REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

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REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF PETROLEUM DEVELOPMENT LEVY FUND

FOR THE YEAR ENDED 30 JUNE 2018

STATE DEPARTMENT OF PETROLEUM

REVISED

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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29 JAN 2019
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MINISTRY OF PETROLEUM AND MINING

STATE DEPARTMENT FOR PETROLEUM

PETROLEUM DEVELOPMENT LEVY FUND

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED JUNE 30, 2018

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

PETROLEUM DEVELOPMENT FUND
Reports and Financial Statements
For the year June 30, 2018

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I. KEY ENTITY INFORMATION AND MANAGEMENT

STATE DEPARTMENT FOR PETROLEUM INFORMATION AND MANAGEMENT

(a) Background information

The State Department for Petroleum was formed in May 2016 following the Executive Order no.1 of May 2016 which split the Ministry of Energy and Petroleum into the State department of Energy and State department of Petroleum, At Cabinet level. However the Executive Order no. 1 of June, 2018 split the State Department for Petroleum to form Ministry of Petroleum and Mining represented by the Cabinet Secretary who is responsible for the general policy and strategic direction of the State Department for Petroleum. The operations of the Ministry began in July 2018.

(b) Key Management

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

No.	Designation	Name
1.	Cabinet Secretary	Hon. John Munyes Kiyong'a, EGH
2.	Principal Secretary	Mr. Andrew N. Kamau (CBS)
3.	Senior Deputy Secretary	Mr. Chege Mwangi
4.	Secretary Petroleum	Mr. Martin Heya
5.	Senior Ass. Director HRM&D	Ms. Agnes Muthuo
6.	Senior Chief Finance Officer	Ms. Melissa Musoma
7.	Deputy Chief Economist	Ms. Electine Nanzala
8.	Ag. Ass. Director General	CPA Prisca M. Musau
9.	Ag. PSCMO	Mr. Evans Nyakundi

(c) Ministry of Petroleum and Mining, Headquarters

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

(d) State Department for Petroleum

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

(e) Independent Auditors

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

(f) Principal Legal Adviser

E-mail: info@ag.go.ke
Tel: 2542227461.
Website: wwwag.go.ke

(g) State Department for Petroleum Bankers

Central Bank of Kenya
P.O. Box 60000-00200,
Nairobi, Kenya.
Tel: +254 20 286 0000

II. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2013 requires that, at the end of each financial year, the accounting officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

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

The Accounting Officer in charge of the Ministry of Petroleum and Mining, State Department for Petroleum accepts responsibility for the entity's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the State Department for Petroleum financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2018, and of the entity's financial position as at that date. The Accounting Officer in charge of the Ministry of Petroleum and Mining, State Department for Petroleum further confirms the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of the Ministry of Petroleum and Mining, Petroleum State Department for Petroleum confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the entity's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The financial statements were approved and signed by the Accounting Officer on 30th September 2018.

Principal Secretary
Andrew N. Kamau CBS

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

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Petroleum Development Levy Fund set out on pages 6 to 14, which comprise the statement of assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statement of comparative 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, the financial statements present fairly, in all material respects, the financial position of Petroleum Development Levy Fund as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Petroleum Development Levy Fund Act, Cap 426C.

Basis for Opinion

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way:

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, the management is responsible for assessing Fund's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless management is aware of the intention to liquidate the Fund or have its operations cease.

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

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are

in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

Nairobi

6 May 2019

III. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2018

	Note	FY2017/2018	FY2016/2017
		KShs	KShs
Revenue from non-exchange transactions			
Fines, penalties and levies	1	1,838,000,000	1,052,500,000
		1,838,000,000	**1,052,500,000**
Total revenue		**1,838,000,000**	**1,052,500,000**
Expenses			
Transfer to other government entities	2	1530,323,926	570,000,000
Total expenses		**1,530,323,926**	**570,000,000**
Surplus for the year		**307,676,074**	**482,500,000**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30th September 2018 and signed by:

Principal Secretary
Andrew N. Kamau CBS

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

IV. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2018

	Note	FY2017/2018	FY2016/2017
		KShs	KShs
Financial Assets			
Current assets			
Cash and cash equivalents	4	307,676,074	482,500,000
		307,676,074	**482,500,000**
Total financial assets		**307,676,074**	**482,500,000**
Represented by			
Fund balance b/fwd		482,500,000	-
Prior year adjustment	3	(482,500,000)	-
Surplus for the year		307,676,074	482,500,000
Net financial position		**307,676,074**	**482,500,000**

The Accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30th September 2018 and signed by:

Principal Secretary
Andrew N. Kamau CBS

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

V. STATEMENT OF CASH FLOWS FOR THE PERIOD 30TH JUNE 2018

	Note	FY2017/2018	FY2016/2017
		KShs	KShs
Cash flows from operating activities			
Receipts for operating activities			
Fines, penalties and levies	1	1,838,000,000	1,052,500,000
Total Receipts		**1,838,000,000**	**1,052,500,000**
Payments for operating activities			
Grants and subsidies	2	1,530,323,926	570,000,000
Adjusted for;			
Refund to National Treasury	3	482,500,000	-
Total Payments		**2,012,823,926**	**330,000,000**
Net cash flows from operating activities		**(174,823,926)**	**722,500,000**
Cash flows from investing activities			
Net cash flows used in investing activities		-	-
Net increase/(decrease) in cash and cash equivalents		**(174,823,926)**	**482,500,000**
Cash and cash equivalents at 1 JULY	4	482,500,000	-
Cash and cash equivalents at 30 JUNE	4	**307,676,074**	**482,500,000**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30th September 2018 and signed by:

Principal Secretary
Andrew N. Kamau CBS

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

VI. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	2018	2018	2018	2018	2018	2018
Revenue	KShs	KShs	KShs	KShs	KShs	
Fines, penalties and levies	1,838,000,000	-	1,838,000,000	1,838,000,000	-	100%
Total income	**1,838,000,000**	-	**1,838,000,000**	**1,838,000,000**		
Expenses						
Transfer to other government entities	1,838,000,000	-	1,838,000,000	1,530,323,926	307,676,074	17%
Total expenditure	1,838,000,000	-	1,838,000,000	1,530,323,926	307,676,074	
Surplus for the period	**1,838,000,000**	-	**1,838,000,000**	**307,676,074**	**(307,676,074)**	**17%**

VII. SIGNIFICANT ACCOUNTING POLICIES

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

1. **Statement of compliance and basis of preparation**

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

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

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the entity all values are rounded to the nearest Kenya Shilling. The accounting policies adopted have been consistently applied to all the years presented.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

2. **Reporting entity**

The financial statements are for the **Ministry of Petroleum and Mining, State Department for Petroleum** The financial statements encompass the reporting entity as specified under section 81 of the PFM Act 2012 and also comprise of the following development projects implemented by the entity:

3. **Recognition of receipts and payments**

a) Recognition of receipts

The Entity recognizes all receipts from the various sources when the event occurs and the related cash has actually been received by the entity.

Tax receipts

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

SIGNIFICANT ACCOUNTING POLICIES (CONT)

Transfers from the Exchequer
Transfer from Exchequer is recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

External Assistance
External assistance is received through grants and loans from multilateral and bilateral development partners.

Donations and grants
Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

Proceeds from borrowing
Borrowing includes Treasury bill, treasury bonds, corporate bonds; sovereign bonds and external loans acquired by the entity or any other debt the Entity may take on will be treated on cash basis and recognized as receipts during the year of receipt.

Undrawn external assistance
These are loans and grants at reporting date as specified in a binding agreement and relate to funding for projects currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. During the year ended 30th June 2018, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

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

b) Recognition of payments
The entity recognizes all expenses when the event occurs and the related cash has actually been paid out by the entity.

Compensation of employees
Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

SIGNIFICANT ACCOUNTING POLICIES (C0NT)

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

Interest on borrowing
Borrowing costs that include interest are recognized as payment in the period in which they incurred and paid for.

Repayment of borrowing (principal amount)
The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made.

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

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

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

VIII. NOTES TO THE FINANCIAL STATEMENTS

1. Fines, penalties and Levies

Description	FY2017/2018	FY2016/2017
	KShs	KShs
Petroleum Development Levy (Appropriations In Aid)	1,838,000,000	1,052,500,000
Total	**1,838,000,000**	**1,052,500,000**

These refer to appropriations in Aid received through The National Treasury

2. Transfers to other Government Entities

Description	FY2017/2018	FY2016/2017
	KShs	KShs
Transfer to NOCK	660,000,000	250,000,000
Transfer to state Department of Petroleum (Development Account)	870,323,926	320,000,000
Total	**1,530,323,926**	**570,000,000**

3. Prior Year adjustments

Description	FY2017/2018	FY2016/2017
	KShs	KShs
Underutilized funds refunded to National Treasury	482,500,000	-
Total	**482,500,000**	**-**

4. Cash and cash equivalents

Description	FY2017/2018	FY2016/2017
	KShs	KShs
Current account	307,676,074	482,500,000
Total cash and cash equivalents	**307,676,074**	**482,500,000**

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

Financial institution	Account number	FY2017/2018 KShs	FY2016/2017 KShs
a) Current account			
Central Bank of Kenya	1000319275	307,676,074	482,500,000
Sub- total		**307,676,074**	**482,500,000**

5. Related party balances

a) Nature of related party relationships

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

a) Ministry of Petroleum,

b) Other Government entities and

c) Key management personnel.

i) Related parties transactions

Description	FY2017/2018 KShs	FY2016/2017 KShs
Transfer to NOCK	660,000,000	250,000,000
Transfer to state Department of Petroleum (Development Account)	870,323,926	320,000,000
Total	**1,530,323,926**	**570,000,000**