

REPUBLIC OF KENYA



Paper Laid
By Hon. Washali, MP
Chairman of Lomp at the
Table of the House on
13/6/2018



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REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2017**



**MINISTRY OF ENERGY AND PETROLEUM
STATE DEPARTMENT FOR PETROLEUM**

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE, 2017

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

MINISTRY OF ENERGY AND PETROLEUM, STATE DEPARTMENT FOR PETROLEUM
Reports and Financial Statements
For the year ended June 30, 2017

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I. KEY STATE DEPARTMENT FOR PETROLEUM INFORMATION AND MANAGEMENT

(a) Background Information

The Ministry of Energy was founded in 1979, following the 1973 oil crisis and the realization that energy is a major component of the country's development process. Before, energy issues fell under the remit of several different ministries where; The Ministry of Power and Communications was responsible for electricity development and pricing of power jointly with the Ministry of Finance. The latter was also in charge of petroleum pricing and the representation of government interests in Kenya Petroleum Refineries Limited. On 20th May 2013, its name was changed to the Ministry of Energy and Petroleum through Executive Order No. 2/2013 that outlined the Organization of the Government of Kenya.

Under the Executive Order No. 1 of May, 2016 on the Organization of the Government of the Republic of Kenya, the Ministry was split into two State Departments; Energy and Petroleum, with each drawing its mandates from the above Executive Order. At the Cabinet level, the Ministry is headed by the Cabinet Secretary for Energy and Petroleum, Mr. Charles Keter, EGH who is responsible for general policy and strategic direction of the ministry.

The State Departments under the Ministry of Energy and Petroleum are:

- i. The State Department for Energy administered by Dr. Eng. Joseph Njoroge, CBS, and
- ii. The State Department for Petroleum administered by Mr. Andrew Kamau, CBS

The Vision, Mission, Core Values, Strategic Objectives and core functions of the State Department for Petroleum under Ministry of Energy and Petroleum include:

Vision

The State Department for Petroleum's vision is to explore, develop and produce the petroleum reserves existing in the country's sedimentary basins for sustainable national economic development and wealth creation.

Mission

The State Department for Petroleum's mission is to enhance self-sufficiency and secure supply of petroleum products for reduction of total Import Bill and to increase foreign currency reserves thereof spurring industrial development and equitable improvement of the standard of living of Kenyan citizens.

Core Values

- Efficiency, transparency and accountability: The State Department shall employ its resources and conduct business in an efficient, responsible and transparent manner to deliver accessible and quality services.
- Professional integrity and excellence: All staff shall carry out their duties in a professional manner and the technical staff to always comply with, and seek to improve their professional standards and ethics required by their respective bodies.
- Commitment to customer service: The State Department is committed to uphold customer driven and focused service delivery, with genuine passion, the staff shall demonstrate commitment and deliver timely quality service to all customers in order to build and maintain public confidence.
- Prudent utilization of resources: The State Department is committed to performing its mandate while recognizing the resources are scarce and therefore the need to utilize financial resources prudently.
- Zero tolerance to corruption: The Department shall uphold the value of unselfishness and discharge the mandate without expectation of personal gain and conflict of interest.
- Non-partisanship: the staff remain neutral and impartial and provide information and advice that may be required by political leaders without favour.
- Open to constructive suggestion: The State Department shall promote open door policy

Strategic goals/ Objectives

The main goal is to facilitate availability of sufficient, secure, efficient and affordable clean energy by 2030. To achieve this goal, the following are the objectives of the State Department for Petroleum:

- Strengthen the Policy, Legal and Institutional framework for the Petroleum development and accelerating the speed of completion of projects;
- Oil/Gas and minerals sector capacity development;
- Improve access to competitive, reliable and safe supply of petroleum products to all Kenyans;
- Promote Sustainable energy self-sufficiency;
- Promote efficient utilization and conservation of energy;
- Promote Exploration and development of fossil resources;
- Optimal utilization of both human and financial resources.
- Explore alternative financing models for Petroleum sub-sector projects.
- Enhance Public-Private Partnerships in the provision of oil and gas facilities and services;

Mandate/ Core Functions

The State Department for Petroleum draws its mandate and functions from the Executive Order No. 1 of May, 2016 on the Organization of the Government of the Republic of Kenya. Its core functions of are: -

- Petroleum Policy.
- Strategic Petroleum stock management.
- Management of Upstream Petroleum Products Marketing.

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- Oil and Gas Sector Capacity development.
- Petroleum products, import/export/marketing policy Management.
- Licensing of Petroleum Marketing and Handling.
- Quality Control of Petroleum Products.

(b) Key Management

The State Department for Petroleum's day-to-day management is under the following key organs:

- Petroleum Directorate
- Administration
- Finance
- Accounts
- Planning
- Human Resource
- Planning
- Supply Chain Management

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

Designation	Name
Cabinet Secretary	Hon. Charles Keter, (EGH)
Principal Secretary	Mr. Andrew N. Kamau (CBS)
Secretary Petroleum	Martin M Heya OGW
Senior Deputy Secretary	Mr. Francis M Ongaki OGW
Senior Chief Finance Officer	Ms Melisa M Musoma
SAD/HRM & D	Ms Agnes Muthuo
Deputy Chief Economist	Ms Electine M Nanzala
Ag Assistant Accountant General	CPA, Mary A. C. Wanyonyi
PSCM Officer	Samuel Mativo

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SENIOR MANAGEMENT – MINISTRY OF ENERGY AND PETROLEUM, STATE DEPARTMENT FOR PETROLEUM



Hon. Charles Keter,
EGH
Cabinet Secretary



Mr. Andrew N.
Kamau, CBS,
Principal Secretary



CPA Mrs. Mary A.C.
Wanyonyi,
Ag. Assistant
Accountant General



Mr. Martin M. Heya,
OGW,
Secretary, Petroleum



Ms. Melisa Musoma,
Sr. Chief Finance Officer



Mr. Francis M.
Ongaki, OGW
Sr. Deputy Secretary



Ms. Electine M.
Nanzala,
Deputy Chief
Economist




Ms. Agnes Muthuo,
SAD/HRM&D







Mr. Samuel Mativo,
PSCMO

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SENIOR MANAGEMENT
MINISTRY OF ENERGY AND PETROLEUM
STATE DEPARTMENT FOR PETROLEUM

 <p>Hon. Charles Keter, EGC Cabinet Secretary</p>	<p>Hon. Charles Keter was appointed Cabinet Secretary, Ministry of Energy & Petroleum, in December 2015. He had previously served as an Assistant Minister in the same Ministry between 2008 and 2010. As Kenya’s Cabinet Secretary Hon. Charles Keter is responsible for the oversight, policy and governance of the Ministry’s mandate which is to facilitate the provision of clean, sustainable, affordable, reliable, secure and quality energy and Petroleum services for national development while protecting the environment. He holds a Global Executive MBA from the United States International University (USIU) - Africa and a Bachelor’s Degree in Double Maths from Kenyatta University.</p>
 <p>Mr. Andrew N. Kamau, CBS Principal Secretary</p>	<p>Mr. Andrew Ng’ang’a Kamau has wide experience in Petroleum energy gained from several years in leadership positions in the private sector. Prior to his appointment as Principal Secretary for Petroleum, he was the Chief Executive Officer of Bracewell Energy which has interests in mining, energy and natural resources. As PS, he steers the Petroleum docket at the Ministry where he will oversee implementation of Petroleum projects. He holds a Bachelor of Science degree in Chemistry from the University of Nairobi.</p>
 <p>Mr. Martin M. Heya, OGW, Secretary, Petroleum</p>	<p>Mr. Martin Heya was appointed Secretary, Petroleum in June 2017 having served as Commissioner for Petroleum in from 2009. Among others, Mr. Heya has been instrumental in oil and gas exploration in the country leading to the first oil discovery in Kenya in March, 2012; implementation of the early oil project as well as the review of the Petroleum policy, legal, regulatory and contractual framework for oil and gas. He holds an MSc in Petroleum Geoscience from the University of Adelaide, Australian.</p>
 <p>Mr. Francis M. Ongaki, OGW Senior Deputy Secretary</p>	<p>Mr. Francis M. Ongaki is the Senior Deputy Secretary. He has held similar positions in the Ministry of East African Community as well as the then Ministry of Lands. His professional courses, undertaken both locally and internationally, include Policy Formulation, Financial Management, Corporate Governance and Strategic Leadership Development.</p>
 <p>Ms. Melisa Musoma Senior Chef Finance Officer</p>	<p>Ms. Melisa Musoma has served in the Civil Service for over 30 years and as a Senior Chief Finance Officer for more than seven years. She joined the State Department for of Petroleum in August 2016 where she is responsible for all Budget matters. Ms Musoma holds a Bachelor’s Degree in Economics from the University of Nairobi.</p>

