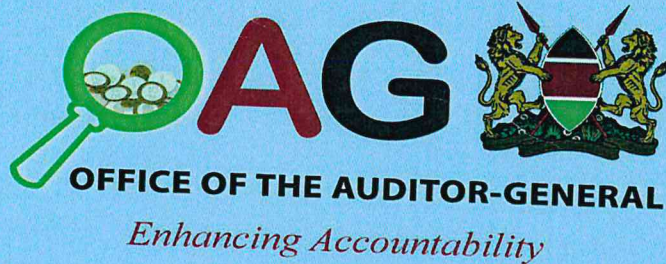



REPUBLIC OF KENYA



 REPORT	
THE NATIONAL ASSEMBLY PAPERS LAID	
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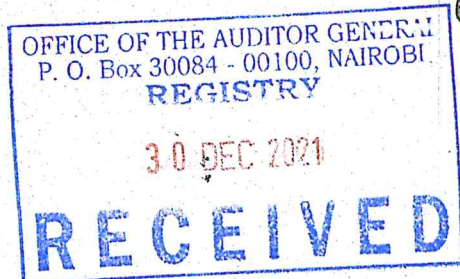
THE AUDITOR-GENERAL

ON

PETROLEUM DEVELOPMENT FUND

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

MINISTRY OF ENERGY



**PETROLEUM DEVELOPMENT FUND
MINISTRY OF ENERGY**

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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



PETROLEUM DEVELOPMENT FUND – MINISTRY OF ENERGY
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1. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The Petroleum Development Fund under the State Department for Energy (PDF-SDE) was formed on 27th October, 2006. PDF-SDE is managed by the Principal Secretary for Energy, who was appointed as the officer administering the Fund by the Principal Secretary for National Treasury in accordance with Section 4(2) of Petroleum Development Levy Act No. 4 of 1991 (Revised 2012). The Fund is wholly owned by the Government of Kenya and is domiciled in Kenya.

The Fund's principal activity is to of the fund is to supplement the Development budget of the State Department for Energy as Appropriation in Aid (AIA

(b) Key Management

The key management personnel who held office during the financial year ended 30th June 2021 and who had direct fiduciary responsibility were:

Ref	Name	Position
1	Maj. Gen (Rtd) Dr. Gordon Kihlangwa, CBS	Principal Secretary
2	Moses Gitari	Head of Accounting Unit
3	Charles Mulandi	Assistant Director Supply Chain
4	William Mbaka	Chief Finance Officer



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Name	Details of qualifications and experience
 <p>Maj. Gen (Rtd) Dr. Gordon Kihalangwa, CBS Principal Secretary</p>	<p>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.</p> <p>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.</p> <p>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).</p>

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CPA. Moses Gitari
Senior Deputy Accountant General

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.

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.

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



Mr William O. Mbaka
Senior Deputy Director of Budget

Mr. William O. Mbaka is the Senior Deputy Director of Budget in the State Department of Energy, Ministry of Energy and Petroleum and Head of Finance. He has served in the Civil Service for 29 years and as Head of Finance for 18 years. He has served in various ministries such as Housing, Agriculture, Health, Planning and Labour, among others. He also served as an Alternate Director in various State Corporations including Nzoia Sugar Company, Kenya Sugar Board, Sony Sugar Company and Coast Development Authority and currently is serves as an Alternate Director at Kenya Generating Electricity Company (KENGEN).He holds a MBA in Finance from Birmingham University (UK), A degree in Business Studies from Kenyatta University and an ACCA qualification..



