

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

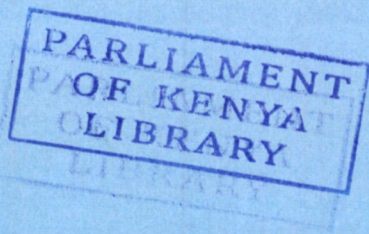
OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
MINISTRY OF ENERGY AND PETROLEUM

FOR THE YEAR ENDED
30 JUNE 2016



*Paper laid by
Magnum Party
Whip 24/5/17
JWS*





MINISTRY OF ENERGY AND PETROLEUM

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30th, 2016

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

MINISTRY OF ENERGY AND PETROLEUM
Reports and Financial Statements
For the year ended June 30, 2016 (Kshs.)

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I. MINISTRY OF ENERGY AND PETROLEUM KEY INFORMATION AND MANAGEMENT

(a) Background information

The Ministry of Energy was formed many years ago and on 20 May 2013, its name was changed to the Ministry of Energy and Petroleum through Executive Order No.2/2013 that outlined the Organisation of the Government of Kenya. At the cabinet level, the Ministry is represented by the Cabinet Secretary for Energy and Petroleum, who is responsible for the general policy and strategic direction of the Ministry.

(b) Key Management

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

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

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility were:

No	Designation	Name
1.	Cabinet Secretary, Ministry of Energy & Petroleum	Charles Keter,(MGH)
2.	Principal Secretary (Accounting Officer)	Dr. (Eng.) Joseph Njoroge, (CBS)
3.	Director of Administration	M.W.Mwangi,(MBS),(OGW)
4.	Senior Deputy Secretary	F.M.Ongaki
5.	Head of Finance	William Mbaka
6.	Head of Accounting Unit	Veronica W. Kamau
7.	Head of Supplies Chain	Mary Mwangi
8.	Chief Geologist	John M. Omenge

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No	Designation	Name
9.	Director Renewable Energy	Eng. Isaac Kiva
10.	Commissioner Petroleum	Martin M. Heya
11.	Director of HRM/D	Stephen Lusweti
12.	D./DHRD	Janerose Karanja
13.	SPSE	Eng. Julius M. Mwathani
14.	AD/ICT	Elijah Mumbo

(d) Fiduciary Oversight Arrangement

Fiduciary oversight activities of the Ministry were performed by the fiduciary management.

(e) Ministry of Energy and Petroleum Headquarters

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

(f) Ministry of Energy and Petroleum Contacts

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

(g) Ministry of Energy and Petroleum Bankers

- Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
NAIROBI, KENYA
- Kenya Commercial Bank
Kipande Branch
NAIROBI, KENYA
- Equity Bank
Kenyatta Avenue
NAIROBI, KENYA

(h) Independent Auditors

Auditor-General

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

- (i) Principal Legal Adviser**
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
NAIROBI, KENYA

II. FORWARD BY THE CABINET SECRETARY

A. Policy and Legislative Changes/New Strategic Initiative

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

B. Overview of Accomplishment and Challenges

Electricity contributes about 9% of Kenya's energy needs with the remainder from biomass (68%), petroleum (22%) and all others (<1%). However, it is the most sought for commercial energy service, with per capita consumption estimated at 150 kilowatt hours (KWh) and national access is about 30% both of which are below the average for developing countries. The growth in electricity has been affected by constrained supply, inadequate transmission capacity and high technical losses at both transmission and distribution levels. This has had an adverse effect on both reliability of supply and cost of electricity.

C. Budget Performance vs Actual Amounts

During the year 2015/2016, the Ministry received a total budget of Ksh.96.8Billion out of which, Kshs.2.1Billion was recurrent estimates while Kshs.94.7Billion was development estimates. The actual expenditure for the year amounted to Kshs.2Billion recurrent and Kshs.71.5Billion development, both totalling to Ksh.73.6Billion, representing 76% absorption.

The tables below provides a summary of expenditure according to economic classification and programmes:

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Expenditure According to Programmes:

Programme	Approved Estimates Kshs	Actual Expenditure Kshs	Budget Utilisation %
0211010 SP1 Administrative Services	359,490,956	286,092,534	80
0211020 SP2 Planning and Project Monitoring	28,580,175	26,017,345	91
0211030 SP3 Financial Services	48,191,197	45,933,105	95
0211000 P 1 General Administration Planning and Support Services	436,262,328	358,042,984	82
0212010 SP1 Geothermal generation	15,633,062,836	14,334,822,374	92
0212020 SP2 Development of Nuclear Energy	610,485,000	610,485,000	100
0212030 SP3 Coal Exploration and Mining	714,788,004	464,757,406	65
0212000 P2 Power Generation	16,958,335,840	15,410,064,780	91
0213010 SP1 National Grid System	64,182,735,957	40,962,731,169	64
0213020 SP2 Rural Electrification	12,744,673,612	14,807,323,130	116
0213000 P3 Power Transmission and Distribution	76,927,409,569	55,770,054,299	72
0214010 SP1 Alternative Energy Technologies	884,334,090	554,703,526	63
0214000 P4 Alternative Energy Technologies	884,334,090	554,703,526	63
0215010 SP1 Oil and gas exploration	1,266,372,385	1,139,062,831	90
0215020 SP2 Distribution of petroleum and gas	326,009,600	326,009,600	100
0215000 P5 Exploration and Distribution of Oil and Gas	1,592,381,985	1,465,072,431	92
Total Expenditure for Vote 1151 Ministry of Energy and Petroleum	96,798,723,812	73,557,938,019	76

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Expenditure According to Economic Classification

Economic Classification	Approved Estimates Kshs	Actual Expenditure Kshs	Budget Utilization %
Current Expenditure	2,090,126,466	2,014,506,462	96
Compensation of Employees	347,223,537	318,044,466	92
Use of Goods and Services	191,695,873	162,033,343	85
Current Transfers to Government Agencies	1,526,578,612	1,526,578,612	100
Other Recurrent Expenditure	24,628,444	7,850,041	32
Capital Expenditure	94,708,597,346	71,543,431,557	76
Acquisition of Non-Financial Assets	58,125,282,132	35,146,586,454	60
Capital Grants to Government Agencies	35,465,993,516	35,459,993,516	100
Other Development Expenditure	1,117,321,698	936,851,587	84
Total Expenditure	96,798,723,812	73,557,938,019	76

D. Key Achievements 2015-16 FY

This budgetary allocation enabled the Ministry to achieve the following:

1. Power Generation

To boost power generation capacity the Ministry carried out the following activities:

a) New Installed Electricity Generation Capacity in 2015/2016

By the end of June 2016, 118MW of new generation capacity installed from 1st July 2015 to 30th June 2016, increasing the total generation capacity to 2341MW. The following power plants were constructed:

- 77MW from Triumph MSD in July 2015
- Additional 6MW from Triumph MSD in April 2016;
- 24MW in December 2015 of Geothermal Well Head from Orpower IV;
- Additional 5MW Geothermal Well Head from Orpower IV in February 2016;
- 5MW of Geothermal from KenGen WH37; and
- 2MW of Biogas from Biojoule Kenya Limited both of which were commissioned in January 2016.

Other major projects which were ongoing and some almost complete includes:

- Olkaria I - Unit 670MW Geothermal
- 70MW KenGen Wellhead Generation Geothermal;
- 100MW Meru Wind;

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- 140 MW Olkaria V- units 1&2;
 - 140MW Olkaria VI - units 1&2;
 - 105MW Menengai Geothermal;
 - 60MW Menengai Geothermal;
 - 51MW Olkaria I Refurbishment Geothermal;
 - 1050 MW Lamu Coal Fired Power plant
 - 300MW Lake Turkana wind power plant;
- b) 7 geothermal wells were drilled.
- c) 137MW of steam for geothermal production was availed.
- d) Continued facilitation for the geothermal development in Kenya in different part of Kenya.
- e) Continued facilitation for the development of 1050MW and 960MW coal power plants in Lamu and Kitui respectively.
- f) Trained 86 Kenyans on nuclear related courses in readiness for the nuclear development in the country. Under the same about 30 public awareness forums were held.