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 <p>Ms. Electine M. Nanzala Deputy Chief Economist</p>	<p>Ms. Electine M. Nanzala assumed the position of the Head of CPPMU in May, 2016. She is in charge of Economic planning function which involves planning and analysis of economic policy; undertaking economic analysis, evaluation and monitoring of development projects and programmes; co-ordination of strategic planning and performance contracting; and performance review of economic activities to inform policy and budgetary processes. She holds a Masters in Economics and a Bachelor of Arts Degree from Kenyatta University.</p>
 <p>MS. Agnes Muthuo, SAD/HRM&D</p>	<p>Ms. Agnes Muthuo assumed the position of Head, Human Resource Management and Development in January, 2017. She is in charge of managing the HR function in the Department including Training and Development for effective service delivery. She holds a Masters of Science in Human Resource Development from the Jomo Kenyatta University of Science and Technology and a Bachelor of Arts degree in Anthropology from the University of Nairobi. She is a Member of IHRM.</p>
 <p>CPA Mrs. Mary A. C. Wanyonyi Ag. Assistant Accountant General</p>	<p>CPA Mrs. Mary .A. C. Wanyonyi assumed the position of Head of Accounting Unit in May 2016. She is in charge of Accounting and Financial Reporting as well as designing, implementing and monitoring internal control relevant to the preparation and for presentation of financial statements in line with the relevant International Public Sector Accounting Standards (IPSAS). She holds an MBA from ESAMI and Bachelor of Commerce (Accounting) from Panjab University. She is a CPA (K), FA and also a member of the ICPAK and ICIFA. She has served on the Board of Cooperative University College, Kenyatta National Hospital and Maasai Mara University and a member of the Member Services Committee of ICPAK.</p>
 <p>Mr. Samuel N. Mativo, PSCMO</p>	<p>Mr. Samuel Ngenzi Mativo assumed the position of HSCMS in the State Department for Petroleum in May, 2015. He is in charge of providing Procurement Services and Overseeing implementation of PPADA 2016 ACT. He holds a MSC in Economics from Marathwada University, India.</p>

(d) Fiduciary Oversight Arrangements

The State Department for Petroleum was oversighted by Human Resources Management Advisory Committee and Training Committee Activities during the year under review. The activities of the two activities are described below:

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i. Human Resources Management Advisory Committee Activities

This committee is composed of the following members drawn from various departments

No	Name	Designation
1	Mr.Andrew Kamau,CBS	P.S Petroleum – Chairman
2	Mr.Francis Ongaki	Senior Deputy Secretary
3	Mr.Martin Heya	Secretary, Petroleum
4	Ms.Agnes Muthuo	SAD/HRM&D – Secretary
5	CPA.Mary Wanyonyi	Ag Assistant Accountant General
6	Ms.Electine Nanzala	Deputy Chief Economist
7	Mr.Samuel Mativo	Principal SCMO

This is the committee charged with the responsibilities of human resource needs. Its duties include but not limited to:

- Review of promotions of officers in Job Group A-P
- Review of confirmations in appointment
- Review of disciplinary matters
- Review of re-designation of officers from one cadre to another and
- Confirmation of surcharge of officers found to have misused government resources.

The following table shows the number of human resource management advisory committee meetings held during the year and the attendance of individual members.

	Committee attendance for the year ended 30th June, 2017	Human Resource Management Advisory Committee Meetings												Total Attendance
		27.2 .16	11.8 .16	18.9 .16	7.10 .16	30.1 1.16	22.1 2.16	31.1 .17	24.2 .17	30.3 17	26.4 17	25.5 17	7.6. 17	
1	Andrew Kamau	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
2	Francis Ongaki	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
3	Martin Heya	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
4	Agnes Muthuo	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
5	Mary Wanyonyi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
6	Electine Nanzala	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12
7	Samuel Mativo	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	12

✓ Attended

X - Absent with apology

ii. Training Committee

This committee is composed of the following members drawn from various departments.

No	Names	Designation
1	Mr.Andrew Kamau,EGH	PS Petroleum – Chairman
2	Mr.Francis Ongaki	Senior Deputy Secretary
3	Mr.Martin Heya	Secretary, Petroleum
4	Ms.Agnes Muthuo	SAD/HRM&D – Secretary
5	CPA.Mary Wanyonyi	Ag Assistant Accountant General
6	Ms.Electine Nanzala	Deputy Chief Economist
7	Mr.Samuel Mativo	Principal SCMO

This is the committee charged with the responsibilities of human resource development needs, including capacity building. Its duties include:

- Overall coordination of the training functions in the State Department
- Review and implementation of the State Department training plan and
- Induction of newly appointed officers and activities around long term training

N.B: During the year under review, Training Committee Activities were performed by the Ministerial Human Resource Management Advisory Committee described in (i) above.

(e) State Department for Petroleum’s Headquarters

P.O. Box 30582 – 00100
Nyayo House Building
Kenyatta Avenue
Nairobi, Kenya

(f) State Department for Petroleum’s Contacts

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

(g) State Department for Petroleum Bankers

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

Kenya Commercial Bank
Kipande House Branch

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Nairobi, Kenya

(h) Independent Auditors

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

(i) Principal Legal Adviser

The Attorney General
State Law Office
E-mail: info@ag.go.ke
Tel : 2542227461.
Website: www.ag.go.ke

II. FORWARD BY THE CABINET SECRETARY



Hon. Charles Keter, EGH

Cabinet Secretary Ministry of Energy and Petroleum

The mandate of the Ministry of Energy and Petroleum (MoE&P) is to provide clean, sustainable, affordable, reliable and secure energy services for national development while protecting the environment. The energy sub sector is an important infrastructure enabler for the achievement of the Vision 2030 that will transform Kenya into a newly-industrializing, middle income country providing a high quality of life to all citizens in a clean and secure environment.

During the Financial Year 2016/2017, the Ministry through the State Department of Energy and the State Department of Petroleum has implemented critical energy policy and large scale infrastructure development in wind and hydropower, geothermal exploration, oil and gas exploration, coal exploration, and erection of transmission lines. These activities have enhanced the national power generation capacity, expanded and reinforced the national transmission and distribution network, improved reliability of energy services, enhanced regional electricity interconnection, doubled the national electricity access rate, revamped the national energy mix in favour of renewable energy and smarter technologies, and put Kenya on the path to successfully produce and export oil.

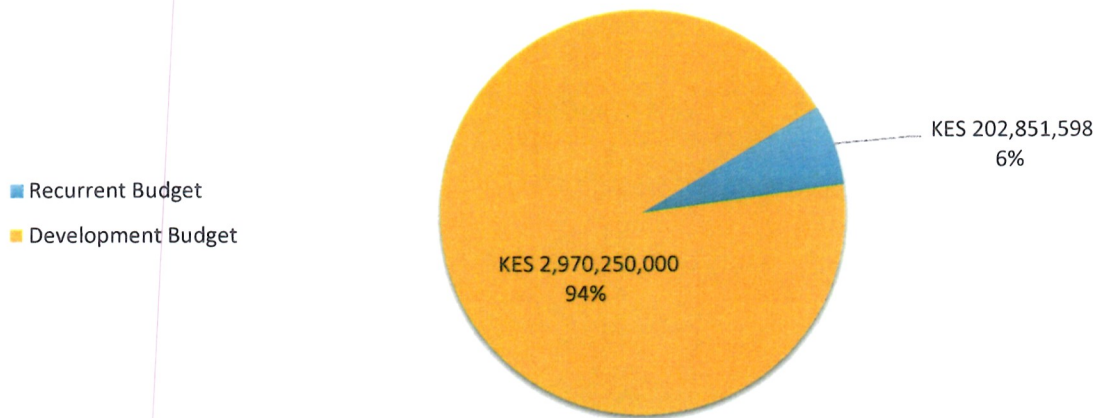
In that regard, I am pleased to submit the Financial Year 16/17 Financial Statements of the State Department for Petroleum as per Section 81 of the Public Finance and Management Act, 2012.

A. BUDGET ALLOCATION AND PERFORMANCE AGAINST ACTUAL AMOUNTS

(a) Budget Allocation

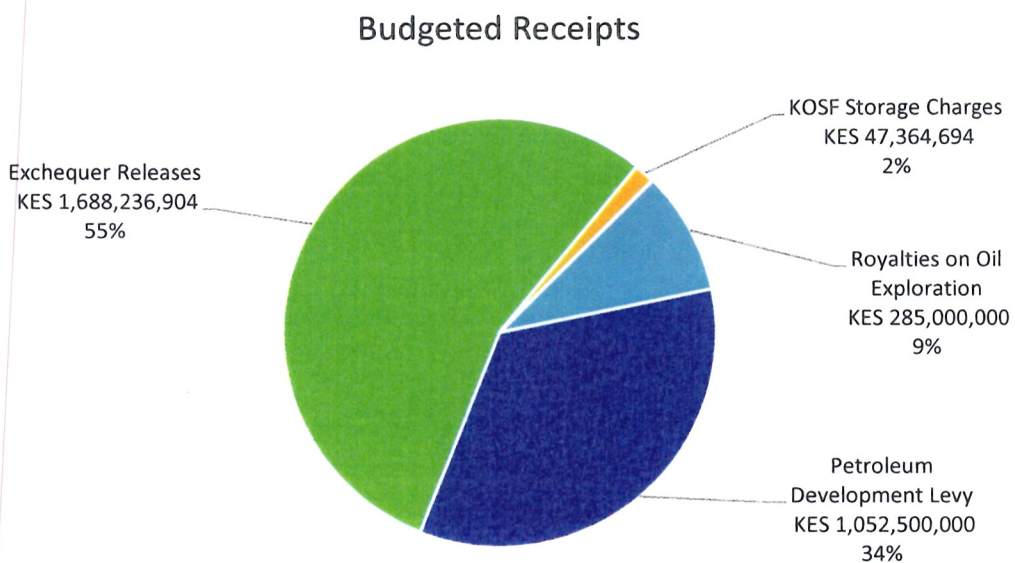
In the financial year 2016/17 the State Department for Petroleum had a gross budget of Kshs.3,073,101,598 which was made up of Kshs.202,851,598 for recurrent vote and Kshs.2,870,250,000 for development vote. These allocations are depicted in the pie chart below:

2016/2017 Budgetary Allocation



(b) Receipts Budget

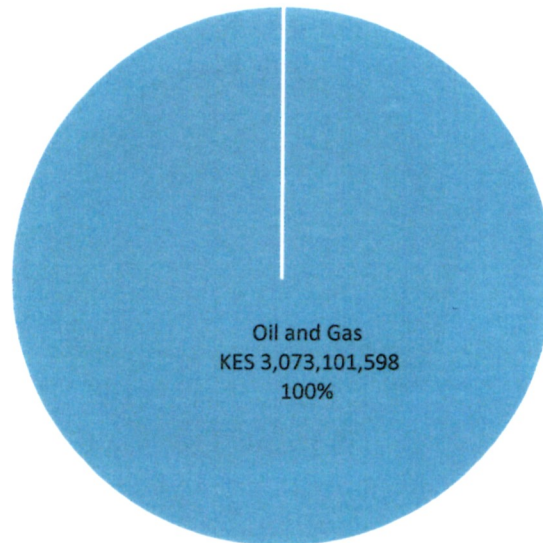
The gross receipt budget of Kshs.3,073,101,598 was to be obtained from the following sources of funds:



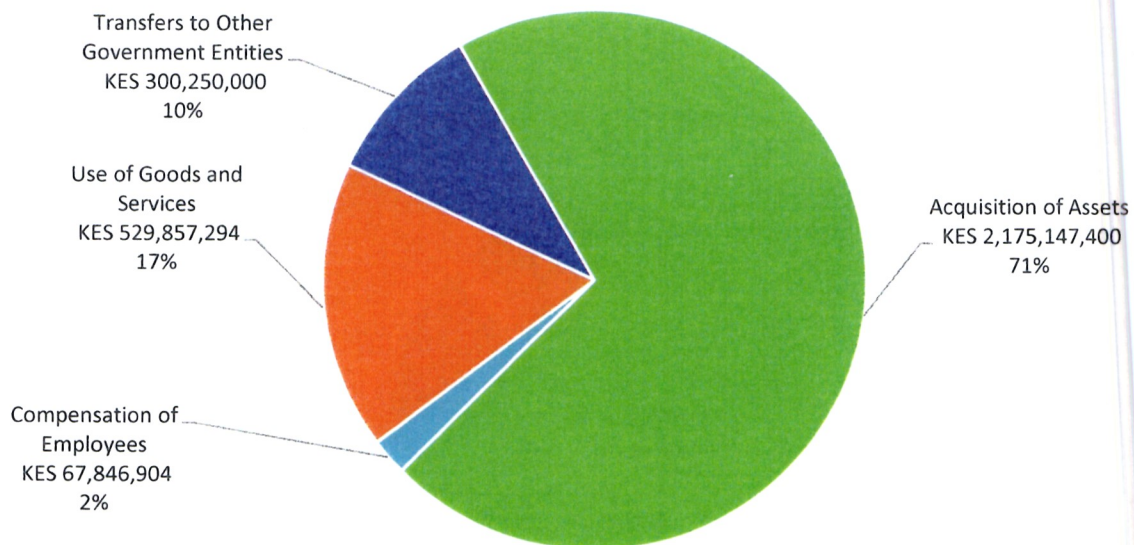
(c) Payments Budget

The gross budget of Kshs.3,073,101,598 was to be expended on the following programme and economic items:

Budgeted Payments Based on Programmes



Budgeted Payments Based on Economic Classification



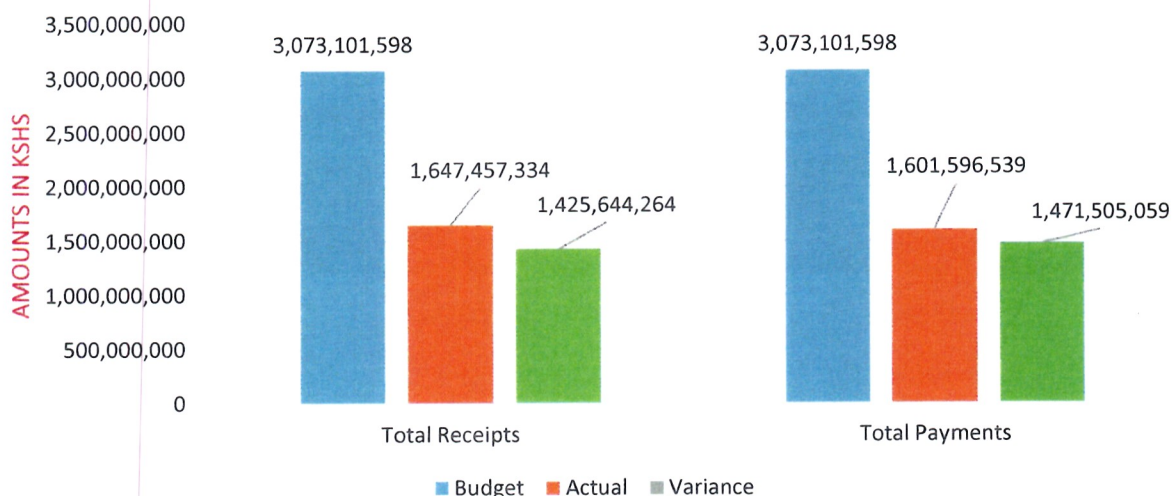
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(d) Actual Performance Against Budget

The State Department's actual receipts during the year ended 30 June 2017 were 46% below budget, while actual payments amounted to 48% below budget as analysed below:

Financial Performance	Budget	Actual	Variance	% Variance
	Kshs	Kshs	Kshs	%
Total Receipts	3,073,101,598	1,647,457,334	1,425,644,264	46
Total Payments	3,073,101,598	1,601,596,539	1,471,505,059	48
Surplus		45,860,795	(45,860,795)	

Actual Performance Against Budget

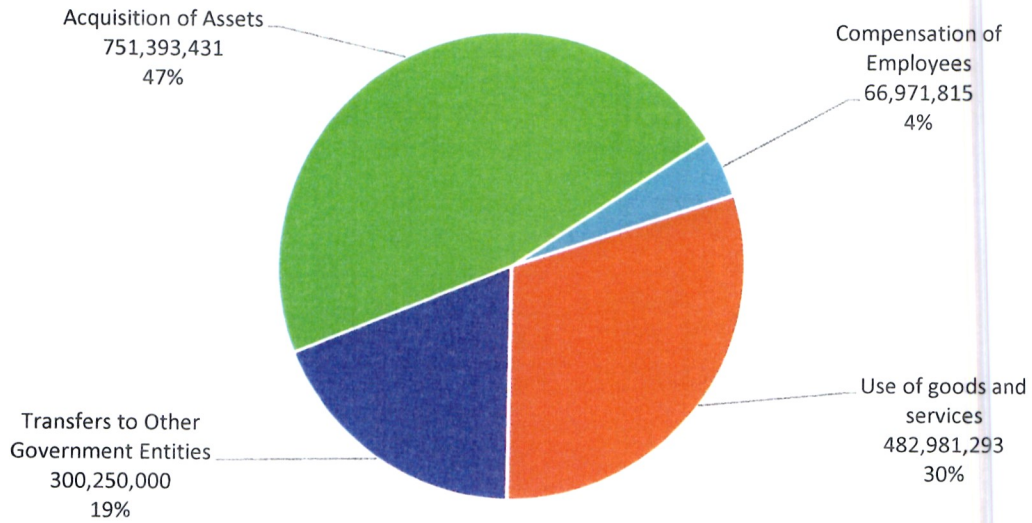


(e) Budget Utilization Based on Economic Classification

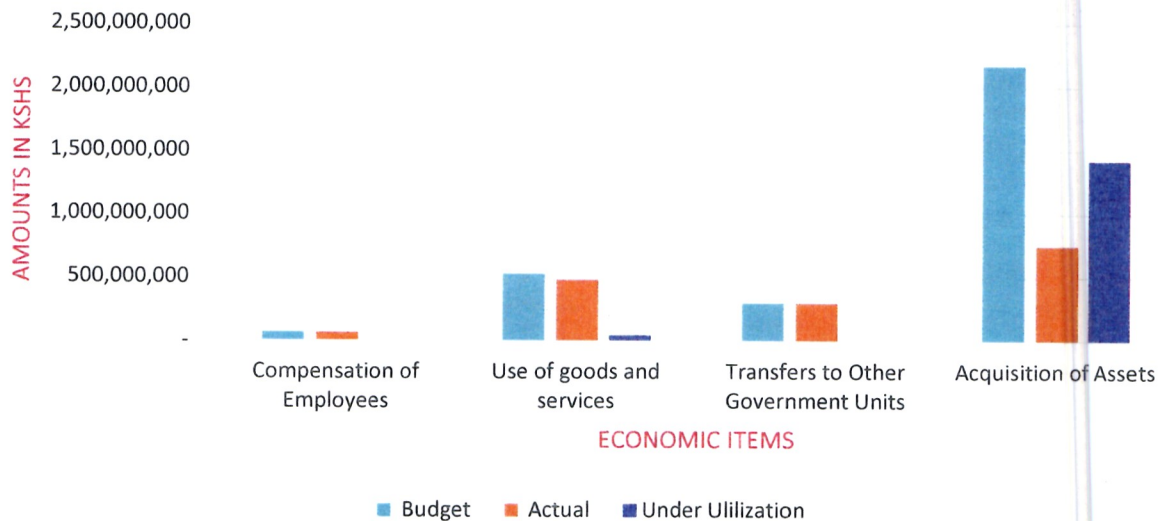
The State Department spent Kshs.1,601,596,539 against an approved budget of Kshs.3,073,101,598 representing absorption of 52%. Utilization of the budget was carried out through various activities (economic classifications) as shown in the table and charts below:

Expense Item	Budget	Actual	Under Utilization	% of Utilization
	Kshs	Kshs	Kshs	
Compensation of Employees	67,846,904	66,971,815	875,089	99%
Use of goods and services	529,857,294	482,981,293	46,876,001	91%
Transfers to Other Government Entities	300,250,000	300,250,000	0	100%
Acquisition of Assets	2,175,147,400	751,393,431	1,423,753,969	35%
Total Payments	3,073,101,598	1,601,596,539	1,471,505,059	52%

Budget Utilization as Per Economic Classification



Comparison of Budget and Actual Amounts as per Economic Items

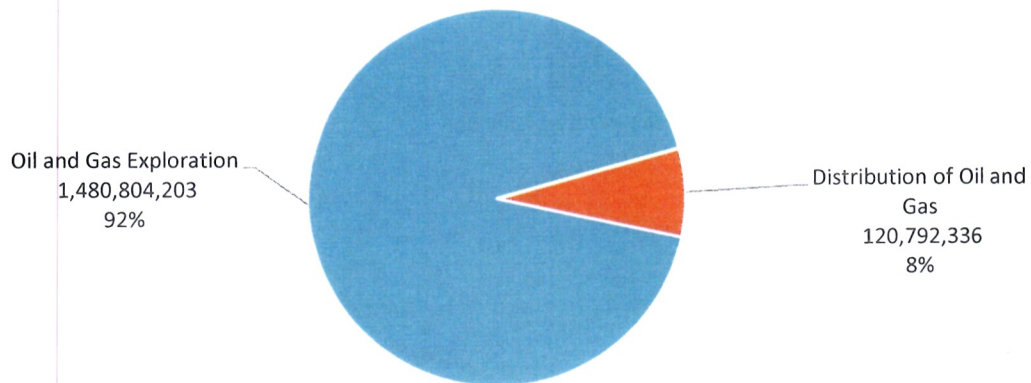


(f) Budget Utilization Based on Programmes

The State Department spent Kshs.1,601,596,539 against an approved budget of Kshs.3,073,101,598 representing absorption of 52%. Utilization of the budget was carried out through Oil and Gas programme, the only programme under the State Department. Under the Oil and Gas programme, Kshs.1,480,804,203 was spent on oil and gas exploration, while the balance of Kshs.120,792,336 was utilized on the distribution of oil and gas as depicted in the chart below:

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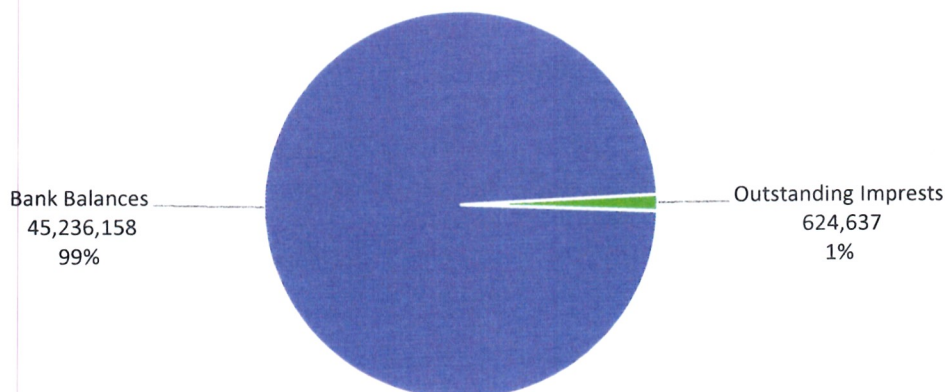
Actual Expenditure Under Oil and Gas Programme



(g) Financial Assets

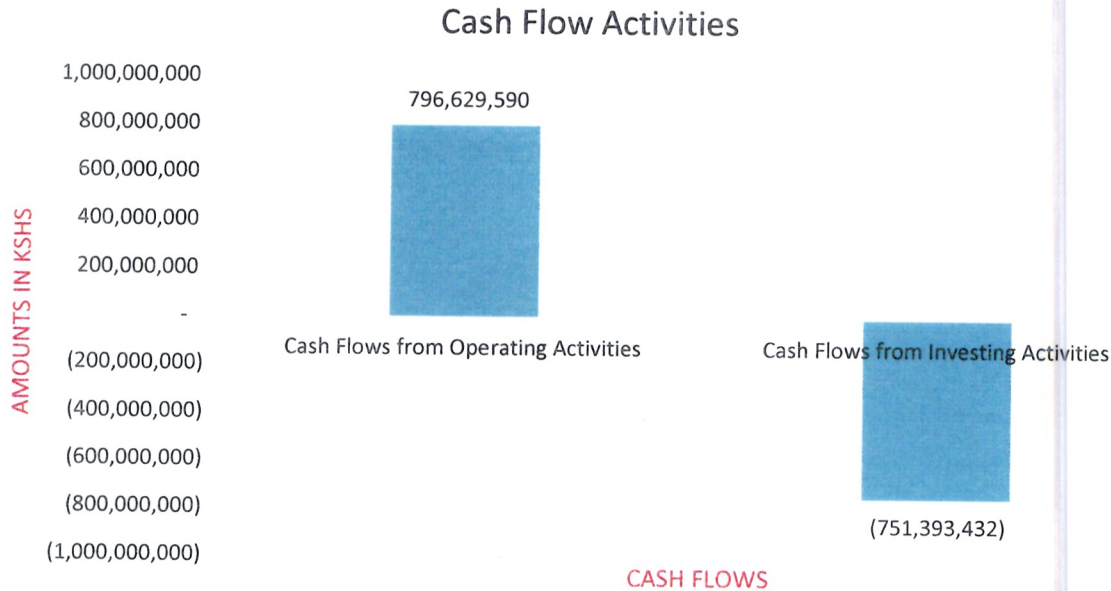
The State Department for Petroleum's financial assets as at 30 June 2017 totalled Kshs.45,860,795 and consisted of bank balances and outstanding imprests amounting to Kshs.45,236,158 and Kshs.624,637 respectively as shown in the chart below:

Financial Assets as at 30 June 2017



(h) Cash Flow Activities

The State Department's cash flows during the year under audit were from operating activities and investing activities as follows:



B. KEY ACHIEVEMENTS OF THE STATE DEPARTMENT FOR PETROLEUM IN THE FY 2016/17

In implementing its stated functions and together with partnership with the private sector, The State Department accomplished the following during FY 2016/17:

(a) Construction of Mombasa – Nairobi Oil Pipeline (Line 5)

In FY 2015/16, the Ministry had ensured construction of 185km which is equivalent to 48% of 450km Mombasa -Nairobi (Line-5) - 20-inch diameter multi product pipeline. During the contract period 2016/17 FY, the remaining **265Km** or 52% of the pipeline was completed.

(b) Early Oil Pilot Scheme Project (EOPS)

During the period under review, the following were undertaken:

- Technical Committee Meetings on EOPS held to fast-track modifications works at KPRL for receipt, storage and export of Crude from Lokichar.
- Tenders for the relevant civil, mechanical and electrical works to facilitate receipt of crude oil at KPRL under the Interim Scope for receipt and export were awarded and works are in progress.

(c) LPG Infrastructure and Distribution

The long-term objective is to ease the usage of biomass and kerosene and promoting environmental conservation and improved health standards. During the 2016/17 FY tender of supply of 357,000 cylinders was awarded and 11,000 cylinders delivered.

(d) Security of Supply of petroleum products

The Ministry targeted to increase stock days cover from twelve (12) to thirty (30) days. However, this was not achieved due to the delayed operationalization of the KPC line 5, additional storage capacity (133,000M³) in Nairobi and finalization of KPRL KPC lease Agreement.

However, the following activities were also undertaken to ensure continued security of supply of petroleum products:

i. Adjudication of Petroleum Tenders and Enforcement of Open Tender System (OTS) Terms and Conditions.

Projection of the petroleum product demand was done and 122 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 OTS to ERC.

ii. Vessel Scheduling Committee Meetings (VSM)

Forty-eight (48) vessel scheduling meetings were held in which vessels were scheduled in line with the demand for petroleum products. The State Department also ensured that all vessels for both Shimanzi Oil Terminal (SOT) and Kipevu Oil Terminal (KOT) berthed on time to ensure security of supply of petroleum products as well as minimizing demurrage costs.

iii. Supply coordination meetings

The State Department organised six (6) supply coordination meetings to discuss industry supply issues.

iv. Monitoring Petroleum Stocks

The State Department monitored the stocks on a daily basis to ensure there are no stock outs in the country for efficiency of supply of products.

