

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

**REPORT**

**OF**

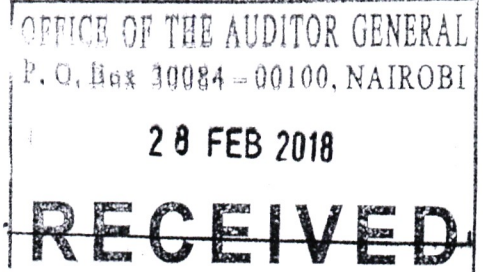
**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
PETROLEUM DEVELOPMENT LEVY FUND –  
HOLDING ACCOUNT-  
THE NATIONAL TREASURY**

**FOR THE YEAR  
ENDED 30 JUNE 2017**





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**THE NATIONAL TREASURY**

**PETROLEUM DEVELOPMENT LEVY FUND HOLDING ACCOUNT**

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30<sup>TH</sup>, 2017**

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

<b>TABLE OF CONTENTS</b>	<b>PAGES</b>
I. NATIONAL TREASURY INFORMATION MANAGEMENT.....	1-7
II. FORWARD BY THE CABINET SECRETARY.....	8-10
III. OVERVIEW OF THE PETROLEUM DEVELOPMENT LEVY FUND ACCOUNT.....	11
IV. STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES.....	12
V. REPORT OF THE INDEPENDENT AUDITORS ON THE FUND'S STATEMENTS.....	13
VI. RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 <sup>TH</sup> JUNE 2017.....	14
VII. STATEMENT OF ASSETS AND LIABILITIES.....	15
VIII. STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 <sup>TH</sup> JUNE 2017.....	16
IX. SUMMARY OF BUDGET VERSUS ACTUAL PERFORMANCE FOR THE YEAR ENDED 30 <sup>TH</sup> JUNE 2017.....	17
X. SIGNIFICANT ACCOUNTING POLICIES.....	18
XI. NOTES TO THE ACCOUNTS.....	19-21
XII. PROGRESS ON FOLLOW UP OF AUDITOR'S RECOMMENDATIONS.....	22
<b>ANNEX I. PRIOR YEAR ADJUSTMENTS</b>	
(i). NOTE ON PRIOR YEAR ADJUSTMENTS-PMG.....	23-24
(ii). PRIOR YEAR ADJUSTMENT STATEMENT OF CASH FLOW.....	25

## **I. NATIONAL TREASURY INFORMATION AND MANAGEMENT**

### **(a) Background Information**

The National Treasury was established via the Executive Order No. 2 of May 2013. The basis for establishment of the National Treasury is found in Article 225 (i) of the Constitution of Kenya which states that an Act of Parliament shall provide for the establishment, functions and responsibilities of the National Treasury. This has been actualized in Section 11 and 12 of the Public Finance Management (PFM) Act 2012.

At Cabinet Level, the National Treasury is represented by the Cabinet Secretary for Finance, who is responsible for the general policy and strategic direction of the Ministry.

#### **Vision**

An institution of excellence in economic and public financial management.

#### **Mission**

To promote economic transformation for shared growth through formulation, implementation and monitoring of prudent economic and financial policies at national and county levels of government.

#### **Core Values**

The National Treasury is committed to providing quality services to all and is guided by the following core values: Customer Focus, Results Oriented, Stakeholder Participation, Professionalism, Accountability, Integrity and Transparency, Teamwork and Staff as key asset and Equity, Fairness and Inclusion.

#### **Mandate of the National Treasury**

The National Treasury derives its mandate from Article 225 of the Constitution, Public Finance Management Act 2012 and the Executive Order No.2/2013. The National Treasury will be executing its mandate in consistency with any other legislation as may be developed or reviewed by Parliament from time to time.

The core functions of the National Treasury as derived from the above legal provisions include;

- Formulate, implement and monitor macro-economic policies involving expenditure and revenue;
- Manage the level and composition of national public debt, national guarantees and other financial obligations of national government;



- Formulate, evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities;
- Mobilize domestic and external resources for financing national and county government budgetary requirements;
- Design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting.
- In consultation with the Accounting Standards Board, ensure that uniform accounting standards are applied by the national government and its entities;
- Develop policy for the establishment, management, operation and winding up of public funds;
- Prepare the annual Division of Revenue Bill and the County Allocation of Revenue Bill;
- Strengthen financial and fiscal relations between the national government and county governments and encourage support for county governments
- Assist county governments to develop their capacity for efficient, effective and transparent financial management; and
- To prepare the National Budget, execute/implement and control approved budgetary resources to MDAs and other Government agencies/entities.

### **Role of the National Treasury in the Devolved System of Government**

The National Treasury is mandated by law to:

- Strengthen financial and fiscal relations between the National Government and County Governments and encourage support for county governments in performing their functions.
- Assist county governments to develop their capacity for efficient, effective and transparent financial management.
- Prepare the annual Division of Revenue Bill and the County Allocation of Revenue Bill.
- Provide logistical support to intergovernmental institutions overseeing intergovernmental fiscal relations.
- Coordinate the development and implementation of financial recovery plans for county governments that are in financial distress.
- Coordinate capacity building of County Governments on public finance management matters.