Mr. Charles 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

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	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.
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(c) Fiduciary Oversight Arrangements

- a) Budget Implementation Committee
- b) Parliamentary committee
- c) Internal Audit Committee

PETROLEUM DEVELOPMENT FUND – MINISTRY OF ENERGY
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(d) Petroleum Development Fund Headquarters

P.O. Box 30582
Kawi House, South C
NAIROBI, KENYA

(e) Petroleum Development Fund Contacts

Telephone: (254) 203310112
E-mail: ps@energy.go.ke
Website: www.energy.go.ke

(f) Petroleum Development Fund Bankers

1. Kenya Commercial Bank
Kipande House Branch
NAIROBI, KENYA
2. Credit Bank PLC
Koinange 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

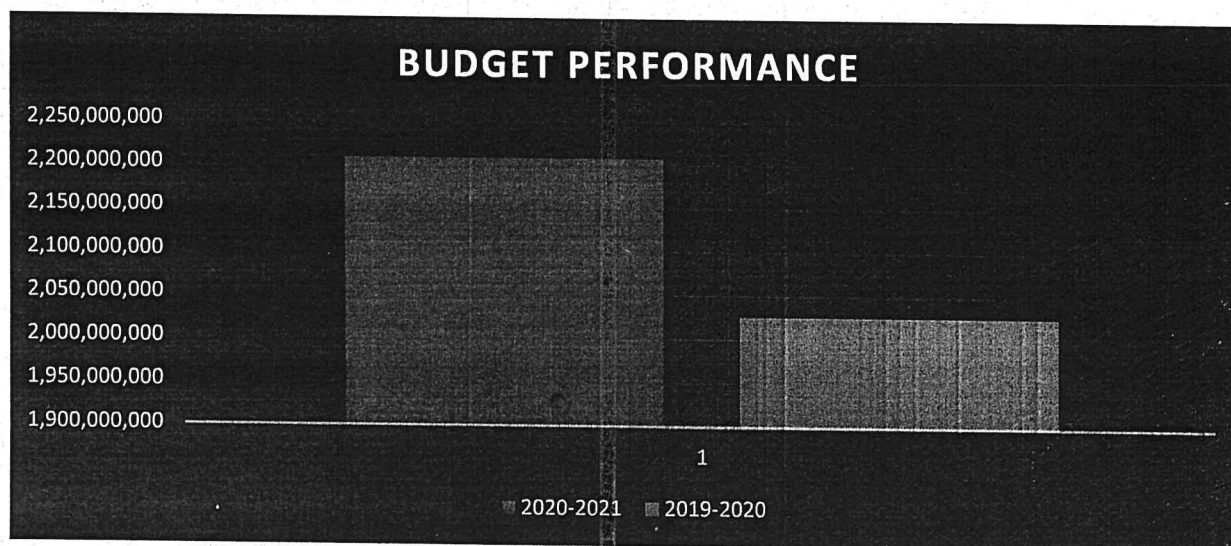
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

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2. FORWARD BY THE FUND ADMINISTRATOR

1. Budget Performance Against Actual Amounts for 2020/2021

The budget for the financial year 2020-2021 from appropriations in aid was Kshs. 2,207,000,000. The actual amounts collected for the same was Kshs. 2,207,000,000. This was an increased in budget performance from the previous year 2019-2020 of Kshs 2,026,000,000

