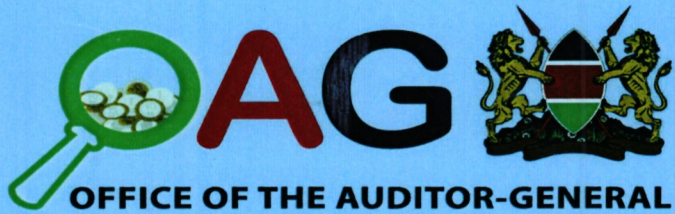


REPUBLIC OF KENYA



Enhancing Accountability



PARLIAMENT OF KENYA LIBRARY	THE NATIONAL ASSEMBLY PAPERS LAID
DATE: 20 FEB 2023	DAY: TUESDAY
TABLED BY: REPORT	<i>the leader of the Majority Party (LOM)</i>
CLERK-AT THE-TABLE:	<i>Inzoga Mwale</i>

OF

THE AUDITOR-GENERAL

ON

**KENYA PETROLEUM REFINERIES
LIMITED**

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



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

19 OCT 2022

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**International Financial Reporting Standards (IFRS)
Annual Financial Reporting Template for
Commercial Government Owned Entities**

KENYA PETROLEUM REFINERIES LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2021

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

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I. KEY ENTITY INFORMATION

Background information

The company is incorporated as a limited company in Kenya under the Companies Act Chapter 17 of the Laws of Kenya and is domiciled in Kenya. On 24th June 2016, the Government of Kenya (GoK) entered into an agreement with Essar Energy Overseas Limited (Essar), Essar Energy Holdings Limited (EEHL) and Kenya Petroleum Refineries Limited (KPRL) for the transfer of the legal and beneficial interest in all of the shares owned by Essar in KPRL to GoK. The agreement and the disposal of the shares converted Kenya Petroleum Refineries Limited to become 100% wholly owned by GoK..

The entity is under the Ministry of Petroleum and Mining (Previously Ministry of Energy & Petroleum)

Vision

To be the number one supplier of integrated energy

Mission

We will maximise value addition to delight our customer and other stakeholders.

Principal Activities

The company's principal business activity is to refine crude oil into various petroleum products for sale to the oil marketing companies in Kenya. The company's business changed from toll refinery to merchant refining with effect from 1st July, 2012. The Government of Kenya (GoK) published Legal Notices No. 24, 25 and 26 dated 12th April 2012 to amend the energy regulations under the Energy Act to give legal effect to the company's merchant refining business.

However, the company's refining operations stopped on 4th September, 2013. The main reason quoted for the shutdown was that the prices of the products produced by the refinery were marginally higher than those of imported products. This was caused by lack of secondary refining capabilities that would optimise the production of fuel oil. The fuel oil accounted for more yields upto 30% prior to the shut down and conversion of Tops yield to petrol. The company has continued operating by rendering storage of imported petroleum products services and leasing its storage tanks and pipelines.

On 11 August 2016, the Cabinet of the GoK (as 100% shareholder of KPRL) directed that KPRL be taken over by the Kenya Pipeline Company Limited (KPC). Subsequently KPC initiated a due diligence process which was conducted by Price Water House Coopers, (PWC), to facilitate evaluation of KPRL, and form the basis for the takeover decision.

As an interim measure, on 20th March, 2017, KPRL signed a 3 year operating lease agreement with KPC. The Lease Agreement was a culmination of the exit of Essar from shareholding at KPRL, and the termination of the crude oil processing at KPRL, where upon the major assets of KPRL were underutilized. The lease arrangement was therefore seen as an interim phase to allow the finalization of the due diligence and decision making on the pending takeover of KPRL by KPC. The Lease Agreement was operationalized with effect from 1 June, 2017.

KEY ENTITY INFORMATION (Continued)

KPRL Background (Continued)

Under the lease agreement, the consideration for using KPRL facility is that KPC would retain all the staff of KPRL and reimburse the company all operating expenses, exclusive of depreciation expense, which would fall due at the end of the lease period. The agreement further provides that KPC may at its option undertake any upgrading, modification, expansion and/or new investment within the facility at its cost, which shall be treated as KPC's cost of investment. In the unlikely event of termination of the agreement before the takeover is actualized, KPC would be entitled to a refund of the upgrading costs by the GoK. A further conditionality for KPC's takeover of the facility was that it would undertake the relevant modification of the facility to accommodate the Early Oil Pilot Scheme (EOPS) geared at the early monetization of crude oil discoveries in Kenya.

On 18th March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20th June, 2021. In line with clause 3.2 of the Agreement KPC and KPRL expressed interest and mutually agreed to extend the Term of the Agreement for a further period of six (6) months with effect from 20th June, 2021 with automatic month to month extension until the implementation of the joint proposed roadmap on takeover of KPRL by KPC is completed. Both KPRL and KPC take note that the implementation of the proposed roadmap on takeover is being handled by a Steering Committee Chaired by The National Treasury & Planning.

Members of the steering committee consist of at least 2 members representing KPRL, KPC, SCAC, Ministry of Petroleum & Mining, Office of the Attorney General and The National Treasury. The Steering Committee began sitting on 25th September, 2020. On 26th April, 2022 KPC engaged PwC as transaction advisor for the takeover of KPRL. The consultant began the work immediately and is expected to finalize their work in two months time. This will pave way for the final road map for takeover of KPRL by KPC.

Directors

The Directors who served the entity during the year were as follows:

1. Henry Gathara Karinga - Appointed on 06/02/17 (reappointed 21/02/2020)
2. Lilian Bokeeye Mahiri – Zaja - Appointed on 06/02/17 (reappointed 21/02/2020)
3. Hesbon Olum Gondi - Appointed on 09/04/2003
4. Joseph Macharia Kariuki - Alt. to CS National Treasury: Appointed 10/05/2017
5. Joseph Wafula Wepukhulu - Alt. To Ps, Petroleum: Appointed On 27/11/2017
6. Joseph Bale Ndoti - Ag. Chief Executive Officer-Appointed on 07/10/2019

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KEY ENTITY INFORMATION (Continued)

Corporate Secretary

Ledger Registrars (Muthoni Gatere/George Mokuu)
Epic Business Park 7th Floor
Links Road, Nyali
P.O. Box 43085 – 80100
Mombasa

Registered Office

Kenya Petroleum Refineries Limited
Changamwe, off Refineries Road,
P.O. Box 90401- 80100 GPO,
Mombasa, KENYA.

Corporate Headquarters

Kenya Petroleum Refineries Limited
Changamwe, off Refineries Road,
P.O. Box 90401- 80100 GPO,
Mombasa, KENYA

Corporate Contacts

Chief Executive Officer,
P.O. Box 90401-80100 GPO,
Mombasa, KENYA.
Telephone :(254) 041-3433510-9
E-mail: refinery@kprl.co.ke
Website: www.kprl.co.ke

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KEY ENTITY INFORMATION (Continued)

Corporate Bankers

Absa Bank Kenya Plc,
Nkrumah Road Business Centre,
P.O. Box 90182,
Mombasa, Kenya.

Standard Chartered Bank Kenya Ltd,
Treasury Square,
P.O. Box 90170,
Mombasa, Kenya

Citibank, N. A.
Nkrumah Road Branch,
P.O. Box 83615,
Mombasa, Kenya.

NCBA Group Plc
Moi Avenue Branch,
PO Box 90681,
Mombasa, Kenya.

National Bank of Kenya,
Nkrumah Road Branch,
P.O. Box 90363-80100,
Mombasa, Kenya.

Independent Auditors

Main Auditor

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

Principal Legal Advisers

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

Coulson Harney Advocates,
ICEA Lion Centre, Chiromo Road,
West Wing, 5th Floor,
P.O. Box 10643,
GPO 00100,
Nairobi, Kenya.

Kaplan & Stratton Advocates
9th Floor, Williamson House
4th Ngong Avenue
P. O. Box 40111- GPO 00100
Nairobi, Kenya.




Lumatete Muchai & Co. Advocates
Epic Business Park, 3rd Floor
Links Road, Nyali
P.O. Box 90565 – GPO 80100
Mombasa, Kenya.

Cootow and Associates Advocates
NSSF Building, 11th Floor
Nkrumah Road
P.O. Box 16858 – GPO 80100
Mombasa, Kenya.



Bowyer Mahihu & Co. Advocates
Mt. Kenya Road, Nyali
Opp. Bahari Beach Hotel,
P.O. Box 80735 – GPO 80100
Mombasa, Kenya

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II. THE BOARD OF DIRECTORS

Name of Director	Key qualifications and work experience	
<p>1. Mr. Andrew Ng'ang'a Kamau</p> <p>(Alternate Mr. J. Wafula)</p>	<p>DOB-1966, Permanent Secretary, State Department of Petroleum.</p> <p>DOB-06/06/1975 Mr. Wafula is a Senior Economist at the State Department of Petroleum.</p>	
<p>2. Mr. Henry K. Rotich</p> <p>(Alternate Mr. J. Kariuki)</p>	<p>DOB-19/02/1969, Cabinet Secretary for The National Treasury.</p> <p>DOB-08/01/1963. Alternate Director, The National Treasury.</p>	
<p>3. Mr. Hesbon Gondi Olum</p>	<p>DOB-05/09/1941. He holds a M.Sc. in Economics (Kiev Institute, USSR 1969) and B.Phil. in Economics (UoN 1971). Formerly the CECM Trade, Industry & Co-op Devt Siaya County. A career civil servant, he has held senior positions in the Ministry of Planning & National Devt. and Ministry of Health as well as the Central Bureau of Statistics.</p>	
<p>4. Ms. Lilian B. Mahiri-Zaja</p>	<p>DOB-08/12/1964 She is an advocate of the High Court of Kenya and holds a Master of Law Degree from the University of Reading, United Kingdom (2002); a post- graduate Diploma in Legal Education from the Kenya School of Law (1989); and an LL.B. (UoN, 1988). She was previously the Vice Chairperson at the IEBC and has held various positions in the Department of Justice including Deputy Chief Legal Officer from 2004-2011. Ms Mahiri-Zaja is currently a Commissioner with the Energy and Petroleum Regulatory Authority (EPRA).</p>	
<p>5. Mr. Henry G. Karinga</p>	<p>DOB-13/03/1966 He holds a Bachelor of Science (UoN), 1990 and Global Executive MBA (USIU) 2016. Managing Director - H.K. Builders & General Contractors Ltd</p>	

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Name of Director	Key qualifications and work experience	
CPA. Joseph Ndoti	<p>DOB-05/07/1972</p> <p>Currently the Acting Chief Executive Officer KPRL from 6th October 2019 and also serves as CFO since August, 2016. He has over 20 years' experience in financial management and business administration. He joined KPRL in July 2000 as a Financial & Management Accountant and has scaled through the career ladder to his current role. He holds a B.Com Accounting and MBA in Strategic Management (UoN) and is a Certified Public Accountant of Kenya (CPA(K)) and member of ICPAK. He has previously worked in Cargill Kenya and P&O Nedlloyd East Africa Ltd.</p>	
Ms. Muthoni Gatere	<p>DOB-05/03/1963</p> <p>Muthoni is a practising Advocate with 30 years experience. She holds a Masters degree in International Maritime Law (IMO- IMLI Malta); a post- graduate Diploma in Legal Education from the Kenya School of Law (1987), LL.B. (Hons.) from UoN (1986) and is a Certified Public Secretary (ICPSK) and member of the Law Society of Kenya (LSK). She has previously worked at KPA as a Board Secretary for 15 years and has expertise in negotiating complex commercial contracts and Pension schemes set up and management. She is currently a Consultant with Ledger Registrars (Certified Public Secretaries).</p>	

Board Committees




Committee	Business Committee	Audit & Compliance Committee
Roles	Finance, Human Resource, Technical and Strategy matters	Governance and Risk Matters
Chairperson	i) H. Karinga	i) L. Mahiri
Membership	ii) J. Wafula iii) H. Gondi iv) J. Kariuki	ii) J. Kariuki iii) H. Gondi
Secretary	Company Secretary	Manager, Internal Audit

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III. MANAGEMENT TEAM

Name of the Staff		Responsibility
CPA. Joseph Ndoti		<p>DOB-05/07/1972 Currently the Acting Chief Executive Officer KPRL from 7th October 2019 and serves as CFO since August 2016. He has over 20 years' experience in financial management and business administration. He joined KPRL in July 2000 as a Financial & Management Accountant and has scaled through the career ladder to his current role. He holds a B.Com Accounting and MBA in Strategic Management (UoN) and is a Certified Public Accountant of Kenya (CPA(K)) and member of ICPAK. He has previously worked in Cargill Kenya PLC and P&O Nedloyd East Africa Ltd.</p>
Ms. Abigail Mwangi		<p>DOB-10/10/1968 Currently the Chief Operating Officer now seconded to the Ministry of Petroleum and Mining. She holds a Bsc. Chemistry (UoN). Ms. Mwangi joined KPRL in 1992 and has held a number of senior positions including Commercial Manager (Jul 2012-Oct 2016) Manager Hydrocarbons & Economics (June 2012-Oct 2010) and Manager Process Operations (June 2008-Oct 2010)</p>
Mr. Martin Wahome		<p>DOB-24/04/1965 Currently the Human Resource Manager, KPRL. Holds a Bachelor's degree in Social Sciences (UoN) and an MBA from Middlesex University. Mr. Wahome Joined KPRL in Sept 2004 and has over 25 years' experience in Human Resources Management. He has previously worked for Block Hotels, Sara Lee Limited and Unga Group Limited in the same capacity. He is a member of the Institute of Personnel Management and a certified RBA Trustee.</p>

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Name of the Staff		Responsibility
Eng. Evanson Momanyi		<p>DOB-01/01/1964 Currently the Engineering Manager at KPRL. He joined KPRL in Nov 1992 and has over 24 year's professional engineering experience in various industries and fields in Manufacturing, Projects, Operations management, Quality, Health & Safety Management. Before joining KPRL he worked in Bamburi Portland Cement Ltd and the Ministry of Works. He holds a B.Sc. Mechanical Engineering (UoN) and MBA in Operations Management (UoN). He is registered Professional Engineer (PE) and a corporate member of the Institute of Engineers of Kenya.</p>
Michael Kariuki		<p>DOB-26/07/1977 Currently the Manager Technology Development and Operations at KPRL. He joined KPRL in July 2005 as a Process Engineer and has over 15 years' experience in Manufacturing, Projects, Operations and Health, Environment & Safety. Before joining KPRL worked at Chandaria Industries and Kel Chemicals Ltd. Michael holds an MBA in operations Management (UoN) and B.Tech degree in Chemical and Process Engineering (Moi University). He is a Certified Energy Manager and a registered Engineer with the Engineers Board of Kenya and the Institute of Engineers of Kenya</p>
Kadzo Kalama		<p>DOB-17/11/1983 Kadzo is the Head of Legal Services; charged with the legal advisory and corporate governance roles in the company. She is an Advocate of the High Court of Kenya with experience in commercial matters in the Energy, Petroleum and Pension sectors with keen interest on policy formulation, regulation and implementation in the sectors. She holds a post graduate Diploma in Legal Education from the Kenya School of Law, LL.B. (UoN) and is a Certified Retirement Benefits Trustee and a member of the Law Society of Kenya (LSK).</p>

IV. CHAIRMAN'S STATEMENT

KPRL has been on transition mode since 4th September, 2013. The company's refining operations stopped on 4th September, 2013 and the plant was shut down effective the same date. The main reason quoted for the shutdown was that the refinery gate prices of the products produced by the refinery were marginally higher than those of imported products. After the shutdown of the refining plant on 4th September 2013, the company has continued in operation and its main sources of revenue are now from storage of imported petroleum products and the leasing of its pipelines.

On 24th June 2016, the Government of Kenya (GoK) entered into an agreement with Essar Energy Overseas Limited (Essar), Essar Energy Holdings Limited (EEHL) and Kenya Petroleum Refineries Limited (KPRL) for the transfer of the legal and beneficial interest in all of the shares owned by Essar in KPRL to GoK. The agreement and the disposal of the shares converted Kenya Petroleum Refineries Limited to become 100% wholly owned by GoK. KPRL is under the State Department of Petroleum, Ministry of Petroleum and Mining.

On 11 August 2016, the Cabinet of the GoK (as 100% shareholder of KPRL) directed that KPRL be taken over by the Kenya Pipeline Company Limited (KPC). Subsequently KPC initiated a due diligence process which was conducted by Price Water House Coopers, (PWC), to facilitate evaluation of KPRL, and form the basis for the takeover decision.

As an interim measure, on 7 March, 2017, KPRL signed a 3 year operating lease agreement with KPC. The Lease Agreement was a culmination of the exit of Essar from shareholding at KPRL, and the termination of the crude oil processing at KPRL, where upon the major assets of KPRL were underutilized. The lease arrangement was therefore seen as an interim phase to allow the finalisation of the due diligence and decision making on the pending takeover of KPRL by KPC.

The Lease Agreement was operationalized with effect from 1 June, 2017. Under the Lease Agreement, the consideration for using KPRL facility is that KPC would retain all the staff of KPRL and reimburse the company all operating expenses. The agreement further provides that KPC may at its option undertake any upgrading, modification, expansion and/or new investment within the facility at its cost, which shall be treated as KPC's cost of investment. In the unlikely event of termination of the agreement before the takeover is actualized, KPC would be entitled to a refund of the upgrading costs by the GoK. A further conditionality for KPC's takeover of the facility was that it would undertake the relevant modification of the facility to accommodate the Early Oil Pilot Scheme (EOPS) geared at the early monetization of crude oil discoveries in Kenya.

