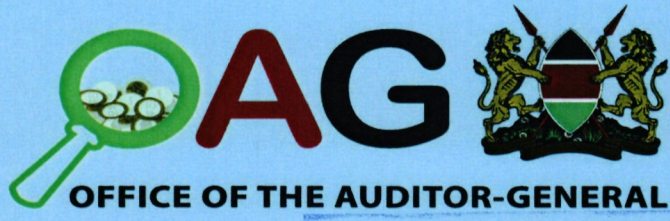


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THE NATIONAL ASSEMBLY	
REPORT DATE: 12 MAY 2022	
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CLERK-AT THE TABLE:	C. Ndintu

REPORT DATE: 12 MAY 2022

OF

THE AUDITOR-GENERAL

ON

**KENYA ENERGY SECTOR ENVIRONMENT
AND SOCIAL RESPONSIBILITY
PROGRAMME FUND**

**FOR THE YEAR ENDED
30 JUNE, 2021**

MINISTRY OF ENERGY

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY
8 APR 2022
RECEIVED



**KENYA ENERGY SECTOR ENVIRONMENT & SOCIAL
RESPONSIBILITY PROGRAMME
MINISTRY OF ENERGY**

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2021**

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

**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021**

Table of Contents

1. KEY ENTITY INFORMATION AND MANAGEMENT	3
2. MANAGEMENT TEAM	6
3. REPORT OF THE FUND MANAGER/ ADMINISTRATOR	9
4. REPORT OF THE TRUSTEES/ FUND ADMINISTRATION COMMITTEE	13
5. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES	14
6. REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS FOR KENYA ENERGY SECTOR ENVIRONMENT & SOCIAL RESPONSIBILITY FUND	16
7. FINANCIAL STATEMENTS	17
8. NOTES TO THE FINANCIAL STATEMENTS	27
9. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS	29
10. APPENDIX I: INTER-ENTITY TRANSFERS	30

**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021.**

1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

The Kenya Energy Sector Environment & Social Responsibility Programme Fund was formed by an Act of parliament Regulations, 2007 (L.N. No. 188 of 2007). The Fund is under the supervision of Ministry of Energy.

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

b) Principal Activities

The principal activity of keep is to finance activities relating to the production of wood fuel, power distribution poles and energy crops for production of bio-fuels; and growing of trees in order to conserve soil and preserve catchment areas for hydro-power dams, including provision of a sink for carbon dioxide generated through combustion fossil fuels

Vision

Provision of affordable, quality energy for all Kenyans

Mission

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

Core Values

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

c) Fund Administration Committee

Ref	Name	Position
1	Maj. Gen (Rtd) Dr. Gordon .O. Kihalangwa, CBS	Principal Secretary
2	CPA Moses Peterson Gitari Muriuki	Senior Deputy Accountant General
3	Charles Mulandi	Senior Assistant Director Supply Chain
4	William Mbaka	Senior Deputy Director Budget

**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021.**

d) Key Management

Ref	Position	Name
1	Fund Manager/ Administrator	Maj. Gen (Rtd) Dr. Gordon .O. Kihalangwa, CBS
2	Fund Accountant	CPA Moses Peterson Gitari Muriuki

e) Fund Offices

Ministry of Energy,
Kawi Complex,
Off Red Cross Rd, Nairobi.
P. O. Box 30582 – 00100 Nairobi Kenya
info@energy.go.ke
Tel: +254 (0) 20 4841000
Fax: +254 (0)20 2228314
Fax: +254 (0)20 2240910

f) Fund Contacts

Ministry of Energy,
Kawi Complex,
Off Red Cross Rd, Nairobi.
P. O. Box 30582 – 00100 Nairobi Kenya
info@energy.go.ke
Tel: +254 (0) 20 4841000
Fax: +254 (0)20 2228314
Fax: +254 (0)20 2240910

g) Fund Bankers

Kenya Commercial Bank Limited
P. O. Box 30012, 00100
Koinange Street Nairobi
Nairobi, Kenya