2. Transmission and Distribution

The Ministry carried out the following activities during the period 2015-16 FY.

- a) 402Km of transmission lines was constructed. Notable major transmission lines and associated substations completed include:
- 328km 220kV line and substations at Malindi, Garsen and Lamu
 - 250Km of 250Km 132kV Kindaruma-Mwingi-Garissa transmission line;
 - 65Km of 65Km 132kV Eldoret-Kitale transmission line; and
 - 67 km 132kV Kilimambogo- Thika Transmission Line
 - 40km 132kV Thika – Nyaga (Kiganjo) Transmission Line
- b) 69 substations were completed between 2012/13 to march 2016. 15 transmission substations were constructed.
- c) The number of customer connected to electricity increased by 1,253,196 bringing the total number of customers connected to the electricity to 4,865,100 and access rate to rate of 55%.
- d) 3,862 Km of new distribution lines was expanded.
- e) 23 distribution substations were constructed
- f) A total of 3,622 public primary schools were connected with electricity. 779 were solar powered whereas 2,843 were connected to the grid.
- g) 35,521 lighting points were installed under the street lighting programme.
- h) 1,159 other public institutions were connected to electricity, 1,051 to the grid and 108 connected with solar PVs.
- i) 2 Off grid Power Generation Stations were constructed

3. Renewable and Alternative Energy Technologies

- a) 1 community small hydropower hydro power projects was constructed
- b) 1 institutional biogas plants was constructed and commissioned.
- c) 608 hectares of land of degraded hydropower dams catchment areas and water towers were planted with trees and maintained.
- d) 50 institutions were provided with improved cooking stoves and sustainable charcoal kilns.
- e) 17 investment Grade Audits and General Audits were undertaken and implemented.
- f) 1 Biofuel value-chain addition study was carried out.
- g) 12,000 No. of promotional/ awareness brochures on renewable energy technologies were produce, printed and distributed.
- h) 12 number of wind masts and data loggers were installed.

4. Oil and Gas Exploration Distribution and Marketing

- a) 12 new petrol stations were constructed by NOCK
- b) 145 officers were trained under The Kenya Petroleum Technical Assistance Project (KEPTAP)
- c) Phase I & II of the Hoima-Lokichar-Lamu Crude oil pipeline
Phase I involves crude oil pipeline routing while Phase II is Extended Pre-FEED (Front End Engineering Design):
 - Sight International made a presentation on 3rd November 2015 on the use of sophisticated protective solutions for high threat environments to secure the pipeline during construction and operation.
 - Rafael Advanced Defense Systems Ltd, a defense company wholly owned by the Government of Israel, made a presentation on 3rd November 2015 on how to protect people and property, and in particular, on ensuring security during construction and operation of the crude oil pipeline;
 - International Finance Corporation (IFC) organized a half-day workshop in Nairobi on 9th September 2015 to share their experiences on similar projects in which they had participated. The workshop was attended by government officers from Kenya and Uganda.
 - Technical Committee and Project Steering Committee meetings were held in August 2015 and December 2015;
 - Northern Corridor Integrated Projects Summit meetings was held in on 17th October and 10th December 2015
 - Review of the Hoima-Lokichar-Lamu route to terminate at the planned Lamu Port and site visit to Lamu Port was undertaken on 12th January 2016.
 - Kenya Technical Committee consultative meetings was held between 4th and 18th March, 2016 and necessary maps and presentations for the Heads of State meeting which was held on 21st March 2016 were prepared.
 - Meetings between Kenya and Uganda were held on 22nd March, 2016 to review the pipeline route options.

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- Due diligence on the ports and pipeline routes commenced on 23rd March, 2016 and ended on 30th March 2016.
- The Kenya Joint Venture (Tullow and Africa Oil) awarded Wood Group Kenya (WGK) the contract to carry out Pre-FEED under which the North Route was optimized.
- TTC intends to review the WGK optimized route in comparison with the Consultant's North Route. The TOR for FEED were prepared as part of the Feasibility/Pre-FEED Study.
- Construction of the electric power transmission line to service key LAPSSET Corridor areas such as Garissa, Isiolo and Turkana had commenced which includes:
 - Construction of the 220kV Rabai-Lamu transmission line completed.
 - Construction of 220kV transmission line from Garsen to Garissa.
 - Construction of Masinga-Isiolo 132kV transmission line was ongoing.
 - Kamburu-Isiolo 220kV transmission line was in progress.
 - Construction of a 132kV transmission line from seven-folks/Kindaramua to Garissa was ongoing.
 - Construction of a 132kV transmission line from Mount Kenya to Isiolo is in progress.
 - Preparation for construction of 400kV from L. Turkana to Suswa was at an advanced stage.
 - Lamu-Garissa-Isiolo-Lokichar 220kV transmission line was at an advanced stage.

d) Mombasa – Nairobi Oil Pipeline (Line 5)

The following was status of Line 5 as at 30th June 2016.

- Mainline pipes totaling 458.322km had been delivered to site;
- A total of 433.5 km right of way surveyed cleared and graded;
- A total of 432.43 km of pipes stringing along the right of way had been completed;
- 391.64 km of pipe has been welded;
- A total of 32,970 Non-destructive testing (NDT) of welded joints was done;
- A total of 15,343 joints were coated and holiday tested;
- A total of 155.805 km of pipe was lowered and 152.518 km backfilled;
- Setting out at pump stations PS 1, PS 2, PS 3, PS5 and PS 7 had been completed;
- Construction of control room and process area ongoing in PS 1, 3, 5 & 7; and
- Order for mainline pumps, pipelines and most of the valves, electrical and I&C equipment's have been confirmed with vendors.

Overall work progress was at 49% as at the end of 2015/16 FY.

e) Sinendet-Kisumu Oil Pipeline (Line 6)

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In 2015/16FY the construction works of 120km 10 inch diameter pipeline from Sinendet in Nakuru County to Kisumu was completed and the facility was commissioned and put into operation on 28th April, 2016.

Following the commissioning of the 120km 10-inch diameter Sinendet-Kisumu parallel line in April 2016, sufficient products are now available at Kisumu Depot to support the development of the oil jetty.

f) Ensure Security of Supply of Petroleum Products in the Country

The following activities aimed at ensuring continued security of supply of petroleum products in the country were undertaken:

i. Construction of additional refined products storage capacity through PPP model:

- The Ministry Liaised with the PPP unit at the National Treasury. RFP for LPG was developed as well as RFP for refined petroleum products in the country and forwarded to PPP unit for approval.
- The Ministry also held a workshop in Naivasha with the relevant stakeholders such as KPC, AG, ERC and KEPSA to refine the draft RFP for refined petroleum products in the country .The refined document was presented to the Principal Secretary of the Ministry for guidance on the way forward.

ii. Use of Common user LPG import handling and storage facilities in Mombasa.

The Ministry monitored the operations of the 14,000 tonnes Common user LPG import handling and storage facility in Miritini, Mombasa; and ensured both the tender terms and conditions and thru-put agreements were ready and were awaiting signing by the relevant OMCs;

iii. Adjudication of petroleum tenders and enforcement of OTS terms and conditions.

Projection of the petroleum product demand was done and a total of 112 tenders were invited, opened and awarded to winners within timelines. Further, the Ministry ensured compliance to the open tender system terms and conditions by referring defaulters in the Open tender system to ERC.

iv. Vessel scheduling committee meetings (VSM):

Twenty four (24) vessel scheduling meetings which schedules vessels in line with the product demand were held. The Ministry also ensured all petroleum

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ships both for SOT and KOT berthed on time to ensure security of supply of petroleum products as well as minimizing demurrage costs.

v. Supply Coordination Meeting:

The Ministry coordinated and hosted supply coordination meeting in the month of June 2016 to discuss industry supply issues.

vi. Ullage allocation:

The Ministry ensured that ullage was equitably shared to the participating OMCs. The sharing was on the basis of 100% throughput.

vii. Utilization of petroleum infrastructure in the country:

VTTI terminal at Kipevu, Mombasa

The Ministry:

- Incorporated cargoes for VTTI terminal in the tenders for those OMCs willing to take their products to the facility. The Ministry through VSM agreed on principles guiding receipt of products into VTTI terminal; and
- Coordinated several meetings on operationalization of VTTI terminal so as to ensure the facility is put into use. KPC is still working on the procurement process of the facility.

