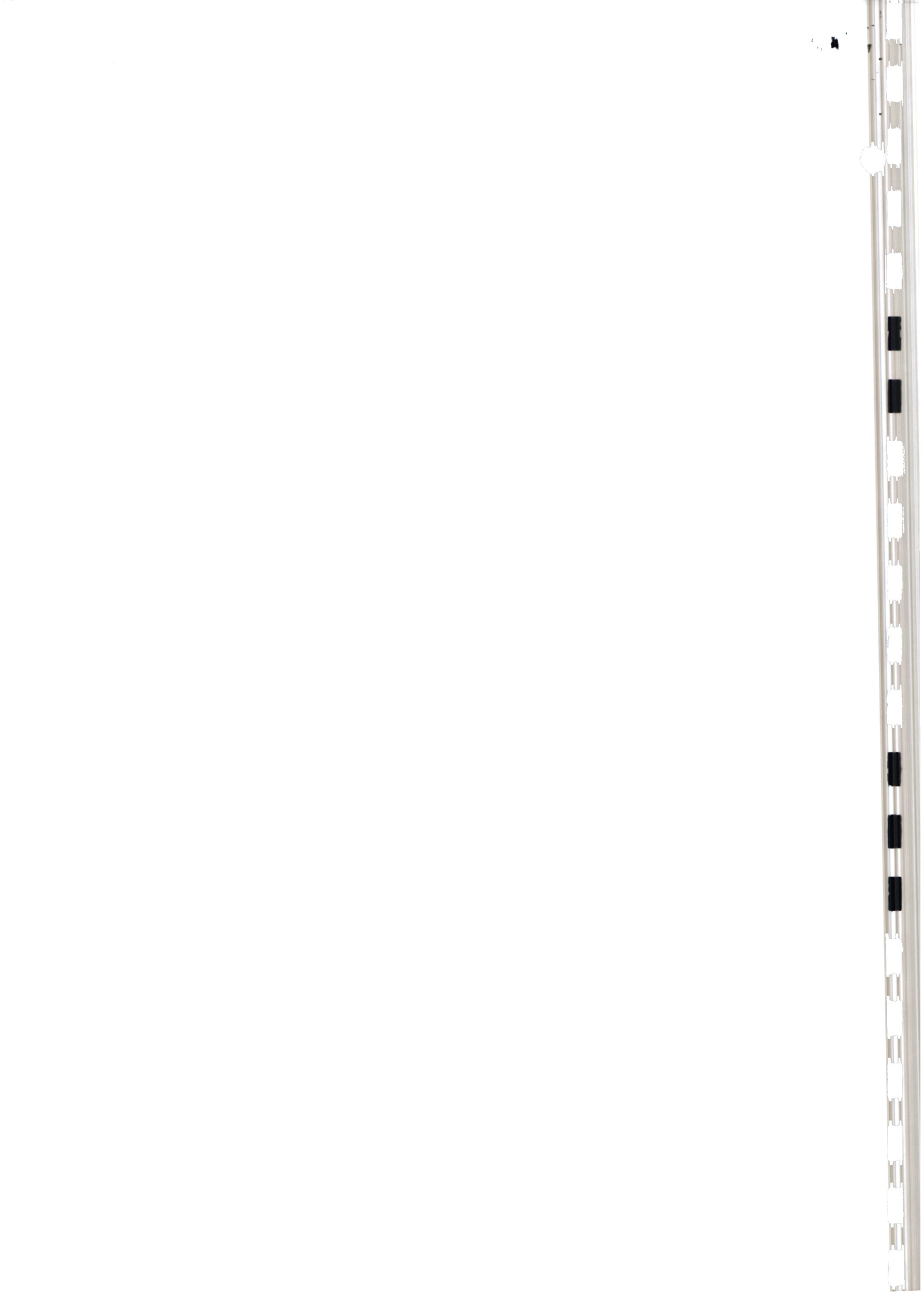


8.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Note	FY2017/2018	FY2016/2017
		KShs	KShs
Cash flows from operating activities			
Receipts			
Fines, penalties & levies 2017/2018	1	265,732,493	215,705,546
Interest received	2	42,960,426	22,247,768
Other income		-	1,002,796,866
Total Income		308,692,919	1,240,750,180
Adjusted for payment received in advance	9	19,095,919	-
		327,788,838	1,240,750,180
Payments			
Grants and subsidies	4	227,080,300	130,000,000
General expenses	5	154,596,115	176,232,260
Adjusted for receivables	9	-	656,040
Total Payments		381,676,415	306,888,300
Net cash flows from operating activities		(53,887,577)	933,861,880
Cash flows from investing activities		-	-
Net cash flows used in investing activities		-	-
Net increase/(decrease) in cash and cash equivalents		(53,887,577)	933,861,880
Cash and cash equivalents at 1 JULY	6	997,794,524	63,932,644
Cash and cash equivalents at 30 JUNE	6	943,906,947	997,794,524


 Principal Secretary
 Andrew N. Kamau (CBS)