Credit Bank PLC
P.O BOX 61064, 00200
Koinange Street Branch
Nairobi, Kenya

**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021.**

h) Independent Auditors

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

i) Principal Legal Adviser

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

2. MANAGEMENT TEAM



**Maj. Gen (Rtd) Dr. Gordon
.O. Kihalangwa, CBS**

Maj. Gen (Rtd) Dr. Gordon .O. Kihalangwa, CBS joins the Ministry of Energy as the Principal Secretary from the State Department for Public Works. Before his posting in the Ministry of Energy, he served as the Director for Immigration services from 2014 until March 2018 when he was appointed as the Principal Secretary, State Department for Immigration and Citizen Services, in the Ministry of Interior and Coordination of National Government. He also had a short stint as Principal Secretary, Ministry of Defence in August 2019, he was reassigned in the same capacity to the State Department for Public Works in the Ministry of Transport, Infrastructure, Housing, Urban Development and Public Works in 2019.

Prior to joining the Civil Service, he worked in the Military which he joined as a Cadet Officer close to 40 years ago. He diligently served and worked his way through the ranks in the military and rose to the rank of Major General and was appointed to the position of Assistant Chief of General Staff in-charge of Personnel and Logistics. He retired as a Major General in 2014 after close to 33 years of Service.

During his time in the Military, Maj. Gen (Rtd) Dr. Kihalangwa underwent various military courses and Strategic Leadership training, locally and internationally. He is an Alumni of the National Defence College (K), National Defence College 'ensp' (RSA) and Defence Staff College (K). He holds a PhD and a Master's degree in International Studies and Diplomacy from Washington International University (WIU) in the United States of America. He further holds a Diploma in Strategic Studies and a Diploma in International Studies both from the University of Nairobi (UoN).

**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021.**



**CPA Moses Peterson Gitari
Muriuki
Senior Deputy Accountant
General**

CPA Moses Gitari is the Head of Accounting Unit, Ministry of Energy. He holds an MBA in Strategic Management from The University of Nairobi and BBA in Accounting and Finance from KEMU.

Mr Gitari is a practicing Accountant and a member of Institute of Certified Public Accountants of Kenya (ICPAK). He has vast experience in Accounting Systems Implementation and Business process re-engineering.

He has previously worked in the Ministry of Health as an Accountant and at the National Treasury IFMIS Department as the Head of business process re-engineering



**Mr William O. Mbaka
Senior Deputy Director Budget**

Mr. William O. Mbaka is currently Head of Finance in the Ministry of Energy at the grade of Senior Deputy Director of Budget. He is also serving as the Chairman of Energy Task force on the implementation of Energy Act 2019.

He has served in the Civil Service for 30 years and in particular as a Head of Finance for 18 years. He has served in various ministries which includes; National Treasury, Housing, Agriculture, Health, Planning and Labour, among others.

Mr Mbaka has also served as an Alternate Director in various State Corporations including Nzoia Sugar Company, Kenya Sugar Board, Sony Sugar Company and Coast Development Authority and currently is serves as an Alternate Director at Kenya Generating Electricity Company (KENGEN).

He holds an MBA in Finance from Birmingham University (UK), A degree in Business Studies from Kenyatta University and an ACCA qualification

**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021.**



Mr Charles M. Mulandi
Assistant Director Supply Chain
& Management

Mr. Charles M. Mulandi is the Head of Supply Chain Management Unit. He holds an MSC (Procurement and Contract Management) from JKUAT, MBA (Finance) and Bachelor of Laws (LLB) both from the University of Nairobi and Bachelor of Business Management (Finance) from Moi University. Mr. Mulandi also holds a Post Graduate Diploma in Procurement and Supply from the Chartered Institute of Purchasing and Supply (CIPS,UK), a Postgraduate diploma in Law from the Kenya School of Law and is Certified Public Accountant of Kenya(CPA) Finalist.

Mr. Mulandi is a member in good standing of KISM, CIPS and the Law Society of Kenya being an advocate of the High Court of Kenya. He has a wealth of experience in Public Procurement having served in different capacities within the Supply Chain Management Services cadre in the Public service for over 17 years..

**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021.**

3. REPORT OF THE FUND MANAGER/ ADMINISTRATOR

It is my pleasure to present the Kenya Energy Sector Environment and Social Responsibility Programme Fund financial statements for the year ended 30th June 2021. The financial statements present the financial performance of the fund over the past year.

The fund was established on 17 October 2007, through Legal Notice No.188 and collects contributions from other Government entities affiliated to the Ministry of Energy for production of wood fuel, power distribution poles and energy crops for production of bio fuels and growing of trees in order to conserve soil and preserve catchment areas for hydro-power dams.

