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 REPORT THE NATIONAL ASSEMBLY	
DATE: 18 APR 2023	TUESDAY
TABLED BY:	Hon. Owen Bayo, MP Deputy Leader, Majority
CLERK-AT-THE-TABLE:	Ann Shubuko

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE, 2022**

MINISTRY OF ENERGY

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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**KENYA ENERGY SECTOR ENVIRONMENT & SOCIAL RESPONSIBILITY
PROGRAMME
MINISTRY OF ENERGY
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2022**

**Kenya Energy Sector Environment & Social Responsibility Programme
Annual Report and Financial Statements
For the year ended June 30, 2022.**

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**Kenya Energy Sector Environment & Social Responsibility Programme
Annual Report and Financial Statements
For the year ended June 30, 2022.**

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**Kenya Energy Sector Environment & Social Responsibility Programme
Annual Report and Financial Statements
for the year ended June 30, 2022.**

1. Key Fund Information and Management

(a) Background information

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

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

Principal Activities

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

Vision

Provision of affordable, quality energy for all Kenyans

Mission

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

Core Values

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

(b) Key Management

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

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(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 20XX and who had direct fiduciary responsibility were:

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

(d) Fund Offices

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

(e) Fund Contacts

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

(f) Fund Bankers

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

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for the year ended June 30, 2022.**

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

(g) Independent Auditors

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

(h) Principal Legal Adviser

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

2. Management Team



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

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

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

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

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 <p>CPA Moses Peterson Gitari Muriuki Senior Deputy Accountant General</p>	<p>CPA Moses Gitari is the Head of Accounting Unit, Ministry of Energy. He holds an MBA in Strategic Management from The University of Nairobi and BBA in Accounting and Finance from KEMU.</p> <p>Mr Gitari is a practicing Accountant and a member of Institute of Certified Public Accountants of Kenya (ICPAK). He has vast experience in Accounting Systems Implementation and Business process re-engineering.</p> <p>He has previously worked in the Ministry of Health as an Accountant and at the National Treasury IFMIS Department as the Head of business process re-engineering</p>
 <p>Stephen Alexius Njue Senior Deputy Director Budget</p>	<p>Mr. Stephen Alexius Njue is currently Head of Finance in the Ministry of Energy at the grade of Senior Chief Finance Officer.</p> <p>He has served in the Civil Service for 28 years and in particular as Head of Finance for 19 years across various government Ministries, Departments and agencies. These includes; National Treasury, Ministry of Roads and Public Works, Housing, Regional Development, Water, Labour and Social Protection, Energy as well as various local authorities and County Governments.</p> <p>Currently he is an Alternate Director at Kenya Generating Electricity Company (KENGEN).</p> <p>Mr. Njue holds an MBA in Finance and a Bachelor's degree in Business Studies and Economics both from Kenyatta University. He also holds a National Diploma in Financial Management from Kenya Institute of Management.</p> <p>He is a member of Institute of Internal Auditors and Institute of Human Resource Management of Kenya</p>



Mr Charles M. Mulandi
Assistant Director Supply Chain & Management

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

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

**Kenya Energy Sector Environment & Social Responsibility Programme
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for the year ended June 30, 2022.**

3. Report of Fund Administration Committee

The Fund Administration Committee submit their report together with the audited financial statements for the year ended June 30, 2022, which show the state of the Fund affairs.

3.1 Principal activities

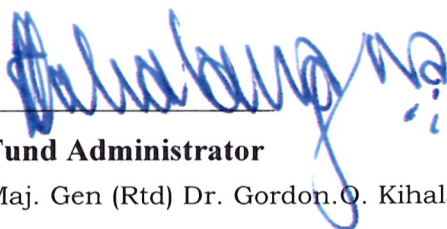
The principal activities of the Fund continue to be supporting production of bio fuels and growing of trees in order to conserve oil

3.2 Performance

The performance of the Fund for the year ended June 30, 2022, are set out on page 17 to 33.