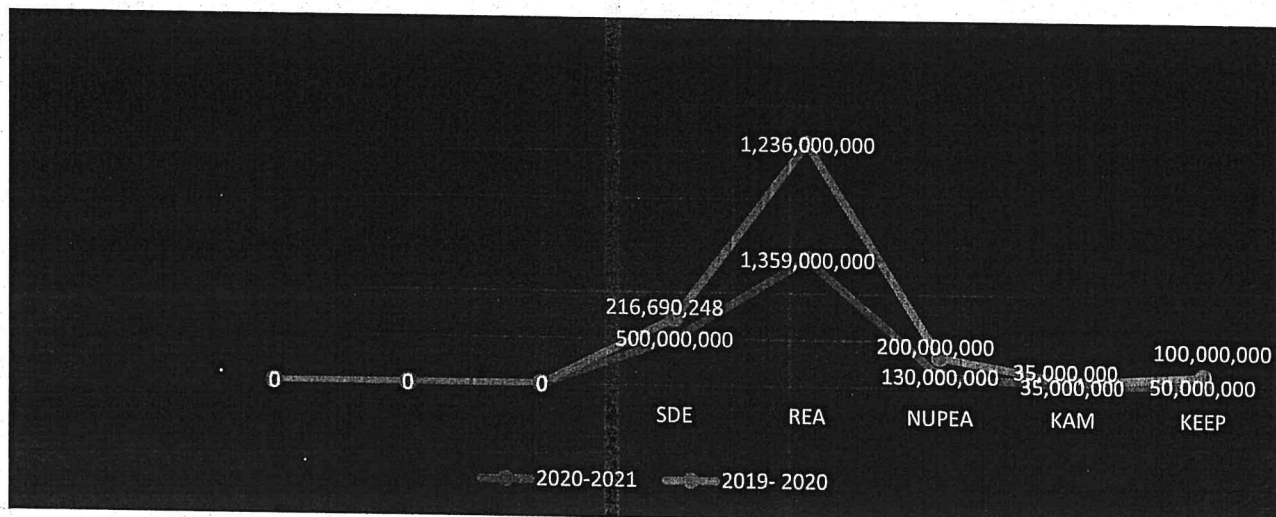


2. Key Achievements of the Petroleum Development Fund

The Fund collected Kshs. 2,207,000,000 in appropriations in Aid and utilized the amount by transfer to other government entities of Kshs. 2,074,000,000 and other general expenses for Kshs3,142,080.

The transfer to other government entities was to Ministry of Energy for Kshs. 500,000,000, Rural Electrification Authority (REA) Kshs. 1,359,000,000, Nuclear Power Kshs 130,000,000 and Kenya Association of Manufacturers (KAM) Kshs. 35,000,000. Kenya Energy-Sector Environment and Social Responsibility Programme Fund Kshs 50,000,000. A Kshs 286,309,752 increase in transfers to other Government entities was recorded in the financial year 2020-2021 compared to the prior financial year 2019-2020.

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3. Emerging Issues Related to the Petroleum Development Levy Fund

The appropriation in aid in the financial year 2020-2021 increased by 11%. The A & A collected in the financial year 2019-2020 was Kshs. 2,206,000,000 while the collection in financial year 2020-2021 was Kshs. 2,207,000,000. An increase of Kshs 181,000,000 was noted. However, we have not had any liquidity disruptions as the cash flow from collections was as per the budgeted amount.

4. Implementation Challenges

The Fund faced challenge of delay in implementation as the Funds from The National Treasury were disbursed in Quarter 2 of the financial Year. However, no further challenges were noted.

5. Way Forward

Financial Year 2020/2021 was a good year despite the Covid-19 pandemic. Good progress was made and the momentum has been created to enable Petroleum Development Fund continue on a trajectory into prosperity. We have identified gaps and areas to improve in the subsequent years.

I take this opportunity to thank the management team for their support. I would also want to thank all staff who have worked tirelessly to ensure that Petroleum Development Fund achieves its mission.

Signed: _____

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

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3. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The key development objectives of the Fund are to supplement the Development budget of the Ministry of Energy as Appropriation in Aid (AIA) in the following areas;

1. General Administration Planning and Support Services

- a) Financial Services and Energy Audits
- b) Power Generation
- c) Development of Nuclear Energy

2. Power Transmission and Distribution

-Rural Electrification

3. Alternative Energy Technologies

-Alternative Energy Technologies

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Progress on attainment of Strategic development objectives

SNO	Program	Strategic Objective	Outcome	Indicator	Performance
1.	• Power Generation	• To increase power supply through power generation	• Adequate power supply	• MW of power generated and added to the grid	0.5MW Kianthumbi Hydro power plant completed.
2.	• Power Transmission and Distribution	• To increase electricity access to more customers	• Increased access to electricity	• Km of transmission lines constructed	• 368Km
				• Number of distribution sub-station constructed and upgraded	• 11
				• Km of distribution lines constructed	• 510.1Km
				• Number of new customers connected to electricity	• 714,510
				• Number of street lighting points installed	• 20,150
				• Number of constituency transformers installed	• 135
				• No. of Public Facilities Connected with Electricity	• 160