Financial Performance

a) Revenue

In the year ended 30th June 2021, the fund utilized brought forward amount from prior year of Kshs. 184,972,509 and received an additional grant of Kshs. 55,000,000 obtained from KPLC, EPRA and Ministry of Energy. Out of the brought forward revenue and additional revenue, the fund was able to meet its obligations. In addition, the Fund received Kshs. 6,491,692 from interest income in actual revenues in the year.

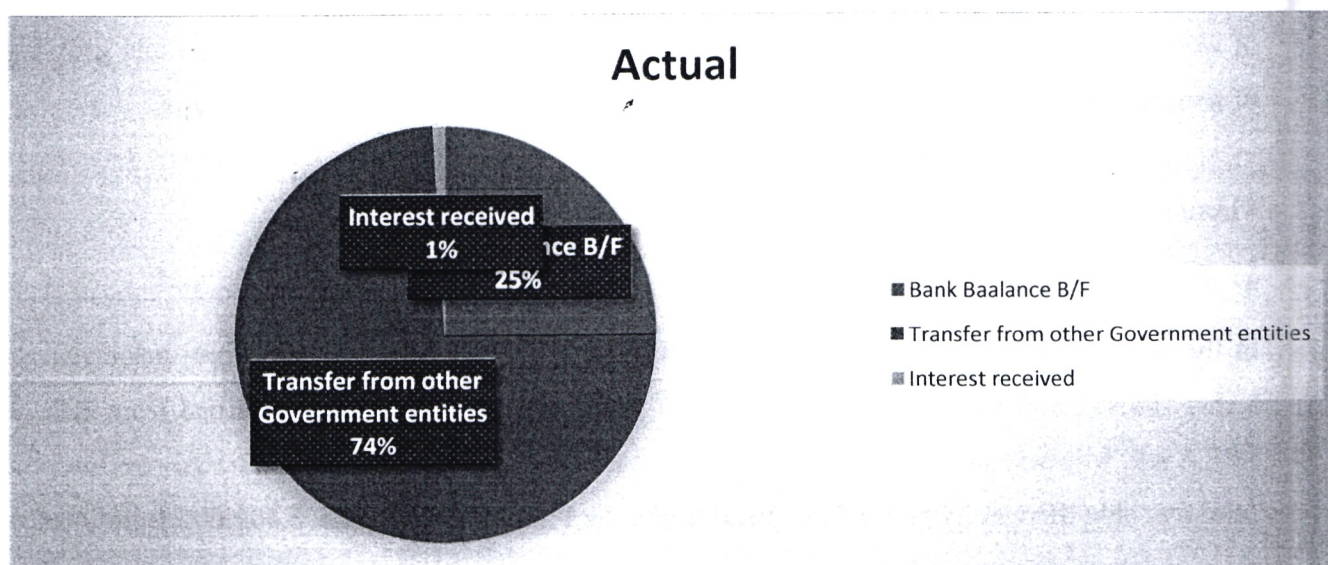
In the table below, we present an analysis of revenue performance during the year.

Revenue classification	Actual
Revenue	Kshs.
Bank Balance B/F	184,972,509
Transfer from other Government entities	55,000,000
Interest received	6,491,692
Total income	246,464,201

**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021.**

A graphical representation of the revenue is as shown below:

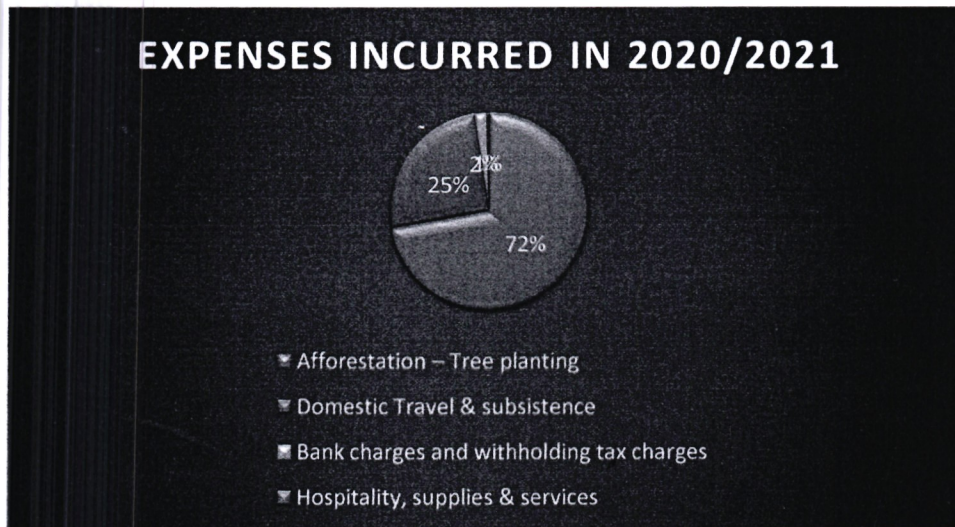
Revenues Received in 2020/2021



b) Expenditure

During the financial year 2020/2021, the fund had expenses amounting to Kshs. 65,025,306 resulting in over- utilization of Kshs. 10,025,306 (118%).. The following are tabular graphical representation of the actual expenses of Kshs. 65,025,306.

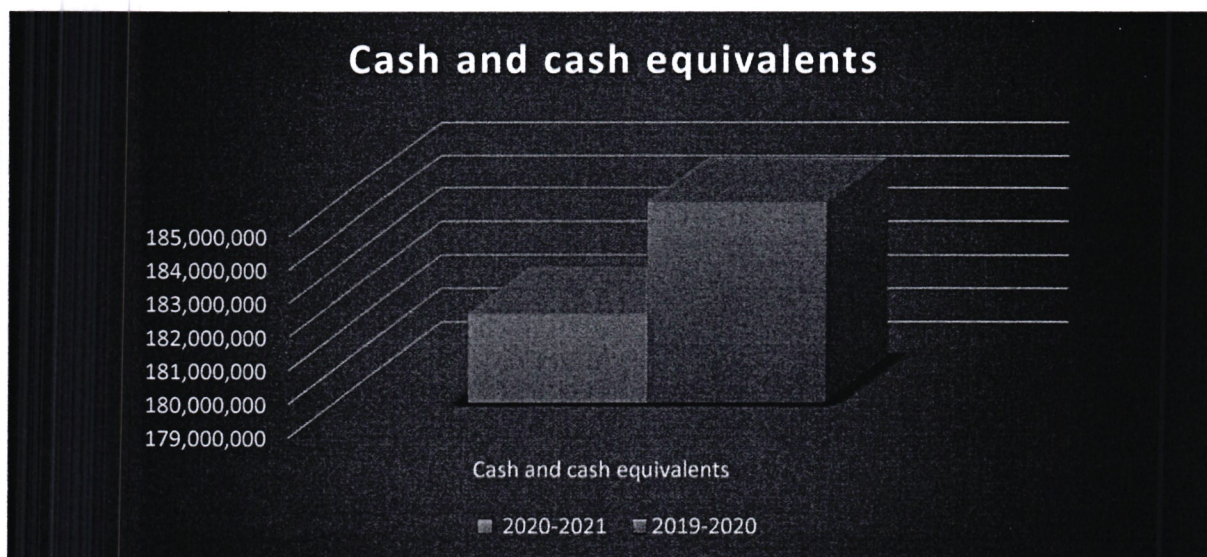
Description	Amount (Kshs.)
Afforestation – Tree planting	16,647,014
Domestic Travel & subsistence	46,936,187
Bank charges and withholding tax charges	1,272,121
Hospitality, supplies & services	169,984
Total	65,025,306



c) Cash flows

In the FY 2020/2021, we have not had any liquidity disruptions as the amount brought forward of Kshs. 184,972,509 was sufficient to meet the liquidity needs. In addition, the amounts received from other government entities (Ministry of Energy, KPLC, EPRA) kshs. 55,000,000 compared to prior year where kshs. 100,000,000 was received. The liquidity needs were sufficiently met. The cash and cash equivalents reduced from Kshs. 184, 972,5098 as at 30th June 2020 to Kshs. 181,657,340 as at 30th June 2021.

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



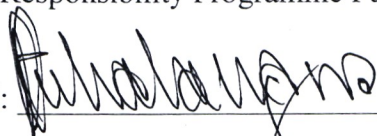
**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021.**

d) Conclusion

FY 2020/2021 was a good year in general. Good progress was made and the momentum has been created to enable Kenya Energy Sector Environment and Social Responsibility Programme Fund continue on a trajectory into prosperity. We have identified gaps and areas to improve on in the subsequent years.