#### **(b) Key Management**

The National Treasury day-to-day management is under the following key offices;

##### **Office of the Principal Secretary**

This office is responsible for the administration of the National Treasury for efficient delivery of public services that have been assigned to this Ministry. The Principal Secretary is also charged

with the responsibility of rendering advice to the Cabinet Secretary in order to enhance efficiency and collective responsibility of the National Treasury.

### **Organizational structure of the National Treasury**

The National Treasury is organized into four (4) technical Directorates headed by Directors General and (1) Administrative and Support Services Directorate headed by a Principal Administrative Secretary. Each Director General is responsible for a Directorate comprising a cluster of Departments responsible for related policy functions. The Directorates and Departments are as follows:

#### **Directorate of Budget, Fiscal and Economic Affairs**

The Directorate is headed by a Director General, reporting to the Principal Secretary, National Treasury. It is organized into the following five (5) Technical Departments each headed by a Director:

- Budget Department;
- Macro and Fiscal Affairs Department
- Financial and Sectoral Affairs Department;
- Inter-Governmental Fiscal Relations Department
- Public Procurement Department.

#### **Directorate of Accounting Services and Quality Assurance**

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. It is organized into the following four (4) Technical Departments each headed by a Director:

- Government Accounting Services;
- Internal Audit Services Department;
- Financial Management Information Systems (FMIS)
- National Sub-County Treasuries.

#### **Directorate of Portfolio Management**

The Directorate is headed by a Director General, reporting to the Principal Secretary. It is organized into the following four (4) Technical Departments each headed by a Director:

- Government Investment and Public Enterprises;
- National Assets and Liabilities Management;
- Pensions Department.
- Public Private Partnership Unit

#### **Directorate of Public Debt Management Office**

The Directorate is headed by a Director General, reporting to the Principal Secretary. It is organized into the following three (3) Technical Departments each headed by a Director:

- Resource Mobilization (Front Office);
- Debt Policy, Strategy and Risk Management (Middle Office);
- Debt Recording and Settlement (Back Office).



**Directorate of Administrative and Support Services (Common Shared Services)**

The Directorate is headed by a Principal Administrative Secretary, reporting to the Principal Secretary. It is organized into twelve (12) specialized functions offering common shared services. The common shared services of the National Treasury consist of functions that are not core to the National Treasury but offer critical support services to the National Treasury. The functions include:

- Accounting,
- Finance,
- Human Resource Management and Development,
- Central Planning and Project Monitoring,
- Supply Chain Management,
- Legal,
- Public Communications,
- General Administration,
- Records Management;
- Internal Audit;
- ICT
- Government Clearing Agency

**(c) Fiduciary Management**

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

<b>NO.</b>	<b>Designation</b>	<b>Name</b>
1.	Principal Secretary	Dr. Kamau Thugge, CBS
2.	Principal Administrative Secretary	Mr. Mutua Kilaka, CBS, SS
3.	Director General, BFEA	Dr Geoffrey Mwau, EBS
4.	Director General, Accounting Services	Mr. Bernard Ndung'u, MBS
5.	Director General, PIPM	Ms. Esther Koimett, CBS
6.	Director General, PDMO	Mr. Wohoro Ndohho
7.	Director, Macro and Fiscal Affairs Department	Mr. Musa Gathanje
8.	Director, Budget Department	Mr. Francis Anyona, OGW
9.	Director, Financial and Sectoral Affairs Department	Mr. Christopher Oisebe
10.	Ag Director, Public Procurement Department	Mr. Eric Korir
11.	Director, Intergovernmental Fiscal Relations Department	Mr. Albert Mwenda, HSC
12.	Internal Auditor General	Mr. Alfayo Mogaka
13.	Ag Director, Government Accounting Services Department	Mr. Jona Wala
14.	Ag Director, National Sub County Treasuries	Mr. Tom Khakame
15.	Ag Director, Financial Management Information System	Mr. Jerome Ochieng
16.	Director, Public Private Partnership Unit	Eng. Stanley Kamau
17.	Director, National Assets and Liability Management	Mrs Beatrice Gathirwa
18.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
19.	Director, Pensions Department	Mr Shem Nyakutu
20.	Director, Resource Mobilization Department	Mr. Jackson Kinyanjui, OGW
21.	Director, Debt Policy, Strategy and Risk Management Department	Mr. Daniel Ndolo
22.	Ag Director, debt Recording and settlement Department	Mrs Felister Kivisi
23.	Director of Administration	Mr David Oleshege, OGW
24.	Head, Accounts Division	Mr. George Gichuru
25.	Chief Finance Officer	Mr. Kimathi Mugambi, HSC
26.	Head, SCM	Mr. Peter Momanyi
27.	Director, Human Resource Management and Development	Ms. Susan Mucheru
28.	Ag Director, Information Communication and Technology	Mr. George Kariuki
29.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
30.	Head, Public Communications	Mr. Maina Kigaga
31.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
32.	Head, Government Clearing Agency	Mr. Felix Ateg