(e) Drilling of Oil and Gas Exploratory Wells

Erut-1 well in Block 13T was spud on 9th December 2016 and completed on 21st January 2017 by Tullow Oil. The well was drilled on the Erut structure, a fault-bounded closure located approximately 11Kms NNE of Etom-1 and Etom-2 wells. The objectives of drilling the well were to ascertain the presence of hydrocarbons in two primary targets, Mid Auwerwer Sandstones (LKT80) and Lokone Sandstones (LKT65); confirm and evaluate the presence of hydrocarbons in a secondary target (top of Lower Lokone Sands - LKT 65). Good oil shows were encountered below 700m with a net pay of 25m. Erut-1 well was drilled to a depth of 1,317m and was plugged and abandoned.

(f) Drilling of Appraisal Well and Extended Well Testing for Field Development Studies

Two appraisals well were drilled during the 2016/2017 Financial Year. Amosing-6 well in Block 10BB was spud on 28th January 2017 and drilled by Tullow Oil to a total depth of 2,455 meters. Well-logging has been completed. Ngamia-10 in Block 13T was spud on 6th March, 2017. Water injection trials in Amosing-3 well commenced in the first week of December 2016. Under the pilot program, water is injected into the wells in-order to determine the viability of water flooding for pressure maintenance and optimal sweep efficiency with the view of maximizing oil recovery. The trials for Amosing-3 well were completed in January 2017. These tests were undertaken as part of field development studies.

(g) Enhance Primary Data Acquisition and Interpretation in Open Blocks to Make Them More Attractive to Investors in Oil and Gas exploration

In the 2nd and the 3rd quarter, technical teams from the Ministry were involved in data acquisition in Block L19A. They carried out reconnaissance surveys and produced a reconnaissance reports. The teams undertook geological and geophysical surveys during the 4th quarter and produced preliminary geological and geophysical reports. The key objective of the project is to acquire primary data in-order to ascertain the petroleum potential of the block.

(h) Eradication of Fuel Adulteration, Dumping and illegal LPG Refilling (100%)

During the contract period the Ministry:

- Held two workshops and two inter-agencies committee meetings to discuss issues on fuel adulteration, dumping and illegal LPG filling for decision making.
- Undertook twenty-eight (28) impromptu checks within the petroleum stations, depots and LPG filling plants in the country to track sales of adulterated fuels and dumping, and prepared high level briefs and reports.

C. EMERGING ISSUES

- Realignment of key strategic partners affecting projects leading to delays in implementation.
- Shifting regional alliances and geo-politics preventing project sanction and financing
- Global decline of crude oil and other mineral prices has slowed down exploration activities resulting in reduced investment by international oil companies.
- Insecurity particularly in development of projects in areas prone to attacks.
- Regional re-alignment which has led to oil and gas importation and transportation through the Central Corridor.
- Closure of the refinery and integration of KPC and KPRL to enhance utilization of the latter's facilities.
- Need to develop a national oil and chemical spill contingency plan for the exploration/exploitation activities.
- Develop and review regulations to manage chemicals and hazardous waste from oil processes. Recommend and develop appropriate technology for the management of these wastes.

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- Need for guidelines for development and rehabilitation to minimize loss of biodiversity, destruction of cultural heritage sites and sensitive natural habitats including wildlife migratory routes.
- Adherence to the requirements of climate change Act 2016 on compliance on levels of Green House Gases (GHGs) emission reduction.
- Gender mainstreaming in oil and gas projects.
- Enhancing capacity building in the counties in the oil and gas sector through partnerships with the national government, TVET training institutions, Universities and investors.

D. CHALLENGE FACED DURING PROGRAMMES AND PROJECTS IMPLEMENTATION

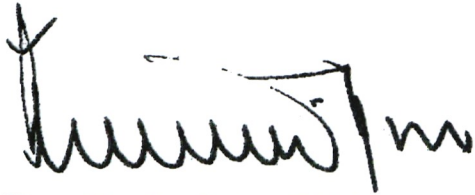
- Land access and compensation causing project delays and increased cost for midstream and downstream projects
- Under performance of contractors, leading to project delays, cost overruns and possible litigation.
- Loss of transit market share of petroleum products exported to neighbouring countries
- Storage and infrastructure capacity constraints for petroleum products.
- High community expectations in the oil, gas and mining exploration and development which slow down the pace of project implementation.
- Inadequate skilled local professionals in the sector.
- Inadequate legal and regulatory frameworks (delay in enacting of the Petroleum Bill negatively affected EOPS).
- Disasters and incidences in oil and gas such as the oil spillage.

E. RECOMMENDED WAY FORWARD

- Need to strengthen national and county governments collaboration and other stakeholders engagement at all stages of programme/project development.
- Need for strategic partnership for project financing, execution and skills transfer.
- There is need to strengthen the Involvement of relevant local professionals in all phases of project implementation, including conceptualization, design, construction and commissioning to ensure capacity building and knowledge transfer.
- Need to improve competitiveness in the region.
- Need to develop strategies and respective legislation for management of community expectations.
- Need to come up with strategies to mitigate negative impacts on fluctuating global commodity prices and marketing trends which affect returns on investment.
- Linkages with other sectors with a coordinated approach in the implementation of the various flagship projects. The collaboration will entail capacity building with various technical

institutions, environmental matters, occupational safety and health services concerns amongst others.

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



Hon. Charles Keter, EGH
CABINET SECRETARY
STATE DEPARTMENT FOR PETROLEUM

III. STATEMENT OF STATE DEPARTMENT FOR PETROLEUM MANAGEMENT RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2013 requires that, at the end of each financial year, the accounting officer for a National Government Entity 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 by the Public Sector Accounting Standards Board of Kenya (PSASB) from time to time.

The Accounting Officer in charge of the State Department for Petroleum is responsible for the preparation and presentation of the State Department's financial statements, which give a true and fair view of its state of affairs for and as at the end of the financial year (period) ended on June 30, 2017. 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 State Department; (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 State Department; (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 State Department for Petroleum accepts responsibility for the State Department'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 entity's financial statements give a true and fair view of the state of State Department's transactions during the financial year ended June 30, 2017, and of its financial position as at that date. The Accounting Officer in charge of the State Department for Petroleum further confirms the completeness of the accounting records maintained for the State Department, which have been relied upon in the preparation of the its financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of the Department for Petroleum confirms that the State Department has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the State Department'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 State Department for Petroleum's financial statements have been prepared in a form that complies with the relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the Financial Statements

The State Department for Petroleum revised financial statements were approved and signed by the Accounting Officer on 23 April, 2018.


Principal Secretary
Name: **Andrew N Kamau, CBS**


Principal Accounts Controller
Name: **Mary A. C. Wanyonyi**
ICPAK Member Number: **10366**

REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON STATE DEPARTMENT FOR PETROLEUM FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of State Department for Petroleum set out on pages 24 to 48, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation: recurrent and development combined, budget execution by programmes and sub-programmes for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution 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, the financial statements present fairly, in all material respects, the financial position of State Department for Petroleum as at 30 June 2017, 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.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Other Matter section of my report, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Key Audit Matters

Key audit matters are those matters which, in my professional judgment, are of most significance in the audit of financial statements. Except for the matters described in the Other Matter section of my report, I confirm that there were no Key Audit Matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

1.1. Budgetary Absorption

The State Department's total approved budget for the financial year ended 30 June 2017 amounted to Kshs.3,073,101,598, as disclosed in the summary statement of

Report of the Auditor-General on the Financial Statements of State Department for Petroleum for the year ended 30 June 2017

appropriation: recurrent and development combined. Of the amount, recurrent and development expenditures amounted to Kshs.202,851,598 and Kshs.2,870,250,000 representing 6.6% and 93.4% of the total budget respectively. However, the total actual expenditure during the year amounted to Kshs.1,601,596,539 representing under-absorption of Kshs. 1,471,505,059 or 48% of the total budget. The table below compares budgeted with the actual expenditures for the year:

Vote	Budgetary Allocation (Kshs)	Actual Expenditure (Kshs)	Under Absorption (Kshs)	% Absorption (Kshs)
Recurrent	202,851,598	175,321,162	27,530,436	86%
Development	2,870,250,000	1,426,275,377	1,443,974,623	50%
Total	3,073,101,598	1,601,596,539	1,471,505,059	52%

The under-absorption of Kshs.1,471,505,059 slowed down implementation of activities and projects in the Department's annual work-plan that the funds were budgeted to finance and thus constrained delivery of the Department's services to the public.

Consequently, all the Department's objectives for the year ended 30 June 2017 were not achieved.

1.2. Development Vote

The State Department's development vote budget for the year amounted to Kshs.2,870,250,000, as disclosed in the summary statement of appropriation: development. However, actual expenditure was Kshs.1,426,275,377, resulting in under-absorption of Kshs. 1,443,974,623 equivalent to 50% of the budget.

Included in the budget amount was an allocation for acquisition of assets amounting to Kshs.2,149,500,000 against which actual expenditure incurred amounted to Kshs.729,788,671 resulting in under-absorption of Kshs.1,419,711,329 or 66% of the budget. Management attributed a significant portion of the under-absorption (Kshs.1,398,782,790 representing 98.5% of the shortfall) to failure to procure Liquefied Petroleum Gas (LPG) cylinders because of delay in budgetary allocation by the National Treasury. Failure by the Department to procure the LPG cylinders for citizens as planned impeded attainment of its the Department's objectives for the year under review.