 Principal Accounts Controller
 Prisca M. Musau
 ICPAK Member Number:21056

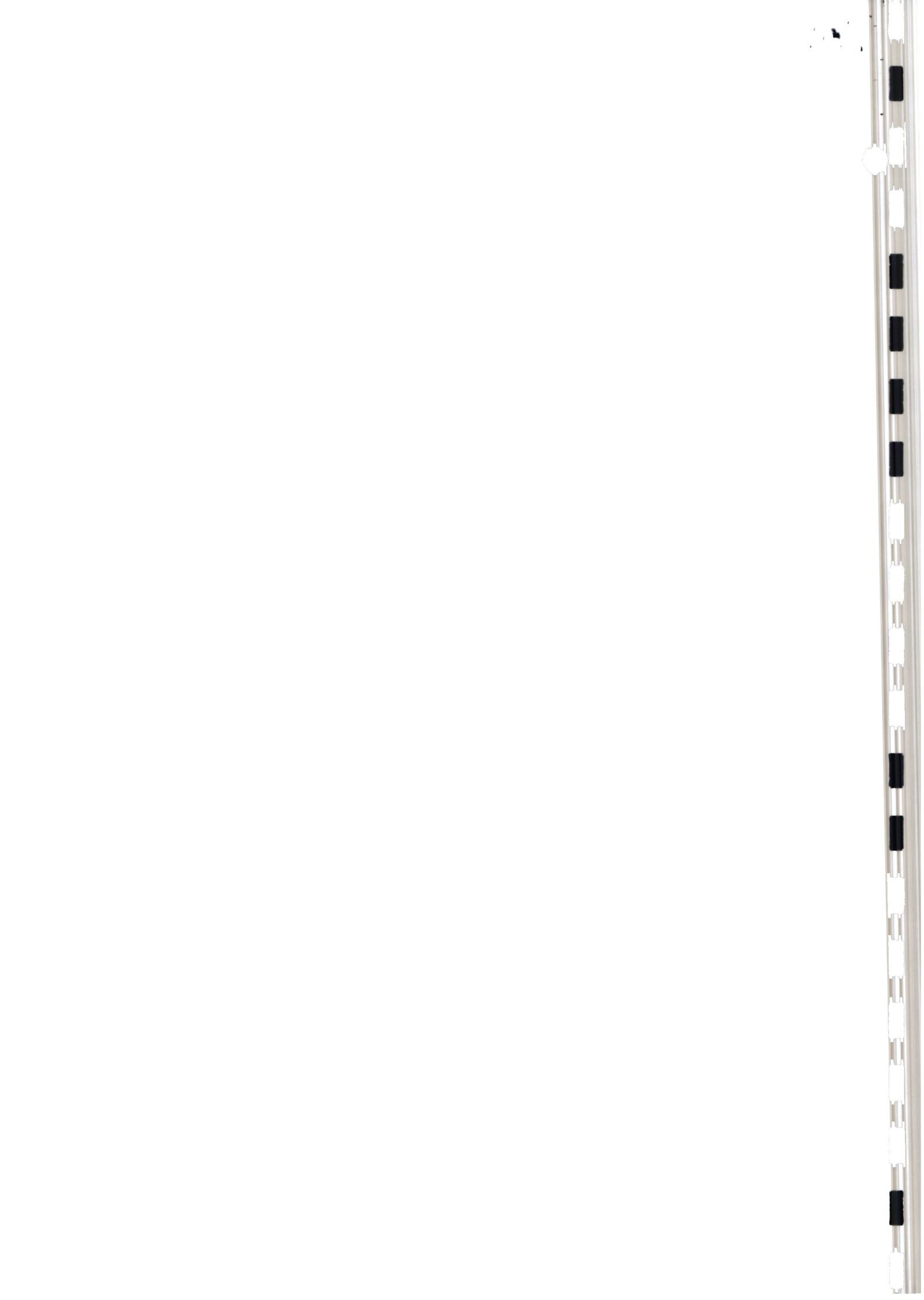


8.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE

	Original budget		Adjustments		Final budget		Actual on comparable basis		Performance difference		% utilisation	
	2018	KShs	2018	KShs	2018	KShs	2018	KShs	2018	KShs	2018	2018
Revenue												
Fines, penalties & Levies	375,000,000.00		-		375,000,000.00		265,732,493.00		109,267,507.00			29%
Interest income	-		-		-		42,960,426.00		(42,960,426.00)			
Total income	375,000,000.00				375,000,000.00		308,692,919.00		66,307,081.00			18%
Expenses												
Grant and subsidies	246,000,000.00		-		246,000,000.00		227,080,300.00		18,919,700.00			8%
General expenses	155,000,000.00		-		155,000,000.00		154,596,115.00		403,885.00			0%
Total expenditure	401,000,000.00		-		401,000,000.00		381,676,415.00		19,323,585.00			5%
Surplus for the period	(26,000,000.00)				(26,000,000.00)		(72,983,496.00)		46,983,496.00			

Note

The surplus for the period under review of kshs. 72,983,496.00 is as a result of restating of the financial statement under the new policy of policy of IPSAS accrual.



**Petroleum Training Levy Fund
Annual Reports and Financial Statements
For the year ended June 30, 2018**

8.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation

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

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

This is the first year the financial statements have been prepared on accrual basis.

2. Adoption of new and revised standards

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

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

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

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

c) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.



**Petroleum Training Levy Fund
Annual Reports and Financial Statements
For the year ended June 30, 2018**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

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

ii) Revenue from exchange transactions

Interest income

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

4. Budget information

The original budget for FY 2017/2018 was approved by the National Assembly on June 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities.

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.



**Petroleum Training Levy Fund
Annual Reports and Financial Statements