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CHAIRMAN'S STATEMENT (continued)

On 18th March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20th June, 2021. In line with clause 3.2 of the Agreement KPC and KPRL expressed interest and mutually agreed to extend the Term of the Agreement for a further period of six (6) months with effect from 20th June, 2021 with automatic month to month extension until the implementation of the joint proposed roadmap on takeover of KPRL by KPC is completed. Both KPRL and KPC take note that the implementation of the proposed roadmap on takeover is being handled by a Steering Committee Chaired by The National Treasury & Planning.

The critical items on the agreed road map are staff matters, finalization of pending OAG audits which have since been done and a report is expected soon and accounts which were delayed by uncertainty about the going concern status of KPRL, pending KRA audits, resolution of products yield shift and closure of the defunct Toll refinery legacy matters

However, the implementation of the road map was slowed down by the Covid-19 Pandemic. In order to manage the spread of Covid-19 Pandemic, GoK declared a curfew and restricted meetings and travels with effect from 27th March, 2020. The restrictions have been reviewed regularly with advice from the Ministry of Health and in line with the World Health Organization (WHO) guidelines.

Signed by Director of the Board

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

Status of the Lease Agreement and Road Map for Take Over of KPRL by KPC

During the financial year 2020/21, the company continued to operate under the KPRL –KPC Lease Agreement which was entered on 20th March 2017.

On 18th March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20th June, 2021. In line with clause 3.2 of the Agreement KPC and KPRL expressed interest and mutually agreed to extend the Term of the Agreement for a further period of six (6) months with effect from 20th June, 2021 with automatic month to month extension until the implementation of the joint proposed roadmap on takeover of KPRL by KPC is completed. Both KPRL and KPC take note that implementation of the proposed roadmap on takeover is being handled by a Steering Committee Chaired by The National Treasury & Planning.

Going Concern Status of KPRL

The matter of uncertainty about the going concern status of KPRL has been raised by all external auditors who need assurance that GoK has solid plans for continuity of KPRL as a viable business. The going concern principle is the assumption that an entity will remain in business for the foreseeable future. The renewal of the lease agreement and the agreed road map for eventual takeover of KPRL by KPC are some of the measures taken by the Shareholder (The National Treasury & Planning) to address the uncertainty about the going concern status of KPRL.

Status of Pending External Audits for FY2016/17 – 2019/20

On 8th March 2021, the office of the Auditor General (OAG) commenced audit of KPRL financial statements for the periods 2016/17 to 2019/20. The audit team from OAG completed the audit in June, 2021. KPRL is waiting for finalization of the audit report and signing off of certificate by the Auditor General.

There is also a pending KRA audit for the periods 2013/14 to 2019/20. The audit programme was disrupted by Covid-19 Pandemic. KRA is yet to confirm the commencement date of the audit.

Valuation of KPRL Assets

Vide a letter dated 15th March, 2021 KPRL requested the services of the Ministry of Lands and Physical Planning to value KPRL assets. The valuation exercise began on 11th May, 2021 and is due for completion on 30th September, 2021.

Restoration of Captive Power Plant

On 19th March, 2021 KenGen acknowledged our letter : reference no. CEO/10/2018 dated 2nd October, 2018 regarding KPRL request to KenGen to support restoration of the Captive Power Plant (CPP). On 13th May, 2021, the two companies formalized the formation of a joint technical team to prepare the road map for restoration of the CPP. The team completed their report on 18th October, 2021. On 25th May 2022, KPRL and KenGen finalized the draft Technical Support Agreement (TSA) which is due for signing by both companies.

VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FY 2020/2021

Background Information about KPRL Strategic & Annual Budgeting Process

KPRL has been in transition mode since 4th September, 2013. The company's refining operations stopped on 4th September, 2013 and the plant was shut down effective the same date. The main reason quoted for the shutdown was that the refinery gate prices of the products produced by the refinery were marginally higher than those of imported products.

On 24th June 2016, the Government of Kenya (GoK) entered into an agreement with Essar Energy Overseas Limited (Essar), Essar Energy Holdings Limited (EEHL) and Kenya Petroleum Refineries Limited (KPRL) for the transfer of the legal and beneficial interest in all of the shares owned by Essar in KPRL to GoK. The agreement and the disposal of the shares converted Kenya Petroleum Refineries Limited to become 100% wholly owned by GoK. KPRL is under the State Department of Petroleum, Ministry of Petroleum and Mining.

On 11 August 2016, the Cabinet of the GoK (as 100% shareholder of KPRL) directed that KPRL be taken over by the Kenya Pipeline Company Limited (KPC). Subsequently KPC initiated a due diligence process which was conducted by Price Water House Coopers (PWC), to facilitate evaluation of KPRL, and form the basis for the takeover decision.

As an interim measure, on 20th March, 2017, KPRL signed a 3 year operating lease agreement with KPC. The Lease Agreement was a culmination of the exit of Essar from shareholding at KPRL, and the termination of the crude oil processing at KPRL, where upon the major assets of KPRL were underutilized. The lease arrangement was therefore seen as an interim phase to allow the finalisation of the due diligence and decision making on the pending takeover of KPRL by KPC. The Lease Agreement was operationalized with effect from 1st June, 2017.

Under the Lease Agreement, the consideration for using KPRL facility is that KPC shall reimburse all KPRL operating and finance expenses at cost without a profit margin. KPRL staff were seconded to KPC except the CEO who manages the residual functions of KPRL as a legal entity. The agreement further provides that KPC may at its option undertake any upgrading, modification, expansion and/or new investment within the facility at its cost, which shall be treated as KPC's cost of investment. In the unlikely event of termination of the agreement before the takeover is actualized, KPC would be entitled to a refund of the upgrading costs by the GoK. A further conditionality for KPC's takeover of the operations of the KPRL facility was that it would undertake the relevant modification of the facility to accommodate the Early Oil Pilot Scheme (EOPS) geared at the early monetization of crude oil discoveries in Kenya.

Status of the Lease Agreement and Road Map for Take Over of KPRL by KPC

On 18th March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20th June, 2021. In line with clause 3.2 of the Agreement, KPC and KPRL expressed interest and mutually agreed to extend the Term of the Agreement for a further period of six (6) months with effect from 20th June, 2021 with automatic month to month extension until the implementation of the joint proposed roadmap on takeover of KPRL by KPC is completed. Both KPRL and KPC take note that implementation of the proposed roadmap on takeover is being handled by a Steering Committee Chaired by The National Treasury & Planning.

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REVIEW OF KPRL PERFORMANCE FOR FY 2020/2021 (Continued)

The implementation of the road map has been slowed down by the Covid-19 Pandemic. In order to manage the spread of the Covid-19 Pandemic, GoK declared a curfew and imposed restrictions on meetings and travels with effect from 27th March, 2020. The critical items on the agreed road map are staff matters, finalization of pending audits and accounts which were delayed by uncertainty about the going concern status of KPRL, pending KRA audits, resolution of products yield shift and closure of the defunct Toll refinery legacy matters.

Strategic Pillars

Since 4th September, 2013 when refining operations were stopped, KPRL strategic plan is yet to be updated and unveiled. Despite the uncertainty about the going concern status of KPRL, the company is still guided by 5 strategic pillars and objectives within its Medium Term Budget for the FY2020/21-2023/24. These strategic pillars are as follows:

- **Pillar 1:** Conduct KPRL Business with integrity and in accordance with the laws of the Country.
- **Pillar 2:** Create value to the Shareholder and our Customers by maximizing use of allocated resources within budgeted limits.
- **Pillar 3:** Resolve the uncertainty about the going concern status of KPRL and secure the future of the Company.
- **Pillar 4:** Carry out KPRL activities with highest regard to health, safety, security and the environment.
- **Pillar 5:** Maintain and develop KPRL facility as a Strategic Asset of the GoK within the petroleum industry.

In line with the KPRL-KPC lease agreement, KPRL develops its annual work plans in collaboration with KPC based on the above 5 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets set for the FY 2020/2021 period for its 5 strategic pillars, as indicated in the diagram below:

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 1: Conduct KPRL Business with integrity and in accordance with the laws of the Country	To comply with ethical, governance and statutory reporting requirements	Level of Compliance with internal and external requirements.	-Adherence to Company Policies and operating procedures	- There were no cases of fraud or abuse of office. -There were no penalties associated with gross non-compliance of internal and external reporting requirements.

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**STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR
FY 2020/21**

REVIEW OF KPRL PERFORMANCE FOR FY 2020/2021 (continued)

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 2: Create value to the Shareholder and our Customers by maximizing use of allocated resources within budgeted limits.	Enhance and sustain shareholder value	- Operate within approved budgetary limits. - Profitability	-Budgeted operating activities under revenue expenditure budget - Capital Expenditure Program	- Actual total revenue was 12% below plan due to delayed approval of FY2020/21 Budget and disruption of economic activities caused by the Covid - 19 pandemic. -Deficit for the period was KSh 305M against budgeted deficit of KSh 146M. -Capital Expenditure Program on KPRL assets is controlled & executed by KPC and is KPC's cost of investment in their books.
Pillar 3: Resolve the uncertainty about the going concern status of	Secure long-term future of KPRL which was affected by closure of the refining operations since 4 th September, 2013.	-Sustainable operations that meet obligations of all stakeholders	Implement the Cabinet Directive of 11 August 2016 that directed KPRL to be taken over by the Kenya Pipeline Company Limited (KPC).	KPC and KPRL agreed on a road map for the takeover of KPRL by KPC. The KPRL-KPC lease agreement was renewed for a further period of 15 Months w.e.f 20 th Mar, 2020 and further extended for a period of 6 months w.e.f 20 th June, 2021.
Pillar 4: Carry out KPRL activities with highest regard to health, safety, security and environment.	Respect and recognize HSE concerns of the community, our customers, employees, service providers and compliance with the law	Health, Safety, Security, Environmental (HSSE) incidents and level of compliance with applicable laws.	HSSE Programs	By 30 th June, 2021, KPRL had achieved 2,159,366 work hours without Lost Time Injury (LTI) against target of 2,500,000.00 work hours without LTI. Hours remaining to target were 340,634
Pillar 5: Maintain and Develop KPRL Facility as a strategic Asset of GoK in the Oil & Gas Sector.	KPRL facility is a strategic facility of GoK.	Maximize Utilization of the assets	- Hospitality Services (products receipts and deliveries)	Actual throughput was 890,270M3 . Full potential is a turnaround tank capacity of 1.4 (196,000M3 per month) which is yet to be achieved..

Performance Contract.

Since 4th Sept, 2013 when refinery operations stopped, KPRL has been in transition mode. Due to the uncertainty about the going concern status and the on going KPRL-KPC lease arrangement, KPRL is yet sign performance contracts.

VII. CORPORATE GOVERNANCE STATEMENT

Leadership and Responsibilities

Overview

Corporate governance refers to the structures and processes guiding the leadership of the Company. The Company has instituted systems to ensure that high standards of corporate governance are maintained at all levels of the organization. Throughout the year ended June 2021, the Company endeavored to comply with its constitutive documents, The Constitution of Kenya 2010, Code of Governance for State Corporations 'Mwongozo' and The State Corporations Act. The Company is committed to supporting corporate governance guidelines through embedment of internal rules of engagement that reflect the highest standards of behavior.

Role of the Board

The Board is made up of five (5) Directors and has functioned without a substantive Chairperson since the exit of Director Suleiman Shakombo on 21st October 2016 vide gazette notice number 8733.

The Board is collectively responsible for the Company's vision and strategic direction, its values and its governance. The Board is also accountable to the Company's shareholders for the performance of the business and its long-term success. It provides the leadership necessary for the Company to meet its performance objectives within the framework of internal controls.

The key responsibilities of the Board include;

- Approving Company Strategy
- Approving Company Policies
- Approving Annual Reports
- Approving the Company budget
- Agreeing on governance framework
- Reviewing risk management and internal controls
- Reviewing periodic financial reports

The Board has established two principal Board Committees to which it has delegated certain responsibilities namely; the Business Committee and the Audit and Compliance Committee. The roles, membership and activities of these committees are as described later in this report. Each Committee has its own terms of reference which are subject to review annually.

It should be noted that, in its meeting held on 18th April 2019, the Board formed the KPRL Road-Map Committee, an adhoc committee of the Board tasked with engagement of Government of Kenya through the Ministry of Petroleum and Mining for determination of a policy decision on the way forward for KPRL.

Division of Responsibilities

The chairperson is responsible for the leadership of the Board by ensuring effectiveness in all aspects of its role and facilitating productive contribution of all Directors. He sets the Agenda for the Board meetings in consultation with the Chief Executive Officer and the Company Secretary.

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VII. CORPORATE GOVERNANCE STATEMENT (continued)

The Chairperson is also responsible for ensuring that the interests of the shareholder are safeguarded and effective communication is maintained with the shareholder. The chairperson is accountable to the Board for leading the direction of the Company's corporate and financial strategy and for overall supervision of the policies governing the conduct of the business.

As the board does not have a substantive Chairperson, the Board, in its meetings nominates a designated Director to facilitate coordination and functioning of the Board and Management. This member thus coordinates board activities and executes any approved documents on behalf of the board. This position will continue until the appointment of a substantive chairperson by the relevant authority.

The Chief Executive Officer has overall responsibility for the performance of the business. He provides leadership to facilitate successful planning and execution of the objectives and strategies agreed by the Board. He is also responsible for stewardship of the Company's assets and jointly with the Chairperson, for representation of the Company externally.

Information and Support

The Board receives high quality, up-to date information for review in good time ahead of each meeting. The Company Secretary ensures timely information dissemination within the Board and its Committees.

The Composition of the Board

The composition of the Board as at 30th June 2021 is as set out in the key entity information on page (iii). As detailed in the below schedule, the Board held seven (7) full Board meetings, six (6) Special Board meetings and four (4) Business Committee meetings during the year 2020/2021 with one (1) Annual General Meeting held on 4th March 2021 at the Company's Boardroom.

Schedule of Meetings – Financial Year Ended 30th June 2021:

Special Board	Full Board	Audit & Compliance Committee	Business Committee
11 th August 2020	22 nd July 2020	22 nd September 2020	22 nd September 2020
29 th September 2020	3 rd August 2020	5 th November 2020	8 th October 2020
9 th October 2020	23 rd September 2020	3 rd December 2020	5 th November 2020
4 th December 2020	6 th November 2020	3 rd March 2021	3 rd December 2020
1 st March 2021	25 th January 2021	6 th April 2021	
11 th June 2021	3 rd March 2021		
	28 th April 2021		

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VII CORPORATE GOVERNANCE STATEMENT (continued)

The attendance was as follows:

Name	Lilian Mahiri-Zaja	Hesbon Gondi	Henry Karinga	Joseph Kariuki	Joseph Wafula
Meetings to Attend	22	22	17	22	17
Meetings Attended	22	22	17	22	08

Balance and Diversity

Board Directors come from a diverse industry and professional backgrounds with varied experience and expertise aligned to the needs of the business.

Conflict of Interest

Directors are required to give advance notice of any conflict of interest issues to the Chairperson and Company Secretary and these are considered at the next Board meeting. Declaration of conflicts of interest is the first agenda item for all Board meetings. No conflicts were reported by the Directors in 2020/2021

Information and Professional Development

On joining the Board, all Directors receive a full induction on all areas of the Company's business which includes a tour of the refinery complex and tank farms.

Training and Development

The Board and its Committees receive regular briefings on the legal regulatory developments within the government and the industry.

Board Charter

The Board has a draft Charter, aligned to the provisions of Mwongozo; which acts as a guide to all Board functions. The Charter was due to be adopted early in the year.

Board and Member Performance

A board and Member performance appraisal was undertaken on 29th July 2020 under the direction of the State Corporations Advisory Committee.

Directors Remuneration

The Directors remuneration is solely guided by the guidelines set forth in the Terms and Conditions of State Corporations for Chairmen and Board members and the Salaries Remuneration Commission (SRC) circulars dated 10th December, 2014 and the amendments thereto.

VII CORPORATE GOVERNANCE STATEMENT *(continued)*

Roles of the Business Committee

The Business Committee plays a major role in the Finance, Human Resources, Technical and Strategy Matters of the Company. The committee oversees the integrity of financial reporting, the independence and effectiveness of internal and external audit functions and compliance with legal and regulatory requirements.

The responsibilities of the committee include reviewing the business risk management processes as well as the health, safety, security and environment functions. This committee further oversees the company's major projects, the strategic direction of the company and operations of the business. It also guides the development, review and authorization of procuring and contracting procedures.

This committee also oversees the Company's human resources policy, practices and procedures taking into account that Human resources are one of the most important stakeholders of the Company.

Role of the Audit and Compliance Committee

The Audit and Compliance Committee is responsible for monitoring the integrity of financial statements and any formal announcements relating to financial performance.

In addition, the committee makes recommendations to the Board in relation to the appointment, reappointment or removal of the external auditors and the remuneration and terms of engagement of the external auditors.