Responsibilities of Management and those Charged with Governance 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 which are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the State Department's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the going concern accounting assumption unless management is aware of the intention to terminate the State Department's operations.

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

Those charged with governance are responsible for overseeing the State Department's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report which includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement 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.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures which are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the State Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions which may cast significant doubt on

the State Department's ability to sustain services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the State Department to cease 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 of the business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control which are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters which may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

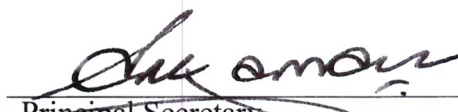
15 May 2018


MINISTRY OF ENERGY AND PETROLEUM, STATE DEPARTMENT FOR PETROLEUM
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IV. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2016-2017 Kshs	2015-2016 Kshs
RECEIPTS			
Tax Receipts	1	855,000,000	-
Exchequer Releases	2	745,092,640	-
Other Receipts	3	47,364,694	-
TOTAL RECEIPTS		1,647,457,334	-
PAYMENTS			
Compensation of Employees	4	66,971,814	-
Use of goods and services	5	482,981,293	-
Grants and Transfers to Other Government Entities	6	300,250,000	-
Acquisition of Assets	7	751,393,432	-
TOTAL PAYMENTS		1,601,596,539	-
SURPLUS		45,860,795	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The State Department for Petroleum's revised financial statements were approved on 23 April 2018 and signed by:


 Principal Secretary
 Name: **Andrew N Kamau, CBS**

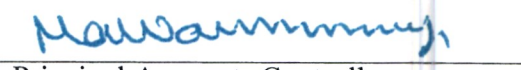

 Principal Accounts Controller
 Name: **Mary A. C. Wanyonyi**
 ICPAK Member Number: **10366**

V. STATEMENT OF ASSETS AND LIABILITIES

	Note	2016-2017 Kshs	2015-2016 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	8	45,236,158	-
Total Cash And Cash Equivalents		45,236,158	-
Accounts Receivables - Outstanding Imprest and Clearance Accounts	9	624,637	-
TOTAL FINANCIAL ASSETS		45,860,795	-
REPRESENTED BY			
Surplus for The Year		45,860,795	-
NET FINANCIAL POSITION		45,860,795	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The State Department for Petroleum's revised financial statements were approved on 23 April 2018 and signed by:


 Principal Secretary
 Name: **Andrew N Kamau, CBS**

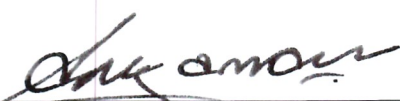

 Principal Accounts Controller
 Name: **Mary A. C. Wanyonyi**
 ICPAK Member Number: **10366**


MINISTRY OF ENERGY AND PETROLEUM, STATE DEPARTMENT FOR PETROLEUM
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VI. STATEMENT OF CASH FLOWS

	Note	2016-2017 Kshs	2015- 2016 Kshs
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts for Operating Income			
Tax Receipts	1	855,000,000	-
Exchequer Releases	2	745,092,640	-
Other Receipts	3	47,364,694	-
Payments for Operating Expenses			
Compensation of Employees	4	(66,971,814)	-
Use of goods and services	5	(482,981,293)	-
Transfers to Other Government Entities	6	(300,250,000)	-
Adjusted for:			
Increase in Accounts Receivables		(624,637)	-
Net Cash Flow from Operating Activities		796,629,590	-
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	7	(751,393,432)	-
Net cash flows from Investing Activities		(751,393,432)	-
NET INCREASE IN CASH AND CASH EQUIVALENT		45,236,158	-
Cash and Cash Equivalent at BEGINNING of the Year		-	-
Cash and Cash Equivalent at END of the Year		45,236,158	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The State Department for Petroleum's revised financial statements were approved on 23 April 2018 and signed by:


 Principal Secretary
 Name: Andrew N Kamau, CBS


 Principal Accounts Controller
 Name: Mary A. C. Wanyonyi
 ICPAK Member Number: 10366

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VII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation Difference to Final Budget
	a	b	c=a+b	d	e=c-d	f=d/c %
	Kshs	Kshs	Kshs	Kshs	Kshs	
RECEIPTS						
Tax Receipts (AIA)	1,337,500,000	-	1,337,500,000	855,000,000	482,500,000	64%
Exchequer Releases	2,914,686,904	(1,226,450,000)	1,688,236,904	745,092,640	943,144,264	44%
Other Receipts (AIA)	47,364,694	-	47,364,694	47,364,694	-	100%
TOTAL RECEIPTS	4,299,551,598	(1,226,450,000)	3,073,101,598	1,647,457,334	1,425,644,264	54%
PAYMENTS						
Compensation of Employees	3,146,904	64,700,000	67,846,904	66,971,815	875,089	99%
Use of goods and services	575,666,294	(45,809,000)	529,857,294	482,981,293	46,876,001	91%
Transfers to Other Government Entities	320,500,000	(20,250,000)	300,250,000	300,250,000	-	100%
Acquisition of Assets	3,400,238,400	(1,225,091,000)	2,175,147,400	751,393,431	1,423,753,969	35%
TOTAL PAYMENTS	4,299,551,598	(1,226,450,000)	3,073,101,598	1,601,596,539	1,471,505,059	52%
SURPLUS/DEFICIT	-	-	-	45,860,795	(45,860,795)	

Notes

- The Under collection of 64% of tax receipts was as a result of failure to implement one of the Projects.
 - The difference between the budgeted exchequer and the received exchequer of 44% was as a result of the Suppliers failing to deliver the goods within the financial year.
 - Underutilisation in Acquisition of Assets of 35% was as a result of non-delivery by the suppliers within the Financial Year. The changes between the original and final budget are as a result of reduction in the Development Budget.
- The State Department for Petroleum's revised financial statements were approved on 23 April 2017 and signed by:


Principal Secretary

Name: **Andrew N Kamau, CBS**



Principal Accounts Controller

Name: **Mary A. C. Wanyonyi**

ICPAK Member Number: **10366**

MINISTRY OF ENERGY AND PETROLEUM, STATE DEPARTMENT FOR PETROLEUM
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VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT


Revenue/Expense Item	Original Budget a Kshs	Adjustments b Kshs	Final Budget c=a+b Kshs	Actual on Comparable Basis d Kshs	Budget Utilisation Difference e=d-c Kshs	% of Utilisation Difference to Final Budget f=d/c %
RECEIPTS						
Exchequer Releases	43,786,904	111,700,000	155,486,904	144,400,000	11,086,904	93%
Other Receipts (AIA)	47,364,694	-	47,364,694	47,364,694	-	100%
TOTAL RECEIPTS	91,151,598	111,700,000	202,851,598	191,764,694	11,086,904	95%
PAYMENTS						
Compensation of Employees	3,146,904	64,700,000	67,846,904	66,971,815	875,089	99%
Use of Goods and Services	85,266,294	24,091,000	109,357,294	86,744,587	22,612,707	79%
Acquisition of Assets	2,738,400	22,909,000	25,647,400	21,604,760	4,042,640	84%
TOTAL PAYMENTS	91,151,598	111,700,000	202,851,598	175,321,162	27,530,436	86%
SURPLUS/DEFICIT	-	-	-	16,443,532	(16,443,532)	


Notes

- i. Underutilisation in Use of Goods of 79% was as a result of IFMIS challenges by the Supply Chain Management Section.
- ii. Underutilisation in Acquisition of Assets of 84% was as a result of IFMIS challenges by the Supply Chain Management Section

The changes between the original and final budget are as a result of increase in the Recurrent Budget.

The State Department for Petroleum's revised financial statements were approved on 23 April 2017 and signed by:


 Principal Secretary
 Name: **Andrew N Kamau, CBS**


 Principal Accounts Controller
 Name: **Mary A. C. Wanyonyi**
 ICPAK Member Number: **10366**

MINISTRY OF ENERGY AND PETROLEUM, STATE DEPARTMENT FOR PETROLEUM
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IX. SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT


Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
	a Kshs	b Kshs	c=a+b Kshs	d Kshs	e=c-d Kshs	f=d/c %
RECEIPTS						
Tax Receipts (AIA)	1,337,500,000	-	1,337,500,000	855,000,000	482,500,000	64%
Exchequer Releases	2,870,900,000	(1,338,150,000)	1,532,750,000	600,692,640	932,057,360	39%
TOTAL RECEIPTS	4,208,400,000	(1,338,150,000)	2,870,250,000	1,455,692,640	1,414,557,360	51%
PAYMENTS						
Use of Goods and Services	490,400,000	(69,900,000)	420,500,000	396,236,706	24,263,294	94%
Transfers to Other Government Entities	320,500,000	(20,250,000)	300,250,000	300,250,000	-	100%
Acquisition of Assets	3,397,500,000	(1,248,000,000)	2,149,500,000	729,788,671	1,419,711,329	34%
TOTAL PAYMENTS	4,208,400,000	-	2,870,250,000	1,426,275,377	1,443,974,623	50%
SURPLUS/DEFICIT	-	-	-	29,417,263	(29,417,263)	


Notes

- The Under collection of 64% of tax receipts was as a result of failure to implement one of the Projects.
- The difference between the budgeted exchequer and the received exchequer of 39% was as a result of the Suppliers failing to deliver the goods within the financial year and therefore Exchequer could not be requested.
- Underutilisation in Acquisition of Assets of 34% was as a result of non-delivery by the suppliers within the Financial Year.