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SNO	Program	Strategic Objective	Outcome	Indicator	Performance
3.	Alternative Energy Technologies	To Increase access to clean alternative energy sources	Increased access to clean alternative energy sources	No. of public institutions Connected with Solar PVs	42
				Percentage (%) maintenance of Previous installed solar P.V systems	100
				No. of water pumping systems installed in community boreholes in ASAL areas	13
				Updated National small hydropower atlas Report	1
				No. of community small hydropower projects supported	1
				No. of institutional biogas plants installed in public institutions	2
				Number of domestic biogas plants constructed	182
				Number of Energy Centres rehabilitated	16
				Ha. of land planted with trees and maintained	131
				No. of Woodlots established	110

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SNO	Program	Strategic Objective	Outcome	Indicator	Performance
				• No. of Tree seedlings nurseries established	• 8
				• No. of efficient and sustainable charcoal kilns for training & Demonstration installed	• 3
				• No. of investment Grade Audits undertaken and implemented to reduce Energy consumption by 10-30%.	• 21
				• No. of Biodiesel processing unit components designed and fabricated	• 1
				• Percent age (%) Maintenance of wind masts and data loggers maintained	• 100
				• No. of standalone solar home systems installed	• 52,346
				• No. of clean cooking units disseminated	• 3,651

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SNO	Program	Strategic Objective	Outcome	Indicator	Performance
4.	• General Administration Planning and Support Services	• To enhance service delivery to the customers	• Efficient service delivery	• Number of policies, strategies and regulations developed	• The Ministry has developed 30 Draft Regulations to guide implementation of Energy Act, 2019.

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4. STATEMENT OF MANAGEMENT RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer for a 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 Fund Administrator of the Petroleum Development Fund 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 ended on June 30, 2021. 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 Fund Administrator of the Petroleum Development Fund 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 Fund Administrator is of the opinion that the Petroleum Development Fund's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2021, and of the entity's financial position as at that date. The Accounting Officer charge of the Petroleum Development Fund further confirms the completeness of the accounting records maintained for the Petroleum Development Fund, 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 Fund Administrator of the Petroleum Development Fund confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where

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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 Petroleum Development Fund's financial statements were approved and signed by the Accounting Officer on 9-9- 2021.



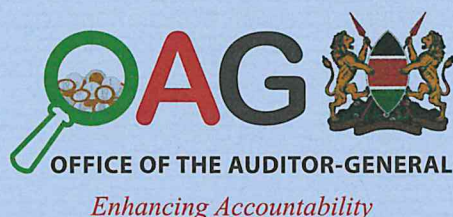
Fund Administrator
Maj. Gen (Rtd) Dr. Gordon Kihlangwa, CBS



Fund Accountant
Moses Peterson Gitari Muriuki
ICPAK Member Number: 4204

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON PETROLEUM DEVELOPMENT FUND FOR THE YEAR ENDED 30 JUNE, 2021 – 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, gazetted 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

Qualified Opinion

I have audited the accompanying financial statements of Petroleum Development Fund - Ministry of Energy set out on pages 18 to 29, which comprise of the statement of assets and liabilities as at 30 June, 2021, statement of receipts and payments,

Report of the Auditor-General on Petroleum Development Fund for the year ended 30 June, 2021 – Ministry of Energy

statement of cash flows and the summary statement of appropriation 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, except for the effect of the matter described in the Basis for Qualified Opinion section of my report the financial statements present fairly, in all material respects, the financial position of Petroleum Development Fund as at 30 June, 2021, 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 No.4 of 1991 (Revised 2012) and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0. Bank Balances

The statement of assets and liabilities as at 30 June, 2021 reflects bank balances of Kshs.146,950,155 comprising of Kshs.4,956,822 and Kshs.141,933,333 for KCB Bank Limited Current account and Credit Bank Limited Current account respectively. However, the Board of Survey provided for audit review which was signed by three witnessing officers reflected a cashbook balance of Kshs.291,994,533. The anomaly has not been explained.

Consequently, the accuracy and completeness of the bank balances of Kshs.146,950,155 as at 30 June, 2021 could not be confirmed.