The committee reviews and monitors the independence of the external auditors and the objectivity and effectiveness of the audit process, taking into account relevant professional and regulatory requirements.

Governance Audit

An audit of the Legal and Governance functions of the company and its subsidiary, Kenya Petroleum Refineries Pension Trust (Corporate Trustee of the staff pension/provident schemes) as prescribed under the provisions of Mwongozo was undertaken during the year.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES HIGHLIGHTS

Manpower

Establishment strength as at the year ending 30th June 2021 stood at 117. On 18th March 2020, the KPRL/KPC lease agreement was extended for a further term of 15 months which expired on 20th June 2021. Both parties mutually agreed to extend the lease for a further period of 6 (six) months effective 20th June 2021. All KPRL staff remain seconded to KPC.

Departmental Transfers and Promotions.

In order to utilize resources optimally in the current business model and also enhance staff engagement and service delivery, Ms. Jane Nzemi Thomas, Assistant Accountant and Dorcas Wafula Senior Technician were redeployed from Oil Accounts and Operations Department to the Human Resources Department as Payroll and Pensions Accountant and Management Assistant respectively.

A reorganization of the Engineering Function was also done to enhance service delivery which saw Dr. Edward Masha appointed Manager Mechanical Engineering (MME), while Projects and Tanks under the Headship of Amos Oloo was split and Kenneth Nyakwaka appointed Head of Projects Engineering (HPE) while Amos remained the Head of Tanks and Pipelines (HTP).

Several employees in Operations, Engineering, Human resources, Oil Accounts and Laboratory Departments also had their Job Groups reviewed, were promoted or confirmed into their positions having acted in the positions for a number of years.

Recruitment (Contract)

During the year ended 30th June 2021, Miss Ruth Nyamai -Warehouse Assistant (issuing), Joseph Mkala -Warehouse Assistant (Receiving), Josephine Kamali -Assistant Supply Chain officer and Dickson Ojijo Supply Chain Officer II (SCO) joined the Contracts & Procurement Department while Mr Linus Nyongesa joined the IT department as IT Help Desk Administrator. Mr. Philip Karisa and Walter Otieno were recruited as Instruments Technicians in the Engineering (Instrumentation) Department. All are on two-year renewable contracts.

Staff Exits

The year experienced several exits; Anthony Nyakiamo (Manager Large Project) exited the company on retirement after serving 26 years while Martin Kithaka - Security Officer, James Makasi (Manager Information Technology), Christopher Oduor Oluoch-Health Safety and Environment Officer, Wisdom Mwapagha-Electrical Supervisor and Godfrey Mwadime of instruments left the Company on expiration of their respective contracts. Benjamin Njagi was dismissed due to gross misconduct.

Mrs. Florence Mwende Kisavi from the Operations Department, passed away while receiving treatment for illness in Nairobi on 23rd March 2021.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS (*continued*)

HUMAN RESOURCES HIGHLIGHTS

Employee Recognition

In the year ended June 2021, Joseph Bale Ndoti, Ag. CEO, Erick Ndunda Mutua, Rose Mwandawiro, Wilson Maina Mithamo, Rodgers Tsuma Mtenzi, Joseph Mwadime Ngima, Neville Mwandambo Ngai, Stephen Mutua Musau and Mathias Kilei were recognised for having attained 15 years in service while Anthony Ndago Tunje and Amos Oloo Head of Tanks and Pipelines was recognized for having attained 10 years of service. Employees were also awarded an incentive pay or bonus for FY 2017/18.

Dissemination Meeting (Baraza)

Management organised for a dissemination meeting on 23rd September, 2020. The meeting was an open forum for information sharing and to address various issues concerning the company and also facilitate a question and answer session which was chaired by the Ag. CEO Mr. Joseph Ndoti.

VIP Visits

On 2nd December 2020 and 14th January 2021 KRPL received several delegations from KPC. The first delegation was led by the KPC Board chair and KPC Managing Director who were welcomed by KPRL Director Mr. Joseph Kariuki, KPRL Ag. CEO Mr Joseph Ndoti and Ag. General Manager KPRL Mr Tom Mailu. This was a familiarization tour of the site, specifically to discuss KPC capital projects which were ongoing and those under proposal while the second group of delegates was led by Director Wathome (KPC) and the KPC Managing Director for a familiarization tour of the site, Laboratory and Workshop Department. This also included inspection of Projects in execution and a tour of the dormant plant.

Staff Welfare

In order to implement the Presidential Directive on promotion of Local Textile industry and purchase of goods and products made of locally manufactured fabric, staff were encouraged to wear African apparel at least once a week, specifically on Fridays. KPRL has also embarked on its efforts of conserving and beautifying the environment where employees took part in a tree planting exercise which was graced by KPRL Director Joseph Kariuki. This is line with GoK directive on tree planting and creation of carbon sinks.

COVID-19 Pandemic

KPRL continued to enforce Government protocols towards curbing infection and spread of Covid-19 as the third wave of the pandemic worsened as the year closed especially in Counties in western Kenya.

Staff were sensitized on the importance of being vigilant and alert as they performed their day-to-day activities both at work and at home. Staff were also encouraged to take advantage of the voluntary vaccination programme against COVID-19 at the Coast General Hospital and various private establishments in Mombasa for both first and second doses and this was received positively by employees.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS (*continued*)

HEALTH SAFETY SECURITY & ENVIRONMENTAL PERFORMANCE

Health Safety and Environment (HSE) matters remain critical in the operations of KPRL. Consequently, everyone within the organization is committed to the goal of eliminating all work related injuries and adverse health effects. No serious injury was reported during the year under review, however two restricted work case were reported. This achievement can partly be attributed to the heightened HSSE campaign through quarterly safety raffles as well as the near miss reporting and rewarding scheme that is in place. Job safety analysis was also done for all project and maintenance works to identify/assess the hazards and put in place control/mitigation measures before commencing work.

Tracking of cumulative work hours that have been achieved without lost time injury was done throughout the year where two Million work hours' milestone was achieved on 11th April 2021. A new target was then set at 2.5 million workhours with 2,159,366 workhours being achieved by 30th June 2021.



Figure 1; Safety Raffle at KPRL

In the year under review, KPRL carried out the safety and health committee, work place HSE Management and statutory First Aid trainings as part of capacity building to both members of staff and contractors.

Twenty-four hours' security surveillance of all KPRL premises via CCTV Cameras and patrols by Security Guards continued throughout the year with no major incident reported.

As a company, we progressed the implementation of containment measures against Covid-19 in line with all the government protocols and guidelines issued from time to time. This was achieved through preventive strategies such as social distancing, use of face masks, heightened hygiene levels, provision and use of hand sanitizer, temperature screening and fumigation of work areas to maintain a safe working environment.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

ENGINEERING HIGHLIGHTS

Introduction:

The key maintenance activity under Refinery Complexes I and II is continued maintenance of nitrogen top-ups meant for partial preservation of the equipment. This exercise has been in progress from shutdown in 2013. *The condition of the process plant equipment is disintegrating as no proper preservation has been funded.*

I) Rotating & Mobile Equipment

The periodic rotating of rotors for pumps at pre-determined intervals continued and the equipment is still in gasoil preservation while compressors are in nitrogen preservation. Some pumps are in stuck state. The required condition monitoring of rotating equipment in operation continued. Repairs were carried out for 2No. pumps which failed in operation and the gulley sucker. Some mobile equipment were serviced by Original Equipment Manufacturer (OEM) as scheduled and the ones which failed were repaired.

II) Storage Tanks and Pipelines

T210 which is a gasoline tank was decommissioned due to the noted nozzle deteriorating integrity condition. The tank was decommissioned, inspected, repaired and recommissioned. Also inspection and repair works were started for tank T115 gasoil tank.

III) Site Works

General site cleaning and clearing of grass continued where herbicides on grass and landscaping was carried out. Cleaning of storm water drains and desludging was carried out. The following works were carried out: Waterproofing of main office roof slab, Renovation of KPRL estate sewer line, Widening of culverts at KOT and Installation of new ground tank water pumps at KPRL estate/tank ball valve. Also Vipingo cottages repair works progressed nearing completion.

IV) Captive Power Plant.

The vendor engineer after troubleshooting realised that the hard disk on the operator station was defective. Weekly engine spinning using an external PC with hard drive continued but was stopped after the engine starting air system was noted to malfunction. This was repaired by OEM as well as the replacement of the electric charging system on the LV breaker and the spinning resumed in mid May 2021 and ongoing

V) Instrumentation & Control

The scheduled checks and testing of safeguarding systems were done as planned. Normal maintenance requirement noted carried out for all instrumentation system (CCTV, Smoke detection system, meters, safe guarding system, transmitters, ATG, etc) . Configured AGO truck loading circulation control loop in DCS, Replaced new 6Nos. mouse on all Human Interface Machine station, HIMS at Control Room DCS Panels, fitted 6Nos. pairs new battery for HIMS Uninterruptible Power Supply. Attended to standby Operational requirements of Fuel Ship, LPG receipts at Shimanzi Oil Terminal & transfers to Changamwe depots. Tuning of all portable and base radios to new frequencies allocated by CAK, done awaiting supply, installation and commissioning of repeater. Installation of CCTV ptz camera at new loading bay progressed.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

ENGINEERING HIGHLIGHTS

VI) Electrical

The normal routine inspection and maintenance continued. Procurement process was initiated and is ongoing for: the Administration Block main power supply cable replacement, faulty protection relays for substation No. 3 & Port Reitz line No. 2, faulty new control room uninterruptible power supply (UPS1), New compressors for New Control Room Chiller 1A air-conditioning unit that got burnt, Battery charging units for substation No.3 high voltage switchgear protection relays spares which failed. Repairs of; defective Central laboratory air conditioner unit and motor rewinding works for P604C which got burnt continued. 604C contactor together with substation No.3 HV switchgear incomer accessories got burnt and supply for replacement spares progressed. Substation No.1, transformer No.2 tap changer failed and scope of works for repairs developed for tendering to Original Equipment Manufacturer (OEM).

VII) Inspection & Integrity

Carried out external NDT inspection of all storage tanks at Changamwe and KPC input tank farm as scheduled and in a number of assorted underground pipelines inspection and repair works within Changamwe tank farm. Continued with routine monitoring/on-stream inspection of active tanks, piping and safety relief devices RVs/PVs overhaul review and testing as per schedule

Surveillance inspection during; painting of piping/fittings for the truck loading upgrade project, relocation of 8" MPL and LPG lines along Changamwe- Jomvu and KPA Kipevu road, tank T-102 conversion works to White oils storage, welded piping for the truck loading upgrade project and rehabilitation works for tank T210. Inspection and QA/QC follow up for the KPA funded KOT2 Jetty relocation project. Progressed Inspection/Welders Testing/ QA/QC surveillance, NDT and painting EOPS crude pipes to T-101, T-103 and T-104, steam lines and condensate pipelines within KPRL tank farm for EOPS.

Embarked on inspection of T-115 in preparation for major rehabilitation. Participation in KPRL Assets verification and Valuation exercise by Ministry of Land and Physical Planning officers.

VIII) Early Oil Pilot Scheme Project:

Within the period, KPRL had no receipt of Turkana crude under the Early Oil Pilot Scheme (EOPS). KPRL continued to hold a total of 24,517 Tons of EOPS crude oil, the consignment that was received after the first export in August 2019.

Modification works on KPRL assets under the Early Oil Pilot Scheme project continued for the uncompleted works of the supply/installation of pipelines, pumps & other accessories at Changamwe and KOT. As at 30th June, progress was at 76%. The contract expired on 30th June, 2021 and there is no budget for the project in the next financial year (2021/22).

VIII. MANAGEMENT DISCUSSION AND ANALYSIS (*continued*)

ENGINEERING HIGHLIGHTS

IX) Other Projects

The following projects were under implementation and status as at 30th June 2021 is as indicate;

1. LPG leak and gas detection project - Installation and commissioning done. Progress is at 100% complete and taken over by the employer.
2. Yokogawa DCS System upgrade-100% complete and commissioned
3. Upgrading of truck loading facility- Implementation progressed and progress is at 76%. The contract expired on 30th June, 2021 and there is no budget for the project in the next financial year (2021/22).

Review of the Petroleum Sector and Ongoing Projects

Oil and Gas Explorations and Appraisal Wells

The Ministry of Petroleum and Mining continued to supervise drilling oil and gas wells in the country.

Early Oil Pilot Scheme (EOPS)

The objective of EOPS was to gather technical data for designing and preparation of the Field Development Plan and to test the international market of the Kenyan Crude Oil. The effects of COVID-19 led to suspension of EOPS related activities in the country.

Lokichar-Lamu Crude Oil Pipeline

The Pipeline will evacuate/transport crude oil from the production fields in the Lokichar Basin to Lamu Port for storage and onward export to the International markets. The Ministry in collaboration with Kenya Joint Venture (KJV) continued to undertake relevant studies aimed at actualization of this project

Enhancement of Liquefied Petroleum Gas (LPG) Uptake

There has been a drive by the Ministry and industry players to enhance LPG uptake by provision of infrastructure and other drivers to enhance availability and penetration of LPG gas in the country.

The Kipevu Oil Jetty

The construction of the Island Kipevu Oil Jetty continued with an expected completion date of December, 2021. The four-berth expanded new Jetty will replace the existing one-berth jetty that has a constraint in receipt of petroleum products in the country as only one petroleum vessel can berth at a time. The new Jetty has provisions for receipt and back-loading of all petroleum products including LPG and Crude Oil

VIII. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL HIGHLIGHTS

Revenue

The lease agreement provides for recovery of KPRL operating and finance costs at cost i.e. without a profit margin. The expenses recovered exclude provision for interest on dead stock and depreciation on the refining plant, captive power plant(CPP) and associated equipment for both plants.

The rationalized budgets for KPC and KPRL were approved by The National Treasury on 12th October, 2020. Total recoveries during the year were KES 1.175bn against planned recoveries of Kshs 1.44bn representing 18% below the approved plan. This was due to low product volumes handled through KPRL and delays in the implementation of the FY2020/21 budget particularly in respect of repairs and maintenance activities. Other operating income for the year was Kshs 146M against approved budget of 58M which was 154% higher than the approved plan due to higher than expected investment income from KPRL investment in the DC Pension fund. The revenue performance of the year was good despite the negative impact of the Covid-19 pandemic that disrupted and slowed down economic activities.

Operating Expenses

Total operating costs during the year were Kshs 1.598bn compared to previous year of Kshs 1.441bn. This was mainly due to provision for bad debts amounting to Kshs303M in respect of disputed recovery of withholding tax expenses and VAT from KPC. The budgeted activities were also affected by Covid-19 pandemic that continued to disrupt and slow down economic activities.

Finance Costs

Interest charged on outstanding bank loans for the year was Kshs 146M compared to previous year Kshs 226M. This was due to implementation of competitive rates with effect from 8th May, 2020 when KPRL released Kshs 380M of depreciation money that was applied against the principal loan. Subsequently, depreciation money is released quarterly and is applied against the principal loan. Also included in the finance costs is provision for interest on dead stock amounting to Kshs 53M compared to last year Kshs 63M.

Total finance cost for the year was Kshs 199M compared to Kshs 289M for the previous year.

Loss after Tax and Other Comprehensive Income

Loss after tax and other comprehensive income for the year was Kshs 32M compared to loss of Kshs 184M for the prior year. The loss for the current year is mainly due to provision for bad debts amounting to Kshs303M and non-recovery of provision for interest on toll dead stocks and depreciation charge on refining plant, captive power plant(CPP) and associated equipment for both plants.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

STATEMENT OF FINANCIAL POSITION

The statement of financial position is shown on page 2.

Non- Current Assets

The net book value of non-current assets reported at historical cost as at 30th June, 2021 was Kshs 3.105bn compared to Kshs 3.342bn for the previous year. Detailed breakdown of property, plant and equipment is shown on note 15 of the financial statements. The decline in net book value of the assets is due to provision for depreciation. No provision has been made for impairment of the defunct refining plant, captive power plants and associated equipment .

Following the conversion of the Defined Benefit (DB) pension scheme to Defined Contribution (DC) pension scheme, the company's share of surplus was transferred to the DC pension fund to be invested with the DC fund until such time as the liquidation process of the DB fund is fully completed. Ultimately the fund would go partly to future funding of the employer's statutory contribution towards the DC pension scheme. The estimated value of KPRL investment in the DC fund as at 30th June, 2021 was Kshs 849M compared to previous year Kshs 744M. The DB pension scheme is still undergoing the process of liquidation. Consequently, in line with RBA rules, the KPRL Board for the Sponsor (KPRL) passed a resolution to meet any contingent liability that may arise in future, which shall be covered by a component of the sponsors DC fund of Kshs 849M. Once the process of liquidation is complete then the investment in the DC fund will be available to KPRL.

Current Assets

As at 30th June 2021, current assets include crude and finished products inventories Kshs 321M, plant & equipment spares and other consumables Kshs 821M, trade & other receivables Kshs 298M and bank & cash balances Kshs 47M. Detailed analysis of the trade and other receivables is shown on notes 20 of the financial statements.

Current Liabilities

As at 30th June 2021, current liabilities include trade & other payables 1229bn GoK advances Kshs 1.635bn, bank loans and overdrafts Kshs 1.795bn. Detailed analysis of the outstanding bank loans, trade and other payables are shown on notes 26, & 29 of the financial statements.