3.3 Auditors

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



Fund Administrator

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

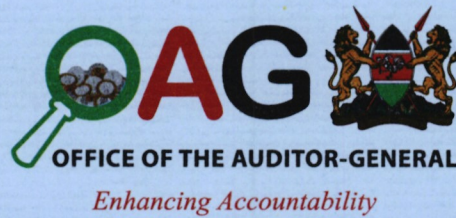


Fund Accountant

CPA Moses Peterson Gitari Muriuki
ICPAK Number: 4204

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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

REPORT OF THE AUDITOR-GENERAL ON KENYA ENERGY SECTOR ENVIRONMENT AND SOCIAL RESPONSIBILITY PROGRAMME FUND FOR THE YEAR ENDED 30 JUNE, 2022 - MINISTRY OF ENERGY

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, 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

Opinion

I have audited the accompanying financial statements of Kenya Energy Sector Environment and Social Responsibility Programme Fund set out on pages 1 to 16, which comprise of the statement of financial position as at 30 June, 2022, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year

Report of the Auditor-General on Kenya Energy Sector Environment and Social Responsibility Programme Fund for the year ended 30 June 2022 - Ministry of Energy

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 the Kenya Energy Sector Environment and Social Responsibility Programme Fund as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the Government Financial Management (Kenya Energy - Sector Environment and Social Responsibility Programme Fund) Regulations, 2007.

Basis for Opinion

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

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects budgeted revenue and actual on comparative basis of Kshs.72,000,000 and Kshs.86,052,723 respectively resulting to revenue overcollection of Kshs.14,052,723 or 20%. Further, the Fund budgeted to spend Kshs.72,000,000 but spent Kshs.68,258,437 resulting in under expenditure of Kshs.3,741,563 or 5%.

The under absorption of funds affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Low Contribution to the Fund

As previously reported, the projected contributions by eight (8) Agencies for the ten-year period towards the Fund, based on the 2019-2029 Action Plan, revealed that out of the expected contribution of Kshs.824,000,000, only Kshs.230,000,000 or 28% was realized from three (3) Agencies while five (5) Agencies had not made any contributions over the last three years as detailed below;

No.	Organization	Proposed Phase Two Allocation (2019-2029) (Kshs.)	Contribution Allocation for last 3 years (Kshs.)	Total Contribution Received in the last 3 years (Kshs.)	Deficit in Contribution (Kshs.)
1	Ministry of Energy (MOE)	659,000,000	197,700,000	222,000,000	-24,300,000
2	Kenya Electricity Transmission Company	5,000,000	1,500,000	0	1,500,000
3	Geothermal Development Company	54,000,000	16,200,000	0	16,200,000
4	Nuclear Power and Energy Agency	12,000,000	3,600,000	0	3,600,000
5	Kenya Power and Lighting Company Limited	10,000,000	3,000,000	2,000,000	1,000,000
6	Energy and Petroleum Regulatory Authority	20,000,000	6,000,000	6,000,000	0
7	Kenya Electricity Generating Company	10,000,000	3,000,000	0	3,000,000
8	Rural Electrification & Renewable Energy Corporation	54,000,000	16,200,000	0	16,200,000
	Total	824,000,000	247,200,000	230,000,000	17,200,000

No explanation was given as to why the five (5) Agencies were not contributing in accordance with the agreement.

In the circumstances, the non-contribution to the Fund is a violation terms of the agreement and may impact negatively on the operations of the Fund and its ability to achieve the intended goals and objectives.

2. Low Utilization of Funds on Core Activities

The Ministry of Energy entered a contract with the Kenya Forest Service to undertake all the procurement of goods, works and services required for the project from Community Forest Association and to be financed out of the proceeds of the Fund.