For the year ended June 30, 2018**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. *Contingent liabilities*

The Entity does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

6. *Nature and purpose of reserves*

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

7. *Related parties*

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the Principal secretary and the Fund Accountant.

8. *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 commercial banks at the end of the financial year.

9. *Comparative figures*

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

10. *Events after the reporting period*

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

11. *Ultimate and Holding Entity*

The entity is a Public Fund established by Section 167 of the Public Finance Management (PFM) Act 2012. Its ultimate parent is the Ministry of Petroleum.



**Petroleum Training Levy Fund
Annual Reports and Financial Statements
For the year ended June 30, 2018**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

12. Currency

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

13. Significant judgments and sources of estimation uncertainty

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

Estimates and assumptions – The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated 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. IPSAS 1.140.

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 asset
- Changes in the market in relation to the asset



**Petroleum Training Levy Fund
Annual Reports and Financial Statements
For the year ended June 30, 2018**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. Financial risk management

The Fund's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Fund does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Fund's financial risk management objectives and policies are detailed below:

a) Credit risk

The Fund has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount KShs
At 30 June 2018	
Bank balances	943,906,947
Total	943,906,947
At 30 June 2017	
Bank balances	997,794,524
Total	997,794,524

The entity has significant concentration of credit risk on amounts deposited with banks.

The management sets the Fund's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

b) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.



Petroleum Training Levy Fund
Annual Reports and Financial Statements
For the year ended June 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Fund's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