The changes between the original and final budget are as a result of reduction in the Development Budget.

The State Department for Petroleum's revised financial statements were approved on 12th April 2017 and signed by:


 Principal Secretary
 Name: **Andrew N Kamau, CBS**


 Principal Accounts Controller
 Name: **Mary A. C. Wanyonyi**
 ICPAK Member Number: **10366**

MINISTRY OF ENERGY AND PETROLEUM, STATE DEPARTMENT FOR PETROLEUM
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X. BUDGET EXECUTION BY PROGRAMMES AND SUB-PROGRAMMES

Programme/Sub-Programme	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference
	Kshs	Kshs	Kshs
Oil and Gas	3,073,101,598	1,601,596,539	1,471,505,059
Oil and Gas Exploration	1,615,351,598	1,480,804,203	134,547,395
Distribution of Oil and Gas	1,457,750,000	120,792,336	1,336,957,664
Total	3,073,101,598	1,601,596,539	1,471,505,059

(NB: This statement is a disclosure statement indicating the utilisation in the same format as the State Department's budgets which are programme based.)

XI. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of Compliance and Basis of Preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy notes below.

This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The receivables and payables are disclosed in the Statement of Assets and Liabilities. The Statement of Assets and Liabilities is not mandatory statement under the IPSAS Cash basis but is encouraged in order to disclose information on assets and liabilities.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the State Department for Petroleum. All values are rounded to the nearest Kenya Shilling. The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

2. Reporting Entity

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

3. Recognition of Receipts and Payments

a) Recognition of Receipts

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

Tax Receipts

Tax Receipts are recognized in the books of accounts when cash is received. Cash is considered as received when notification of tax remittances are received.

**MINISTRY OF ENERGY AND PETROLEUM, STATE DEPARTMENT FOR
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For the year ended June 30, 2017

Exchequer Releases

Exchequer releases are recognized in the books of accounts when cash is received. Cash is considered as received when payment instructions are issued to the bank and notified to State Department.

Other Receipts

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

b) Recognition of Payments

The State Department for Petroleum recognizes all expenses when the event occurs and the related cash has actually been paid out by the State Department.

Compensation of Employees

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

Use of Goods and Services

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

Acquisition of Fixed Assets

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

A fixed asset register is maintained by the State Department and a summary provided for purposes of disclosure. This summary is disclosed as an annexure to the State Department's financial statements.

**MINISTRY OF ENERGY AND PETROLEUM, STATE DEPARTMENT FOR
PETROLEUM**
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4. In-Kind Contributions

In-kind contributions are donations that are made to the State Department 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 State Department includes such value in the statement of receipts and payments both as receipts and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

5. Cash and Cash Equivalents

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

Restriction on Cash

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

Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits. There were no other restrictions on cash during the year

6. Accounts Receivable

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

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XII. NOTES TO THE FINANCIAL STATEMENTS

1 TAX RECEIPTS

Description	2016-2017	2015-2016
	Kshs	Kshs
Taxes on Property - AIA	855,000,000	-
Total	855,000,000	-

These comprise royalties on oil exploration and petroleum development levies collected by the State Department.

2 EXCHEQUER RELEASES

Description	2016-2017	2015-2016
	Kshs	Kshs
Total Exchequer Releases for quarter 1	28,300,000	-
Total Exchequer Releases for quarter 2	260,765,655	-
Total Exchequer Releases for quarter 3	263,729,040	-
Total Exchequer Releases for quarter 4	192,297,945	-
Total	745,092,640	-

3 OTHER RECEIPTS

Description	2016-2017	2015-2016
	Kshs	Kshs
KOSF Storage Charges	47,364,694	-
Total	47,364,694	-

4 COMPENSATION OF EMPLOYEES

Description	2016-2017	2015-2016
	Kshs	Kshs
Basic salaries of permanent employees	42,183,513	-
Personal allowances paid as part of salary	24,788,301	-
Total	66,971,814	-

The salary and allowances covers the months of March – June 2017. This is due to the fact that the State Department for Petroleum payroll was separated from Energy's in November 2016 and the first payment to Petroleum staff was made in March 2017.

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5 USE OF GOODS AND SERVICES

Description	2016-2017	2015-2016
	Kshs	Kshs
Utilities, supplies and services	19,000	-
Communication, supplies and services	3,720,939	-
Domestic travel and subsistence	20,530,075	-
Foreign travel and subsistence	7,036,897	-
Printing, advertising and information supplies & services	2,825,153	-
Rentals of produced assets	3,840,000	-
Training expenses	168,601,883	-
Hospitality supplies and services	96,896,024	-
Specialised materials and services	94,600	-
Office and general supplies and services	7,892,043	-
Contracted Professional services	163,093,721	-
Routine maintenance – vehicles and other transport equipment	230,000	-
Routine maintenance – other assets	3,615,778	-
Fuel Oil and Lubricants	4,585,180	-
Total	482,981,293	-

Use of Goods and Services comprise the total value of goods and services consumed by the State Department.

6 GRANTS AND TRANSFERS TO OTHER GOVERNMENT ENTITIES

Description	2016-2017	2015-2016
	Kshs	Kshs
Transfers to National Government entities (See list below) (SCOA Code 2630201)	300,250,000	-
Total	300,250,000	-

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

Description	2016-2017			2015-2016
	Recurrent	Development	Total	
	Kshs	Kshs	Kshs	
Transfers to SAGAs and SCs				
National Oil Corporation of Kenya	-	280,000,000	280,000,000	-
Energy Regulatory Commission	-	20,250,000	20,250,000	-
Total	-	300,250,000	300,250,000	-

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We have confirmed these amounts with the recipient entities and attached these confirmations as an Appendix to this financial statement.

7 ACQUISITION OF ASSETS

Non Financial Assets	2016-2017	2015-2016
	Kshs	Kshs
Construction of buildings	30,767,783	-
Purchase of motor vehicles	19,453,000	-
Purchase of office furniture and general equipment	1,500,000	-
Purchase of specialized plant, equipment and machinery	120,651,730	-
Research, studies, project preparation, design & supervision	572,480,907	-
Rehabilitation of civil works	6,540,012	-
Total	751,393,432	-

These represent payments made to acquire property, plant and equipment during the year; which have been fully expended in the year of purchase in line with the accounting policies.

8 BANK ACCOUNTS

Name of Bank, Account No. & currency	Amount in bank account currency	Indicate whether recurrent, Development, deposit e.t.c	Exc rate (if in foreign currency)	2016-2017	2015-2016
				Kshs	Kshs
Central Bank of Kenya, 1000302682, KShs	14,442,297	Recurrent	N/A	14,442,297	-
Central Bank of Kenya, 1000302704, KShs	9,865,322	Development	N/A	9,865,322	-
KEPTAP	20,928,539	Project	N/A	20,928,539	-
Central Bank of Kenya, KShs	-	Deposit	N/A	-	-
Total	45,236,158			45,236,158	-

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9 ACCOUNTS RECEIVABLE - OUTSTANDING IMPRESTS

Description	2016-2017	2015-2016
	Kshs	Kshs
Government Imprests	624,637	-
Total	624,637	-

Below is a breakdown of the above outstanding imprest.

Name of Officer or Institution	Date Imprest Taken	Amount Taken	Amount Surrendered	Outstanding Balance
		Kshs	Kshs	Kshs
J. M. Nyachoti	07.04.2016	40,000	-	40,000
Samuel Mutai	14.10.2016	84,000	-	84,000
Julius Koech	09.10.2016	62,000	-	62,000
John Oyomba	24.01.2017	438,637	-	438,637
Total		624,637		624,637

10 OTHER IMPORTANT DISCLOSURES

10.1. PENDING ACCOUNTS PAYABLE (See Annex 1)

Description	2016 – 2017	2015 – 2016
	Kshs	Kshs
Supply of goods	1,554,845	-
Supply of services	277,761	-
Total	1,832,606	-

11 PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The State Department for Petroleum was created following the Executive Order no. 1 of May 2016. 2016/2017 is the first year of reporting.