#### **(d) Fiduciary Oversight Arrangements**

To manage the fiduciary risk, the National Treasury has put in place fiduciary oversight arrangements including setting up committees. The key oversight arrangements include:

##### **Internal Audit Unit**

The National Treasury has a well-resourced internal Audit Unit. The unit is charged with the responsibility of identifying risks in the management and day to day operations of the Ministry through the risk based audits. The Unit reports directly to the accounting officers on a regular basis.

##### **Audit Committee**

The National Treasury established an audit committee comprising officers from all departments of the Ministry, under the chairmanship of the Chief Finance Officer. The Committee reviews and analyses all audit queries and makes recommendations on how to reduce fiduciary risks. In addition, the committee prepares responses to all audit queries for presentation to the relevant committees of parliament.

Other fiduciary oversight arrangements include the following committees with specific objectives;

##### **Senior Management Committee**

To monitor the implementation of the Ministry's programmes and performance, the National Treasury has appointed a Senior Management Committee comprising of Directors General and Heads of Departments. The Committee receives reports from departments, builds consensus on National Treasury responses to emerging issues, challenges and risks and ensures that the decisions of top management are implemented in a timely manner.

##### **Public Financial Management Sector Working Group**

To facilitate the implementation of financial management reforms, the National Treasury has appointed senior officers to the Public Financial Management Sector Working Group. The Committee plays an oversight role in the implementation of financial reforms in the public service in collaboration with the development partners.

##### **Budget Implementation Committee**

To monitor the implementation of the Ministry's budget, programmes and activities, the National Treasury has appointed a committee comprising of officers from all the Departments of the Ministry. The Committee reviews and analyses the progress made by Departments in the implementation of budget and the planned programmes and activities and advises the management accordingly.

##### **Monitoring and Evaluation**

The Ministry undertakes monitoring and evaluation exercises to establish progress made in the implementation of various programmes and projects including those that are funded by the development partners.

**(e) The National Treasury Headquarters**

P.O. Box 30007- 00100,  
Treasury Building,  
Harambee, Avenue  
Nairobi Kenya

**(f) The National Treasury Contacts**

Telephone: (254)020-2252299  
Email: [info@treasury.go.ke](mailto:info@treasury.go.ke)  
Website: [www.treasury.go.ke](http://www.treasury.go.ke)

**(g) The National Treasury Bankers**

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

**(h) Independent Auditors**

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

**(i) Principal Legal Adviser**

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



## II. FORWARD BY THE CABINET SECRETARY

The National Treasury is mandated to coordinate economic and financial management of the country in accordance with section 12 of the Public Finance Management Act, 2012. Overall, the National Treasury has strived to maintain a policy environment that is conducive to economic growth and development of the country. As a result of consistent implementation of bold economic policies, structural reforms and sound macroeconomic management, the economy grew by 5.8 per cent in 2016 compared to 5.6 per cent in 2015. This was above the average 1.4 per cent growth rate registered for sub- Sahara Africa. The sectors that registered significant improved performance in economic activities were; accommodation and food services; information and communication; real estate; and transport and storage. Persistent drought hampered growth in the fourth quarter of 2016 impacting negatively on agriculture and electricity supply.

The annual inflation rate was 8.1% in June 2017 compared to 6.5% in the same period in June 2016. This was largely on account of high food prices following adverse weather conditions. The Kenya shilling exchange rate however continued to display relatively less volatility compared to the East African currencies while the official foreign exchange reserves held by the Central Bank grew to **US\$ 8,500 million** (5.7 month of import cover) in June 2017 from **US\$ 8,267 million** (5.4 months of import cover) in the same period in 2016. The economic growth and stable macroeconomic environment led to the creation of 832,900 new jobs in 2016 broken down into 85,600 jobs in the modern sector and 747,300 jobs in the informal sector.

Other key achievements during the period under review are;

- The National Treasury launched the M-Akiba Mobile Platform for issuance of Government Bonds on 23<sup>rd</sup> March 2017. The special limited offer achieved its **Kshs.150 million** target within 13 days. With 102,632 registrations, this offer demonstrated the appetite and zeal of Kenyans to adopt and use technology to boost their well-being. M-Akiba will enhance a savings culture among Kenyans and promote financial inclusion even to the unbanked population.
- The National Treasury mobilized external resources amounting to **Kshs.292.8 billion** in 2016/17 which was above the fiscal target of **153.0 billion**. This positive variance is mainly attributed to capacitating the economy to mitigate against the drought related challenges that affected the country.
- The National Treasury was able to prepare the 2017/18 budget under a revised tight calendar that took into account the preparations of the 2017 General Elections. In addition, the National Treasury also prepared a Pre- Election Economic and Fiscal Report which was published as provided for in the Constitution.
- In its commitment to deepen the Financial Markets the Ministry finalized the Nairobi International Financial Centre Bill that was subsequently approved by Parliament.
- The National Treasury hosted the 2<sup>nd</sup> High Level Meeting on Global Partnership on Economic Development Conference in Nairobi from 28<sup>th</sup> November to 1<sup>st</sup> December 2016, where ministers and high level representatives of developing and developed

countries as well as heads of multilateral and bilateral development agencies committed to effective development cooperation as a means to achieve the universal Sustainable Development Goals (SDGs).