I take this opportunity to thank the management team for their support. I would also want to thank all staff who we have worked hand in hand to ensure that Kenya Energy Sector Environment and Social Responsibility Programme Fund achieves its mission.

Signed: _____



**Maj. Gen (Rtd) Dr. Gordon .O. Kihalangwa, CBS
FUND ADMINISTRATOR**

**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021.**

4. REPORT OF THE TRUSTEES/ FUND ADMINISTRATION COMMITTEE

The Trustees submit their report together with the audited financial statements for the year ended June 30, 2021, which show the state of the Fund affairs.

4.1 Principal activities

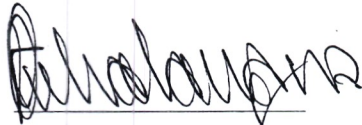
The principal activities of the Fund continue to be supporting production of bio fuels and growing of trees in order to conserve oil

4.2 Performance

The performance of the Fund for the year ended June 30, 2021, are set out on page 17 to 30.

4.3 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.



Fund Administrator

Maj. Gen (Rtd) Dr. Gordon .O. Kihalangwa, CBS



Fund Accountant

CPA Moses Peterson Gitari Muriuki

ICPAK Number: 4204

5. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 require the Fund Administrator to prepare financial statements in respect of that Kenya Energy Sector Environment & Social Responsibility Fund, which give a true and fair view of the state of affairs of the entity at the end of the financial year and the operating results of the Kenya Energy Sector Environment & Social Responsibility Fund for that year. The Fund Administrator is also required to ensure that the Kenya Energy Sector Environment & Social Responsibility Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Fund Administrator is also responsible for safeguarding the assets of the Kenya Energy Sector Environment & Social Responsibility Fund.

The Fund Administrator of the Kenya Energy Sector Environment & Social Responsibility 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, 2021. 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 Fund Administrator of the Kenya Energy Sector Environment & Social Responsibility 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 Fund Administrator of the Kenya Energy Sector Environment & Social Responsibility 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, 2021, and of the Fund's financial position as at that date.

**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021.**

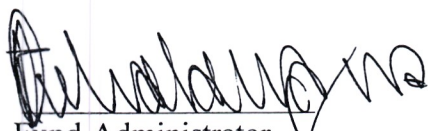
The Fund Administrator further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.


In preparing the financial statements, the Fund Administrator of the Kenya Energy Sector Environment & Social Responsibility 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 Fund Administrator to indicate that the that Kenya Energy Sector Environment & Social Responsibility 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

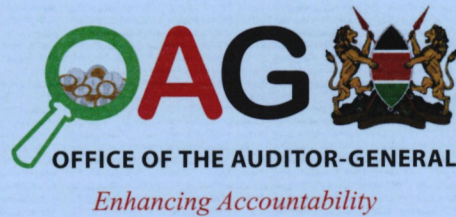
The Kenya Energy Sector Environment & Social Responsibility Fund's financial statements were approved by the Fund Administrator on 9-9- 2021 and signed on its behalf by:


Fund Administrator
Maj. Gen (Rtd) Dr. Gordon .O. Kihalangwa, CBS


Fund Accountant
CPA Moses Peterson Gitari Muriuki
ICPAK Number: 4204

REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA ENERGY SECTOR ENVIRONMENT AND SOCIAL RESPONSIBILITY PROGRAMME FUND FOR THE YEAR ENDED 30 JUNE, 2021 - MINISTRY OF ENERGY

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, gazetted 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 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 control, 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 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 Kenya Energy Sector Environment and Social Responsibility Programme Fund set out on pages 17 to 29, which

Report of the Auditor-General on Kenya Energy Sector Environment and Social Responsibility Programme Fund for the year ended 30 June, 2021 - Ministry Of Energy

comprise the statement of financial position as at 30 June, 2021, 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Energy Sector Environment and Social Responsibility Programme Fund as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the Government Financial Management (Kenya Energy - Sector Environment and Social Responsibility Programme Fund) Regulations, 2007.