i. Interest rate risk

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

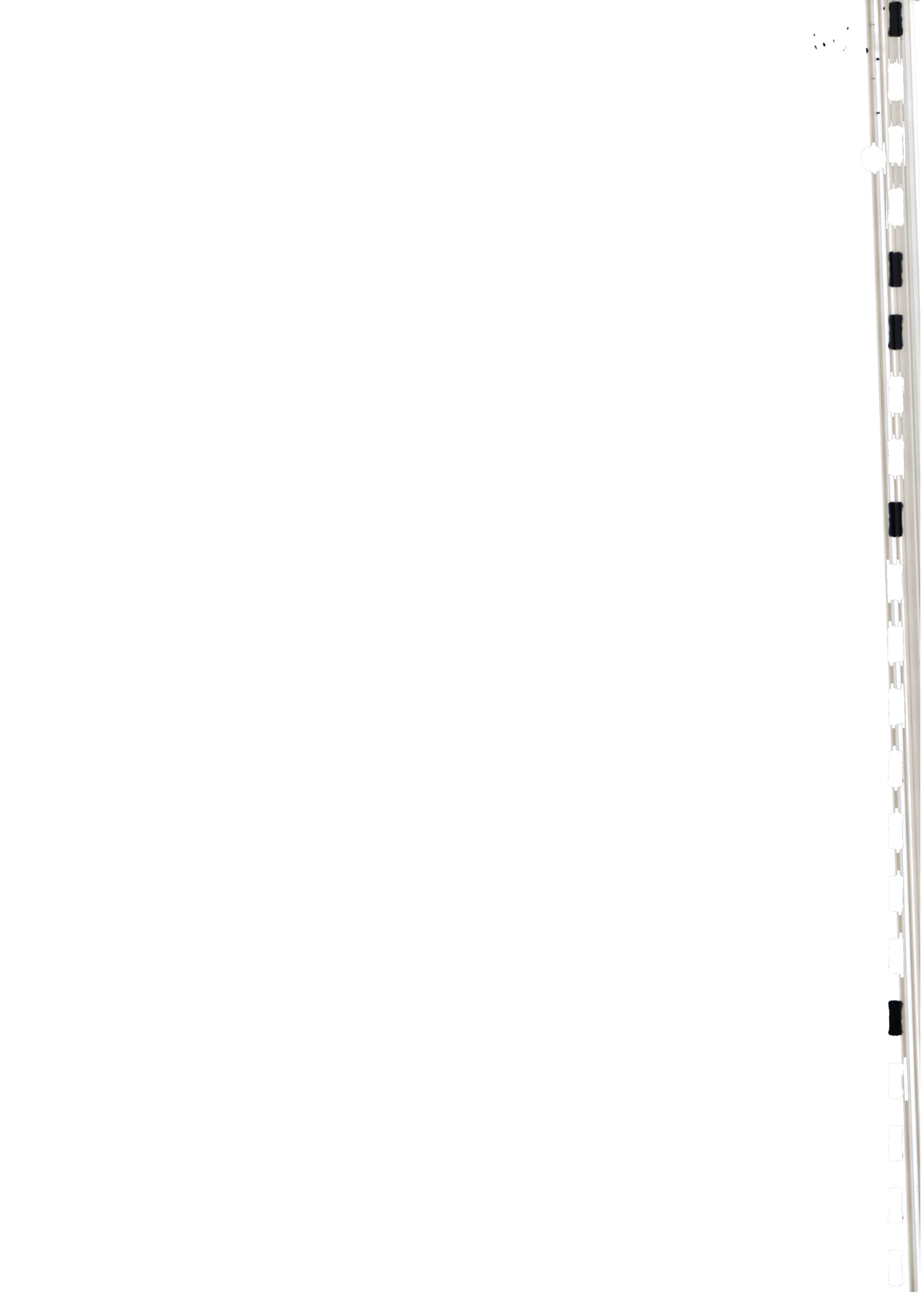
Management of interest rate risk

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

Sensitivity analysis

The Fund analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs 157,977,152 (2017: KShs 934,517,920). A rate increase/decrease of 5% would result in a decrease/increase in profit of KShs 1,725,371,099 (2017 – KShs 86,268,555)