Review of the financial records revealed that out of a sample of an expenditure amount of Kshs.10,476,848 relating to afforestation at various forest areas, only an amount of Kshs.3,303,068 or 32% was incurred on the afforestation projects. The balance of the expenditure of Kshs.7,173,780 or 68% was incurred on other expenses that were not related to afforestation. Further, Management of the Fund did not have control of the procurement records and thereby affecting the accountability of the process.

In the circumstances, the objectives of the Fund may not be attained.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls 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 controls, risk management and overall governance.

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

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

In addition to the responsibility for preparing and presenting the financial statements described above, Management is also responsible for ensuring that the activities,

financial transactions and information reflected in the financial statements comply with the authorities which govern them, and that public resources are applied in an effective way.

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls 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 controls may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

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

10 January, 2023

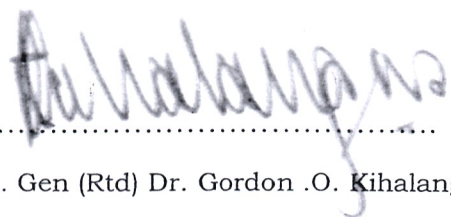
**Kenya Energy Sector Environment & Social Responsibility Programme
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for the year ended June 30, 2022.**

6. Statement of Financial Performance for the year ended 30 June 2022

	Notes	2021-2022	2020-2021
		Kshs	Kshs
Revenue from non-exchange transactions			
Transfers from other governments entities	5	75,000,000	55,000,000
		75,000,000	55,000,000
Revenue from exchange transactions			
Interest income	6	11,052,723	6,491,692
Total revenue		86,052,723	61,491,692
Expenses			
Use of goods and services	7	18,926,766	65,025,306
Acquisition of Assets	8	49,331,671	
Total expenses		68,258,437	65,025,306
Surplus/(deficit) for the period/year		17,794,286	(3,533,614)

The notes set out on pages 21 to 25 form an integral part of these Financial Statements.

The Financial Statements set out on pages 17 to 33 were signed by Fund Administrator by:



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



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

4. Statement of Management's Responsibilities

Section 81 of the Public Finance Management Act, 2012 requires the Fund Administrator to prepare financial statements in respect of that Fund, which give a true and fair view of the state of affairs of the Fund at the end of the financial year/period and the operating results of the Fund for that year/period. The Fund Administrator are also required to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Fund. The Fund Administrator are also responsible for safeguarding the assets of the Fund.

The Fund Administrator are responsible for the preparation and presentation of the Kenya Energy Sector Environment & Social Responsibility Fund financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year (period) ended on June 30, 2022. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund ; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the Fund ; (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Fund Administrator accept responsibility for the Kenya Energy Sector Environment & Social Responsibility Fund financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012. The Fund Administrator are of the opinion that the Kenya Energy Sector Environment & Social Responsibility Fund financial statements give a true and fair view of the state of Kenya Energy Sector Environment & Social Responsibility Fund transactions during the financial year ended June 30, 2022, and of the Kenya Energy Sector Environment & Social Responsibility Fund financial position as at that date.

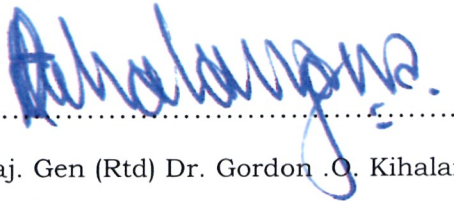
The Fund Administrator further confirms the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Kenya Energy Sector Environment & Social Responsibility Fund financial statements as well as the adequacy of the systems of internal financial control.