Petrocity terminal at Konza

The Ministry:

- Incorporated volumes for Petrocity terminal in the tenders. A total of twenty four (24) cargoes had top ups destined for Petrocity terminal. The unit through VSM agreed on principles guiding receipt of Top up materials into Petrocity terminal; and
- Completed the procurement process for leasing of Petrocity Terminal in Konza by KPC. The leasing agreement will be governed by a tripartite term storage contract (TSC) that will be signed between KPC, Petrocity and the OMCs. KPC kicked off operations of the Depot truck loadings and products receipt from 1st June 2016 successfully and that orders presented to KPC were being serviced effectively.

g) LPG Storage Facilities:

To enhance LPG access in the Country and increasing the access to quality and affordable cooking fuel LPG filling and Storage Plant in Nairobi and LPG Mini filling and storage terminal in Thika were completed. Civil works completed for LPG skid in Eldoret, Uasin Gishu County.

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h) Fuel storage Facilities:

Additional fuel storage capacity at Nairobi-KPC Terminal Construct four (4) tanks each with storage capacity of 33,328 cubic metres are ongoing.

i) Kenya Petroleum Refineries Limited (KPRL):

The following was achieved by the Ministry on the issue related to KPRL:

- Coordinated inter-ministerial meetings together with KPRL in view of assessing the technical and economic viability of Refinery;
- Co-ordinated Committee of experts which was formed to assess the technical and economic viability of Refinery. The utilization was low and at less than five (5) % of total refined; and
- Among the cargoes called, some cargoes had top ups for KPRL and others full standalone cargoes were called to discharge at KPRL terminal. Further KPRL earmarked one of the crude tanks to conversion to PMS Service. The capacity of this tank is 16,000 M³. This will ease the PMS ullage constraints hence ensuring security of supply.

j) Drilling of appraisal well(s) and extended well testing for field development studies:

The following operations were undertaken by Tullow Oil in Blocks 10BB and 13T:

Sidetracking (parallel drilling) of Amosing 5 well in Block 10BB:

- Amosing 5 well was spudded on 19th August and reached Total Depth (TD) of 1865m after sidetracking (parallel drilling). The sidetracked well intercepted 3 Oil bearing zones. Wire-line logging was done to determine formation characteristics.
- The Etom-2 well was spud November, 2015 and drilled to a depth of 1655m on Block 13T Drilling followed evaluation of 3D seismic that was shot after the Etom-1 well. The well encountered 102 m net pay of Oil.

Extended Well Testing (EWT) in Blocks 10BB and 13T:

- Extended Well Testing was done in Ngamia-8, Ngamia-7 and Twiga-1 to test the production potential of the field.
- Extended Well Testing for Ngamia-8 was done between early September and the 13th of November, 2015 for all the five (5) zones. Commingled production for zones 2, 3 and 4 was also done during the period under review. This confirmed production potential of the Ngamia field.

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Joint Field Development Plan (FDP) studies were ongoing.

- The studies are undertaken jointly by Tullow, MoE&P and NOCK at Tullow's U.K offices. The Ministry seconded three (3) technical officers for these studies in the U.K. The studies yielded a draft FDP report that has been submitted to the Ministry.
- Sub-surface evaluation for the input into the final FDP was ongoing.

k) Drilling of exploration well(s) in Petroleum Blocks:

Three (3) wells were drilled. The details are as below:

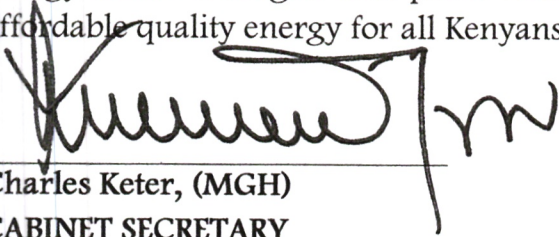
- Cheptuket 1 well in Kerio Valley Basin was spud on 28th December, 2015 in Block 12A by Tullow Oil and drilled to a total depth of 3,083m.
- The objective of the well was to establish a working petroleum system and test a structural closure in the south-western part of the basin. The well encountered good oil shows, seen in cuttings and rotary sidewall cores, across an interval of over 700 metres. Post-well analysis is on-going ahead of defining the future exploration programme in the basin;
- Emesek -1 was spud on 15th October, 2015 and drilled to a total depth of 3,000 m. The well didn't find commercial viable prospects but evaluation is still underway; and
- Tarach 1 well was spud on 28th April, 2016 in eastern part of Block 11A by Cepsa and drilled to a total depth of 3,010m. The well was a wild cat well with the objective of testing and establishing a working petroleum system within block 11A. The Tarach-1 well was designed to drill from a 20-inch surface casing through intermediate casings down to 2,442 meters and set a 7-inch liner down to total depth (TD) of 3,000 meters. The prospect was defined by four 2D seismic lines out of the 2014 survey. The structural trap is a 3-way dip closure against a north-south normal fault plane at 1,426 mMD and covering a surface area of 12 sqkm. Post-well analysis is on-going ahead of defining the future exploration programme in Block 11A.

l) Early Oil Monetization Project:

This aims at early commercialization of the crude oil discoveries made in Northern Kenya. The project is ongoing. The Government and the oil companies who have so far discovered crude oil in the South Lokichar Basin have agreed to conduct extended well tests with the objective of producing early oil from selected fields and transport it to Mombasa for export utilizing a road and rail infrastructure network. In order to facilitate the early oil project, the parties have also agreed to prepare and execute Early Oil Pilot Project Agreement to set out the terms and conditions for operationalizing the Project by June 2017.

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



Charles Keter, (MGH)
CABINET SECRETARY

III. STATEMENT OF MINISTRY'S MANAGEMENT RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer for a Ministry of Energy and Petroleum shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

The Accounting Officer in charge of the Ministry of Energy and petroleum is responsible for the preparation and presentation of the ministry's financial statements, which give a true and fair view of the state of affairs of the ministry for and as at the end of the financial year (period) ended on June 30, 2016 This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the ministry; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the ministry; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer in charge of the Ministry of Energy and Petroleum accepts responsibility for the ministry's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the Ministry's financial statements give a true and fair view of the state of Ministry's transactions during the financial year ended June 30, 2016, and of the Ministry's financial position as at that date. The Accounting Officer in charge of the Ministry of Energy and Petroleum further confirms the completeness of the accounting records maintained for the Ministry, which have been relied upon in the preparation of the Ministry's financial statements as well as the adequacy of the systems of internal financial control.

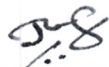
The Accounting Officer in charge of the Ministry of Energy and Petroleum confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for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

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

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Approval of the financial statements

The Ministry of Energy and Petroleum financial statements were approved and signed by the Accounting Officer on **30 December, 2016**



Principal Secretary



Chief Accountant

REPUBLIC OF KENYA

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NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON MINISTRY OF ENERGY AND PETROLEUM FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Ministry of Energy and Petroleum set out on pages 19 to 37, which comprise the statement of assets as at 30 June 2016 and the statement of receipts and payments, statement of cash flows, summary statements of appropriation recurrent and development combined, summary statement of provisioning 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such 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.