Deferred Tax Liability

As at 30th June 2021 deferred tax liability was Kshs 71M upon passing current and prior year adjustments. The significant change affecting the treatment of deferred tax is that the Finance Act, 2021 removed the time restriction on carry forward of losses effective 1st January 2022, thus enabling KPRL to recognise deferred tax asset from previous years.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS (continued)

FINANCIAL HIGHLIGHTS

STATEMENT OF CASH FLOWS

The statement of cash flows is shown on page 5.

Cash generated from operations

Net cash generated from operating activities for the year ended 30th Jun, 2021 was Kshs 211M compared to Kshs 545M for the previous year.

Cash flow from investing activities

Year to date capital expenditure financed by KPRL was Kshs 386,160. As per the lease agreement, Capital Expenditure incurred by KPC in upgrading KPRL assets is reported in KPC books as cost of investment.

Financing activities

Net cash generated from operating activities was Kshs 211M compared to Kshs 545M for the previous year (2019/20) while net cash used in financing activities during the year was Kshs 263M compared to the previous year Kshs 1.546bn. This amount includes principal loan repayment of Kshs 65M towards the Captive Power Plant term loan, interest paid on loans Kshs 146M, and provision for interest on dead stock Kshs 53M. The prior year net cash used in financing activities included Kshs 1.043bn returned to The National Treasury in August 2019, being balance of cash that had been advanced to KPRL by GoK to finance the Refinery Upgrade Project, Essar buy out and Early Oil Pilot Scheme (EOPS) project.

Net decrease in cash and cash equivalents

Net decrease in cash and cash equivalents during the year was Kshs 53M compared to the previous year Kshs 1.018bn.

Note: The closing deficit cash and cash equivalents as at 30th June, 2021 of Kshs 711,905,524/- is made up of Bank and cash balances Kshs 47,205,772/- as shown on note 22 and bank overdrafts as detailed in note 26(a) comprising: CBA Kshs 408,268,441/- Citibank Kshs 179,749,604/- & Citibank USD facility equivalent Kshs 171,093,251/-

IX. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

i) Sustainability strategy and profile -

KPRL has been on transition mode since 4th September, 2013. The company's refining operations stopped on 4th September 2013 and the plant was shut down effective the same date. The main reason quoted for the shutdown was that the refinery gate prices of the products produced by the refinery were marginally higher than those of imported products.

As an interim measure, on 20th March, 2017, KPRL signed a 3 year operating lease agreement with KPC. The Lease Agreement was a culmination of the exit of Essar from shareholding at KPRL, and the termination of the crude oil processing at KPRL, where upon the major assets of KPRL were underutilized. The lease arrangement was therefore seen as an interim phase to allow the finalisation of the due diligence and decision making on the pending takeover of KPRL by KPC. The Lease Agreement was operationalized with effect from 1 June, 2017.

Status of the Lease Agreement and Road Map for Take Over of KPRL by KPC

On 18th March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20th June, 2021. In line with clause 3.2 of the Agreement KPC and KPRL expressed interest and mutually agreed to extend the Term of the Agreement for a further period of six (6) months with effect from 20th June, 2021 for the implementation of the joint proposed roadmap on takeover of KPRL by KPC. Both KPRL and KPC take note that implementation of the proposed roadmap on takeover is being handled by a Steering Committee chaired by The National Treasury & Planning.

KPRL strategic plan is yet to be updated and unveiled. Despite the uncertainty about the going concern status of KPRL, the company is still guided by 5 strategic pillars and objectives within its Medium Term Budget for the FY2020/21-2023/24. These strategic pillars are as follows:

- **Pillar 1:** Conduct KPRL Business with integrity and in accordance with the laws of the Country.
- **Pillar 2:** Create value to the Shareholder and our Customers by maximizing use of allocated resources within budgeted limits.
- **Pillar 3:** Resolve the uncertainty about the going concern status of KPRL and secure the future of the Company.
- **Pillar 4:** Carry out KPRL activities with highest regard to health, safety, security and the environment.
- **Pillar 5:** Maintain and develop KPRL facility as a Strategic Asset of the GoK within the petroleum industry.

IX) ENVIRONMENTAL AND SUSTAINABILITY REPORTING

ii) Environmental performance

KPRL has a HSE policy that ranks HSE matters on equal terms with other strategic business objectives. The policy is anchored on the premise that all KPRL activities will be conducted taking foremost account of the health and safety of employees, contractors, customers and the community while paying proper regard to the environment. This policy has been implemented through a comprehensive Health, Safety and Environment management system (HSE MS) which is certified to the ISO 14001;2015 Environmental Management System standard. To this end all reasonable steps are taken to protect and preserve the environment through the identification and control of hazards that are inherent in the company's operations.

It is KPRL's policy to minimize and prevent environmental pollution in all her activities. Consequently, the company continued to comply with applicable laws such as environment Management and Coordination Act 2012 CAP 387, Occupational Safety and Health Act 2007 CAP 514, Water Act, 2016, Petroleum Act 2019 and other relevant legislations. This was demonstrated through carrying out applicable statutory audits and inspections such as annual environmental audit, occupational health and safety audit, fire safety audit, ambient air measurements, noise surveys, statutory medical examinations and effluent water sampling and analysis. Corrective actions from the audits and inspections continue to be implemented with the aim of improving our HSE performance.

Further, as part of the environmental sustainability programs and improvement of biodiversity, KPRL embarked on a tree planting exercise where more than fifty indigenous tree seedlings were planted on site.

As part of our commitment to protecting the environment, we replaced eighty-five (85) air condition units that run on Refrigerant R-22 which is ozone depleting with a similar number running on refrigerant R-410, an ozone friendly gas. Twelve energy efficient LED street light fittings were also installed, a departure from the less efficient halogen lamps thus contributing to energy and environmental conservation at KPRL.

In FY 2020/21, KPRL progressed the LPG truck loading project which is intended to further support the Governments vision of having LPG constitute thirty-five (35) percent of cooking fuel in the country by 2030. The clean cooking fuel will also minimise on domestic (indoor)air pollution and the consequences related with the use of biomass as fuel and as well reduce on deforestation. The project is in tendering stage expected to be implemented in FY 2021/22.

IX) ENVIRONMENTAL AND SUSTAINABILITY REPORTING

iii) Employee welfare

KPRL is an equal opportunity employer and where approval has been granted to recruit, this has been done through our manpower provider on renewable contract terms. The reason behind this is because of the company's uncertain future and the fact that it is currently awaiting takeover by KPC and therefore in transition.

During the few such exercises to replace positions left vacant through natural attrition during the year, the company has taken into account the gender ratio by specifically targeting potential female candidates where possible.

There was little stakeholder engagement in the hiring process because the operations of the company are very technical and require specific skill sets to carry out hence our target group tends to be very small. However, KPRL continues to encourage its contractors to engage the local community in jobs which are low skilled and do not require rigorous recruitment procedures. KPRL has a robust training program for all staff and sets specific training targets for the year. Career growth is well managed with succession mapping carried out and documented for all senior roles in the company.

During the year, KPRL paid out a bonus or incentive payment to qualifying employees relating to FY 2017/18.

iv) Market place practices-

The organisation should outline its efforts to:

a) Responsible competition practice.

Since 20th March, 2017, KPRL operates under the KPC-KPRL lease agreement that transferred customer care, marketing practices and contractual arrangement between KPRL and Oil Marketing Companies (OMCs) to KPC.

b) Responsible Supply chain and supplier relations

KPRL honours contractual obligations. As at 30th June, 2021 KPRL had no pending bills.

c) Responsible marketing and advertisement

As per the current lease arrangement, KPC operates the KPRL facility and is responsible for product marketing and advertisement.

d) Product stewardship

Since 20th March, 2017, KPRL operates under the KPC-KPRL lease agreement that transferred customer care, marketing practices and contractual arrangement between KPRL and Oil Marketing Companies (OMCs) to KPC.

IX) ENVIRONMENTAL AND SUSTAINABILITY REPORTING (*continued*)

Corporate Social Responsibility / Community Engagements

CSR activities have been minimal due to budget constraints. However, KPRL has supported the local community in nurturing of young talent by providing the company's training facilities to sports groups like the Magongo Rangers and Changamwe Volley Ball teams.

KPRL continues to support Mafuta Sea Scouts with their camping activities at Refineries estate and has provided them with dry foodstuffs when requested. Apart from providing the local administration with refreshments during national occasions, KPRL has donated refurbished furniture and IT equipment to their offices and to nearby schools like Gome and Changamwe Secondary Schools.

X. REPORT OF THE DIRECTORS

The Directors submit their report together with the unaudited financial statements for the year ended June 30, 2021 which show the state of the company's affairs.

i) Principal activities

KPRL has been on transition mode since 4th September, 2013. The company's refining operations stopped on 4th September, 2013 and the plant was shut down effective the same date. The main reason quoted for the shutdown was that the refinery gate prices of the products produced by the refinery were marginally higher than those of imported products.

As an interim measure, on 20th March, 2017, KPRL signed a 3 year operating lease agreement with KPC. The Lease Agreement was a culmination of the exit of Essar from shareholding at KPRL, and the termination of the crude oil processing at KPRL, where upon the major assets of KPRL were underutilized. The lease arrangement was therefore seen as an interim phase to allow the finalisation of the due diligence and decision making on the pending takeover of KPRL by KPC. The Lease Agreement was operationalized with effect from 1 June, 2017.

Status of the Lease Agreement and Road Map for Take Over of KPRL by KPC

On 18th March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20th June, 2021. In line with clause 3.2 of the Agreement KPC and KPRL expressed interest and mutually agreed to extend the Term of the Agreement for a further period of six (6) months with effect from 20th June, 2021 with automatic month to month extension until the implementation of the joint proposed roadmap on takeover of KPRL by KPC is completed. Both KPRL and KPC take note that implementation of the proposed roadmap on takeover is being handled by a Steering Committee Chaired by The National Treasury & Planning.

ii) Results

The results of the entity for the year ended June 30, 2021 are set out on page 1 to 7. Below is summary of the profit or loss made during the year.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

X. REPORT OF THE DIRECTORS (continued)

SUMMARIZED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021.			
	Note	2020/2021	2019/2020
		Kshs	Kshs
REVENUES			
TOTAL REVENUES	6,7,8	1,293,638,538	1,207,017,248
TOTAL OPERATING EXPENSES	9,10	1,598,676,950	1,441,313,014
PROFIT/(LOSS) BEFORE TAXATION		(305,038,412)	(234,295,766)
INCOME TAX EXPENSE/(CREDIT)	12	(272,858,131)	(50,154,249)
PROFIT/(LOSS) AFTER TAXATION		(32,180,281)	(184,141,517)
Earnings per share – basic and diluted	13	(1)	(5)
Dividend per share	14	0	0
OTHER COMPREHENSIVE INCOME			
Profit/ (Loss) after taxation		(32,180,281)	(184,141,518)
Surplus or deficit on revaluation of PPE		0	0
Re-measurement of net defined benefit liability		0	0
Fair value gain/(loss) on investments in equity instruments designated as at FVTOCI		0	0

iii) Dividends

There were no dividends declared during the year. The company has been experiencing going concern issues since the refining operations ceased on 4th September, 2013.

iv) Directors

The members of the Board of Directors who served during the year are shown on page (iii)

v) Auditors

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

By Order of the Board

Name

Signature

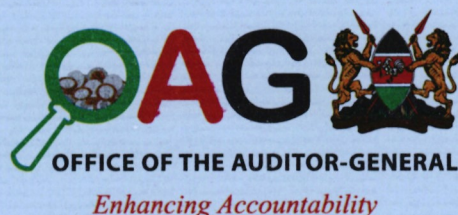
Date

Corporate Secretary

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements
For the year ended June 30, 2021

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA PETROLEUM REFINERIES LIMITED FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Petroleum Refineries Limited set out on pages 1 to 64, which comprise the statement of financial position as at 30 June, 2021, and the statement of profit or loss and other comprehensive income,

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

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Kenya Petroleum Refineries Limited as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, and do not comply with International Financial Reporting Standards (IFRS) and do not comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Omissions in Presentation of the Financial Statements

The chairman's statement, report of the directors and the statement of directors' responsibilities accompanying the financial statements are not signed by the chairman of the board of directors, or by any director.

As a result, the validity of the reports could not be confirmed and the financial statements do not conform to the format prescribed by the Public Sector Accounting Standards Board.

2. Unconfirmed Balances

The following balances reflected in the financial statements were not supported with sufficient appropriate records:

2.1 Expenditure and Revenue Budget

The statement of comparison of budget and actual amounts for the year under review reflects an expenditure budget of Kshs.1,643,169,935. However, the approved budget for the year on record was Kshs.1,451,082,000 resulting to an unexplained variance of Kshs.192,087,935.

Management attributed the variance to staff costs for Kenya Pipeline Company (KPC) employees attached to the Company (Kshs.7,401,000); depreciation (lease costs) of refining plant assets (Kshs.134,489,240) and provision for interest on dead stock (Kshs.65,000,000) all of which were not included in the Company's budget document. In addition, the statement reflects a receipts budget totalling Kshs.1,497,345,422 and expenditure budget totalling Kshs.1,643,169,935 resulting in over-expenditure of Kshs.145,824,5113 mainly caused by these factors.

Further, the statement of comparison of budget and actual amounts reflects actual expenditure on other overheads totalling Kshs.418,404,361. However, the balance is not reflected in the statement of profit or loss and other comprehensive income.

As a result, the occurrence, validity and accuracy of the expenditure on other overheads could not be confirmed.

In view of these anomalies, the accuracy, validity and completeness of the revenue and expenditure budgets reflected in the statement of comparison of budget and actual amounts could not be confirmed.

2.2 Administration Costs

The statement of profit or loss and other comprehensive income reflects administration costs totalling Kshs.1,400,114,777 as further disclosed in Note 9 to the financial statements. The balance includes subsistence allowances totalling Kshs.3,526,569 paid to employees for training and work activities. However, the payments were not supported with imprest issue vouchers or other expenditure records, and were not accounted for by the payees.

Management, therefore, issued the advances contrary to Section 92(5) of Public Finance Management Act, 2015 Regulations which requires a holder of any cash advance to account for it within seven (7) days of returning to the duty to station. Further, in the absence of sufficient records, the occurrence, propriety and accuracy of the payments totalling Kshs.3,526,569 could not be confirmed.

In view of the anomaly the accuracy and validity of the administration costs balance totalling Kshs.1,400,114,777 could not be confirmed.

2.3 Income Tax Expense

The statement of profit or loss and other comprehensive income reflects income tax expenses totalling Kshs.272,858,131 as further disclosed in Note 12(b) to the financial statements. The balance includes Kshs.4,000,771 denoted as effects of expenses not deductible for tax purposes, Kshs.68,200 effects of change in tax rate and Kshs.(1,398,776) tax effects of excess capital allowances. However, the amounts were not supported with detailed tax computations and as a result their accuracy and validity could not be confirmed.

In view of the anomaly, the accuracy and validity of the income tax expenses totalling Kshs.272,858,131 could not be confirmed.

2.4 Trade and Other Payables

The statement of financial position reflects trade and other payables totalling Kshs.1,229,625,249, as further disclosed in Note 29 to the financial statements. The balance is net of a provision on interest on dead oil stocks totalling Kshs.968,553,454 brought forward from previous years.

Records provided for audit indicated that the provision was made after the Company and the Oil Marketing Companies (OMCs) failed to agree on reconciliation of the quantity and value of outstanding unrefined oil stock for the period April, 2010 to September, 2010. The Ministry of Petroleum and Mining and the Energy and Petroleum Regulatory Authority (EPRA) are trying to resolve the impasse between the Company and the OMCs.

In view of the foregoing, the accuracy and completeness of the trade and other payables balance totalling Kshs.1,229,625,249 as at 30 June, 2021 could not be confirmed.

2.5 Trade and other Receivables

The statement of financial position reflects trade and other receivables totalling Kshs.298,184,088 as further disclosed in Note 20 to the financial statements. The Note reflects provisions for bad debts totalling Kshs.493,746,047 compared to Kshs.190,125,275 at the end of the previous year. Some of the provisions for doubtful debts made in the year under review were on debts owed by companies which, although indebted for long, were still trading with the Company. Management did not explain why the amounts owed by the companies were not recovered.

Further, Note 37 to the financial statements reflects receivables from exchange transactions totalling Kshs.791,930,134 under credit risk analysis. However, Note 20 to the financial statements indicates that only Kshs.676,457,226 of the balance relates to trade receivables or receivables from exchange transactions. The remainder totalling Kshs.115,472,908 relates to deposits and prepayments, staff receivables and other receivables which are all non-exchange transactions. In view of the anomaly, fair statement of the exchange from transactions balance could not be confirmed.

In the circumstances, the accuracy and validity of trade and other receivables totalling Kshs.298,184,088 could not be confirmed.

2.6 Tax Recoverable

The statement of financial position reflects a tax recoverable balance totalling Kshs.264,625,870, as further disclosed in Note 21 to the financial statements. Included in the balance is withholding rental income tax totalling Kshs.92,433,000. However, withholding certificates for rental income and a letter from Kenya Revenue Authority (KRA) reflected withholding rental income tax totalling Kshs.553,921,224. The variance totalling Kshs.461,488,224 between the records was not reconciled or explained.