Some of the challenges the National Treasury faced while implementing the 2016/17 budget include:-

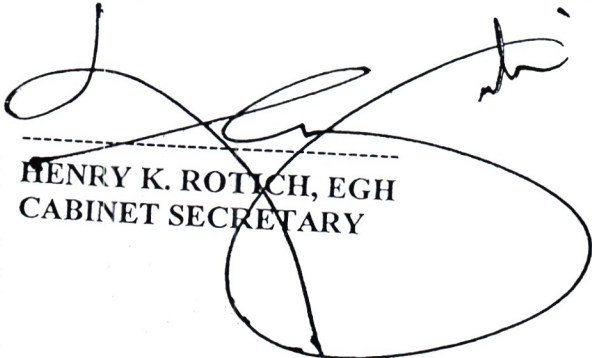
1. Lack of adequate funds to finance all the budget requests by Ministries, Departments and Agencies.
2. Inadequate funds to finance all the programmes and projects of the National Treasury.
3. Low absorption of Official Development Assistance (ODA).
4. Slow enactment of relevant regulations and related legal instruments to facilitate financial sector deepening.
5. High turnover of staff especially in the core technical areas of the National Treasury.



**THE NATIONAL TREASURY  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017 (KSHS)**

To surmount the above challenges and ensure successful implementation of the National Treasury goals and objectives, the Ministry will:-

1. Continue to maintain a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities.
2. Implement reforms in public financial management to enable the government mobilize adequate financial resources.
3. Strengthen capacity building in public financial management to MDAs and County Governments to ensure that the high expectations linked to devolution are met.
4. Enhance the Government's cash management system to avoid undue pressure on payment flows and interest rates, and reduce borrowing costs for the government and the private sector.
5. Promote the Public Private Partnership initiatives to finance government capital projects.
6. Engage other developments partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
7. Implement the External Resources Policy for efficient management of external resources and increase absorption.
8. Fast track and implement the proposed new scheme of service for the National Treasury officers to retain staff.
9. Ensure constant collaboration between the National Treasury and all the Stakeholders.
10. Strengthen monitoring and evaluation framework.



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**HENRY K. ROTICH, EGH  
CABINET SECRETARY**

### **III. OVERVIEW OF THE PETROLEUM DEVELOPMENT LEVY FUND ACCOUNT**

#### **1. Background of the Fund**

The Petroleum Development Levy Fund was established under section 4 (1) of Petroleum Development Fund Act 1991. The Objectives and purpose of the fund is to provide funds for development of Common facilities for the distribution or testing of oil products and matters relating to the development of oil industry provided the funds are not used for purposes in competition with the Private Sector. The expenditure from the fund is on the basis and limited to the annual budget which shall be submitted to the National Treasury for approval before beginning of the Financial Year to which the budget relates.

The PDL holding Account is held at the Central Bank of Kenya and is operated and maintained by the National Treasury. The funds are released to the Implementing Ministry – Ministry of Petroleum and Energy on request.

In line with section 81(4) of the Public Financial Management Act 2012, the National Treasury is required to not later than three months after the end of each financial year, prepare and submit to the Auditor-General financial Statements for that year in respect of the holding account. This report therefore covers the operations of the Petroleum Development Levy Fund Holding Account for the financial year ended 30<sup>th</sup> June 2017.

#### **2. Administration of the Fund**

The Principal Secretary, The National Treasury as the Administrator of the Fund or any person appointed by him in writing for that purpose is required to prepare the Financial Statements of the Fund, pursuant section 81 (4) of the Public Financial Management Act 2012. Funds are transferred from the National Treasury Holding Account to the operation accounts, of the State Departments of Petroleum and Energy.

All receipts, savings and accruals of the Fund and the balance of the Fund at the close of each financial year shall not be paid to the Consolidated Fund, but shall be retained for the purpose for which the Fund is established.

#### **3. Financial reporting arrangement for the Fund Account**

The Principal Secretaries, State Departments of Petroleum and Energy are required to account for the funds transferred from the holding account to their operations account, and prepare the Financial Statements of the Fund, pursuant section 81(4) of the Public Financial Management Act 2012.