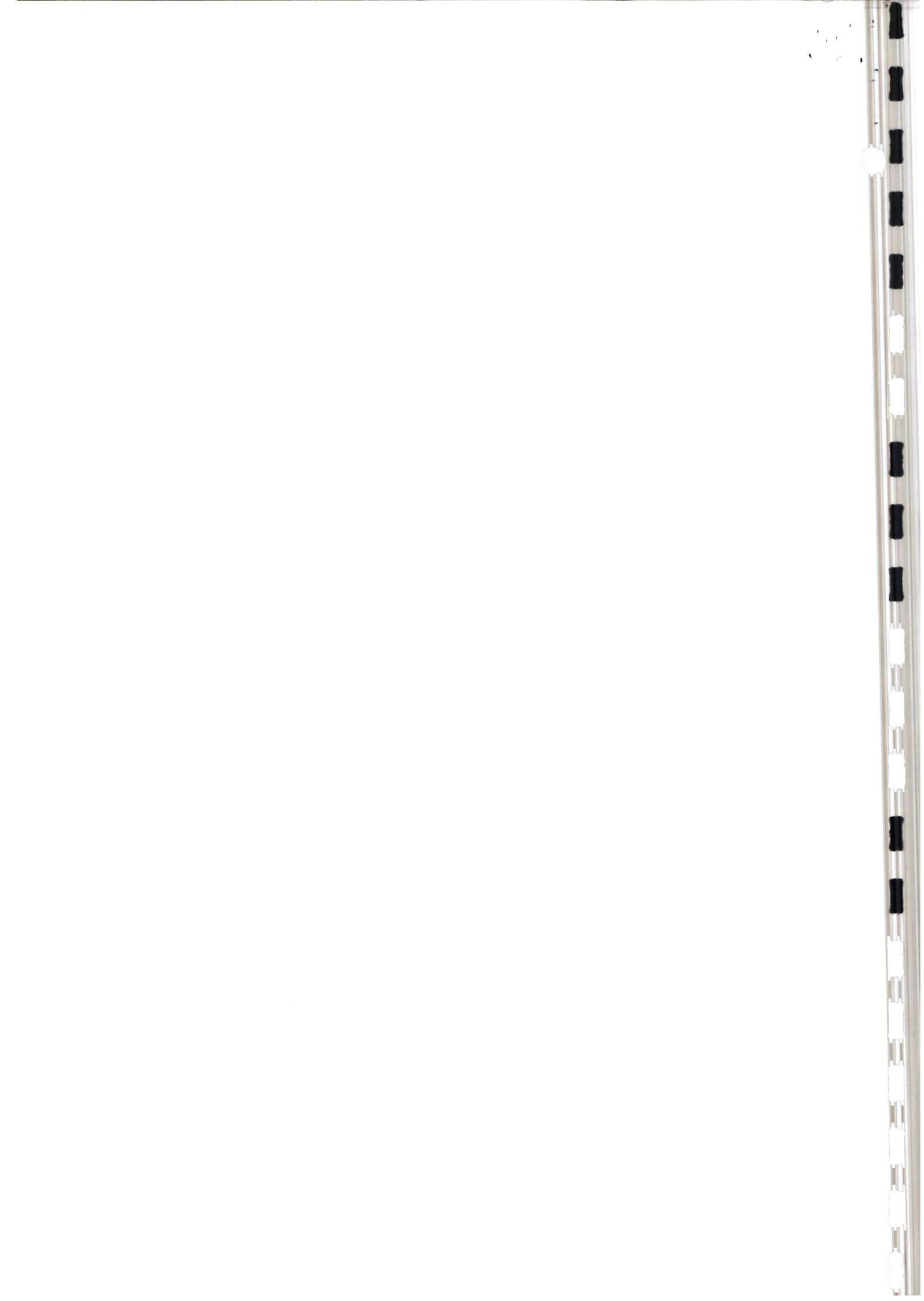
Petroleum Training Levy Fund
Annual Reports and Financial Statements
For the year ended June 30, 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Capital risk management

The objective of the Fund's capital risk management is to safeguard the Fund's ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2018		2017
	KShs		KShs
Accumulated surplus	1,947,280,896		1,789,303,743
Total funds	1,947,280,896		1,789,303,743
Less: cash and bank balances	(943,906,947)		(997,794,524)
Net debt/(excess cash and cash equivalents)			
Gearing	(3)%		(3)%



Petroleum Training Levy Fund
Annual Reports and Financial Statements
For the year ended June 30, 2018

8.7. NOTES TO THE FINANCIAL STATEMENTS

1. Fines, penalties & Levies

Description	FY2017/2018	Reinstated 2016/2017	FY2016/2017
	KShs	KShs	KShs
Levies from the oil companies	265,732,493	215,705,546	215,705,546
Levies from oil companies receivable – Training fees	98,361,828	374,285,340	
Levies from oil companies receivable – surface fees	87,500,300	461,666,630	
Total	451,594,351	1,051,657,516	215,705,546

These refers to levies received from oil companies in the year and due from them for the same year.