The 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of

Report of the Auditor-General on the Financial Statements of Ministry of Energy and Petroleum for the year ended 30 June 2016

the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

Land Without Title Deeds

As reported in previous year, the Ministry does not have title deeds for some of the parcels of land it owns totalling 40.11 hectares in size and valued at approximately Kshs.336,549,200. The land parcels are located at Kakamega, Kericho, Kisii, Kitui, Migori, Meru, Uasin Gishu and Nyeri. Particulars of the land parcels and their current conditions are as detailed below:-

No	Land Parcel	Hectares	Location	Approximate Value (Kshs)	Condition
1	Kericho Energy Centre	0.07	Kericho County	3,049,200	Developed and fenced
2	Kisii Energy Centre	4.00	Kisii County	160,000,000	Developed, fencing underway
3	Migori Energy Centre	0.40	Migori County	2,200,000	Developed but unfenced
4	Bukura Energy Centre	2.00	Kakamega County	3,500,000	Developed but unfenced
5	Uasin Gishu Energy Centre	0.80	Uasin Gishu County	12,000,000	Developed and fenced
6	Kitui Energy Centre	10.60	Kitui County	53,000,000	Partially developed, fencing underway
7	Wambugu Energy Centre	4.00	Nyeri County	80,000,000	Developed but unfenced
8	Mitunguu Energy Centre	18.24	Meru County	22,800,000	Only 2 hectares is developed and fenced off
	Total	40.11		336,549,200	

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

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Ministry of Energy and Petroleum as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Other Matter

1. Utilization of Mitunguu Energy Resource Centre

As previously reported in 2012/2013, the Ministry expended amounts totaling Kshs.44,636,192 to put up Mitunguu Energy Resource Centre with the completion and hand over date of 25 July 2013. As indicated in 2013/14 audit report, the viability of the Centre due to non-optimal utilization was questioned. The management in its response to the Public Accounts Committee (PAC) sitting committed to fully operationalize the Centre and provided a business plan. However information available indicate that the facility continue to remain idle as the business plan is yet to be implemented. Under the circumstances, it has not been possible to confirm whether there was value for money in respect of the expenditure incurred in putting up the Energy Centre to the tune of Kshs.44,636,192.

2. Budget Control and Performance

2.1. Budgetary Absorption

During the year under review, the approved final budget of the Ministry of Energy and Petroleum was Kshs.96,798,723,812 with Kshs.2,090,126,466 (2%) allocated to recurrent expenditure and the remainder Kshs.94,708,597,346 (98%) to development. Of the total approved budget, Kshs.73,557,938,019 (76%) was absorbed, resulting in under absorption of Kshs.23,240,785,793 (24%) as summarized below:

Receipt/Expense Item	Budget Allocation Kshs	Actual Kshs	Budget Utilisation Difference Kshs	% of Utilisation %
Compensation of Employees	359,423,537	327,665,540	31,757,997	91
Use of goods and services	1,290,817,571	955,197,343	335,620,228	74
Grants and Transfers to Other Government Entities	36,992,572,128	36,986,572,128	6,000,000	100
Other Grants and Transfers	6,000,000	6,000,000	-	100
Social Security Benefits	6,000,000	-	6,000,000	-
Acquisition of Assets	58,143,910,576	35,282,503,008	22,861,407,568	61
Total	96,798,723,812	73,557,938,019	23,240,785,793	76

The under absorption of approved budget is an indicator of non-implementation of activities and projects in the annual work-plan by the Ministry. This is likely to have negative impact on delivery of goods and services to the Kenyan citizens.

2.2. Development Budget

According to the Summary Statement of Appropriation-Development for the year ended 30 June 2016, the Ministry had a budgetary allocation of Kshs.94,708,597,346 for development projects of which Kshs.71,543,431,557 (76%) was expended resulting in under expenditure of Kshs.23,165,165,789 or 24% of budget as analysed below:

Expenditure Item	Budget Allocation Kshs	Actual Expenditure Kshs	Under Expenditure Kshs	% of Utilisation %
Compensation of Employees	12,200,000	9,621,074	2,578,926	79
Use of goods and services	1,099,121,698	793,164,000	305,957,698	72
Grants and Transfers to Other Government Entities	35,465,993,516	35,459,993,516	6,000,000	100
Other Grants and Transfers	6,000,000	6,000,000	-	100
Acquisition of Assets	58,125,282,132	35,274,652,967	22,850,629,165	61
Total	94,708,597,346	71,543,431,557	23,165,165,789	76

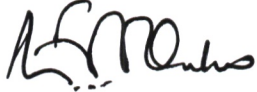
The under expenditure of Kshs.23,165,165,789 implies the Ministry did not implement or complete some of the projects as planned and hence the intended objectives for the year ended 30 June 2016 were not fully achieved.

2.3. Recurrent Budget

Similarly, the Summary Statement of Appropriation-Recurrent for the year under review shows that the Ministry had a recurrent budget of Kshs.2,090,126,466, while the actual expenditure was Kshs.2,014,506,462 (96%), resulting in under expenditure of Kshs.75,620,004 (4%) of budget. The under expenditure was on the following items:

Expenditure Item	Budget Allocation Kshs	Actual Expenditure Kshs	Under Expenditure Kshs	% of Utilisation %
Compensation of Employees	347,223,537	318,044,466	29,179,071	92
Use of goods and services	191,695,873	162,033,343	29,662,530	85
Grants and Transfers to Other Government Entities	1,526,578,612	1,526,578,612	-	100
Social Security Benefits	6,000,000	-	6,000,000	-
Acquisition of Assets	18,628,444	7,850,041	10,778,403	42
Total	2,090,126,466	2,014,506,462	75,620,004	96

Under utilization of budget results in non-provision of planned goods and services which negatively affects service delivery to the public.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

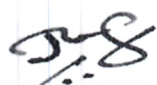
05 May 2017

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V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2015-2016 Kshs	2014-2015 Kshs
RECEIPTS			
Tax Receipts	1	6,036,765,622	5,048,612,000
Proceeds from Domestic and Foreign Grants	2	1,393,389	16,922,000
Exchequer Releases	3	35,152,766,855	26,554,754,000
Proceeds from Foreign Borrowings	4	31,956,874,802	23,968,999,000
Proceeds from Sale of Assets	5	3,708,707	1,733,000
Other Receipts	6	408,049,912	354,764,000
TOTAL RECEIPTS		73,559,559,287	55,945,784,000
PAYMENTS			
Compensation of Employees	7	327,665,540	300,864,000
Use of Goods and Services	8	955,197,343	694,549,000
Grants and Transfers to Other Government Entities	9	36,986,572,128	23,282,771,000
Other Grants and Transfers	10	6,000,000	5,257,000
Social Security Benefits	11	-	645,000
Acquisition of Assets	12	35,282,503,009	31,471,177,000
TOTAL PAYMENTS		73,557,938,019	55,755,263,000
SURPLUS		1,621,269	190,521,000

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Ministry's revised financial statements were approved on **30 December, 2016** and signed by:



Principal Secretary



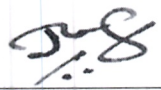
Chief Accountant

MINISTRY OF ENERGY AND PETROLEUM
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For the year ended June 30, 2016 (Kshs')

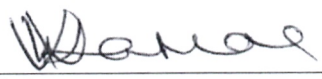
VI. STATEMENT OF ASSETS

	Note	2015-2016 Kshs	2014-2015 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	13A	132,663,901	1,264,170,000
Cash Balances	13B	114,348	133,000
Total Cash and Cash Equivalent		<u>132,778,249</u>	<u>1,264,303,000</u>
Accounts Receivables			
Outstanding Imprests	14	3,889,915	-
District Suspense		194,030	67,000
Salary and Other Advances		-	295,000
Rounding off Error		-	1,000
TOTAL FINANCIAL ASSETS		<u>136,862,194</u>	<u>1,264,666,000</u>
LIABILITIES			
Accounts Payable			
Deposits and Retentions	15	120,408,924	117,271,000
NET FINANCIAL ASSETS		<u>16,453,269</u>	<u>1,147,395,000</u>
REPRESENTED BY			
Fund balance b/fwd	16	1,147,395,000	1,284,553,000
Surplus/Deficit for the year		1,621,269	190,521,000
Prior Year Adjustments	17	<u>(1,132,563,000)</u>	<u>(327,679,000)</u>
NET FINANCIAL POSSITION		<u>16,453,269</u>	<u>1,147,395,000</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Ministry's revised financial statements were approved on **30 December, 2016** and signed by:



 Principal Secretary



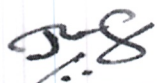
 Chief Accountant

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VII. STATEMENT OF CASHFLOW

	Note	2015-2016 Kshs	2014-2015 Kshs
CASHFLOW FROM OPERATING ACTIVITIES			
Receipts for Operating Income			
Tax Receipts	1	6,036,765,622	5,048,612,000
Proceeds from Domestic and Foreign Grants	2	1,393,389	16,922,000
Exchequer Releases	3	35,152,766,855	26,554,754,000
Other Receipts	6	408,049,912	354,764,000
Payments for Operating Expenses			
Compensation of Employees	7	(327,665,540)	(300,864,000)
Use of Goods and Services	8	(955,197,343)	(694,549,000)
Grants and Transfers to Other Government Entities	9	(36,986,572,128)	(23,282,771,000)
Other Grants and Transfers	10	(6,000,000)	(5,257,000)
Social Security Benefits	11	-	(645,000)
Adjusted for:			
Change in Receivables			
Increase in Outstanding Imprest		(3,889,915)	14,682,000
Increase in District Suspense		(127,030)	11,482,000
Decrease in Rounding off Error		1,000	
Decrease in Salary & Other Advances		295,000	1,548,000
Change in Payables			
Decrease in Deposits and Retention	16	3,137,924	65,726,000
Net cash Flow from Operating Activities		3,322,957,748	7,784,404,000
CASHFLOW FROM INVESTING ACTIVITIES			
Proceeds from Sale of Assets	5	3,708,707	1,733,000
Acquisition of Assets	12	(35,282,503,009)	(31,471,177,000)
Net cash Flows from Investing Activities		(35,278,794,302)	(31,469,444,000)
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	4	31,956,874,802	23,968,999,000
Net cash Flow from Financing Activities		31,956,874,802	23,968,999,000
NET INCREASE IN CASH AND CASH EQUIVALENT			
Cash and Cash Equivalent at BEGINNING of the Year	13A&B	1,264,303,000	1,308,023,000
Prior Year Adjustments	17	(1,132,563,000)	(327,679,000)
Cash and Cash Equivalent at END of the Year	13A&B	132,778,249	1,264,303,000

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Ministry's revised financial statements were approved on **30 December, 2016** and signed by:



Principal Secretary



Chief Accountant

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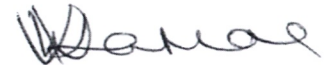
VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

Receipt/Expense Item	Original Budget (Kshs)	Adjustments (Kshs)	Final Budget (Kshs)	Actual on Comparable Basis (Kshs)	Budget Utilisation Difference (Kshs)	% of Utilisation
	a	b	c=a+b	d	e=d-c	f=d/c %
RECEIPTS						
Tax Receipts	6,826,200,000	(20,000,000)	6,806,200,000	6,036,765,622	(769,434,378)	89
Proceeds from Domestic and Foreign Grants (AIA)	214,252,604	(32,549,366)	181,703,238	1,393,389	(180,309,849)	1
Exchequer releases	30,763,230,030	6,675,466,890	37,438,696,920	35,152,766,855	(2,285,930,065)	94
Proceeds from Foreign Borrowings (AIA)	56,237,821,943	(4,285,698,289)	51,952,123,654	31,956,874,802	(19,995,248,852)	62
Proceeds from Sale of Assets (AIA)	3,580,000	-	3,580,000	3,708,707	128,707	104
Other Receipts (AIA)	416,420,000	-	416,420,000	408,049,912	(8,370,088)	98
TOTAL RECEIPTS	94,461,504,577	2,337,219,235	96,798,723,812	73,559,559,287	(23,239,164,525)	76
PAYMENTS						
Compensation of Employees	335,449,977	23,973,560	359,423,537	327,665,540	(31,757,997)	91
Use of goods and services	1,331,980,672	(41,163,101)	1,290,817,571	955,197,343	(335,620,228)	74
Grants and Transfers to Other Government Entities	25,101,057,800	11,891,514,328	36,992,572,128	36,986,572,128	(6,000,000)	100
Other Grants and Transfers	6,000,000	-	6,000,000	6,000,000	-	100
Social Security Benefits	-	6,000,000	6,000,000	-	(6,000,000)	-
Acquisition of Assets	67,687,016,128	(9,543,105,552)	58,143,910,576	35,282,503,008	(22,861,407,568)	61
TOTALS	94,461,504,577	2,337,219,235	96,798,723,812	73,557,938,019	(23,240,785,793)	76

(i) **Proceeds from Domestic and Foreign Grants (1% Utilization):** The underutilization was due to delays in project implementation.

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The revised financial statements were approved on **30 December, 2016** and signed by:


 Principal Secretary


 Chief Accountant

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IX. SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT

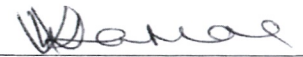
Receipt/Expense Item	Original Budget (Kshs)	Adjustments (Kshs)	Final Budget (Kshs)	Actual on Comparable Basis (Kshs)	Budget Utilisation Difference (Kshs)	% of Utilisation
	a	b	c=a+b	d	e=d-c	f=d/c %
RECEIPTS						
Tax Receipts	6,826,200,000	(20,000,000)	6,806,200,000	6,036,765,622	(769,434,378)	89
Proceeds from Domestic and Foreign Grants (AIA)	214,252,604	(32,549,366)	181,703,238	1,393,389	(180,309,849)	1
Exchequer releases	28,970,161,900	6,634,408,554	35,604,570,454	33,318,766,855	(2,285,803,599)	94
Proceeds from Foreign Borrowings (AIA)	56,237,821,943	(4,285,698,289)	51,952,123,654	31,956,874,802	(19,995,248,852)	62
Proceeds from Sale of Assets (AIA)	-	-	-	-	-	-
Other Receipts (AIA)	164,000,000	-	164,000,000	64,630,841	(99,369,159)	39
TOTAL RECEIPTS	92,412,436,447	2,296,160,899	94,708,597,346	71,378,431,509	(23,330,165,837)	75
PAYMENTS						
Compensation of Employees	12,200,000		12,200,000	9,621,074	(2,578,926)	79
Use of goods and services	1,154,182,697	(55,060,999)	1,099,121,698	793,164,000	(305,957,698)	72
Grants and Transfers to Other Government Entities	23,572,057,800	11,893,935,716	35,465,993,516	35,459,993,516	(6,000,000)	100
Other Grants and Transfers	6,000,000	-	6,000,000	6,000,000	-	100
Social Security Benefits	-	-	-	-	-	-
Acquisition of Assets	67,667,995,950	(9,542,713,818)	58,125,282,132	35,274,652,967	(22,850,629,165)	61
TOTALS	92,412,436,447	2,296,160,899	94,708,597,346	71,543,431,557	(23,165,165,789)	76

(i) **Proceeds from Domestic and Foreign Grants (1% Utilization):** The underutilization was due to delays in project implementation.

(ii) **Other Receipts (AIA) (39% Utilization):** The under-collection of AIA was due to overestimation.