Basis for Qualified Opinion

Overstatement of Domestic Travel Expenses

The statement of financial performance reflects Kshs.65,025,306 on use of goods and services and as disclosed in Note 3 to the financial statements, the amount includes Kshs.16,647,014 in respect of domestic travel and subsistence expenses out of which an amount of Kshs.1,534,080 related to imprests issued to staff that had not been accounted as 30 June, 2021. Therefore, domestic travel and subsistence expenses were overstated by Kshs.1,534,080 and similarly, the accounts receivables were understated by the same amount.

Under the circumstances, the accuracy and validity of the domestic travel and subsistence expenditure of Kshs.16,647,014 for the year ended 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Energy Sector Environment and Social Responsibility Programme Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters 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

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total budgeted expenditure of Kshs.55,000,000 against actual expenditure of Kshs.65,025,306, resulting to over expenditure of Kshs.10,025,306 or 18% of the budgeted amount.

The Management has attributed the overspending to availability of funds that were under-utilized in the previous financial year.

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 matter 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

Low Contribution to the Fund

The projected contributions by eight (8) Agencies for the ten-year period towards the Fund, based on the 2019-2029 Action Plan, revealed that out of the expected contribution of Kshs.1,082,000,000, only Kshs.155,000,000 or 14% was realized from three (3) Agencies including the Ministry of Energy, Kenya Power and Lighting Company Limited and Energy and Petroleum Regulatory Authority as detailed below;

No.	Organization	Proposed Phase Two Allocation (2019-2029) (Kshs.)	Contribution Allocation for 2 years (Kshs.)	2019/2020 (Kshs.)	2020/2021 (Kshs.)	Total Contribution (Kshs.)	Deficit in Contribution (Kshs.)
1	Ministry of Energy (MOE)	659,000,000	131,800,000	100,000,000	50,000,000	150,000,000	(18,200,000)
2	Kenya Electricity Transmission Company	5,000,000	1,000,000	-	-	-	1,000,000
3	Geothermal Development Company	54,000,000	10,800,000	-	-	-	10,800,000
4	Nuclear Power and Energy Agency	12,000,000	2,400,000	-	-	-	2,400,000
5	Kenya Power and Lighting	10,000,000	2,000,000	-	1,000,000	1,000,000	1,000,000

No.	Organization	Proposed Phase Two Allocation (2019-2029) (Kshs.)	Contribution Allocation for 2 years (Kshs.)	2019/2020 (Kshs.)	2020/2021 (Kshs.)	Total Contribution (Kshs.)	Deficit in Contribution (Kshs.)
	Company Limited						
6	Energy and Petroleum Regulatory Authority	20,000,000	4,000,000	-	4,000,000	4,000,000	-
7	Kenya Electricity Generating Company	10,000,000	2,000,000	-		-	2,000,000
8	Rural Electrification & Renewable Energy Corporation	54,000,000	10,800,000	-		-	10,800,000
	Total	1,082,000,000	216,400,000	100,000,000	55,000,000	155,000,000	61,400,000

No explanation was given as to why the other five Agencies were not contributing in accordance with the agreement.

Consequently, the non-contribution to the Fund by the other five Agencies is a violation terms of the agreement and may impact negatively on the operations of the Fund and its ability to achieve the intended goals and objectives.

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 audit procedures performed, 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

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.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to terminate the Fund or to cease operation.

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 Fund's financial reporting process, reviewing the effectiveness of how the 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 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 and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control 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 noncompliance. 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

25 April, 2022



**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021.**

7. FINANCIAL STATEMENTS

7.1 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2021.

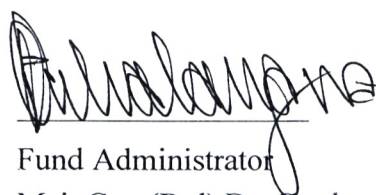
	Note	2019-2020	2019-2020
		Kshs.	Kshs.
Revenue from non-exchange transactions			
Transfer from other government entities	1	55,000,000	100,000,000
Revenue from exchange transactions			
Interest income	2	6,491,692	3,424,411
Total revenue		61,491,692	103,424,411
Expenses			
Use of goods and services	3	65,025,306	36,336,600
Total expenses		65,025,306	36,336,600
(Deficit) / Surplus for the year		(3,533,614)	67,087,811