2.0. Inaccuracies of Financial Statements

The statements of receipts and payments reflects an interest income of Kshs.17,092,235 while the corresponding Note 2 to the financial statements reflects an amount of Kshs.17,097,235 resulting in an unreconciled difference of Kshs.5,000.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Petroleum Development Fund 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 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 qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, 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 comparative budget and actual amounts reflects that the Fund budgeted and received Kshs.2,207,000,000 during the financial year and transferred Kshs.2,074,000,000 to other Government entities resulting to budget under-utilization of Kshs.133,000,000 or 6%. Further, review of the Funds' thematic areas revealed that some budget lines were fully funded while others were not funded or had a decrease in funding as shown below:

Programme/ Sub-Programme	Budget (Kshs.)	Actual on Comparable Basis (Kshs.)	Budget Utilization Difference (Kshs.)	% of Utilization
Financial Services and Energy Audits	35,000,000	35,000,000	-	100%
Administration, Monitoring & Evaluation and Energy Centers	319,000,000	305,000,000	14,000,000	96%
Rural Electrification	1,359,000,000	1,359,000,000	-	100%
Energy Efficient Charcoal Kilns Development	146,000,000	42,000,000	104,000,000	29%
Development of Nuclear Energy	130,000,000	130,000,000	-	100%
Alternative Energy Technologies	203,000,000	203,000,000	-	100%
National Grid System	15,000,000	-	15,000,000	0%
Total	2,207,000,000	2,074,000,000	133,000,000	94%

In view of the above, the under-funded components may affect the planned activities and could have impacted negatively on service delivery for the public.

Further, the budget does not appear to support the activities provided for in the Petroleum Development Fund Act No. 4 of 1991.

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 matter 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

Irregular Utilization of the Fund Resources

As disclosed in Note 3 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2021 reflects transfers to other Government Entities of Kshs.2,074,000,000. According to Section 4(4) of the Petroleum Development Fund Act No.4 of 1991(Revised 2012), there shall be paid out of the Petroleum Development Funds such monies as are necessary for the development of common facilities for distribution or testing of oil products and matters relating to the development of the oil industry. However, the Fund Management transferred a total of Kshs.2,074,000,000 to various Government entities and one private entity all which had no responsibility in the oil and Petroleum Industry. Further, Management did not provide explanations to support how the funds were utilized upon being transferred to the entities listed below.

No.	Payee	Amount (Kshs.)
1.	Ministry of Energy	500,000,000
2.	Kenya Association of Manufacturers	35,000,000
3	Kenya Energy Sector -Environment and Social Responsibility Programme	50,000,000
4.	Rural Electrification and Renewal Energy Corporation	1,359,000,000
5.	Nuclear Power and Agency	130,000,000
	Total	2,074,000,000

In the circumstances, the propriety and validity of transfers to other Government entities of Kshs.2,074,000,000 and Kshs.35,000,000 transferred to private entity for the year ended 30 June, 2021 could not be confirmed and Management 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, 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 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.

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 (Cash Basis), 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 Fund's ability to continue 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 intention to terminate the Fund 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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Fund 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 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 applicable 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 Fund's ability to continue 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 to cease to continue 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 to 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

14 January, 2022




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6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE 2021

	Note	2020-2021	2019-2020
		Kshs.	Kshs.
Revenue from non-exchange transactions			
Fines, Penalties and Levies	1	2,207,000,000	2,026,000,000
Revenue from exchange transactions		2,207,000,000	2,026,000,000
Interest income	2	17,092,235	13,157,360
Total revenue		2,224,092,235	2,039,157,360
Expenses			
Transfer to other Government Entities	3	2,074,000,000	1,787,690,248
General Expenses	4	3,142,080	1,986,659
Total expenses		2,077,142,080	1,789,676,907
Surplus for the year		146,950,155	249,480,453

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 9-9- 2021 and signed by:



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



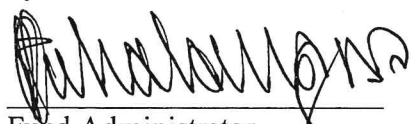
Fund Accountant
Moses Peterson Gitari Muriuki
ICPAK Member Number: 4204