#### **4. Commentary on the financial statements of the fund**

In the Financial Year 2016-2017, total receipts received in the Petroleum Development Holding Account was kshs.2,233,590,108.25 and the total disbursements to the State Departments of Petroleum and Energy was kshs.2,137,500,000.00, resulting in a surplus of kshs.96,090,108.25 for the year.



#### IV. STATEMENT OF THE MANAGEMENT'S 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 NATIONAL TREASURY shall prepare financial statements in respect of that NATIONAL TREASURY. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed by the Public Sector Accounting Standards Board of Kenya from time to time.

The Accounting Officer in charge of The National Treasury is responsible for the preparation and presentation of the Petroleum Development Levy Fund (PDL) report, which give a true and fair view of the state of affairs of The National Treasury for and as at the end of the financial year (period) ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the status of the revenue collected by the National Treasury; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the revenue report, and ensuring that they are free from material misstatements, whether due to error or fraud.

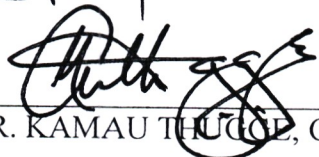
The Accounting Officer in charge of The National Treasury accepts responsibility for the National Treasury's Petroleum Development Levy Fund (PDL) report, which has been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS) and relevant legal framework of the Government of Kenya. The Principal Secretary is of the opinion that this Fund report gives a true and fair view of The National Treasury's Fund performance during the financial year ended June 30, 2017. The Principal Secretary in charge of The National Treasury further confirms the completeness of the accounting records maintained for The National Treasury, which have been relied upon in the preparation of this report as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of The National Treasury confirms that the National Treasury has complied fully with applicable Government Regulations. Further the Accounting Officer confirms that this report has 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 Levy Fund was approved and signed by the Accounting Officer on

23/2/2018

  
DR. KAMAU THUGGE, CBS

Accounting Officer



GEORGE K. GICHURU  
ICPAK Member No. 9262  
Head of Accounting Unit



# REPUBLIC OF KENYA

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## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON PETROLEUM DEVELOPMENT LEVY FUND - HOLDING ACCOUNT FOR THE YEAR ENDED 30 JUNE 2017- THE NATIONAL TREASURY

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#### REPORT ON THE FINANCIAL STATEMENTS

##### Opinion

I have audited the accompanying financial statements of Petroleum Development Levy Fund - Holding Account set out on pages 14 to 25, which comprise the statement of assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Petroleum Development Levy Fund - Holding Account as at 30 June 2017, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that public money has been applied lawfully and in an effective way.

##### Basis for Opinion

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

##### Key Audit Matters

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

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*Report of the Auditor-General on the Financial Statements of Petroleum Development Levy Fund - Holding Account for the Year Ended 30 June 2017*



## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Petroleum Development Levy Fund - Holding Account ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Petroleum Development Levy Fund - Holding Account or to cease operations, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Petroleum Development Levy - Fund Holding Account's financial reporting process.

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report 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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment 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.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Petroleum Development Levy Fund - Holding Account's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Petroleum Development Levy Fund - Holding Account'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 Petroleum Development Levy Fund - Holding Account 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 Petroleum Development Levy Fund - Holding Account 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.



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

**Nairobi**

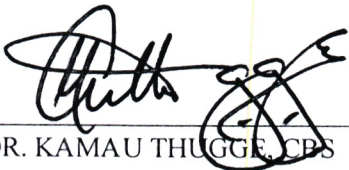
**13 April 2018**



**VI. Receipts and Payment Statement for the year ended 30 June 2017**

	Notes	2016-2017	2015-2016
		KShs	KShs
<b>Receipts</b>			
Receipts from the Kenya Revenue Authority	<b>1</b>	2,233,590,108.25	1,981,855,527.60
<b>Total Receipts</b>		<b>2,233,590,108.25</b>	<b>1,981,855,527.60</b>
Transfers to Ministries of Petroleum and Energy	<b>2</b>	2,137,500,000.00	1,394,700,000.00
<b>Total transfers</b>		<b>2,137,500,000.00</b>	<b>1,394,700,000.00</b>
<b>Surplus/Deficit</b>		<b>96,090,108.25</b>	<b>587,155,527.60</b>

The accounting policies and explanatory notes to this Petroleum Development Levy Fund form an integral part of the Fund statement. This Fund statement was approved on 23/6/17 2018 and signed by:



DR. KAMAU THUGGE, CBS

Accounting Officer



GEORGE K. GICHURU  
 ICPAK Member No. 9262  
 Head of Accounting Unit

**VII. Statement of Assets and Liabilities as at 30<sup>th</sup> June 2017**


	Note	2016-2017 Kshs	2015-2016 Kshs
<b>Financial Assets</b>			
<b>Cash And Cash Equivalents</b>			
Cash with P.M.G b/fwd.		5,724,613,630.80	5,137,458,103.20
Bank Balances (Surplus for the year)		96,090,108.25	587,155,527.60
Prior Year Adjustments	6	(4,075,585,028.05)	-
<b>Total Cash And Cash Equivalent</b>	<b>3</b>	<b>1,745,118,711.00</b>	<b>5,724,613,630.80</b>
<b>Accounts Receivables</b>			
Outstanding Imprests		-	-
<b>Total Financial Assets</b>		<b>1,745,118,711.00</b>	<b>5,724,613,630.80</b>
<b>Financial Liabilities</b>			
Accounts Payables – Deposits And Retentions		-	-
<b>Net Financial Assets</b>		<b>1,745,118,711.00</b>	<b>5,724,613,630.80</b>
<b>Represented By</b>			
<b>Fund Balance B/Fwd</b>	<b>4</b>	<b>5,724,613,630.80</b>	<b>5,137,458,103.20</b>
Surplus/Deficit For The Year		96,090,108.25	587,155,527.60
Prior Year Adjustment	6	(4,075,585,028.05)	-
<b>Net Financial Position</b>		<b>1,745,118,711.00</b>	<b>5,724,613,630.80</b>

\* The prior year audited numbers have been restated to reflect the correct cash book bank balance as at 30<sup>th</sup> June, 2017 as well as to comply with Cash Basis IPSAS Template as prescribed by the Public Sector Accounting Standards Board. **SEE ANNEX I (i) -page 23** for further details.

The accounting policies and explanatory notes to this Petroleum Development Levy Fund form an integral part of the Fund statement. This Fund statement was approved on 22/6/2018 and signed by:

  
 DR. KAMAU THUGGE, CBS

Accounting Officer

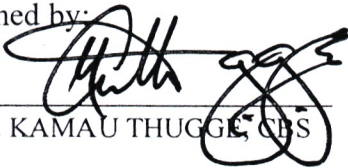
  
 GEORGE K. GICHURU  
 ICPAK Member No. 9262  
 Head of Accounting Unit




**VIII. Statement of Cash Flow for the year ended 30<sup>th</sup> June 2017**

		<b>2016-2017</b>	<b>2015-2016</b>
	<b>Note</b>	<b>Kshs</b>	<b>Kshs</b>
<b>Receipts from Operating Activities</b>			
<b>Receipts for Operating Income</b>			
Receipts from The Kenya Revenue Authority	<b>1</b>	2,233,590,108.25	1,981,855,527.60
<b>Payments for operating expenses</b>			
Transfers to Ministries of Petroleum and Energy	<b>2</b>	2,137,500,000.00	1,394,700,000.00
<b>Net Cash Flow from Operating Activities</b>		<b>96,090,108.25</b>	<b>587,155,527.60</b>
<b>Cash flow from Investing Activities</b>		-	-
<b>Net Cash flow from Investing Activities</b>		-	-
<b>Cash flows from Borrowing Activities</b>		-	-
<b>Net Cash flow from Borrowing Activities</b>		-	-
<b>Cash flows from financing Activities</b>		-	-
<b>Net Cash flow from financing activities</b>		-	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>		<b>96,090,108.25</b>	<b>587,155,527.60</b>
<b>Cash and cash equivalent at the BEGINNING of the year</b>	<b>4</b>	<b>1,952,167,790.20</b>	<b>1,365,012,262.60</b>
<b>Prior Year Adjustment</b>	<b>6</b>	<b>(303,139,187.45)</b>	-
<b>Cash and Cash Equivalent at the END of the Year</b>	<b>3</b>	<b>1,745,118,711.00</b>	<b>1,952,167,790.20</b>

The accounting policies and explanatory notes to this Petroleum Development Levy Fund form an integral part of the Fund statement. This Fund statement was approved on 22/2/18 2018 and signed by:

  
 DR. KAMAU THUGGE, CBS  
 Accounting Officer

  
 GEORGE K. GICHURU  
 ICPAK Member No. 9262  
 Head of Accounting Unit

## IX. Summary of Budget versus Actual Performance for the year ended 30<sup>th</sup> June 2017

The following statement summarizes the outturn against budget:

	<b>Original Estimates</b>	<b>Add/Less Supplementary</b>	<b>Revised Estimates</b>	<b>Total Actual 30<sup>th</sup> June 2017</b>	<b>Over</b>	<b>Under</b>	<b>Realized</b>
	<b>Kshs</b>	<b>Kshs.</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>%</b>
<b>Receipts</b>							
Petroleum Development Levy (PDL)	1,821,700,846	315,799,154	2,137,500,000	2,233,590,108	96,090,108	0	104%
<b>Sub-total</b>	<b>1,821,700,846</b>		<b>2,137,500,000</b>	<b>2,233,590,108</b>			<b>104%</b>
<b>Transfers</b>							
Transfer to Ministries of Petroleum & Energy				2,137,500,000			N/A
<b>Total Transfers</b>				<b>2,137,500,000</b>			

A total of Ksh. 2,233,590,108 was received into the Petroleum Development Levy Fund Account against a budget of Ksh. 2,137,500,000 representing 104% budget realisation. This implies there was an over collection by Kshs. 96,090,108. This positive impact shows the shift in the composition of oil imports with higher proportion of importation falling within the excisable components i.e. Petroleum and Diesel.