2. Interest income

Description	FY2017/2018	Reinstated 2016/2017	FY2016/2017
	KShs	KShs	KShs
Interest income from bank deposits	42,960,426	22,247,768	22,247,768
Total interest income	42,960,426	22,247,768	22,247,768

3. Other income

Description	FY2017/2018	Reinstated 2016/2017	FY2016/2017
	KShs	KShs	KShs
Miscellaneous Income	-	1,002,796,866	1,002,796,866
Total other income	-	1,002,796,866	1,002,796,866



**Petroleum Training Levy Fund
Annual Reports and Financial Statements
For the year ended June 30, 2018**

4.Grants and subsidies

Description	FY2017/2018	Reinstated 2016/2017	FY2016/2017
	KShs	KShs	KShs
Transfer to NOCK	120,000,000	30,000,000	30,000,000
Transfer to State Department of Petroleum	107,080,300	100,000,000	100,000,000
Total	227,080,300	130,000,000	130,000,000

5. General expenses

Description	FY2017/2018	Reinstated 2016/2017	FY2016/2017
	KShs	KShs	KShs
Training expenses	144,532,604	176,232,260	176,232,260
Operating expenses	10,063,511	-	-
Total	154,596,115	176,232,260	176,232,260

6.Cash and cash equivalents

Description	FY2017/2018	Reinstated 2016/2017	FY2016/2017
	KShs	KShs	KShs
Current account	943,906,947	997,794,524	997,794,524
Total cash and cash equivalents	943,906,947	997,794,524	997,794,524

6 (a) Detailed analysis of the cash and cash equivalents are as follows:

	FY2017/2018	Reinstated 2016/2017	FY2016/2017
Financial institution	KShs	KShs	KShs
a) Current account			
Kenya Commercial bank - Kipande House A/C No. 1104175142	943,906,947	997,794,524	997,794,524
Sub- total	943,906,947	997,794,524	997,794,524



**Petroleum Training Levy Fund
Annual Reports and Financial Statements
For the year ended June 30, 2018**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Outstanding Imprests

Description	FY2017/2018	Reinstated 2016/2017	FY2016/2017
	KShs	KShs	KShs
Catherine Kathingo (Deceased) Date of Imprest Taken 07/04/2017	656,040	656,040	656,040
Total outstanding imprest	656,040	656,040	656,040

8. Receivables

Description	FY2017/2018	Reinstated 2016/2017	FY2016/2017
	KShs	KShs	KShs
Levies from oil companies receivable –Training fees	98,361,828	374,285,340	-
Levies from oil companies receivable –surface fees	87,500,300	461,666,630	-
Total Receivables	185,861,858	835,951,970	-

9. Payment received in advance

Description	FY2017/2018	Reinstated 2016/2017	FY2016/2017
	KShs	KShs	KShs
Fees and Levies relating to 2019	19,095,919	-	-
Total payment received in advance	19,095,919	-	-



**Petroleum Training Levy Fund
Annual Reports and Financial Statements
For the year ended June 30, 2018**

1. Related party balances

a) Nature of related party relationships

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

- a) Ministry of Petroleum;
- b) Key management personnel.

i) Related parties transactions

	FY2017/2018		FY2016/2017
	KShs		KShs
Transfers to related parties (NOCK)	120,000,000		30,000,000
Transfer to State Department of Petroleum	107,080,300		100,000,000
Total	227,080,300		130,000,000



**Petroleum Training Levy Fund
Annual Reports and Financial Statements
For the year ended June 30, 2018**

1. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
N/A	Revenue due of Kshs. 835,951,970	Demand notices have been sent to the oil companies	Secretary Petroleum	Not Resolved	2018/2019
1.1	Ineligible expenditure of Kshs. 9,741,600	To be resolved 2018/2019	Head of Accounting Unit	Resolved	2018/2019
1.2	Invalid contract with oil company	To be resolved 2018/2019	Secretary Petroleum	Resolved	2018/2019
2.	Non-remittance of community project funds	To be resolved 2018/2019	Secretary Petroleum	Resolved	2018/2019