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The revised financial statements were approved on **30 December, 2016** and signed by:


Principal Secretary


Chief Accountant

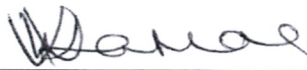
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X. SUMMARY VIII STATEMENT OF APPROPRIATION: RECURRENT

Receipt/Expense Item	Original Budget (Kshs)	Adjustments (Kshs)	Final Budget (Kshs)	Actual on Comparable Basis (Kshs)	Budget Utilisation Difference (Kshs)	% of Utilisation
	a	b	c=a+b	d	e=d-c	f=d/c %
RECEIPTS						
Tax Receipts (AIA)	-	-	-	-	-	-
Proceeds from Domestic and Foreign Grants (AIA)	-	-	-	-	-	-
Exchequer releases	1,793,068,130	41,058,336	1,834,126,466	1,834,000,000	(126,466)	100
Proceeds from Foreign Borrowings (AIA)	-	-	-	-	-	-
Proceeds from Sale of Assets (AIA)	3,580,000	-	3,580,000	3,708,707	128,707	104
Other Receipts (AIA)	252,420,000	-	252,420,000	343,419,071	90,999,071	111
TOTALS	2,049,068,130	41,058,336	2,090,126,466	2,181,127,778	91,001,312	104
PAYMENTS						
Compensation of Employees	323,249,977	23,973,560	347,223,537	318,044,466	(29,179,071)	92
Use of goods and services	177,797,975	13,897,898	191,695,873	162,033,343	(29,662,530)	85
Grants and Transfers to Other Government Entities	1,529,000,000	(2,421,388)	1,526,578,612	1,526,578,612	-	100
Other grants and transfers	-	-	-	-	-	-
Social Security Benefits	-	6,000,000	6,000,000	-	(6,000,000)	-
Acquisition of Assets	19,020,178	(391,734)	18,628,444	7,850,041	(10,778,403)	42
TOTALS	2,049,068,130	41,058,336	2,090,126,466	2,014,506,462	(75,620,004)	96

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The revised financial statements were approved on **30 December, 2016** and signed by:


 Principal Secretary


 Chief Accountant

XI. SUMMARY STATEMENT OF PROVISIONING

Details of General Accounts On Vote


	2015-2016 Kshs	2014-2015 Kshs
GAV Provisioning Account Balance	2,295,422,455	6,759,420,000
Total	<u>2,295,422,455</u>	<u>6,759,420,000</u>

Details of Exchequer Account

	2015-2016 Kshs	2014-2015 Kshs
Exchequer Provisioning Account Balance	2,285,930,065	6,912,286,000
Total	<u>2,285,930,065</u>	<u>6,912,286,000</u>



Principal Secretary



Chief Accountant

XII. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of Compliance and Basis of Preparation

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting and applicable government legislations and regulations. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Ministry of Energy and Petroleum. The accounting policies adopted have been consistently applied to all the years presented.

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts.

2. Recognition of Revenue and Expenses

The Ministry of Energy and Petroleum recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the Ministry. In addition, the Ministry recognises all expenses when the event occurs and the related cash has actually been paid out by the Ministry.

3. In-kind Contributions

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

4. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

5. Accounts Receivable

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

6. Accounts Payable

For the purposes of these financial statements, deposits and retentions held on behalf of third parties has been recognized as accounts payables. This is in recognition of the government

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practice of retaining a portion of contracted services and works pending fulfilment of obligations by the contractor and to hold deposits on behalf of third parties. This is an enhancement to the cash accounting policy adopted by National Government Ministries and agencies. Other liabilities including pending bills are disclosed in the financial statements.

7. Non-current Assets

Non-current assets are expensed at the time of acquisition while disposal proceeds are recognized as receipts at the time of disposal. However, the acquisitions and disposals are reflected in the Ministry of Energy and Petroleum fixed asset register a summary of which is provided as a memorandum to these financial statements.

8. Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they are recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Ministry of Energy and Petroleum at the end of the year. Pending bill form a first charge to the subsequent year budget and when they are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

9. Budget

The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The Ministry of Energy and Petroleum's budget was approved as required by Law and as detailed in the Government of Kenya Budget Printed Estimates. A high-level assessment of the Ministry of Energy and Petroleum's actual performance against the comparable budget for the financial year under review has been included in an annex to these financial statements.

10. Comparative figures

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

11. Subsequent events

Events subsequent to submission of the financial year end financial statements to the National Treasury and other stakeholders with a significant impact on the financial statements may be adjusted with the concurrence of National Treasury.

XIII. NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: TAX RECEIPTS

	2015-2016	2014-2015
	Kshs	Kshs
Taxes on Goods and Services	3,206,569,742	3,380,701,000
Royalties	554,195,880	667,911,000
Receipts from Permission to Use the Goods or to Perform the Services and Activities	2,276,000,000	1,000,000,000
Total	<u>6,036,765,622</u>	<u>5,048,612,000</u>

NOTE 2: PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

Name of Donor	2015-2016	2014-2015
	Kshs	Kshs
Grants Received from Bilateral Donors (Foreign Governments)		
Insert name of donor	1,393,389	16,922,000
Total	<u>1,393,389</u>	<u>16,922,000</u>

NOTE 3: EXCHEQUER RELEASES

	2015-2016	2014-2015
	Kshs	Kshs
Total Exchequer Releases for Quarter 1	4,557,633,525	1,792,425,000
Total Exchequer Releases for Quarter 2	8,645,328,155	12,702,519,000
Total Exchequer Releases for Quarter 3	7,024,828,275	8,094,680,000
Total Exchequer Releases for Quarter 4	14,924,976,900	3,965,309,000
Total	<u>35,152,766,855</u>	<u>26,554,754,000</u>

NOTE 4: PROCEEDS FROM FOREIGN BORROWINGS

	2015-2016	2014-2015
	Kshs	Kshs
Foreign Borrowing - Direct Payments	31,956,874,802	23,968,999,000
Total	<u>31,956,874,802</u>	<u>23,968,999,000</u>

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NOTE 5: PROCEEDS FROM SALE OF ASSETS

	2015-2016	2014-2015
	Kshs	Kshs
Receipts from the Sale of Inventories, Stocks and Commodities	3,708,707	1,733,000
Total	3,708,707	1,733,000

NOTE 6: OTHER RECEIPTS

	2015-2016	2014-2015
	Kshs	Kshs
Receipts from Incidental Sales by Non-Market Establishments	407,305,026	348,900,000
Receipts not Classified Elsewhere	744,886	5,864,000
Total	408,049,912	354,764,000

NOTE 7: COMPENSATION OF EMPLOYEES

	2015-2016	2014-2015
	Kshs	Kshs
Basic Salaries of Permanent Employees	215,542,189	195,937,000
Basic Wages of Temporary Employees	9,621,074	9,191,000
Personal Allowances Paid as Part of Salary	102,502,277	95,736,000
Total	327,665,540	300,864,000

NOTE 8: USE OF GOODS AND SERVICES

	2015-2016	2014-2015
	Kshs	Kshs
Utilities, Supplies and Services	9,995,777	10,882,000
Communication, Supplies and Services	12,046,610	13,380,000
Domestic Travel and Subsistence, and Other Transport Costs	26,448,882	17,078,000
Foreign Travel and Subsistence, and other Transport Costs	7,490,337	8,958,000
Printing , Advertising and Information Supplies	11,008,582	10,192,000
Rentals of Produced Assets	9,355,129	8,585,000
Training Expenses	296,816,918	263,436,000
Hospitality Supplies and Services	115,592,914	102,770,000
Specialised Materials and Supplies	10,216,174	15,636,000
Office and General Supplies and Services	18,630,807	14,787,000
Fuel Oil and Lubricants	8,540,177	9,319,000
Other Operating Expenses	406,883,069	190,565,000
Routine Maintenance - Vehicles	10,967,251	15,042,000
Routine Maintenance - Other Assets	8,202,565	13,918,000

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Payments in Bank Statement not yet Recorded in Cashbook (Rec)	898,265	-
Payments in Bank Statement not yet Recorded in Cashbook (Dev)	2,103,886	-
Total	955,197,343	694,548,000

NOTE 9: GRANDS AND TRANSFERS TO OTHER GOVERNMENT ENTITIES

	2015-2016	2014-2015
	Kshs	Kshs
Transfers to Central Government Entities		
Current Grants to Government Agencies	1,526,578,612	1,522,800,000
Capital Grants to Government Agencies	33,879,993,516	20,471,043,000
Capital Transfer to Non-Financial Public Enterprises	1,580,000,000	1,288,928,000
Total	36,986,572,128	23,282,771,000