A total of Ksh. 2,137,500,000 was transferred to the Ministries of Petroleum and Energy for 2016/2017 financial year against Ksh.1,394,700,000 in the previous (2015/2016) financial year.



## **X. Significant Accounting Policies**

### **1) Basis of preparation**

The financial statements of Petroleum Development Levy Fund Account have been prepared in accordance with the cash basis of International Public Sector Accounting Standard (IPSAS) as prescribed by the Public Sector Accounting Standard Board (PSASB) in Kenya.

### **2) Reporting entity**

This report relates to financial operations of the Petroleum Development Levy Fund Account maintained at Central Bank of Kenya. The reporting entity is The National Treasury.

### **3) Revenues**

The Fund shall consist of the proceeds of the Petroleum Development Levy charged under section 3 (1) of the Petroleum Development Fund Act, 1991, a levy on all petroleum fuels consumed in Kenya.

### **4) Expenditure and transfers**

The expenditure of the Fund shall be on the basis of, and limited to, the annual work programmes and cost estimates which shall be submitted to the Advisory Committee for approval before the beginning of the financial year which they relate. All receipts, saving and accruals of the Fund and the balance of the Fund at the close of each financial year shall be retained for the purpose for which the fund is established.

### **5) Cash and cash equivalents**

Cash and cash equivalents comprise of Cash at Bank maintained by the National Treasury at the Central Bank of Kenya (CBK).

### **6) Presentation currency**

The financial statements are reported in Kenya Shillings, being the currency of legal tender in Kenya.

### **7) Comparative figures**

Where necessary comparative figures for the previous financial year/period have been amended to correct an error or reconfigured to conform to the required changes in financial statement presentation.

## XI. Notes to the Accounts

### 1. Income and Non Income Receipts

An amount of KShs.2,233,590,108.25 was received during financial year 2016/2017 compared to KShs.1,981,855,527.60 received during the financial year 2015/2016. The following is the breakdown on a quarterly basis of the receipts into the Holding Account. The funds were received from the Kenya Revenue Authority.

Description	2016-2017	2015-2016
	Kshs	Kshs
1 <sup>st</sup> Quarter	390,021,911.95	411,818,485.60
2 <sup>nd</sup> Quarter	763,827,157.50	450,658,065.65
3 <sup>rd</sup> Quarter	516,137,939.75	517,950,116.65
4 <sup>th</sup> Quarter	563,603,099.05	601,428,859.70
<b>Total Receipts (See Annex II)</b>	<b>2,233,590,108.25</b>	<b>1,981,855,527.60</b>

### 2. Transfers from the Fund

The following is the breakdown of the funds transferred by the National Treasury from the Holding Account to the Operational Account of the Petroleum Development Levy Fund following approval from the Petroleum Development Levy Fund Advisory Committee to the Ministries of Petroleum and Energy.

Description			2016-2017	2015-2016
Date	Payment voucher Nos.	Payee.	KShs	KShs
8.10.2015	2338	Ministry of Energy	-	697,350,000
17.11.2015	4775	Ministry of Energy	-	697,350,000
27.12.2016	5056	Ministry of Energy	542,500,000	-
20.02.2017	6746	State Dept. of Petroleum	789,375,000	-
21.03.2017	9197	Ministry of Energy	542,500,000	-
07.07.2017	14007	State Dept. of Petroleum	263,125,000	-
<b>Total Transfers (See Annex II)</b>			<b>2,137,500,000</b>	<b>1,394,700,000</b>



### 3. Bank balance of the Fund Account

The bank balance of the fund as at 30<sup>th</sup> June 2017 amounted to KSh.1,745,118,711.00 compared to KSh.1,649,028,602.75 in the previous financial year (2015/2016). The bank balances have been adjusted to reflect the correct cash book balances as well as to comply with Cash Basis IPSAS Template as prescribed by the Public Sector Accounting Standards Board. (See Annex I (i) for further details)

Bank Name and Account	Denomination of Account	Balance as at 30 <sup>th</sup> June 2017	Balance as at 30 <sup>th</sup> June 2016
Central Bank of Kenya Acc. No. 1000205054	KShs	1,745,118,711.00	1,649,028,602.75
<b>Total</b>		<b>1,745,118,711.00</b>	<b>1,649,028,602.75</b>

### 4. Opening balance of the Fund account

The opening balance of the fund as at 1<sup>st</sup> July, 2016 represents accumulated bank balance in the fund account that amounted to KSh.1,952,167,790.20. This bank balance has been adjusted to reflect the correct cash book balance as well as to comply with Cash Basis IPSAS Template as prescribed by the Public Sector Accounting Standards Board. (See Note 6 for further details)