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ANNEX 1 - ANALYSIS OF PENDING ACCOUNTS PAYABLE

Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2016-2017	Outstanding Balance 2015-2016	Comments
Supply of Goods	Kshs		Kshs	Kshs	Kshs	
M/s Giane Company LTD	349,860	18/04/2017	-	349,860	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Deetrin Enterprise LTD	25,000	16/06/2017	-	25,000	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Tin Tin Restaurant (VAT)	108,000	18/04/2017	102,414	5,586	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Masi Suppliers (VAT)	1,522,000	18/04/2017	1,443,276	78,724	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Hotel Intercontinental (VAT)	59,000	27/04/2017	55,948	3,052	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges

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Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance	Outstanding Balance	Comments
				2016-2017	2015-2016	
	Kshs		Kshs	Kshs	Kshs	
Antela Investment (VAT)	1,058,400	18/04/2017	1,003,655	54,745	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Janegustine Enterprises (VAT)	2,156,000	27/02/2017	2,044,483	111,517	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Fortin Agencies (VAT)	670,000	27/02/2017	635,345	34,655	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Kacky International (VAT)	131,985	14/03/2017	125,158.20	6,827	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Naokat Enterprises (VAT)	669,200	18/04/2017	634,586	34,614	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Tin Tin Restaurant (VAT)	124,200	24/04/2017	117,776	6,424	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges

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Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2016-2017	Outstanding Balance 2015-2016	Comments
	Kshs		Kshs	Kshs	Kshs	
Druce Investments (VAT)	640,000	6/10/2017	606,897	33,103	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
REX Kiosk (VAT)	281,174	27/010/2016	266,631	14,544	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
REX Kiosk (VAT)	397,226	20/01/2017	376,680	20,546	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Mouny Enterprises (VAT)	169,500	20/6/2017	160,733	8,767	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
REX Kiosk(VAT)	318,224	5/8/2017	301,764	16,460	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Wayside General supplies (VAT)	679,500	16/06/2017	644,353	35,147	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges

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Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance	Comments
				2016-2017	
	Kshs		Kshs	Kshs	
Three Tel World (VAT)	603,750	6/10/2017	572,522	31,228	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Ridoka Enterprises (VAT)	179,100	16/06/2017	169,836	9,264	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Davron Enterprises (VAT)	348,600	19/06/2017	330,569	18,031	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
REX Kiosk (VAT)	170,538	18/05/2017	161,717	8,821	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Gorios Enterprises (VAT)	166,390	16/06/2017	157,784	8,606	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Riaw Enterprises(VAT)	867,175	6/10/2017	822,321	44,854	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges

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Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2016-2017	Outstanding Balance 2015-2016	Comments
	Kshs		Kshs	Kshs	Kshs	
Three Tel World (VAT)	1,500,000	19/06/2017	1,422,414	77,586	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Njorick Enterprise (VAT)	360,000	16/06/2017	341,379	18,621	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Namwoya enterprises (VAT)	520,000	16/03/2017	493,103	26,897	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Rickliz(VAT)	99,329	19/06/2017	94,191	5,138	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Nairobi City water and sewerage co.(Bill January 2017)	106,746		-	106,746	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
DT Dobie (VAT)	6,950,000	28/06/2017	6,590,517	359,483	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Sub-Total	21,230,897		19,676,052	1,554,845	-	

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Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2016-2017	Outstanding Balance 2015-2016	Comments
Supply of Services	Kshs		Kshs	Kshs	Kshs	
Astorian Grand Hotel (VAT)	184,800	25/10/2016	175,241	9,559	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Sarova Stanley (VAT)	38,400	16/05/2017	36,414	1,986	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
L. Naivasha Panorama Camp (VAT)	498,000	6/6/2017	472,241	25,759	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Mombasa Beach Hotel (VAT)	130,000	28/02/2017	123,276	6,724	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Laico Rejency Hotel (VAT)	76,000	6/6/2017	72,069	3,931	-	The amount outstanding relates to VAT payment which failed to transfer to the internet banking platform due to system challenges
Chrispus Righa (REFUND OF EXPENSES)	3,760	31/08/2015	-	3,760	-	The payment failed to transfer to the internet banking platform

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Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2016-2017	Outstanding Balance 2015-2016	Comments
	Kshs		Kshs	Kshs	Kshs	
Pauline Iregi(REFUND OF EXPENSES)	30,000	28/10/2016	-	30,000	-	The payment failed to transfer to the internet banking platform
Swa - Foreign Affairs (DED. APRL 2017)	200	4/5/2017	-	200	-	The payment failed to transfer to the internet banking platform
Imprest Recovery (DED. APRIL 2017)	21,624	4/5/2017	-	21,624	-	The payment failed to transfer to the internet banking platform
Commissions (DED. APRIL 2017)	4,180	4/5/2017	-	4,180	-	The payment failed to transfer to the internet banking platform
Co-operative staff self-help(DED. MARCH 17)	200	21/03/2017	-	200	-	The payment failed to transfer to the internet banking platform
Swa - Foreign Affairs (DEDUCTION MAR 17)	200	21/03/2017	-	200	-	The payment failed to transfer to the internet banking platform
swa-Internal auditors DEDUCTION JUN 17)	100	6/12/2017	-	100	-	The payment failed to transfer to the internet banking platform
commissions (June 2017)	4,271	6/12/2017	-	4,271	-	The payment failed to transfer to the internet banking platform
Swa - Foreign Affairs (June 2017 Deductions)	200	6/12/2017	-	200	-	The payment failed to transfer to the internet banking platform
Astorian Grand Hotel (VAT)	86,800	31/05/2017	82,310	4,490	-	The payment failed to transfer to the internet banking platform

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Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance		Comments
				2016-2017	2015-2016	
	Kshs		Kshs	Kshs	Kshs	
Nectar Agencies (VAT)	391,848	29/05/2017	371,580	20,268	-	The payment failed to transfer to the internet banking platform
Sweet Lake Resort (VAT)	273,000	31/05/2017	258,879	14,121	-	The payment failed to transfer to the internet banking platform
Irene Akhubi (PAYE)	21,895	14/6/2017	12,894	9,001	-	The payment failed to transfer to the internet banking platform
Salma Ramadhan (PAYE)	12,692	14/6/2017	7,470	5,222	-	The payment failed to transfer to the internet banking platform
Peter Ihomba (PAYE)	33,600	14/6/2017	20,440	13,160	-	The payment failed to transfer to the internet banking platform
Eric Isutsa (PAYE)	5,880	14/6/2017	1,392	4,488	-	The payment failed to transfer to the internet banking platform
Jon Nyangweso (PAYE)	25,918	14/6/2017	15,672	10,246	-	The payment failed to transfer to the internet banking platform
Hotel Intercontinental (VAT)	80,000	16/05/2017	75,862	4,138	-	The payment failed to transfer to the internet banking platform
Francis Njoroge (PAYE)	12,692	14/6/2017	5,820	6,872	-	The payment failed to transfer to the internet banking platform
Daniel Maina (PAYE)	9,140	14/6/2017	5,209	3,931	-	The payment failed to transfer to the internet banking platform
Timothy Mbaluka (PAYE)	10,341	14/6/2017	6,182	4,159	-	The payment failed to transfer to the internet banking platform

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Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2016-2017	Outstanding Balance 2015-2016	Comments
	Kshs		Kshs	Kshs	Kshs	
Tin tin restaurant restaurant (VAT)	530,700	15/06/2017	503,250	27,450	-	The payment failed to transfer to the internet banking platform
Jonh Mbuthia (PAYE)	14,403	14/6/2017	7,297	7,107	-	The payment failed to transfer to the internet banking platform
Daniel Maina	9,140	14/6/2017	3,931	5,209	-	The payment failed to transfer to the internet banking platform
Irene Torgot (PAYE)	5,232	14/6/2017	3,549	1,683	-	The payment failed to transfer to the internet banking platform
Gladys Chepkoech (PAYE)	6,145	14/6/2017	3,727	2,418	-	The payment failed to transfer to the internet banking platform
Nelson Kande (Taxi Expenses)	14,000	4/6/2017	-	14,000	-	The payment failed to transfer to the internet banking platform
John Mbuthia (PAYE)	14,403	14/6/2017	7,297	7,107	-	The payment failed to transfer to the internet banking platform
Sub-Total	2,549,763		2,272,002	277,761		
Grand Total	23,780,660		21,948,054	1,832,606		

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ANNEX 2 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Historical Cost	Historical Cost	Historical Cost	Disposals during the year	Historical Cost c/f
	b/f	during the year	(Kshs)		
	(Kshs)	(Kshs)	(Kshs)	(Kshs)	(Kshs)
Land	-	-	-	-	-
Buildings and structures	-	30,767,783	-	-	30,767,783
Transport equipment	-	19,453,000	-	-	19,453,000
Office equipment, furniture and fittings	-	1,500,000	-	-	1,500,000
ICT Equipment, Software and Other ICT Assets	-	651,760	-	-	651,760
Other Machinery and Equipment	-	126,539,982	-	-	126,539,982
Heritage and cultural assets	-	-	-	-	-
Intangible Asset	-	572,480,907	-	-	572,480,907
Total	-	751,393,432	-	-	751,393,432

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ANNEX 3 – LIST OF PROJECTS IMPLEMENTED BY THE STATE DEPARTMENT FOR PETROLEUM

Ref. No	Project Name	Principal activity of the project	Accounting Officer	Project consolidated in these financial statements(yes/no)
1	Kenya Petroleum Technical Assistance Program (KEPTAP)	Petroleum Technical Capacity Building	Andrew Kamau CBS	Yes

ANNEX 4 - LIST OF STATE CORPORATIONS AND SAGAs UNDER THE STATE DEPARTMENT FOR PETROLEUM

Ref. No	SC, SAGA or Public Fund's name	Principal activity of entity	Accounting Officer	Amount transferred during the year	Inter- entity reconciliations done?(yes/no)
1	National Oil Corporation (Nock)	Exploration Importation and sale of Petroleum products	Andrew Kamau, CBS	280,000,000	Yes
2	Energy Regulatory Commission	Regulation of Energy and Petroleum Sector Agencies	Andrew Kamau, CBS	20,250,0000	Yes
3	Kenya Pipeline Corporation (Kpc)	Transportation of petroleum products from Mombasa to the hinterland using a pipeline system	Andrew Kamau, CBS	-	N/A