**Kenya Energy Sector Environment & Social Responsibility Programme
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Nothing has come to the attention of the Fund Administrator to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Kenya Energy Sector Environment & Social Responsibility Fund financial statements were approved by the Board on 14-9- 2022 and signed on its behalf by:



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



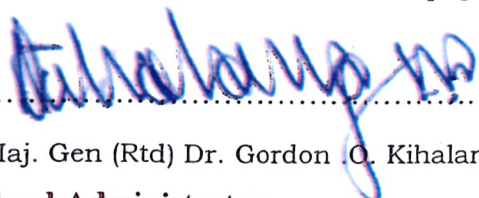
.....
CPA Moses Peterson Gitari Muriuki
ICPAK Number: 4204
Fund Accountant

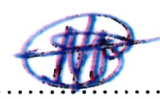
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for the year ended June 30, 2022.**

14 Statement of Financial Position as at 30 June 2022

	Notes	2021-2022	2020-2021
		Kshs	Kshs
Assets			
Current Assets			
Cash and Cash equivalents	9	200,031,247	181,657,340
Accounts Receivables -Interest Income	10	1,754,150	1,754,150
Total Current Assets		201,785,394	183,411,490
Net Assets			
Accumulated Surplus		201,785,397	183,411,490
Adjustments			
Total Net Assets and Liabilities		201,785,394	183,411,490

The financial statements set out on pages 17 to 33 were signed by Fund Administrator by:


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


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

**Kenya Energy Sector Environment & Social Responsibility Programme
Annual Report and Financial Statements
for the year ended June 30, 2022.**

15 Statement of Changes in Net Assets for the year ended 30 June 2022

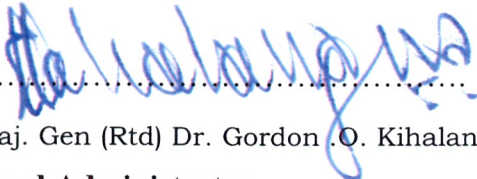
	Accumulated Surplus
	Kshs
Balance as at July 1, 2020	186,921,657
Total comprehensive income	(3,533,614)
Prior year adjustment	0
Balance as at June 30, 2021	183,411,490
At July 1, 2021	183,411,490
Total comprehensive income	17,794,286
Prior year adjustment	579,621
Balance as at 1 July 2022	201,785,397


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16. Statement of Cash Flows for the year ended 30 June 2022

		2021-2022	2020-2021
	Notes	Kshs	Kshs
Cash flows from operating activities			
Receipts			
Transfers from other governments entities	5	75,000,000	55,000,000
Interest income	6	11,052,723	6,491,692
Total receipts		86,052,723	61,491,692
Payments			
Use of goods and services	7	18,926,766	65,025,306
Acquisition of Assets	8	49,331,671	
Total payments		68,258,437	65,025,306
Net cash flows from/(used in) operating activities		17,794,286	(3,533,614)
Prior year Adjustment	11	579,621	
Decrease/(Increase) in Accounts receivables			218,445
Net increase/(decrease) in cash & Cash equivalents		18,373,907	(3,315,169)
Cash and cash equivalents at 1 July		181,657,340	184,972,509
Cash and cash equivalents at 30 June		200,031,247	181,657,340

The financial statements set out on pages 17 to 33 were signed by Fund Administrator by:

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

.....

CPA Moses Peterson Gitari Muriuki
ICPAK Number: 4204
Fund Accountant

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17. Statement of Comparison of Budget and Actual amounts for the year ended 30 June 2022

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	Kshs	Kshs	Kshs	Kshs	Kshs	
	2022	2022	2022	2022	2022	2022
Revenue						
Transfers from Other Governments entities	50,000,000	22,000,000	72,000,000	75,000,000	-3,000,000	104%
Interest Income				11,052,723	-11,052,723	
TOTAL INCOME	50,000,000	22,000,000	72,000,000	86,052,723	-14,052,723	120%
Expenses						
Use of good and services	20,000,000	2,000,000	22,000,000	18,926,766	3,073,234	86%
Acquisition of Assets	30,000,000	20,000,000	50,000,000	49,331,671	668,329	99%
Total Expenditure	50,000,000	22,000,000	72,000,000	68,258,437	3,741,563	100%
Surplus for the year	-	-	-	17,794,286		