PETROLEUM DEVELOPMENT FUND – MINISTRY OF ENERGY
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7. STATEMENT OF ASSETS AND LIABILITIES AS AT 30TH JUNE 2021

	Note	2020-2021	2019-2020
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	5	146,950,155	249,480,453
NET FINANCIAL ASSETS		146,950,155	249,480,453
REPRESENTED BY			
Fund balance b/fwd.	6	249,480,453	233,895,271
Prior Year Adjustment		(249,480,453)	(233,895,271)
Surplus for the year		146,950,155	249,480,453
NET FINANCIAL POSITION		146,950,155	249,480,453
			-

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 9-9- 2021 and signed by:



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



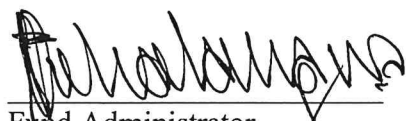
Fund Accountant
Moses Peterson Gitari Muriuki
ICPAK Member Number: 4204



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

		2020-2021	2019 -2020
		Kshs	Kshs
Receipts for operating income			
Fines, Penalties and Levies	1	2,207,000,000	2,026,000,000
Interest income	2	17,092,235	13,157,360
Payments for operating expenses			
Transfers to Other Government Units	3	2,074,000,000	1,787,690,248
General Expenses	4	3,142,080	1,986,659
Net cash flow from operating activities		146,950,155	249,480,453
Prior Year adjustments		-249,480,453	-233,895,271
Net Increase In Cash And Cash Equivalent		-102,530,298	15,585,182
Cash and cash equivalent at BEGINNING of the year		249,480,453	233,895,271
Cash and cash equivalent at END of the year		146,950,155	249,480,453

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 9-9- 2021 and signed by:



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



Fund Accountant
Moses Peterson Gitari Muriuki
ICPAK Member Number: 4204

9. SUMMARY STATEMENT OF APPROPRIATION

Receipt/Expense Item	Original Budget a	Adjustment s b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c %
RECEIPTS						
Fines, Penalties and Levies	1,962,000,000	245,000,000	2,207,000,000	2,207,000,000	-	100%
Interest income			17,092,235	17,092,235	-	100%
TOTAL RECEIPTS	1,962,000,000	245,000,000	2,224,092,235	2,224,092,235	-	109%
PAYMENTS						
Transfers to Other Government Units	1,962,000,000	245,000,000	2,207,000,000	2,074,000,000	133,000,000	94%
General Expenses			3,142,080	3,142,080	-	100%
TOTAL PAYMENTS	1,962,000,000	245,000,000	2,210,142,080	2,077,142,080	133,000,000	94%
Surplus			13,950,155	146,950,155	(133,000,000)	

The Funds financial statements were approved on 9-9- 2021 and signed by:


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


Fund Accountant
Moses Peterson Gitari Muriuki
ICPAK Member Number: 4204



10. BUDGET EXECUTION BY PROGRAMMES AND SUB-PROGRAMMES

Programme/Sub-programme	Original Budget a	Adjustment s b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c %
General Administration Planning and Support Services						
Financial Services and Energy Audits	35,000,000		35,000,000	35,000,000	-	100%
Administration, Monitoring & Evaluation and Energy Centers	319,000,000		319,000,000	305,000,000	14,000,000	96%
Power Transmission and Distribution						
Rural Electrification	1,359,000,000		1,359,000,000	1,359,000,000	-	100%
Alternative Energy Technologies						
Energy Efficient Charcoal Kilns Development	146,000,000		146,000,000	42,000,000	104,000,000	29%
Development of Nuclear Energy	130,000,000		130,000,000	130,000,000	-	100%
Alternative Energy Technologies	203,000,000		203,000,000	203,000,000	-	100%
National Grid System	15,000,000		15,000,000		15,000,000	0%
Total	2,207,000,000		2,207,000,000	2,074,000,000	133,000,000	94%

11. 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 International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board (PSASB) and set out in the accounting policy note 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 financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

2. Reporting Entity

The financial statements are for the Petroleum Development Levy Fund under the National Government of Kenya. The financial statements encompass the reporting entity as specified under section 81 of the PFM Act 2012.