	2015-2016	2014-2015
	Kshs	Kshs
Name of Central Government Entity		
Energy Regulatory Commission	46,009,600	48,700,000
Geothermal Development	5,526,363,200	4,404,400,000
Kenya Association of Manufacturers	35,000,000	35,000,000
Kenya Electricity Generating Company	5,401,935,716	-
Kenya Electricity Transmission Company	4,419,050,000	4,010,835,000
Kenya Energy Environmental Programme	80,000,000	80,000,000
Kenya Nuclear Electricity Board	610,485,000	300,000,000
Kenya Power and Lighting Company (Subsidy)	1,980,300,000	1,832,817,000
Kenya Power and Lighting Company (Last Mile)	1,500,000,000	-
Kenya Power and Lighting Company (Street Lighting)	4,500,000,000	1,053,000,000
Kenya Power and Lighting Company (System Losses)	1,300,000,000	1,008,928,000
Rural Electrification Authority	11,207,428,612	10,229,091,000
Kenya Petroleum Refineries Limited	100,000,000	-
National Oil Corporation of Kenya	280,000,000	280,000,000
Total	36,986,572,128	23,282,771,000

NOTE 10: OTHER GRANDS AND TRANSFERS

	2015-2016	2014-2015
	Kshs	Kshs
Membership Fees and Dues and Subscriptions	6,000,000	5,257,000
Total	6,000,000	5,257,000

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NOTE 11: SOCIAL SECURITY BENEFITS

	2015-2016	2014-2015
	Kshs	Kshs
Government Pension and Retirement Benefits	-	645,000
Total	-	645,000

NOTE 12: ACQUISITION OF ASSETS

	2015-2016	2014-2015
	Kshs	Kshs
Construction of Building	200,000,000	289,995,000
Construction and Civil Works	32,875,864,546	28,841,424,000
Purchase of Vehicles and Other Transport	45,000,000	33,009,000
Overhaul of Vehicles and Other Transport	1,633,854	5,144,000
Purchase of Office Furniture and General	3,303,353	6,885,000
Purchase of Specialized Plant, Equipment and	234,902,328	220,139,000
Purchase of Certified Seeds, Breeding Stock	10,624,783	7,046,000
Research, Feasibility Studies, Project	504,117,670	521,595,000
Rehabilitation of Civil Works	1,407,056,474	1,538,159,000
Acquisition of Land	-	7,781,000
Total	35,282,503,009	31,471,177,000

NOTE 13A: BANK ACCOUNTS

Name of Bank, Account No. & Currency	Amount in Bank Account Currency	Indicate Whether Recurrent, Development, Deposits e.t.c	2015-2016	2014-2015
	Kshs		Kshs	Kshs
Central Bank of Kenya,	7,051,623	Recurrent	7,051,623	6,801,000
Central Bank of Kenya,	5,203,354	Development	5,203,354	7,635,000
Central Bank of Kenya,	120,408,924	Deposits	120,408,924	117,171,000
Central Bank of Kenya, 1000187425, Kshs		Kenya Electricity Expansion Project		15,870,000
Central Bank of Kenya, 1000187265, Kshs		Kenya Petroleum Technical Assistance Project		37,301,000
Kenya Commercial Bank- Kipande house, Kipande, 1104175142, Kshs		Training Fund		93,769,000
Kenya Commercial Bank- Kipande house, 1104169282, Kshs		Petroleum Development Levy Fund		337,080,000
Kenya Commercial Bank- Kipande house, 1107175894, Kshs		Kenya Energy Sector Environment and Social Responsibility Fund		648,543,000
Total	132,663,901		132,663,901	1,264,170,000

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NOTE 13B: CASH BALANCES

	2015-2016	2014-2015
	Kshs	Kshs
Cash in Hand - Held in Domestic Currency	114,348	133,000
Total	114,348	133,000
	2015-2016	2014-2015
	Kshs	Kshs
Recurrent - Ministry of Energy and Petroleum Hqts	13,917	4,000
Development - Ministry of Energy and Petroleum Hqts	-	29,000
Deposits - Ministry of Energy and Petroleum Hqts	100,431	100,000
Total	114,348	133,000

NOTE 14: OUTSTANDING IMPRESTS

	2015-2016	2014-2015
	Kshs	Kshs
Government Imprests	3,889,915	-
Total	3,889,915	-

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Name of officer	Date Imprest taken	Amount taken Kshs	Amount surrendered Kshs	Balance Kshs
Ruth A. Nyangweso	05/08/2015	16,400	-	16,400
Mary M. Ng'ang'a	19/08/2015	50,000	-	50,000
Irene A. Khatali	24/08/2015	1,597,800	1,564,200	33,600
Eunice K. Muthamia	27/08/2015	671,791	611,791	60,000
Fredrick H. Ochieng	11/09/2015	30,000	-	30,000
Julius M. Gichana	19/10/2015	126,000	-	126,000
Geoffrey K. Mungai	11/11/2015	67,200	-	67,200
Mary M. Mungai	23/11/2015	730,300	730,000	300
John O. Oyomba	17/12/2015	25,200	-	25,200
Sammy O. Okonji	24/12/2015	78,400	-	78,400
Julius K. Koech	12/01/2016	37,800	-	37,800
Patrick Tanui	13/01/2016	7,400	-	7,400
Mary M. Ng'ang'a	21/01/2016	10,000	-	10,000
Joseah K. Koech	08/02/2016	115,560	-	115,560
Mercy R.K. Nyagah	29/02/2016	200,000	-	200,000
Eunice M. Muumbi	04/03/2016	280,000	-	280,000
Carolyne W. Ngugi	17/03/2016	168,000	-	168,000
Samuel K. Mwangi	17/03/2016	96,600	-	96,600
Jackson O. Owuor	17/03/2016	168,000	-	168,000
Julius M. Gichana	17/03/2016	207,200	-	207,200
Sammy O. Okonji	18/03/2016	300,145	-	300,145
Mary M. Ng'ang'a	29/03/2016	168,000	-	168,000
Wesley Kipyego	29/03/2016	112,000	-	112,000
Roselyne K. Ndagala	29/03/2016	96,600	-	96,600
Carol W. Njoroge	03/04/2016	280,000	-	280,000
Francis N. Kamau	18/04/2016	87,800	-	87,800
Jackline K. Kang'Utu	18/04/2016	37,800	-	37,800
Geoffrey K. Mungai	27/04/2016	56,000	-	56,000
Samuel K. Mutai	13/05/2016	62,250	-	62,250
Julia W. Ng'ang'a	15/05/2016	168,000	-	168,000
John O. Oyomba	24/05/2016	25,200	-	25,200
Samuel K. Kenda	25/05/2016	125,000	-	125,000
Faith H. Odongo	31/05/2016	37,800	30,800	7,000
Patrick M. Irungu	03/06/2016	280,000	-	280,000
Edwin O. Omengo	13/06/2016	149,500	-	149,500
Lucy W. Mbae	16/06/2016	20,000	-	20,000
Mercy R.K. Nyagah	17/06/2016	40,000	-	40,000
Peter Ambaka	17/06/2016	129,960	129,600	360
Timothy K. Mutua	24/06/2016	96,600	-	96,600
Total				3,889,915

NOTE 15: ACCOUNTS PAYABLE

	2015-2016	2014-2015
	Kshs	Kshs
Deposits	120,408,924	117,170,745
Total	120,408,924	117,170,745

NOTE 16: FUND BALANCE BROUGHT FORWARD

	2015-2016	2014-2015
	Kshs	Kshs
Bank Accounts	1,264,170,000	1,307,852,000
Cash in Hand	133,000	172,000
Rounding off Error	1,000	(1,000)
Accounts Receivables	362,000	28,075,000
Accounts Payables	(117,271,000)	(51,545,000)
Total	1,147,395,000	1,284,553,000

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NOTE 18: PRIOR YEAR ADJUSTMENTS