18. Notes to the Financial Statements

1. General Information

The Kenya Energy Sector Environment & Social Responsibility Fund is established by and derives its authority and accountability from by an Act of parliament Regulations, 2007 (L.N. No. 188 of 2007). The Fund is wholly owned by the Government of Kenya and is domiciled in Kenya. The Kenya Energy Sector Environment & Social Responsibility Fund principal activity is to finance activities relating to the production of wood fuel, power distribution poles and energy crops for production of bio-fuels; and growing of trees in order to conserve soil and preserve catchment areas for hydro-power dams, including provision of a sink for carbon dioxide generated through combustion fossil fuels

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 Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Kenya Energy Sector Environment & Social Responsibility Fund 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 Note 5 of these financial statements.

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

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Notes to the Financial Statements (Continued)

3. Adoption of New and Revised Standards

i. **Early adoption of standards**

The Fund did not early – adopt any new or amended standards in year 2021/2022.

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

The Fund recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Fund and the fair value of the asset can be measured reliably.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Fund and can be measured reliably. 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.

ii) Revenue from exchange transactions

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information

The original budget for FY 2021-2022 was approved by the National Assembly on June 2021. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Fund upon receiving the respective approvals in order to conclude the final budget.

The Kenya Energy Sector Environment & Social Responsibility Fund 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 under section 17 of these financial statements.

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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

c) Related parties

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

d) 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 Kenya Commercial Bank and Credit Bank of Kenya the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

e) Comparative figures

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

f) 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, 2022.

**Kenya Energy Sector Environment & Social Responsibility Programme
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Notes to the Financial Statements (Continued)

5. Transfer from National Government

Description	2021-2022	2020-2021
	KShs	KShs
Unconditional Grants		
Ministry of Energy	72,000,000	50,000,000
KPLC	1,000,000	1,000,000
EPRA	2,000,000	4,000,000
Total Government Grants And Subsidies	75,000,000	55,000,000

b) Transfers from National government

Name Of The Fund Sending The Grant	Amount recognized to Statement of Financial performance	Amount deferred under deferred income	Amount recognised in capital fund.	Total transfers 2021-22	Prior year 2020-2021
	KShs	KShs	KShs	KShs	KShs
Ministry of energy	72,000,000	-	-	72,000,000	50,000,000
EPRA	2,000,000	-	-	2,000,000	4,000,000
KPLC	1,000,000			1,000,000	1,000,000
Total	75,000,000	-	-	75,000,000	55,000,000

6. Interest income

Description	2021-2022	2020-2021
	Kshs	Kshs
Interest income on bank deposits	11,052,723	6,491,692
Total Interest income	11,052,723	6,491,692

7. Use of goods and services

Description	2021-2022	2020-2021
	Kshs	Kshs
Domestic travel and subsistence	16,571,966	16,647,014
Bank charges	2,167,800	1,272,121
Hospitality, supplies and services	187,000	169,984
Total use of goods and Services	18,926,766	18,089,119

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Notes to the Financial Statements (Continued)

8. Acquisition of Assets

Description	2021-2022	2020-2021
	Kshs	Kshs
Afforestation	49,331,671	46,936,187
Total use of goods and Services	49,331,671	46,936,187

9. Cash and cash equivalent

Description	2021-2022	2020-2021
	KShs	KShs
Current account	200,031,247	181,657,340
Total cash and cash equivalent	200,031,247	181,657,340

Detailed analysis of the cash and cash equivalent are as follows

Financial institution	2021-2022	2020-2021
Fixed deposit account	Kshs	Kshs
Kenya Commercial bank	67,718,304	129,600,845
Credit Bank	132,312,943	52,056,495
Grand Total	200,031,247	181,657,340

10. Accounts Receivables -Interest Income

Description	2021-2022	2020-2021
	Kshs	Kshs
Accounts Receivables – Interest Income	1,754,150	1,754,150
Total use of goods and Services	1,754,150	1,754,150