In the circumstance, the accuracy and completeness of tax recoverable totalling Kshs.264,625,870 could not be confirmed.

2.7 Deferred Tax Liability

The statement of financial position reflects deferred tax liabilities totalling Kshs.70,697,545 as further disclosed in Note 27 to the financial statements. However, the note reflects a debit balance totalling Kshs.183,880,402 denoted as 'under-provision in the previous year' whose basis and computation was, however, not provided for audit review.

In the circumstance, the accuracy and validity of the deferred tax liability totalling Kshs.70,697,545 could not be confirmed.

2.8 Bank Balance

The statement of financial position reflects a bank balance totalling Kshs.47,205,772. However, examination of the bank reconciliation statement as at 30 June, 2021 for one of the Company's accounts indicated that long outstanding reconciling items debited in

the bank and not posted in the cashbook totalling Kshs.2,555,928,811 and a credit balance totalling Kshs.2,555,515,482 in the bank statement not posted in the cash book. The reconciling items had been outstanding since 2015.

In view of the large unreconciled balance, the accuracy and completeness of bank balances totalling to Kshs.47,205,772 could not be confirmed.

2.9 Contingent Liabilities

Note 36 to the financial statements reflects contingent liabilities totalling Kshs.2,343,056,788. The balance includes other legal claims against the Company totalling Kshs.9,167,595. However, further information on the claims was not provided for audit review and as a result, their accuracy and validity could not be confirmed.

2.10 Inventories

2.10.1 Impairment Allowance for Inventory

Note 19(a) to the financial statements reflects a credit provision of Kshs.(6,608,131) in respect of impairment allowance for inventories. However, records indicating how the amount was arrived at were not provided for audit review.

2.10.2 Unreconciled Inventories Balances

The statement of financial position reflects inventories with a book value of Kshs.1,141,616,269 as at 30 June, 2021. The balance includes stocks totalling Kshs.893,712,276 held in engineering, stationery, safety and general, and fuel, oil and lubricants stores, as indicated in the Company's Enterprise Resource Planning (ERP) software system. However, the stock management system reflected stocks totalling Kshs.881,410,021 on the said date. The variance of Kshs.12,302,255 between the data held in the two systems was not reconciled. Further, the values disclosed in the financial statements were not supported with stock taking reports and adjusted for the stock take variances.

2.10.3 Obsolete Inventories

The inventories balance totalling Kshs.1,141,616,269 includes engineering materials valued at Kshs.808,461,233. The materials were acquired before refining operations were shut down on 4 September, 2013. Despite the items being rendered unusable, they have continually been carried in the books of the Company at cost, instead of their salvage values, if any. Management indicated that action on the matter was awaiting the National Government's decision on the future of the Company.

In view of these issues, the accuracy and completeness of inventories valued at Kshs.1,141,616,269 as at 30 June, 2021 could not be confirmed.

2.11 Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment with a net book value of Kshs.3,104,974,213. However, the following anomalies were noted in respect to the balance.

2.11.1 Impaired Refining Plant and Assets

As previously reported, the property, plant and equipment balance includes Kshs.2,086,125,724 for the written down value of the Company's crude petroleum refining plant which was closed in September, 2013. The Company's Board of Directors thereafter approved the impairment of the plant and redundant assets.

The closure of the plant and its idle state implies that a large portion of the Company's assets may be significantly impaired. However, Management had, as at 30 June, 2021, not assessed the impairment of the assets as required by International Accounting Standard (IAS) 36 - Impairment of assets.

As a result, no determination was made on the carrying amount of the refinery assets totalling Kshs.2,086,125,724 as at 30 June, 2021 and the captive power plant valued at Kshs.930,139,668 which upon completion was not commissioned. Further, the related impact of such adjustments on the deferred tax liability and other tax obligations of the Company have not been assessed.

In the circumstances, the financial statements have not been prepared in accordance with IAS and the carrying value of the refinery assets totalling Kshs.2,086,125,724 as at 30 June, 2021 may not be fairly stated.

2.11.2 Inclusion of Non-Capital Expenses in Work-in-Progress Account

The property, plant and equipment balance includes capital work in progress totalling Kshs.621,267,928 which denotes costs incurred on a feasibility study for the upgrade of the refinery in 2012.

Further, as previously noted, oil refining operations were discontinued in September, 2013 and therefore the study did not result in an upgrade or improvement of the refinery. Therefore, the cost of the feasibility study ought to have been expensed as recurrent expenditure in line with the International Accounting Standards (IAS) 16 - Property, Plant and Equipment.

In the circumstance, the inclusion of the cost in the property, plant and equipment balance totalling Kshs.3,104,974,213 as at 30 June, 2021 has misstated the balance.

2.11.3 Inappropriate Accounting Policies

2.11.3.1 Doubtful Valuation of Assets

The values of the property, plant and equipment are stated at cost following a change of the Company's accounting policy from revaluation to cost model in 2009. Management, indicated that the cost model was viewed as the most appropriate basis of accounting for the assets in the financial statements. Following the change, total assets values declined by 96% from Kshs.6,974,779,000 to Kshs.3,553,077,000.

For example, freehold land was reverted to its historical cost of Kshs.295,160 incurred on its acquisition in 1974. However, valuation of the Company's properties carried out in 2015 in anticipation of the proposed takeover of the Company by Kenya Pipeline Company returned a value of Kshs.649,000,000 for the land.

Therefore, the value of free hold land maybe understated by at least Kshs.648,704,840 as at 30 June, 2021, as was likely the case with the other fixed assets of the Company.

2.11.3.2 Improper Capitalization and Depreciation of Assets

Review of the asset capitalization policy of the Company indicated that all additions to assets, including direct purchases are captured as work in progress before they are capitalized and transferred to the respective assets classes in the asset register at the end of the financial year. The treatment is contrary to IAS 16 - property, plant and equipment – that requires assets to be capitalized when they are delivered and put to use, and when works are completed and commissioned.

While capitalization at the end of the year is usually acceptable, compliance with accounting standards would require each eligible asset to be depreciated from the date it is brought into use in order to match benefits accrued from the asset during the period of use.

As a result of improper accounting, for the fixed asset and retained earnings of the Company as at 30 June, 2021 may not be fairly stated.

3.0 Uncertainty Relating to Going Concern

The statement of profit or loss and other comprehensive income indicates that the Company recorded loss after taxation totalling Kshs.32,180,281 in the year under review, being the fifth consecutive year of such losses. The loss further depleted its accumulated reserves to Kshs.88,347,144 from Kshs.120,57,425 at the beginning of the financial year. In addition, current liabilities as at 30 June, 2021 amounted to Kshs.683,153,672 and exceeded current assets of Kshs.1,751,631,999 by Kshs.2,931,521,673 (2020: Kshs.2,757,114,526).

Therefore, the Company is technically insolvent and having closed its core business of oil refining, its continued existence as a going concern is dependent upon continued receipt of income from assets leased to Kenya Pipeline Company Limited and support by its creditors and the National Government.

These conditions denote the existence of material uncertainty on the ability of the Company to continue as a going concern. The Directors have not made any disclosure on the uncertainty or the measures, if any, they may have initiated to stem the losses as required by the International Accounting Standards (IAS 1), Presentation of Financial Statements.

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

Key Audit Matters

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

Other Information

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

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Irregular Procurement of Legal Services

Review of expenditure records indicated that sums totalling Kshs.2,589,986 and Kshs.500,805 were paid to two law firms for provision of legal services in the year under review. However, the list of prequalified legal service providers and advisors was generated and maintained by the Company's legal department that identified the two firms. This was contrary to the requirements of Section 57(1) of the Public Procurement and Asset Disposal Act, 2015 which places the responsibility for keeping the records on the procurement unit. In addition, there were no records to indicate that the firms were invited through a notice submit applications to be pre-qualified as outlined in Section 93 (3) of the Act.

Further, the service providers were not subjected to a competitive bidding process, since no Request for Quotations were issued, received, opened, evaluated, and awarded as prescribed in Section 106 (2) and Section (3) of the Public Procurement and Asset

Disposal Act, 2015. Instead, the legal department directly contacted the firms from the list to provide the services.

In similar circumstances, a law firm was procured through direct procurement in March, 2021. Management asked the firm to quote for the services after which the bid was evaluated and the firm thereafter awarded a one-year contract at a monthly rate of Kshs.300,000. Management did not seek the approval of the Attorney-General before engaging the private firm and further the lawyer assigned to the Company by the firm lacked the prescribed five years' minimum working experience.

In the circumstances, procurement of the legal services was done irregularly and as a result, the Company may not have obtained value for money on the expenditure incurred on their services.

2. Non-Compliance with Salary Deductions Rule

Analysis of the payroll data indicated that net salaries for forty-three (43) employees in the month of June, 2021 were less than one-third (1/3) of their basic pay. This contravened Section 19(3) of the Employment Act, 2007 which prohibits employers from deducting more than two-thirds of an employees' salary to meet credit or other commitments contracted by the employee. No plausible explanation was provided for breach of law on payment of salaries and allowances.

As a result, Management acted contrary to the law and may have exposed the staff to the risk of pecuniary embarrassment.

3. Un-Procedural Promotion of Staff

Review of records provided in respect of staff promotions done indicated that fifty (50) employees were promoted to higher positions in the year under review. However, there was no promotion plan and criteria, internal adverts, shortlisting of staff to be interviewed and or interview reports. Further, the records indicated that the promotions followed requests and recommendations made to the Human Resource Manager by Departmental Heads. The Accounting Officer would thereafter approve the recommendations made by the Manager.

In the circumstances, fairness and equity in staff promotions could not be confirmed.

4. Irregular Employee Benefits

Examination of operating expenses indicated that subscription payments totalling Kshs.2,129,453 made for senior managers to join two separate sports clubs. This was contrary to the Human Resource Policy Manual which provides for only one club membership subscription for eligible employees.

In addition, the eligibility criteria for payment of staff subscription fees to professional bodies were not provided for audit review.

In the circumstance, the payments were irregular.

5. Weaknesses in Procurement and Allocation of Airtime

Examination of records on administration costs revealed payments for communication services and supplies totalling Kshs.6,544,532. However, the following irregularities were noted in relation to the payments:

5.1 Irregular Procurement Process

Two companies were engaged to supply airtime during the year under review at a cost of Kshs.189,382 and Kshs.783,417 respectively. However, the procurement process revealed that the suppliers were not subjected to a competitive process but were instead single sourced.

5.2 Lack of Control on Grant of Telephone Allowance

Significant weaknesses were noted in the process applied in granting telephone allowances to staff. Requests containing the names of staff to be issued with the allowances were made through email by the heads of departments to the Human Resource Manager for approval. However, the beneficiaries changed from one month to another. Further, no documented policy on the matter was provided for audit. Therefore, the Heads of Departments and the Human Resources Manager had unlimited discretion on award of the airtime and, their authority lacked sufficient control.

6. Failure to Implement E-Procurement

Procurement records indicated that during the year under review, the Company procured goods and services worth Kshs.107,399,650. However, the procurements were not done through the e-procurement platform as required by Regulation 49(2) of the Public Procurement and Assets Disposal Regulations, 2020.

Consequently, the Company was in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Lack of Human Resource Policy Instruments

The Company was reverted back into a public entity on 24 June, 2016 after the National Government agreed with its investment partners Essar Energy Overseas Limited and Essar Holdings Limited for transfer to the Government of legal and beneficial interest in all the shares owned by the investors. However, review of the organizational structure, staff grading and establishment, and the Human Resource Policy and Procedures Manual as at 30 June, 2021 indicated that Management had not submitted the instruments to the State Corporations Advisory Committee (SCAC) for review and approval. Records provided for audit indicated that the last follow-up on the matter was in December, 2018.

In the circumstance, the Company's organizational structures and systems are not aligned to the Public Service Framework prescribed for state corporations.

2. Inadequate Control on Inventories

Review of the inventory management system revealed that the Company did not conduct quarterly stock takes as required in Section 162(2) of the Public Procurement and Asset Disposal Act, 2015. Instead, the procedure was conducted only once at the closure of the financial year.

Failure to carry out regular stock takes may result in ineffective management of inventories.

3. Weaknesses in Leadership and Governance Structures

3.1 Extended Acting Appointment

Staffing records indicated that the current acting Chief Executive Officer (CEO) was appointed on 4 October, 2019 for a period of twelve (12 months). As at June, 2021, the appointment had been extended twice. Further, no plausible explanation was provided for the failure to fill the vacancy in a substantive way.

3.2 Lack of Financial Expert in the Board

The Mwongozo Code of Governance for State Corporations requires at least one Board Member to be a financial expert with qualifications and expertise in financial management or accounting and be a bona fide member of a relevant professional body. However, during the year under review, none of the directors of the Company possessed the financial expertise prescribed in the Code.

3.3 Long Standing Board Chairman Vacancy

The Board conducts the Company's business without a chairperson after the Chairperson's appointment was revoked on 21 October, 2016. Further, the Board as at 30 June, 2021 was comprised of five (5) Directors contrary to the Mwongozo code, which provides for a minimum of seven (7) and a maximum of nine (9) directors.

In the circumstances, the board was not properly constituted.

3.4 Director Serving Beyond Term Limit

One of the Board directors was appointed on 25th March, 2003 and had as at 30 June, 2021 served in the Board for nineteen (19) years. Further, no letter of appointment for the director was provided for audit review. Consequently, the director's long service as a Board Member was contrary to Mwongozo guidelines, which limits each Board member's tenure to two terms of three years or a maximum of six (6) years.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

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

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

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

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

The Board of Directors is responsible for overseeing the Company's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Company's policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


 CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

05 October, 2022

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XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021.




	Note	2020/2021	2019/2020
		Kshs	Kshs
REVENUES			
Finance income	6	50,232	5,603,488
Other Income	7	1,321,832,328	1,292,805,975
Other gains/(losses)	8	(28,244,022)	(91,392,215)
TOTAL REVENUES		1,293,638,538	1,207,017,248
OPERATING EXPENSES			
Administration Costs	9	1,400,114,777	1,152,676,705
Finance Costs	10	198,562,173	288,636,309
TOTAL OPERATING EXPENSES		1,598,676,950	1,441,313,014
PROFIT/(LOSS) BEFORE TAXATION		(305,038,412)	(234,295,766)
INCOME TAX EXPENSE/(CREDIT)	12	(272,858,131)	(50,154,249)
PROFIT/(LOSS) AFTER TAXATION		(32,180,281)	(184,141,518)
Earnings per share – basic and diluted	13	(1)	(5)
Dividend per share	14	0	0
OTHER COMPREHENSIVE INCOME			
Profit/ (Loss) after taxation		(32,180,281)	(184,141,518)
Surplus or deficit on revaluation of PPE		0	0
Re-measurement of net defined benefit liability		0	0
Fair value gain/(loss) on investments in equity instruments designated as at FVTOCI		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(32,180,281)	(184,141,518)

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XIV. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Note	2020/2021	2019/2020
		KShs	KShs
ASSETS			
Non-Current Assets			
Property, plant and equipment	15	3,104,974,213	3,341,678,588
Right-of-use assets	16	6,559,049	6,724,194
Investments - KPRL Pension Trust Ltd	17	10,000,000	10,000,000
KPRL Investment in DC Pension Fund	18	849,033,099	744,271,340
Total Non-Current Assets		3,970,566,362	4,102,674,123
Current Assets			
Inventories	19	1,141,616,269	1,145,155,947
Trade and other receivables	20	298,184,088	514,289,033
Tax recoverable	21	264,625,870	173,591,471
Bank and cash balances	22	47,205,772	56,329,132
Total Current Assets		1,751,631,999	1,889,365,583
Total Assets		5,722,198,361	5,992,039,706
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	23	736,000,000	736,000,000
Share Premium		144,000,000	144,000,000
Retained earnings		88,347,144	120,527,425
Capital and Reserves		968,347,144	1,000,527,425
Non-Current Liabilities			
Deferred tax liability	27	70,697,545	345,032,172
Total Non-Current Liabilities		70,697,545	345,032,172
Current Liabilities			
Borrowings (CPP & Overdraft)	26	1,795,245,248	1,816,457,814
Short Term Loans From GoK	28	1,634,945,444	1,634,945,444
Trade and other payables	29	1,229,625,249	1,172,057,000
KPRL Pension Trust Ltd	31	10,000,000	10,000,000
Provision for leave pay	32	13,337,731	13,019,851
Total Current Liabilities		4,683,153,672	4,646,480,109
TOTAL EQUITY AND LIABILITIES		5,722,198,361	5,992,039,706

The financial statements were approved by the Board on _____ 2022 and signed on its behalf by:

Ag. CEO Name: Joseph B. Ndofu CFO Name: ICPAK M/NO: 3749 Director Name: _____

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XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