**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021.**

7.2 STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

		2020-2021	2019-2020
	Note	Kshs.	Kshs.
Assets			
Current assets			
Cash and cash equivalents	4	181,657,340	184,972,509
Accounts Receivables – Interest Income		1,754,150	1,972,595
Total assets		183,411,490	186,945,104
Net assets			
Accumulated surplus		183,411,490	186,945,104
Total net assets and liabilities		183,411,490	186,945,104

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 9-9-2021 and signed by:



Fund Administrator
Maj. Gen (Rtd) Dr. Gordon .O. Kihalangwa, CBS



Fund Accountant
CPA Moses Peterson Gitari Muriuki
ICPAK Number: 4204

**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021**

7.3 STATEMENT OF CHANGES IN NET ASSETS AS AT 30 JUNE 2021

	Accumulated Surplus
	Kshs.
Balance as at 1 July 2019	118,921,657
Total comprehensive income	67,087,811
Prior year adjustment	935,636
Balance as at 30 June 2020	186,945,104
At July 1, 2020	186,945,104
Total comprehensive income	(3,533,614)
Balance as at 1 July 2021	183,411,490

**Kenya Energy Sector Environment & Social Responsibility Programme Fund
Reports and Financial Statements
For the year ended June 30, 2021.**

7.4 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	2019-2020	2019-2020
		Kshs.	Kshs.
Cash flows from operating activities			
Receipts			
Transfer from other government entities	1	55,000,000	100,000,000
Interest income	2	6,491,692	3,424,411
Total Receipts		61,491,692	103,424,411
Payments			
Use of goods and services	3	65,025,306	36,336,600
Total payments		65,025,306	36,336,600
Net cash flows (used in) /from operating activities		(3,533,614)	67,087,811
Adjustments			
Prior year adjustment			935,636
Decrease/(Increase) in Account Receivables		218,445	(1,972,595)
Total adjustments		218,445	(1,036,959)
Net (decrease)/ increase in cash and cash equivalents		(3,315,169)	66,050,852
Cash and cash equivalents at 1 July		184,972,509	118,921,657
Cash and cash equivalents at 30 June	5	181,657,340	184,972,509

7.5 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2021.

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilization
	2021	2021	2021	2021	2021	2021
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
Revenue						
Transfer from other government entities	55,000,000	-	55,000,000	55,000,000	-	-100%
Total income	55,000,000	-	55,000,000	55,000,000	-	
Expenses						
Use of goods and services	55,000,000	-	55,000,000	65,025,306	-10,025,306	118%
Total expenditure	55,000,000	-	55,000,000	65,025,306	-10,025,306	
Surplus for the Year	-	-	-	-10,025,306		

**Kenya Energy Environment & Social Responsibility Programme Fund (KEEP)
Reports and Financial Statements
For the year ended June 30, 2021.**

7.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation

The Kenya Energy Sector Environment & Social Responsibility 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. The financial statements are prepared on accrual basis.

2. Adoption of new and revised standards

a) Early adoption of standards

The Fund did not early – adopt any new or amended standards in year 2020.

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.

**Kenya Energy Environment & Social Responsibility Programme Fund (KEEP)
Reports and Financial Statements
For the year ended June 30, 2021.**

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Budget information

The original budget for FY 2020/2021 was approved by the National Assembly on June 2020. 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.

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.

2. Changes in accounting policies and estimates

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

3. Related parties

The Kenya Energy Sector Environment & Social Responsibility Fund regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors/ Trustee, the Fund Managers and Fund Accountant.

**Kenya Energy Environment & Social Responsibility Programme Fund (KEEP)
Reports and Financial Statements
For the year ended June 30, 2021.**

4. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

5. Comparative figures

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

6. Events after the reporting period

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

7. Ultimate and Holding Entity

The Kenya Energy –Sector Environment & Social Responsibility Programme Fund was established by the Public Finance Management (Kenya Energy- Sector Environment and Social Responsibility Programme Fund, Regulations,2007, through Legal Notice No. 188 of 2007. The Fund is under the supervision of Ministry of Energy.

The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is supporting production of bio fuels and growing of trees in order to conserve soil.

8. Currency

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

9. 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

**Kenya Energy Environment & Social Responsibility Programme Fund (KEEP)
Reports and Financial Statements
For the year ended June 30, 2021.**

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, as well as trade and other receivables, and available-for-sale financial investments.