11. Prior year Adjustment

Description	2021-2022	2020-2021
	Kshs	Kshs
Prior year Adjustment	579,621	0
Total Prior Year Adjustment	579,621	0

Notes to the Financial Statements (Continued)

12. Financial Risk Management

The Kenya Energy Sector Environment & Social Responsibility Fund activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Kenya Energy Sector Environment & Social Responsibility Fund 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 Fund does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Kenya Energy Sector Environment & Social Responsibility Fund financial risk management objectives and policies are detailed below:

i) Credit risk

The Fund has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments. Management assesses the credit quality of each customer, 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 Fund Administrator. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Kenya Energy Sector Environment & Social Responsibility Fund management based on prior experience and their assessment of the current economic environment.

Financial Risk Management

The carrying amount of financial assets recorded in the financial statements representing the Kenya Energy Sector Environment & Social Responsibility Fund maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount	Fully performing
	Kshs	Kshs
As at 30 June 2022		
Bank balances	200,031,247	200,031,247
Total	200,031,247	200,031,247
As at 30 June 2021		
Bank balances	181,657,340	181,657,340
Total	181,657,340	181,657,340

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Notes to the Financial Statements (Continued)

ii) Market risk

The Fund has put in place an internal audit function to assist it in assessing the risk faced by the Fund 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 Kenya Energy Sector Environment & Social Responsibility Fund 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 Kenya Energy Sector Environment & Social Responsibility Fund 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 Kenya Energy Sector Environment & Social Responsibility Fund exposure to market risks or the manner in which it manages and measures the risk.

a) Interest rate risk

Interest rate risk is the risk that the Kenya Energy Sector Environment & Social Responsibility Fund financial condition may be adversely affected as a result of changes in interest rate levels. The Kenya Energy Sector Environment & Social Responsibility Fund interest rate risk arises from bank deposits. This exposes the Fund to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Kenya Energy Sector Environment & Social Responsibility Fund deposits.

Management of interest rate risk

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

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Financial Risk Management

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 an increase of KShs 18,373,907 (2021: KShs (3,313,685)). A rate increase of 5% would result in a decrease/increase in profit before tax of KShs 30,006,252 (2021 – KShs 3,396,252)

13. Related Party Disclosures

Nature of related party relationships

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

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

Related party transactions

	2021/2022	2020/2021
	KShs	KShs
Ministry of Energy	72,000,000	50,000,000
EPRA	2,000,000	4,000,000
KPLC	1,000,000	1,000,000

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14. Events after the Reporting Period

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

15. Ultimate and Holding Fund

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

16. Currency

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

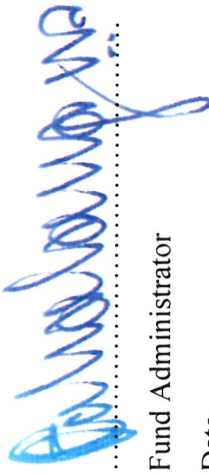
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19. Appendix 1

Appendix 1: Implementation Status of Auditor-General's 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	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Overstatement of Domestic Travel Expenses	The management stated that the activities were undertaken within the Financial year and properly accounted and surrendered	Resolved	
	Budgetary Control and Performance	The Management indicated that the Fund operates on IPSAS accrual basis hence bank balances brought forward are utilized in the following financial year.	Resolved	
	Low Contribution of the Fund	The management indicated that regulations to enforce Agencies to contribute to the fund are now in place and follow up is being done to enforce them by law	Not resolved	


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Fund Administrator

Date

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Appendix II: Transfers from Other Government Entities

Kenya Energy Sector Environment & Social Responsibility Programme Fund (KEEP)			
FY 2020/2021			
<u>Development Grants</u>	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
Ministry of Energy	25/11/2021	72,000,000	2021/2022
EPRAs	14/02/2022	2,000,000	2021/2022
KPLC	05/11/2021	1,000,000	2021/2022
Total		75,000,000	

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Sign -----

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

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Sign-----

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