	Ordinary share capital +Share Premium (Kshs)	Revaluation reserve (Kshs)	Retained earnings (Kshs)	Proposed dividends (Kshs)	Capital Development Grants/Fund (Kshs)	Total (Kshs)
At July 1, 2019	880,000,000	-	304,668,943	-	-	1,184,668,943
Issues of new share capital	-	-	-	-	-	0
Prior year adjustment- KPRL Investment in DC Pension Fund	-	-	-	-	-	0
Total comprehensive income	-	-	(184,141,518)	-	-	(184,141,518)
Capital/Development grants received during the year	-	-	-	-	-	0
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	0
Interim dividends paid – 2019	-	-	-	-	-	0
Proposed final dividends	-	-	-	-	-	0
At June 30, 2020	880,000,000	0	120,527,425	0	0	1,000,527,425
At July 1, 2020	880,000,000	0	120,527,425	0	0	1,000,527,425
Issue of new share capital	-	-	-	-	-	-
Total comprehensive income	-	-	(32,180,281)	-	-	(32,180,281)
Capital/Development grants received during the year	-	-	-	-	-	-
Transfer of depreciation/amortization from capital fund to retained earnings	-	-	-	-	-	-
Interim dividends paid – 2020	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-
At June 30, 2021	880,000,000	0	88,347,144	0	0	968,347,144

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Note:

- 1. For items that are not common in the financial statements, the entity should include a note on what they relate to – either on the face of the statement of changes in equity/net assets or among the notes to the financial statements.*
- 2. Prior year adjustment should have an elaborate note describing what the amounts relate to. In such instances a restatement of the opening balances needs to be done.*

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XVI. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	2020/2021 KShs	2019/2020 KShs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	33	104,986,260	418,586,403
Interest received		0	(5,516,361)
Interest paid		145,676,780	225,766,184
Accrued Interest on dead stock		52,885,393	62,870,124
Taxation paid	21	(92,510,895)	(156,188,573)
Net cash generated from/(used in) operating activities		211,037,539	545,517,778
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(386,160)	(18,054,858)
Net cash generated from/(used in) investing activities		(386,160)	(18,054,858)
FINANCING ACTIVITIES			
GoK Advances for Special Projects		0	(1,043,592,468)
Repayment of borrowings	26	(64,786,028)	(219,250,412)
Interest received		0	5,516,361
Interest paid		(145,676,780)	(225,766,184)
Accrued Interest on dead stock		(52,885,393)	(62,870,124)
Net cash generated from/(used in) financing activities		(263,348,202)	(1,545,962,828)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(52,696,823)	(1,018,499,908)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		(672,552,318)	296,464,892
Effects of foreign exchanges rate fluctuations		13,343,616	49,482,699
*CASH AND CASH EQUIVALENTS AT END OF THE YEAR	22 & 26(a)	(711,905,524)	(672,552,318)

**Note: The closing deficit cash and cash equivalents as at 30th June, 2021 of Kshs 711,905,524/- is made up of Bank and cash balances Kshs 47,205,772 as shown on note 22 and bank overdrafts as detailed in note 26(a) comprising: CBA Kshs 408,268,441/- Citibank Kshs 179,749,604/- & Citibank USD facility equivalent Kshs 171,093,251/-*

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XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2021

	Original Budget 2020/21 FY KShs	Adjustments 2020/21 FY KShs	Final Budget 2020/21 FY KShs	Actual on Comparable basis 2020/21 FY KShs	Performance difference 2020/21 FY KShs	% of Utilisation 2020/21 %	Remarks
Revenue							
KPC Lease recoveries	1,439,597,196	0	1,439,597,196	1,175,437,218	(264,159,978)	-18%	Lease recoveries lower than budget due to delayed implementation of FY2020/21 Budget and negative impact of Covid-19 pandemic.
Other Operating Income	57,664,726	0	57,664,726	146,395,110	88,730,384	154%	Higher than expected Investment income on KPRL investment in the DC Pension Fund. Includes unbudgeted compensation for acquisition of Land by NLC.
Interest Received From Staff	83,500		83,500	50,232	(33,268)	-40%	Lower than expected interest on staff advances
Other gains & Losses	0	0	0	-28,244,022	(28,244,022)	-100%	This relates to unrealised Foreign exchange losses due to translation of foreign currency transactions.
Total Revenue	1,497,345,422	0	1,497,345,422	1,293,638,538	(203,706,884)	-14%	
Expenses							
Utilities	90,421,100	0	90,421,100	86,598,322	3,822,778	4%	
Staff Costs	518,710,790		518,710,790	375,612,748	143,098,042	28%	
Repairs, Maintenance & Material Costs	254,168,923	0	254,168,923	158,766,040	95,402,883	38%	Lower than budget due to decline in activities during the Covid-19 pandemic.
Consultancy, Legal & Audit Costs	48,713,904	0	48,713,904	35,204,184	13,509,720	28%	

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	Original Budget	Adjustments	Final Budget	Actual on Comparable basis	Performance difference	% of Utilisation	Remarks
	2020/21 FY Kshs	2020/21 FY KShs	2020/21 FY KShs	2020/21 FY KShs	2020/21 FY KShs	2020/21 %	
Insurance	76,000,000	0	76,000,000	85,518,705	(9,518,705)	-13%	Increase mainly due to variation of the contract and weakening of the Shilling against the dollar. Over 75% of the insurance premium is paid in USD.
Board Expenses	14,000,000	0	14,000,000	7,583,394	6,416,606	46%	Lower than budget due to decline in BOD meetings & travel during the Covid-19 pandemic.
Other Overheads	184,777,940	0	184,777,940	418,404,361	(233,626,421)	-126%	This is mainly due to provision for bad debts amounting to Ksh 303M in respect of disputed w/tax expense & VAT from KPC.
Depreciation & Ammortization	232,489,240	0	232,489,240	232,427,024	62,216	0%	
Finance Cost	223,888,039		223,888,039	198,562,173	25,325,866	11%	This is due to negotiation and implementation of competitive interest rates upon partial Loan principal repayment in May 2020.
Total Expenditure	1,643,169,935	0	1,643,169,935	1,598,676,950	44,492,986	3%	
Surplus/(Deficit) for the period	(145,824,514)	0	(145,824,514)	(305,038,412)	159,213,898	-109%	

Note: PFM Act section 81(2) ii and iv requires a National Government entity to present appropriation accounts showing the status of each vote compared with the appropriation for the vote and a statement explaining any variations between actual expenditure and the sums voted. IFRS does not require entities complying with IFRS standards to prepare budgetary information because most of the entities that apply IFRS are private entities that do not make their budgets publicly available.

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However, for public sector entities, the PSASB has considered the requirements of the PFM Act, 2012 which these statements comply with, the importance that the budgetary information would provide to the users of the statements and the fact that the public entities make their budgets publicly available and decided to include this statement under the IFRS compliant financial statements.

Budget notes: Provide explanation of differences between actual and budgeted amounts (10% over/ under) Provide an explanation of changes between original and final budget indicating whether the difference is due to reallocations or other causes. Where the total of actual on comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis (budget is cash basis, statement of financial performance is accrual) provide a reconciliation.

XVIII. NOTES TO THE FINANCIAL STATEMENTS

1. General Information

The company is incorporated as a limited company in Kenya under the Companies Act Chapter 17 of the Laws of Kenya and is domiciled in Kenya. On 24th June 2016, the Government of Kenya (GoK) entered into an agreement with Essar Energy Overseas Limited (Essar), Essar Energy Holdings Limited (EEHL) and Kenya Petroleum Refineries Limited (KPRL) for the transfer of the legal and beneficial interest in all of the shares owned by Essar in KPRL to GoK. The agreement and the disposal of the shares converted Kenya Petroleum Refineries Limited to become 100% wholly owned by GoK.

The entity is under the Ministry of Petroleum and Mining (Previously Ministry of Energy & Petroleum) KPRL has been on transition mode since 4th September, 2021. The company's refining operations stopped on 4th September 2013 and the plant was shut down effective the same date. The main reason quoted for the shutdown was that the refinery gate prices of the products produced by the refinery were marginally higher than those of imported products.

As an interim measure, on 20th March, 2017, KPRL signed a 3 year operating lease agreement with KPC. The Lease Agreement was a culmination of the exit of Essar from shareholding at KPRL, and the termination of the crude oil processing at KPRL, where upon the major assets of KPRL were underutilized. The lease arrangement was therefore seen as an interim phase to allow the finalisation of the due diligence and decision making on the pending takeover of KPRL by KPC. The Lease Agreement was operationalized with effect from 1 June, 2017.

Status of the Lease Agreement and Road Map for Take Over of KPRL by KPC

On 18th March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20th June, 2021. In line with clause 3.2 of the Agreement KPC and KPRL expressed interest and mutually agreed to extend the Term of the Agreement for a further period of six (6) months with effect from 20th June, 2021 with automatic month to month extension until the implementation of the joint proposed roadmap on takeover of KPRL by KPC is completed. Both KPRL and KPC take note that the implementation of the proposed roadmap on takeover is being handled by a Steering Committee Chaired by The National Treasury & Planning.

2. Statement of Compliance and Basis of Preparation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

i. *New and amended standards and interpretations in issue effective in the year ended 30 June 2021.*

Title	Description	Effective Date
IAS 39-Financial Instruments: Recognition and Measurement	IAS 39 "Financial Instruments: Recognition and Measurement" outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Financial instruments are initially recognized when an entity becomes a party to the contractual provisions of the instrument and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument (typically amortized cost or fair value). Special rules apply to embedded derivatives and hedging instruments.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 4- Insurance Contracts (Superseded)	IFRS 4 "Insurance Contracts" applies, with limited exceptions, to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. In light of the IASB's comprehensive project on insurance contracts, the standard provides a temporary exemption from the requirements of some other IFRSs, including the requirement to consider IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" when selecting accounting policies for insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

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Title	Description	Effective Date
IFRS 7- Financial Instrument Disclosures	IFRS 7 "Financial Instruments: Disclosures" requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 16- Leases	IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021.*

Title	Description	Effective Date
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

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Title	Description	Effective Date
IAS 16 — Property, Plant and Equipment	IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 37 — Provisions, Contingent Liabilities and Contingent Assets	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 41 — Agriculture	IAS 41 "Agriculture" sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IFRS 1 — First-time Adoption of International Financial Reporting Standards	IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

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Title	Description	Effective Date
IFRS 3 — Business Combinations	IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.
IFRS 17 — Insurance Contracts	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.	The IASB tentatively decided to defer the effective date of IFRS 17, Insurance Contracts to annual periods beginning on or after January 1, 2022. [The IASB has also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment also to annual periods beginning on or after January 1, 2023.]

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

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020/2021

NOTES TO THE FINANCIAL STATEMENTS (Continues)

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

b) In-kind contributions

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

c) Property, plant and equipment

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

d) Depreciation and impairment of property, plant and equipment

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

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

Freehold Land	Nil
Buildings and civil works	25-30 years
Plant and machinery	10-30 years
Motor vehicles, including motor cycles	5-20 years
Computers and related equipment	5-10 years
Office equipment	5-10 years

A full year's depreciation charge is recognised in the year of asset purchase. No depreciation is charged in the year of asset disposal.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

e) Intangible assets

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

f) Amortisation and impairment of intangible assets

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

g) Investment property

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

h) Right of Use Asset

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

i) Fixed interest investments (bonds)

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

j) Quoted investments

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

k) Unquoted investments

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

l) Inventories

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

m) Trade and other receivables

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

n) Taxation

i) Current income tax

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

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

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

o) Deferred tax

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

Deferred Tax

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

p) Borrowing costs

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

q) Cash and cash equivalents

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

r) Borrowings

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

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

s) Trade and other payables

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

t) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from 1st January 2017. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

u) Provision for staff leave pay

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

v) Exchange rate differences

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Significant Accounting Policies

w) Budget information

The original budget for FY 2020-2021 was approved by the National Assembly on 12th October 2020.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continues)

a) Service concession arrangements

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

b) Comparative figures

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

c) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2021.

5. Significant Judgments and Sources of Estimation Uncertainty

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

NOTES TO THE FINANCIAL STATEMENTS (Continues)

a) Estimates and assumptions

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

b) Useful lives and residual values

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

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

c) Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 32.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. (include provisions applicable for your organisation e.g provision for bad debts, provisions of obsolete stocks and how management estimates these provisions)

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NOTES TO THE FINANCIAL STATEMENTS (Continues)

6. Finance Income

	2020/2021	2019/2020
Description	Kshs	Kshs
Interest from commercial banks and financial institutions	0	5,516,361
Interest on staff loans	50,232	87,127
Total	50,232	5,603,488

KRPL had no short term deposits placements in FY 2020/21 hence no interest on deposits for the year.

7. Other Income

	2020/2021	2019/2020
Description	Kshs	Kshs
KPC lease recoveries	1,175,437,218	1,270,438,369
House Rent Recoveries	5,318,844	5,787,195
Investment Income- KPRL investment in DC Pension fund	104,761,759	16,520,148
National Lands Commission Award	36,295,202	0
Other miscellaneous receipts	19,305	60,264
Total	1,321,832,328	1,292,805,975

As per the lease agreement between KPRL and KPC, Lease recoveries are KPRL operating expenses recovered at cost and invoiced to KPC on a monthly basis.

Following the conversion of the Defined Benefit (DB) pension scheme to Defined Contribution (DC) pension scheme, the company's share of surplus was transferred to the DC pension fund to be invested with the DC fund until such time as liquidation process of the DB fund is fully completed. Ultimately the fund would go partly to future funding of employer's statutory contribution towards the DC pension scheme.

As per the audited accounts of the DC fund for the year ended 30th June 2021, the investment income earned was KES 105M compared to KES 16.5M for the previous year.

The award by the National Lands Commission relates to compulsory acquisition of KPRL property to pave way for road construction.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. Other Gains and Losses

	2020/2021	2019/2020
Description	Kshs	Kshs
Foreign exchange gains / (losses)	(4,620,993)	(183,451)
Unrealized foreign exchange gains/(losses)	(23,623,029)	(91,208,764)
Total	(28,244,022)	(91,392,215)

9. Administration Costs

	2020/2021	2019/2020
Description	Kshs	Kshs
Staff costs - note 9 (a)	375,612,748	397,373,886
Directors' emoluments	245,173	159,150
Electricity and water	86,598,322	74,802,665
Communication services and supplies	6,544,532	6,054,048
Transportation, travelling and subsistence	7,503,301	13,216,820
Advertising, printing, stationery and photocopying	2,592,520	2,722,721
Insurance costs	85,518,705	74,233,072
Security	47,887,176	46,321,805
Board expenses	7,583,394	12,171,939
Bank charges and commissions	622,185	782,353
Office and general supplies and services	4,681,294	4,028,473
Licenses	18,794,854	17,672,878
Property/ Land Rates	4,269,620	4,269,620
Auditors' remuneration	6,500,000	6,000,000
Legal fees	3,990,791	440,955
Consultancy fees	25,613,393	5,904,365
Repairs and maintenance	134,165,321	96,539,496
Materials costs	22,759,679	86,145,923
Provision for bad and doubtful debts	303,620,772	43,302,788
Occupational Health & Safety	10,162,434	1,294,946
Other operating expenses	12,421,541	16,798,588
Depreciation	232,261,879	242,275,070
Ammortisation	165,145	165,145
Total	1,400,114,777	1,152,676,705

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

9a Staff Costs

Description	2020/2021	2019/2020
	Kshs	Kshs
Salaries and allowances of permanent employees	282,609,876	310,213,748
Employer's contributions to national social security schemes	287,600	288,800
DC pension contributions	44,601,976	42,687,813
Leave pay and gratuity provisions	317,880	2,566,195
Staff welfare	3,036,211	2,892,233
Medical expenses	32,772,544	17,718,421
Canteen Expenses	4,043,187	2,503,683
Staff training & Development	7,294,887	10,314,566
Long Service Awards	495,000	531,000
Staff costs write offs/adjustments	(12,327)	(814,506)
Recruitment	9,200	0
Pension Admin Expense	156,714	415,482
Performance Incentive	0	8,056,452
Total	375,612,748	397,373,886
The average number of employees at the end of the year was:		
Permanent employees – Management	88	90
Permanent employees – Unionisable	14	15
Temporary and contracted employees	15	13
Total	117	118

10. Finance costs

Description	2020/2021	2019/2020
	Kshs	Kshs
Interest expense on loans	73,841,664	121,673,536
Interest expense on bank overdrafts	71,835,116	104,092,649
Provision for interest on dead stock	52,885,393	62,870,124
Total	198,562,173	288,636,309

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. Operating profit/ (loss)

	2020/2021	2019/2020
	Kshs	Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 9a)	375,612,748	397,373,886
Depreciation of property, plant and equipment	232,261,879	242,275,070
Ammortisation of operating leasehold land	165,145	165,145
Provision for bad and doubtful debts	303,620,772	43,302,788
Directors' emoluments	245,173	159,150
-Other board expenses	7,583,394	12,171,939
Auditors' remuneration - current year fees	6,500,000	6,000,000
Net foreign exchange loss	28,244,022	91,392,215
Interest receivable	(50,232)	(5,603,488)
Interest payable	198,562,173	288,636,309
Rent receivable	(5,318,844)	(5,787,195)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. Income Tax Expense/(Credit)

(a) Current taxation

	2020/2021	2019/2020
Description	Kshs	Kshs
Current taxation based on the adjusted profit for the year at 30%	1,476,496	2,847,671
Current tax: prior year under/(over) provision	0	0
Current year deferred tax charge	(90,454,225)	(53,001,919)
Prior year under-provision for deferred tax	(183,880,402)	0
Total	(272,858,131)	(50,154,249)

b) Reconciliation of tax expense/ (credit) to the expected tax based on accounting profit