3. Reporting Currency

The financial statements are presented in Kenya Shillings (KShs), which is the functional and reporting currency of the Government and all values are rounded to the nearest Kenya Shilling.

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SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Significant Accounting Policies

The accounting policies set out in this section have been consistently applied by the Fund for all the years presented.

a) Recognition of Receipts

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

i) Tax Receipts

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

ii) Transfers from the Exchequer

Transfers from the exchequer are 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.

b) Recognition of payments

The Entity recognises all payments when the event occurs, and the related cash has been paid out by the Entity.

5. Cash and Cash Equivalents

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

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SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Budget

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget was approved by Parliament on June 2020 for the period 1st July 2020 to 30th June 2021 as required by Law and there were two supplementary adjustments to the original budget during the year.

A comparison of the actual performance against the comparable budget for the financial year under review has been included in the financial statements.

Government Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers.

7. Comparative Figures

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

8. 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 30th June 2021.

PETROLEUM DEVELOPMENT FUND – MINISTRY OF ENERGY
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12. NOTES TO THE FINANCIAL STATEMENTS

1 Fines, Penalties and Levis

Explanation	2020-2021	2019-2020
	Kshs	Kshs
Fines Penalties and Levies	2,207,000,000	2,026,000,000
Total	2,207,000,000	2,026,000,000

2 Interest Income

Explanation	2020-2021	2019-2020
	Kshs	Kshs
Interest income	17,097,235	13,157,360
Total	17,097,235	13,157,360

3 Transfers to Government Entities

Description	2020-2021	2019-2020
	Kshs	Kshs
Ministry of Energy	500,000,000	216,690,248
Kenya Association of Manufacturers	35,000,000	35,000,000
Kenya Energy-Sector Environment and Social Responsibility Programme Fund	50,000,000	100,000,000
Rural Electrification and Renewal Energy	1,359,000,000	1,436,000,000
Nuclear Power Agency	130,000,000	-
TOTAL	2,074,000,000	1,787,690,248

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 General Expenses

Explanation	2020-2021	2019-2020
	Kshs	Kshs
Bank Charges and withholding tax paid	3,142,080	1,986,659
Total	3,142,080	1,986,659

5 Bank Account

Name of Bank, Account No. & currency	Indicate whether recurrent, Development, deposit e.t.c	2020-2021	2019-2020
		Kshs	Kshs
KCB Current Account	Fund	4,956,822	249,480,453
Credit Bank	Fund	141,993,333	-
Total		146,950,155	249,480,453

6 Fund Brought Forward

Explanation	2020-2021	2019-2020
	Kshs	Kshs
Bank balances	249,480,453	233,895,271
Total	249,480,453	233,895,271

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7. Related Party Disclosures

Related party disclosure is encouraged under non-mandatory section of the Cash Basis IPSAS.

The following comprise of related parties to the Petroleum Development Fund.

- i) Key management personnel that include the Cabinet Secretaries and Accounting Officers
- ii) Other Ministries Departments and Agencies and Development Projects;
- iii) County Governments; and
- iv) State Corporations and Semi-Autonomous Government Agencies.

Related Party Transactions

Description	2020-2021	2019- 2020
	Kshs	Kshs
Ministry of Energy	500,000,000	216,690,248
Kenya Association of Manufacturers	35,000,000	35,000,000
Kenya Energy-Sector Environment and Social Responsibility Programme Fund	50,000,000	100,000,000
Rural Electrification and Renewal Energy	1,359,000,000	1,436,000,000
Nuclear Power Agency	0	0
	130,000,000	-
Total	2,074,000,000	1,787,690,248

PETROLEUM DEVELOPMENT FUND – MINISTRY OF ENERGY

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**13. PROGRESS ON FOLLOW UP OF PRIOR YEARS AUDITOR'S
RECOMMENDATIONS**

No issues were raised by Auditor General in the prior year, therefore for the current year, there are no recommendations whose follow up progress require reporting



Fund Administrator

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



Fund Accountant

Moses Peterson Gitari Muriuki

ICPAK Member Number: 4204