Name of Bank, Account No. & Currency	2015-2016 Kshs	2014-2015 Kshs
Central Bank of Kenya, 1000187425, Kshs	15,870,000	-
Central Bank of Kenya, 1000187265, Kshs	37,301,000	-
Kenya Commercial Bank-Kipande house, Kipande, 1104175142, Kshs	93,769,000	-
Kenya Commercial Bank-Kipande house, 1104169282, Kshs	337,080,000	-
Kenya Commercial Bank-Kipande house, 1107175894, Kshs	648,543,000	-
Tax receipts excluded from financial statements		327,679,000
Total	<u>1,132,563,000</u>	<u>327,679,000</u>

NOTE 18: PENDING BILLS (See Annex 1)

	2015-2016 Kshs	2014-2015 Kshs
Supply of Goods	1,945,400	-
Supply of Services	2,876,955	-
Total	<u>4,822,355</u>	<u>-</u>

NOTE 19: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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)
Paragraph 180	Tax Revenue The Statement of receipts and payments reflects tax revenues amounting to Kshs.4,720,932,718.00 as disclosed under note 1 to the financial statements. This differs with the tax revenue amount verified through the Ministry's records on Petroleum Development Levy by Kshs.327,678,754.	The Issues have been responded and awaiting clearance from the PAC	Veronica Kamau, Chief Accountant	Resolved	N/A
Paragraph 181	Accumulation of Funds – Ministry Headquarters Available records and information indicate that the Ministry of Energy and Petroleum headquarters construction fund operated by the National Oil Corporation of Kenya (NOCK) had an uncommitted balance of Kshs.589,821,694 as of 30 June, 2015. However confirmation receipt from NOCK indicates a balance of Kshs.516,791,688 resulting in an unexplained difference of Kshs.73,030,006. Management has not provided explanation for the discrepancy. There is also no plan for the utilization of the uncommitted balance and the accrued interest despite the advanced stage of completion of the headquarters building. In the circumstances, it was not possible to confirm the accuracy and validity of the Ministry transfers to NOCK on account of headquarter building.	The Issues have been responded and awaiting clearance from the PAC	Veronica Kamau, Chief Accountant	Not Resolved	25/05/2017
Paragraph 182	Included in the acquisition of assets expenditure of Kshs.31,471,177,000 under purchase of vehicles figure of Kshs.33,009,000 and as disclosed under note 18 to the financial statements is the cost of one motor vehicle with a cost of Kshs.7,000,000. Information and documents available indicate that the amount is a one off car allowance paid to the Cabinet Secretaries as per the National Treasury Circular. Consequently, the classification and presentation of the expenditure is	The Issues have been responded and awaiting clearance from the PAC	Veronica Kamau, Chief Accountant	Resolved	N/A

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	inappropriate and not in conformance with International Public Sector Accounting Standards cash basis of accounting				
Paragraph 183	Compliance with Public Procurement and Disposals Act (Preference and Reservations) Included in the Ministry's expenditure of Ksh.32,165,726,000 on assets acquisition and use of goods and services and as disclosed under notes 12 and 18 to the financial statements are own direct procurement of goods and services amounting to Kshs.2,030,781,828. The Ministry's quarterly reporting on 30% Public Procurement Preference and Reservations report indicates that it awarded tenders to the youth, women and persons with disabilities amounting to Kshs.59,771,797 representing 2.9% of the procurement. This is against the set threshold of not less than 30% as per regulation 31 (1) of the Public Procurements and Disposals (Preferences and Reservations Regulations amended).	The Issues have been responded and awaiting clearance from the PAC	Veronica Kamau, Chief Accountant	Resolved	N/A
Paragraph 184.1	Completeness of the Fixed Asset Register As noted in the audit report for the financial year 2013/2014, the non-current assets acquired in periods prior to 2012/2013 have been excluded in these financial statements. Annex 1 to the financial statements indicates a summary of the Ministry's fixed assets register as at 30 June, 2015 with historical costs totalling Kshs.99,163,457,000. This covers assets acquired in the periods 2012/2013, 2013/2014 and 2014/2015 amounting to Kshs.35,855,782,000, Kshs.31,836,498,000 and Kshs.31,471,177,000 respectively. This situation is indicative of significant impairment of properties (assets).	The Issues have been responded and awaiting clearance from the PAC	Veronica Kamau, Chief Accountant	Resolved	N/A

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
Paragraph 184.2	<p>Land Without Title Deeds As reported in prior year, the Ministry does not have title deeds for some of the parcels of land in Kericho, Kisii, Migori, Bukura, Uasin Gishu, Kitui, Wambugu and Mitunguu Energy Centres. Information available indicates that the process of acquiring titles for some of the land parcels has been ongoing for significantly long durations. It is therefore, not possible to verify the rightful ownership of these properties.</p> <p>In light of the above paragraphs, it is not possible to give an opinion on the carrying values of the assets as reflected in the financial statements.</p>	The Issues have been responded and awaiting clearance from the PAC	Veronica Kamau, Chief Accountant	Not Resolved	Not Known
Paragraph 185	<p>Utilization of Resource Centre at Mitunguu in South Imenti Sub – County During the financial year 2012/2013, the Ministry expended amounts totalling Kshs.44,636,192 to put up Mitunguu Energy Resource Centre with the completion and hand over date of 25 July 2013. As in previous year's (2013/2014) audit report, the viability of the Centre due to non-optimal utilization was questioned. The management in its response to the Public Accounts Committee (PAC) sitting committed to fully operationalize the Centre and provided a business plan. However as at the time of the audit visit in October 2015, the facility continued to remain idle as the business plan had not been implemented. In light of the above paragraph, I am unable to confirm whether there is value for money on the expenditure over the project. My opinion is not qualified in respect of this matter.</p>	The Issues have been responded and awaiting clearance from the PAC	Veronica Kamau, Chief Accountant	Not Resolved	30/09/2017



Principal Secretary



Chief Accountant

ANNEX 1 – ANALYSIS OF PENDING BILLS

Tender	Supplier	Vote	Amount (Kshs)
Supply of Goods			
Supply of hard disc drives 500GB, and external drives 250GB	Lerai Ltd	Recurrent	500,000
Supply and delivery of accounting software	Glaan Ventures	Development	140,000
Supply and delivery of external hard disk 1TB	Triump Holding Groug	Development	560,000
Supply and delivery of LCD projector	Eastlands Solution	Development	450,000
Supply and delivery of tyres size 175/65 R14	Mbuwasu	Recurrent	137,500
Supply of Stationary	Xenope Enterprises	Recurrent	157,900
Sub-Total			1,945,400
Suppy of Services			
Supply of air ticket	Ideal Tours	Development	146,790
Supply of air ticket	Jubilly Tours and Travel	Development	179,985
Supply of air ticket	African Touch Safaries	Development	30,910
Maintenance and Servicing of switches	Eastlands Solution	Development	655,000
Supply of air ticket	African Touch Safaries	Recurrent	127,970
Supply of air ticket	Pago Airways	Development	27,540
Upgrading of email system	Digital Pro	Development	1,450,000
Supply of air ticket	Bush and Beach Tours	Development	258,760
Sub-Total			2,876,955
Grand Total			4,822,355

ANNEX 2 - SUMMARY OF FIXED ASSET REGISTER

Asset Class	Historical Cost (Kshs) 2015-2016	Historical Cost (Kshs) 2014-2015
Land	121,780,634	121,780,634
Buildings and Structures	1,528,562,974	1,328,562,974
Transport Equipment	120,689,665	74,055,811
Office Equipment, Furniture and Fittings	33,606,900	16,519,638
ICT Equipment, Software and Other ICT Assets	47,685,191	12,266,960
Other Machinery and Equipment	130,157,780,296	95,867,246,310
Certified Seeds, Breeding Stock and Line Animals	26,325,036	15,700,253
Intangible Assets	2,231,441,994	1,727,324,324
Total	134,267,872,690	99,163,456,904