	2020/2021	2019/2020
Description	Kshs	Kshs
Profit/(loss) before taxation	(305,038,412)	(234,295,766)
Tax at the applicable tax rate of 30%	(91,511,524)	(70,288,730)
Prior year under-provision	(183,880,402)	0
Tax effects of expenses not deductible for tax purposes	4,000,771	20,704,016
Effect of change in Tax rate	(68,200)	(569,534)
Tax effects of excess capital allowances over depreciation/amortization	(1,398,776)	0
Deferred tax prior year over-provision	0	0
Total	(272,858,131)	(50,154,249)

c) Current Tax movement

	2020/2021	2019/2020
Description	Shs	Shs
At beginning of the period	(173,591,471)	(20,250,569)
Income tax charge for the year	1,476,496	2,847,671
Income tax paid during the year	(92,510,895)	(156,188,573)
Tax payable/(recoverable)	(264,625,870)	(173,591,471)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. Earnings Per Share

The earnings per share is calculated by dividing the loss after tax of Kshs.32,180,281/- (2019/2020: Kshs.184,141,518) by the average number of ordinary shares in issue during the year of 36,800,000 (2019/2020: 36,800,000). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

14. Dividend Per Share

There were no dividends proposed as the company has reported a loss for the year ended 30th June 2021.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Property, Plant and Equipment

	Freehold Land Shs	Buildings Shs	Turnaround Costs Shs	Plant, Equipment & motor vehicles Shs	Capital work in progress Shs	Total Shs
Cost						
At 1 July 2019	295,160	384,034,988	761,667,439	7,297,231,835	648,383,698	9,091,613,120
Additions	0	0	0	0	18,054,858	18,054,858
	<u>295,160</u>	<u>384,034,988</u>	<u>761,667,439</u>	<u>7,297,231,835</u>	<u>666,438,556</u>	<u>9,109,667,978</u>
Transfers to assets	0	0	0	6,210,000	(6,210,000)	0
Write off	0	0	0	0	(30,239,719)	(30,239,719)
Transfer to warehouse	0	0	0	0	(8,720,910)	(8,720,910)
At 30 June 2020	295,160	384,034,988	761,667,439	7,303,441,835	621,267,927	9,070,707,350
	=====	=====	=====	=====	=====	=====
At 1 July 2020	295,160	384,034,988	761,667,439	7,303,441,835	621,267,927	9,070,707,350
Additions	0	0	0	0	386,160	386,160
	<u>295,160</u>	<u>384,034,988</u>	<u>761,667,439</u>	<u>7,303,441,835</u>	<u>621,654,087</u>	<u>9,071,093,509</u>
Transfers to assets	0	0	0	0	0	0
Write off/Asset retirement	0	(5,969,884)	0	(16,647,485)	(386,160)	(23,003,528)
Disposal of Assets	0	0	0	0	0	0
At 30th June 2021	295,160	378,065,105	761,667,439	7,286,794,350	621,267,927	9,048,089,981
	=====	=====	=====	=====	=====	=====
Depreciation						
At 1 July 2019	0	284,731,708	761,667,439	4,440,354,544	0	5,486,753,691
Charge for the year	0	9,613,473	0	232,661,597	0	242,275,070
Disposal of Assets	0	0	0	0	0	0
At 30 June 2020	0	294,345,181	761,667,439	4,673,016,142	0	5,729,028,761
	=====	=====	=====	=====	=====	=====
At 1 July 2020	0	294,345,181	761,667,439	4,673,016,142	0	5,729,028,761
Charge for the year	0	7,962,211	0	224,299,668	0	232,261,879
Disposal of Assets	0	0	0	0	0	0
Asset retirement	0	(3,641,629)	0	(14,533,243)	0	(18,174,872)
At 30th June 2021	0	298,665,763	761,667,439	4,882,782,567	0	5,943,115,768
	=====	=====	=====	=====	=====	=====
Net book value						
	=====	=====	=====	=====	=====	=====
At 30th June 2021	295,160	79,399,342	0	2,404,011,784	621,267,927	3,104,974,213
	=====	=====	=====	=====	=====	=====
At 30th June 2020	295,160	89,689,807	0	2,630,425,694	621,267,927	3,341,678,588
	=====	=====	=====	=====	=====	=====

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15 (b) Property, Plant and Equipment at Cost

KPRL freehold land, buildings and other assets are held at historical cost.

Property plant and Equipment includes the following assets that are fully depreciated:

	Cost 30.06.2021	Normal annual depreciation charge
	Kshs	Kshs
Buildings & Civil works	164,771,860	7,478,289
Plant machinery & Equipment	826,853,861	42,267,546
Storage Tanks , Pipelines and other auxiliary assets	769,683,639	34,343,675
Motor vehicles, including motor cycles	74,110,562	10,415,814
Computers and related equipment	80,588,169	10,368,012
Total	1,916,008,091	97,395,048
	=====	=====

	Cost 30.06.2020	Normal annual depreciation charge
	Kshs	Kshs
Buildings & Civil works	135,577,094	6,681,848
Plant machinery & Equipment	759,057,441	37,169,205
Storage Tanks , Pipelines and other auxiliary assets	695,352,710	30,073,540
Motor vehicles, including motor cycles	68,352,162	9,490,394
Computers and related equipment	64,679,767	8,932,064
Total	1,723,019,174	92,347,051
	=====	=====

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16. Right of use Assets

	2020/2021	2019/2020
	Shs	Shs
COST		
At beginning of period	9,796,958	9,796,958
Additions in the period	0	0
Transfer to investment property	0	0
Disposals	0	0
At end of period	9,796,958	9,796,958
AMORTISATION		
At beginning of period	3,072,764	2,907,619
Charge for the period	165,145	165,145
Disposals	0	0
At end of period	3,237,909	3,072,764
NET BOOK VALUE	6,559,049	6,724,194

Payments to acquire interests in leasehold land are treated as prepaid operating lease rentals and the cost of the land is amortized over the unexpired term of the lease on a straight line basis.

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17. Unquoted Investments-- KPRL Pension Trust Ltd

	2020/2021	2019/2020
	Kshs	Kshs
COST		
At July 1	10,000,000	10,000,000
Additions	0	0
Disposals	0	0
	_____	_____
At June 30	10,000,000	10,000,000
	_____	_____
IMPAIRMENT		
At July 1	0	0
Disposals	0	0
Impairment loss in the year	0	0
	_____	_____
At June 30	0	0
	_____	_____
NET BOOK VALUE		
At June 30	10,000,000	10,000,000
	=====	=====

KPRL holds 100% of the issued ordinary share capital of Kenya Petroleum Refineries Pension Trust Limited (10,000 ordinary shares at Kshs 1,000/- each). The subsidiary functions in a trustee capacity only and as such made neither a profit nor a loss for the financial period ended 30th June 2021. The subsidiary thus did not contribute to the group's revenue and profit before tax for the year ended 30th June 2021.

Name of entity where investment is held	No of shares			Nominal value of shares/ purchase price	Value of shares less impairment	Value of shares less impairment
	Direct shareholding	Indirect shareholding	Effective shareholding			
	%	%	%			
				Shs	Current year Shs	Prior year Shs
Kenya Petroleum Refineries Pension Trust Ltd	100	0	100	10,000,000	10,000,000	10,000,000
	100	0	100	10,000,000	10,000,000	10,000,000

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18. KPRL Investment in DC Pension Fund

	2020/2021	2019/2020
Description	Shs	Shs
Balance as at 1st July	744,271,340	727,751,192
Accrued investment income	104,761,759	16,520,148
Balance as at 30th June	849,033,099	744,271,340

Following conversion of the Defined Benefit (DB) pension scheme to a Defined Contribution (DC) pension scheme, the company's share of surplus was transferred to the DC pension fund to be invested in the DC fund until such time as the liquidation process of the DB fund is fully completed. Ultimately the fund would go partly to future funding of the employer's statutory contribution towards the DC pension scheme. The DB pension scheme is still undergoing the process of liquidation. Consequently, in line with RBA rules, the KPRL Board, for the Sponsor, passed a resolution to meet any contingent liability that may arise in the future, which would be covered by a component of the sponsors DC fund of KES 849M (2019/20: 744M). Once the process of liquidation is complete, the funds invested in the KPRL pension DC fund will be available to KPRL.

19. Inventories

	2020/2021	2019/2020
	Kshs	Kshs
Engineering stores	808,461,233	811,480,846
Fuel, oil and lubricants	74,286,437	80,805,183
Crude & finished product stocks	321,056,287	321,056,287
Stationery, Safety and general stores	10,964,606	11,574,055
Less: Impairment of stocks	(73,152,293)	(79,760,424)
Total	1,141,616,269	1,145,155,947

19 a) Reconciliation of Impairment Allowance for Inventories

Description	2020/2021	2019/2020
	KShs	KShs
At the beginning of the year	79,760,424	10,358,799
Additional provisions during the year	0	69,401,625
Recovered during the year	0	0
Written off during the year	(6,608,131)	0
At the end of the year	73,152,293	79,760,424

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

20.) Trade and Other Receivables

	2020/2021	2019/2020
	Kshs	Kshs
Trade receivables (note 20 (a))	676,457,225	613,961,245
Deposits and prepayments	51,675,890	66,515,927
VAT recoverable	0	0
Staff receivables (note 20 (c))	5,542,727	4,364,474
Other receivables	58,254,291	19,572,663
Gross trade and other receivables	791,930,134	704,414,309
Provision for bad and doubtful receivable	(493,746,047)	(190,125,275)
Net trade and other receivables	298,184,088	514,289,033

20 (a) Trade Receivables

	2020/2021	2019/2020
	Kshs	Kshs
Gross trade receivables	676,457,225	613,961,245
Provision for doubtful receivables	(493,746,047)	(190,125,275)
Net trade receivables	182,711,178	423,835,969
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	166,504,128	148,313,061
Between 30 and 60 days	10,593,824	81,350,754
Between 61 and 90 days	(352,532)	813,782
Between 91 and 120 days	7,186	(153,450)
Over 120 days	499,704,620	383,637,098
Total	676,457,225	613,961,245

20 (b) Reconciliation of Impairment Allowance for Trade Receivables

Description	2020/2021	2019/2020
	KShs	KShs
At the beginning of the year	190,125,275	146,822,486
Additional provisions during the year	303,620,772	43,302,788
Recovered during the year	0	0
Written off during the year	0	0
At the end of the year	493,746,047	190,125,275

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 (c) Staff Receivables

	2020/2021	2019/2020
	Kshs	Kshs
Gross staff loans and advances	5,542,727	4,364,474
Provision for impairment loss	0	0
Net staff loans	5,542,727	4,364,474
Less: Amounts due within one year	(2,934,473)	(1,756,221)
Amounts due after one year	2,608,254	2,608,254

20 (d) Reconciliation of Impairment Allowance for Staff Receivables

Description	2020/2021	2019/2020
	KShs	KShs
At the beginning of the year	0	0
Additional provisions during the year	0	0
Recovered during the year	0	0
Written off during the year	0	0
At the end of the year	0	0

21. Tax Recoverable

	2020/2021	2019/2020
	Kshs	Kshs
At beginning of the year	173,591,471	20,250,569
Less: Income tax charge for the year (note 12)	1,476,496	2,847,671
Under/(over) provision in prior year/s (note 12)	0	0
Add: Income tax paid during the year	92,510,895	156,188,573
At end of the year	264,625,870	173,591,471

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. Bank and Cash Balances

	2020/2021	2019/2020
	Kshs	Kshs
Cash at bank	46,889,673	55,974,416
Cash in hand	316,099	354,715
	47,205,772	56,329,132

The bulk of the cash at bank was held at National Bank of Kenya and Standard Chartered Bank.

Detailed analysis of the cash and cash equivalents

		2020/2021	2019/2020
Financial institution	Account number	Kshs	Kshs
Other Commercial banks			
Standard Chartered bank of Kenya	01 040 926614 00	21,042,052	5,131,021
Standard Chartered bank of Kenya-USD A/C	87 040 926614 00	10,006	6,991
Barclays Bank of Kenya-Main A/C	016 5009 479	413,331	380,524
Barclays Bank of Kenya-Staff Imprest	016 5009 770	225,842	310,604
Barclays Bank of Kenya-USD A/C	227252715	44,265	56,202
National Bank of Kenya	010 200 666 03700	25,154,177	50,089,075
Sub- total		46,889,673	55,974,416
b) On - call deposits			
Other Commercial banks		0	0
Sub- total		0	0
c) Fixed deposits account			
Other Commercial banks		0	0
Sub- total		0	0
d) Staff car loan/ mortgage			
Other Commercial banks		0	0
Sub- total		0	0
e) Others(specify)			
Cash in transit		0	0
cash in hand		316,099	354,715
Mobile money account		0	0
Sub- total		316,099	354,715
Grand total		47,205,772	56,329,132

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. Ordinary Share Capital

	2020/2021	2019/2020
	Kshs	Kshs
Authorized:		
36,800,000 (36,800,000 FY 2019/20) ordinary shares of Kshs.20 par value each	736,000,000	736,000,000
Issued and fully paid:		
36,800,000 (36,800,000 FY 2019/20) ordinary shares of Kshs.20 par value each	736,000,000	736,000,000

24. Revaluation Reserve

During the year ended 31 December 2009, the group changed its accounting policy for property, plant and equipment from revaluation model to cost model. In the opinion of the directors, the cost model results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the company's financial position, financial performance or cash flows.

25. Retained Earnings

The retained earnings represent amounts available for distribution to KPRL's shareholders. Undistributed retained earnings are utilised to finance the company's business activities.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. Borrowings

	2020/2021	2019/2020
Description	Kshs	Kshs
Balance at beginning of the year	1,816,457,814	2,220,337,044
Domestic borrowings during the year	0	0
Repayments of domestics borrowings during the year	0	0
Repayments of domestics borrowings during the period (CPP Term loan)	(64,786,028)	(219,250,412)
Movement in Bank Overdraft during the year	27,824,385	(240,262,639)
Exchange losses/(gains) on foreign denominated loans	13,343,616	49,482,699
Exchange losses/(gains) on foreign denominated overdraft facility	2,405,462	6,151,121
Balance at end of the year	1,795,245,248	1,816,457,814
Less: Amounts due with one year (current portion)	1,795,245,248	1,816,457,814
Amounts due after one year (non-current portion)	0	0

26 (a). The analyses of both external and domestic borrowings are as follows:

	2020/2021	2019/2020
Description	Kshs	Kshs
External Borrowings		
Dollar denominated loan	0	0
Euro denominated loan	0	0
	0	0
Domestic Borrowings		
Kenya Shilling overdraft from Commercial Bank of Africa	408,268,441	357,897,819
Kenya Shilling overdraft from Citibank N.A.	179,749,604	201,835,537
Dollar denominated overdraft from Citibank N.A.	171,093,251	169,148,093
Dollar denominated loan from Barclays Bank-CPP	1,036,133,952	1,087,576,364
	1,795,245,248	1,816,457,814
Total balance at end of the period	1,795,245,248	1,816,457,814

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2020/2021	2019/2020
Description	Kshs	Kshs
Short term borrowings (current portion)	1,795,245,248	1,816,457,814
Long term borrowings	0	0
Total	1,795,245,248	1,816,457,814

The short term borrowings include Kshs. 759M bank overdrafts as detailed in the analysis of borrowings above and Kshs. 1.036bn in respect of a term loan for the Captive Power Plant (CPP). The foreign denominated loans have been restated using the CBK closing mean rates at the end of the financial year.

27. Deferred Tax Liability

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

	2020/2021	2019/2020
Description	Kshs	Kshs
Accelerated capital allowances	553,201,201	603,306,290
Unrealised exchange gains/(losses)	(7,086,909)	(27,362,629)
Provisions for liabilities and charges	(371,852,141)	(258,910,973)
Tax losses carried forward	(1,110,691,000)	(979,126,910)
Prior year	0	
Net deferred tax liability	(936,428,849)	(662,094,222)

The movement on the deferred tax account is as follows:

	2020/2021	2019/2020
	Kshs	Kshs
Balance at beginning of the year	345,032,172	398,034,091
Credit to revaluation reserve	0	0
Under provision in prior year	(183,880,402)	0
Income statement charge/(credit)	(90,454,225)	(53,001,919)
Balance at end of the year	70,697,545	345,032,172

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

28. Short Term Loans from GoK

	2020/2021	2019/2020
Description	Kshs	Kshs
Balance at the beginning of the Year	1,634,945,444	1,634,945,444
Additions during the year	0	0
Repayment during the year	0	0
Balance at end of Year	1,634,945,444	1,634,945,444

29. Trade and Other Payables

	2020/2021	2019/2020
	Kshs	Kshs
Trade payables	106,620,279	126,363,519
Accrued expenses	145,791,086	132,248,296
Retention/ contract monies	7,021,100	6,215,357
Deposits	1,316,050	1,316,050
Employee payables	323,279	571,323
Other payables-Provision for interest on dead stock	968,553,454	905,342,455
Total	1,229,625,249	1,172,057,000

KPRL is still holding dead stock (un-pumpable finished products) belonging to Oil Marketing Companies hence the provision for interest on the working capital associated with these stocks. This matter is tied to the resolution of the yield shift.