Management assesses the credit quality of each customer, considering its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the entity's management based on prior experience and their assessment of the current economic environment.

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	Fully performing Kshs
At 30 June 2021		
Bank balances	181,657,340	181,657,340
Total	181,657,340	181,657,340
At 30 June 2020		
Bank balances	184,972,509	184,972,509
Total	184,972,509	184,972,509

b) Market risk

The Fund 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.

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

**Kenya Energy Environment & Social Responsibility Programme Fund (KEEP)
Reports and Financial Statements
For the year ended June 30, 2021.**

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.

c) 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 entity'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.

d) 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:

**Kenya Energy Environment & Social Responsibility Programme Fund (KEEP)
Reports and Financial Statements
For the year ended June 30, 2021.**

8. NOTES TO THE FINANCIAL STATEMENTS

1. Transfer from other government entities

Description	2020-2021	2019-2020
	KShs	KShs
Unconditional grants		
Ministry of Energy	50,000,000	100,000,000
KPLC	1,000,000	-
EPRA	4,000,000	-
Total government grants and subsidies	55,000,000	100,000,000

2. Interest income

Description	2020/2021	2019/2020
	KShs	KShs
Interest income on bank deposits	6,491,692	2,903,632
Total	6,491,692	2,903,632

3. Use of Goods and Services

Description	2020/2021	2019/2020
	KShs	KShs
Domestic travel and subsistence	16,647,014	5,490,355
Afforestation –tree planting	46,936,187	29,222,555
Bank Charges	1,272,121	1,569,690
Hospitality, supplies and services	169,984	54,000
Total use of Goods and Services	65,025,306	36,336,600

**Kenya Energy Environment & Social Responsibility Programme Fund (KEEP)
Reports and Financial Statements
For the year ended June 30, 2021.**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Cash and cash equivalents

Description	2020/2021	2019/2020
	KShs	KShs
Current account	181,657,340	184,972,509
Total cash and cash equivalents	181,657,340	184,972,509

Detailed analysis of the cash and cash equivalents are as follows:

Financial institution	Account number	2020/2021	2019/2020
		KShs	KShs
a) Fixed deposits account			
Kenya Commercial bank		129,600,845	184,972,509
Credit Bank,		52,056,494	-
Grand total		181,657,340	184,972,509

5. Related Party Balances

Nature of related party relationships

Entities and other parties related to the entity 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.

Government of Kenya

The Government of Kenya is the principal shareholder of the Kenya Energy Sector Environment & Social Responsibility Fund holding 100% of the Fund's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external. Other related parties include:

- i) The National Government;
- ii) Ministry of Energy;
- iii) Other government entities
- iv) Key management personnel;

a) Related party transactions

	2020/2021	2019/2020
	KShs	KShs
Ministry of Energy	50,000,000	100,000,000
EPRA	4,000,000	-
KPLC	1,000,000	-

**Kenya Energy Environment & Social Responsibility Programme Fund (KEEP)
Reports and Financial Statements
For the year ended June 30, 2021.**

**9. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S
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	Status: <i>(Resolved / Not Resolved)</i>	Timeframe: <i>(Put a date when you expect the issue to be resolved)</i>
1257	Budgetary Control and Performance	The under absorption of the budget was affected by the Covid-19 pandemic	Resolved	N/A
1258	Low Production of Energy Crops for Bio-Fuels	Two energy crops namely Croton and Jatropha were identified and promoted for biodiesel production	Resolved	N/A


**Kenya Energy Environment & Social Responsibility Programme Fund (KEEP)
Reports and Financial Statements
For the year ended June 30, 2021.**

10. APPENDIX I: INTER-ENTITY TRANSFERS

KENYA ENERGY SECTOR ENVIRONMENT & SOCIAL RESPONSIBILITY PROGRAMME FUND (KEEP)			
FY 2020/2021			
<u>Development Grants</u>	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
Ministry of Energy	11/10/2020	50,000,000	2020/2021
EPRC	01/10/2020	4,000,000	2020/2021
KPLC	15/09/2020	1,000,000	2020/2021
Total		55,000,000	

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

Sign



Fund Administrator
Dr. Maj. Gen (Rtd) Dr. Gordon O. Kihalangwa, CBS

Sign



Fund Accountant
CPA Moses Peterson Gitari Muriuki
ICPAK Member Number: 4204