30. Retirement Benefit Obligations

KPRL operated a funded defined benefit plan for its full-time employees until 31st December 2016. The employees were contributing at a fixed rate of 5% of pensionable emoluments. The company was responsible for the balance of the cost of the benefits of the fund. From 1st January 2017, the company established a Defined Contribution (DC) pension scheme for its members. Pensioners under the Defined benefit fund were bought out by an insurer.

Active and deferred members joined the DC scheme and transferred their fund benefits to the DC scheme. Employees contribute 10% while the employer contribute 20% of basic salary. Employer contributions are recognized as expenses in the statement of financial performance within the period they are incurred

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200/- per employee per month.

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31. KPRL Pension Trust Limited

	2020/2021	2019/2020
	Kshs	Kshs
Description		
As at 1st July	10,000,000	10,000,000
Additions	0	0
Disposals	0	0
	<u> </u>	<u> </u>
At June 30	10,000,000	10,000,000
	<u> </u>	<u> </u>

This represents liability in respect of KPRL shareholding of 100% of the issued ordinary share capital of Kenya Petroleum Refineries Pension Trust Limited (10,000 ordinary shares at Ksh 1000/- each). KPRL acts in a trustee capacity only and, as such, made neither a profit nor a loss for the financial period ended 30th June 2021.

32. Provisions for leave pay

	2020/2021	2019/2020
	Kshs	Kshs
Description		
Balance at beginning of the year	13,019,851	10,453,656
Additional provision at end of year	0	0
Leave paid out or utilised during the year	317,880	2,566,195
	<u> </u>	<u> </u>
Balance at end of the year	13,337,731	13,019,851
	=====	=====

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

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33. Notes to The Statement of Cash Flows

		2020/2021	2019/2020
		Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations			
Profit/(loss before tax		(305,038,412)	(234,295,766)
Depreciation	15	232,261,879	242,275,070
Amortisation		165,145	165,145
Asset retirement		4,442,496	0
Capex Cost to Revex		386,160	38,960,629
Operating profit/(loss) before working capital changes		(67,782,732)	47,105,077
(Increase)/decrease in inventories		3,539,677	67,124,766
(Increase)/decrease in trade and other receivables		216,104,946	222,881,359
Increase/(decrease) in trade and other payables		57,568,248	95,429,154
Increase/(decrease) in Investment in KPRL DC Pension Fund		(104,761,759)	(16,520,149)
Increase/(decrease) in provision for staff leave pay		317,880	2,566,195
Cash generated from/(used in) operations		104,986,260	418,586,403
(b) Analysis of changes in loans			
Balance at beginning of the year		1,816,457,814	2,220,337,044
Receipts during the year		0	0
Repayments of domestics borrowings during the year (CPP Term loan)		(64,786,028)	(219,250,412)
Movement in Bank Overdraft during the year		27,824,385	(240,262,639)
Foreign exchange losses /(gains)		15,749,078	55,633,820
Balance at end of the year	26	1,795,245,248	1,816,457,814
(c) Analysis of cash and cash equivalents			
Bank overdraft- CBA KES	26	(408,268,441)	(357,897,819)
Bank overdraft- Citi bank KES	26	(179,749,604)	(201,835,537)
Bank overdraft- Citi bank USD	26	(171,093,251)	(169,148,093)
Cash at bank	22	46,889,673	55,974,416
Cash in hand	22	316,099	354,715
Balance at end of the year		(711,905,524)	(672,552,318)

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33. Notes to The Statement of Cash Flows

		2020/2021	2019/2020
		Kshs	Kshs
(d) Analysis of interest paid			
Interest on loans		73,841,664	121,673,536
Interest on bank overdraft		71,835,116	104,092,649
Interest on loans capitalised		0	0
Interest paid		145,676,780	225,766,184
		=====	=====
(e) Analysis of dividend paid			
Balance at beginning of the year		0	0
2019 dividends paid		0	0
2020 dividends paid		0	0
2021 interim dividends paid		0	0
Balance at end of the year		0	0

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34. Related Party Disclosures

Government of Kenya

The Government of Kenya is the principal shareholder of the KPRL, holding 100% of the company's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the company, both domestic and external.

Other related parties include:

- i) The Ministry of Petroleum & Mining
- ii) County Government of Mombasa
- iii) Kenya Pipeline Corporation
- iv) National Bank of Kenya
- v) Key management
- vi) Board of directors

Transactions with related parties

	2020/2021	2019/2020
	Kshs	Kshs
a) Sales to related parties		
Sales of electricity to Govt agencies	0	0
Rent Income from govt. agencies	1,175,437,218	1,270,438,369
National Lands Commission Award	36,295,202	0
Water sales to Govt. agencies	0	0
Interest income from Govt Commercial Banks	0	0
Interest income from T-bills and Bonds	0	0
Others (Specify)	0	0
Total	1,211,732,420	1,270,438,369
b) Purchases from related parties		
Purchases of electricity from KPLC	78,322,479	63,425,572
Purchase of water from govt service providers	8,275,843	11,374,918
Rent expenses paid to govt agencies	0	0
Training and conference fees paid to govt. agencies	0	144,450
Bank charges paid to Govt Commercial banks	9,270	3,000
Interest expense to investments by other govt. entities	0	0
Others (specify)	14,913,840	8,861,062
Total	101,521,432	83,809,002

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34. Related Party Disclosures (continued)

Transactions with related parties

	2020/2021	2019/2020
	Kshs	Kshs
c) Grants from the Government		
Grants from National Govt	0	0
Grants from County Government	0	0
Donations in kind	0	0
Total	0	0
d) Expenses incurred on behalf of related party		
Payments of salaries and wages for employees	0	0
Payments for goods and services	0	0
Total	0	0
e) Key management compensation		
Directors' emoluments	245,173	159,150
Compensation to the CEO	12,754,059	15,547,787
Compensation to key management	44,282,061	43,761,966
Total	57,281,293	59,468,903

35. Capital Commitments

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

	2020/2021	2019/2020
Description	Kshs	Kshs
Amounts authorized and contracted for	0	0
Amounts authorized but not contracted for	0	0
Less: Amounts included in Work in progress	0	0
	0	0

*During the KPRL/KPC lease, the capital investment program is managed by KPC.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

36. Contingent Assets and Liabilities

Contingent Liabilities

		2020/2021	2019/2020
		Kshs	Kshs
i)	Guarantees	508,041,192.95	504,834,738
ii)	Legal claims against KPRL by Total Kenya Ltd	191,880,000	191,880,000
iii)	Other Legal claims against KPRL	9,167,595	9,936,020
iv)	KRA Disputed Tax Demand	1,633,968,000	1,633,968,000
		2,343,056,788	2,340,618,758
		=====	=====

In the opinion of the directors, no provision is required in these financial statements as the liabilities are not expected to crystallize.

37. Financial Risk Management

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

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

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

	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2021				
Receivables from exchange transactions	791,930,134	201,735,071	96,449,016	493,746,047
Receivables from non-exchange transactions	-	-	-	-
Bank balances	47,205,772	47,205,772	-	-
Total	839,135,906	248,940,843	96,449,016	493,746,047
At 30 June 2020				
Receivables from exchange transactions	704,414,308	113,106,612	401,182,421	190,125,275
Receivables from non-exchange transactions	-	-	-	-
Bank balances	56,329,132	56,329,132	-	-
Total	760,743,440	169,435,744	401,182,421	190,125,275

(NB: The totals column should tie to the individual elements of credit risk disclosed in the entity's statement of financial position)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Credit Risk (Continued)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The entity has significant concentration of credit risk on amounts due from Kenya Pipeline Corporation. The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2021				0
Trade payables	71,801,144	(3,136,824)	205,745,199	274,409,519
Current portion of borrowings	0	0	3,430,190,692	3,430,190,692
Provisions	0	0	968,553,454	968,553,454
Employee benefit obligation				0
Total	71,801,144	(3,136,824)	4,604,489,345	4,673,153,665
At 30 June 2020				
Trade payables	41,330,831	1,007,874	92,127,551	134,466,248
Current portion of borrowings	0	0	3,451,403,257	3,451,403,257
Provisions	36,899,420	767,581	1,012,943,600	1,050,610,601
Employee benefit obligation				0
Total	78,230,251	1,775,455	4,556,474,407	4,636,480,114

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(iii) Market risk

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

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

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

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

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

(iii) Market risk (Continued)

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Kshs	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2021			
Cash in Hand and at Bank	47,151,502	54,270	47,205,772
Trade & other Receivables	288,023,687	10,160,401	298,184,088
Deposits	0	0	0
	335,175,189	10,214,671	345,389,860
Liabilities			
Trade and other payables	217,329,088	57,080,437	274,409,525
Borrowings	2,222,963,489	1,207,227,203	3,430,190,692
	2,440,292,577	1,264,307,640	3,704,600,217
Net foreign currency asset/(liability)	(2,105,117,389)	(1,254,092,969)	(3,359,210,358)

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

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2020			
Financial assets			
Cash in Hand and at Bank	56,263,873	65,259	56,329,132
Debtors	502,175,092	12,113,942	514,289,033
	558,438,965	12,179,200	570,618,165
Financial Liabilities			
Trade and other payables	216,206,512	968,870,337	1,185,076,849
Borrowings	2,194,678,801	1,256,724,457	3,451,403,258
	2,410,885,313	2,225,594,794	4,636,480,107
Net foreign currency asset/(liability)	(1,852,446,348)	(2,213,415,594)	(4,065,861,942)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

b) Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in	Effect on Profit	Effect on
	currency rate	before tax	equity
	Kshs	Kshs	Kshs
2021			
Euro	10%	(38,395,133)	-
USD	10%	(172,366,419)	-
GBP	10%	37,025	
2020			
Euro	10%	(7,926,687)	-
USD	10%	(215,926,374)	-
GBP	10%	(21,539)	

c) Interest rate risk

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

i) Management of interest rate risk

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

ii) Sensitivity analysis

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

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs 17,952,452 (2019/20: KShs 17,545,647). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 89,762,262 (2019/20 – KShs 87,728,236)

iii) Fair value of financial assets and liabilities

a) *Financial instruments measured at fair value*

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *entity's* market assumptions. These two types of inputs have created the following fair value hierarchy:

- i)** Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- ii)** Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- iii)** Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The company considers relevant and observable market prices in its valuations where possible.

Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

iv) Capital Risk Management

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

	2020/2021	2019/2020
	Kshs	Kshs
Retained earnings	88,347,144	304,668,943
Share Capital	736,000,000	736,000,000
Share Premium	144,000,000	144,000,000
Total funds	968,347,144	1,184,668,943
Total borrowings	3,430,190,692	3,451,403,257
Less: cash and bank balances	(47,205,772)	(56,329,132)
Net debt/(excess cash and cash equivalents)	3,382,984,920	3,395,074,125
Gearing	349%	287%

38. Incorporation

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

39. Events After The Reporting Period

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

40. Currency

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

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APPENDICES

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor General	Management comments	Status:		Timeframe:	
			(Resolved / Not Resolved)	(Resolved / Not Resolved)	(Date when you expect the issue to be resolved)	(Date when you expect the issue to be resolved)
1	Inaccuracy of Statement of cash flows	The issue was clarified to the Auditor General vide KPRL letter reference no.CEO.100/07/2022	Resolved	Done		
2	Impairment of Refinery Property, Plant and Equipment	KPRL is still waiting for policy decision on the future of refinery plant from GoK.	Not yet resolved	This is a shareholder matter still in progress.		
3	Obsolete Inventories	The inventories are made up of plant and equipment spares which are tied to the refinery plant and the pending policy decision on the future of the plant.	Not yet resolved	This is a shareholder matter still in progress.		
4	Going Concern Status	The uncertainty about the going concern status of KPRL was caused by shutdown of the refinery plant with effect from 4 th Sept, 2013.	Not yet resolved	This is a shareholder matter still in progress.		
5	Inappropriate Accounting Policies on Assets Management	In the year 2009 KPRL changed assets accounting policy from revaluation model to historical cost model when Shell International PLC withdrew technical support on the refinery assets revaluation model. Subsequently KPRL has been facing uncertainty about the future of the refinery plant and associated equipment. KPRL's assets accounting policy is still in line with International Accounting Standard (IAS) 16 and consistent with prior years audited financial statements.	Not yet resolved	OAG recommendation to KPRL to revert back to revaluation model to be done after the matter of impairment of assets is determined.		

Ag. CEO:

Signature

Date.....

Director :

Signature

Date.....

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APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the State Corporation/ SAGA Funded by development partners.

NO.	Project title	Project Number	Donor	Period/duration	Donor commitment	Separate donor reporting (yes/no)	Comments
1	Early Oil Project Scheme	16012	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
2	Contract for Upgrade of Truck Loading Facility at PS 15	17012	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
3	Yokogawa DC System(phase 11)	20003	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
4	Tank Maintenance Program - T2751, T109, T206, T306 and Tanks for Truck Loading -T115	16013	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
5	Purchase of motor vehicles	16011	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
6	Replacement of P641	20004	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
7	Disaster Recovery Center 4 Servers and 4 POE LAN Base Switches	17007	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
8	Replacement of 40 Desktops, 30 Laptops and 40 BackUPS	17006	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
9	Replacement of aspirating Smoke Detectors & Gas Detection System for New Control Room building.	20005	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
10	P652 replacement	20006	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
11	Replacement of Hydrogen gas generators	20001	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
12	Upgrade of 2-way radio communication system & relocation to new frequencies	20002	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
13	Replacement of Five pieces 873 Radar ATG's	19007	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
14	Smoke & Fire detection system Installation at the main office Building	18003	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
15	Purchase of Franking Machine	20007	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease
16	Purchase of 100 NOS office chairs	20008	Not Applicable	Less than 12 months	N/A	No	KPRL/KPC Lease

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Capex Program

It is noteworthy that during the term of the KPRL/KPC Lease Agreement, the capital investment program is developed, managed, and implemented by Kenya Pipeline Company. Project phasing, scheduling, procurement, technical specifications and entire field control is carried out by the Kenya Pipeline Company. Capital project reports appear in this KPRL quarterly report for completeness.

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Status of Projects completion

NO.	Project Title	Project Number	Total project Cost	Total expended to date	Completion % to date	Approved Budget 2020/21
1	Early Oil Project Scheme	16012	1,874,975,000	1,411,999,438	75%	576,099,754
2	Contract for Upgrade of Truck Loading Facility at PS 15	17012	235,019,000	154,255,408	66%	128,973,765
3	Yokogawa DC System(phase 11)	20003	40,000,000	0	0%	40,000,000
4	Tank Maintenance Program - T2751, T109, T206, T306 and Tanks for Truck Loading -T115	16013	57,000,000	0	0%	57,000,000
5	Purchase of motor vehicles	16011	16,000,000	0	0%	16,000,000
6	Replacement of P641a (supplied from Kpic substation)	20004	13,000,000	0	0%	13,000,000
7	Disaster Recovery Center 4 Servers and 4 POE LAN Base Switches	17007	10,400,000	0	0%	10,400,000
8	Replacement of 40 Desktops, 30 Laptops and 40 BackUPS	17006	8,730,000	0	0%	8,730,000
9	Replacement of aspirating Smoke Detectors & Gas Detection System for New Control Room building.	20005	5,000,000	0	0%	5,000,000
10	P652 replacement	20006	4,800,000	0	0%	4,800,000
11	Replacement of Hydrogen gas generators	20001	4,000,000	0	0%	4,000,000
12	Upgrade of 2-way radio communication system & relocation to new frequencies allocated to KPRL	20002	4,000,000	0	0%	4,000,000
13	Replacement of Five pieces 873 Radar ATG's which are obsolete.	19007	3,000,000	0	0%	3,000,000
14	Smoke & Fire detection system Installation at the main office Building	18003	3,000,000	0	0%	3,000,000
15	Purchase of Franking Machine	20007	300,000	0	0%	300,000
16	Purchase of 100 No.s office chairs	20008	1,200,000	0	0%	1,200,000
	Total		2,280,424,000	1,566,254,846	69%	875,503,519

Capex Program

It is noteworthy that during the term of the KPRL/KPC Lease Agreement, the capital investment program is developed, managed, and implemented by Kenya Pipeline Company. Project phasing, scheduling, procurement, technical specifications and entire field control is carried out by the Kenya Pipeline Company. Capital project reports appear in this KPRL quarterly report for completeness.

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APPENDIX III: INTER-ENTITY TRANSFERS

ENTITY NAME:			
Break down of Transfers from the State Department of Petroleum			
FY 2020/21			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
a. Recurrent Grants			
	Total	0	
b. Development Grants	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	Total	0	
c. Direct Payments	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	Total	0	

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ENTITY NAME:		Break down of Transfers from the State Department of Petroleum	
FY 2020/21			
<u>d. Donor Receipts</u>	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
	Total	0	

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

Ag. CEO

Kenya Petroleum Refineries Ltd



Sign

Head of Accounting Unit

Ministry of Petroleum & Mining

Sign-----

Kenya Petroleum Refineries Ltd
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APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Where Recorded/recognized					Total Transfers during the Year
				Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
Ministry of Planning and Devolution		Recurrent	0						
Ministry of Planning and Devolution		Development	0						
USAID		Donor Fund	0						
Ministry of Planning and Devolution		Direct Payment	0						
Total			0						