Description	2016/2017 KShs.	2015/2016 KShs.
Bank Balance	1,952,167,790.20	1,061,873,075.15
<b>NOTE 6</b>	<b>1,952,167,790.20</b>	<b>1,061,873,075.15</b>

## 5. Closing balance of the Fund account

The closing balance of the fund as at 30<sup>th</sup> June, 2017 represents accumulated bank balance in the fund account that amounted to Ksh.1,745,118,711.00. The bank balances have been adjusted to reflect the correct cash book balances as well as to comply with Cash Basis IPSAS Template as prescribed by the Public Sector Accounting Standards Board. **(See Annex I for further details)**

Description	2016/2017 Kshs	2015/2016 Kshs
Bank Balance	1,745,118,711.00	1,649,028,602.75
<b>ANNEX 4</b>	<b>1,745,118,711.00</b>	<b>1,649,028,602.75</b>

## 6. Prior Year Adjustments.

The PDL accounts-Statement of Assets and Liabilities and Cash flow statements have been adjusted downwards by kshs.4,075,585,028.05 and KShs. 303,139,187.45 respectively. These are over casted old balances that have been brought forward from financial year 2013/2014 and prior years. The Accounts prepared then never used to be adjusted downwards with the amounts transferred to the Ministry of Energy and Petroleum.

In addition Ledger Management System and IFMIS PMG balances were used instead of the balances as per the Cashbook. This led to over-casted balances.

**(See Annex I (i) and (ii))**



**XII. PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe : (Put a date when you expect the issue to be resolved)
Report of the Auditor General on Petroleum Development Levy Fund For the Year Ended 30 JUNE 2016 Dated 16 MAY 2016	Statement of Cash flow and cash book (Bank balances) reflects KShs 1,952,167,790.20 and KShs 1,649,028,602.75 respectively resulting in unexplained difference of KShs.303,139,187.45	The issue have been addressed through the National Treasury Task Force on clearing old balances.	Head of Accounting Unit		

  
 DR. KAMAU THUGGE, CBS

Accounting Officer



GEORGE K. GICHURU  
 ICPAK Member No. 9262  
 Senior Deputy Accountant Gen

## ANNEX I. PRIOR YEAR ADJUSTMENTS

### (i). Note on Prior Year Adjustment

The prior year audited numbers have been restated to reflect the correct cash book bank balance as at 30<sup>th</sup> June, 2017 as well as to comply with Cash Basis IPSAS Template as prescribed by the Public Sector Accounting Standards Board.

	<b>As at 30th June 2017 Kshs</b>	<b>Adjustments Kshs</b>	<b>Adjusted As at 30th June 2017 Kshs</b>
<b>Financial Assets</b>			
<b>Cash And Cash Equivalents</b>			
Cash with P.M.G bfwd.	5,724,613,630.80	(4,075,585,028.05)	1,649,028,602.75
Prior Year Adjustments	-	-	-
Bank Balances(Surplus for the Year)	96,090,108.25		96,090,108.25
<b>Total Cash And Cash Equivalent</b>	<b>5,820,703,739.05</b>	<b>(4,075,585,028.05)</b>	<b>1,745,118,711.00</b>
<b>Accounts Receivables</b>			
Outstanding Imprests	-	-	-
<b>Total Financial Assets</b>	<b>5,820,703,739.05</b>	<b>(4,075,585,028.05)</b>	<b>1,745,118,711.00</b>
<b>Financial Liabilities</b>			
Accounts Payables – Deposits And Retentions	-	-	-
<b>Net Financial Assets</b>	<b>5,820,703,739.05</b>	<b>(4,075,585,028.05)</b>	<b>1,745,118,711.00</b>
<b>Represented By</b>			
<b>Cash with P.M.G bfwd.</b>	<b>5,724,613,630.80</b>	<b>(4,075,585,028.05)</b>	<b>1,649,028,602.75</b>
Fund Balance B/Fwd.	-		
Surplus/Deficit For The Year	96,090,108.25	-	96,090,108.25
<b>Net Financial Position</b>	<b>5,820,703,739.05</b>	<b>(4,075,585,028.05)</b>	<b>1,745,118,711.00</b>

The adjustment column reflects the historical figures previous statements have been overstated with the same was dealt with through National Treasury taskforce appointed to assist MDAs clear old balances.



**PDL RECONCILIATION OF STATEMENT BALANCES AGAINST CASHBOOK BALANCES AS AT 30<sup>TH</sup> JUNE FOR PROR YEAR CASH WITH PMG ANALYSIS ACCUMMULATION OF CASH WITH PMG**

S/No.	30 <sup>th</sup> June	Cash with PMG as per audited PDL Financial Statements	Cashbook balance	Cash with PMG over stated by:
		(KSHS)	(KSHS)	(KSHS)
		(a)	(b)	C=(a-b)
	2011	1,301,444,079.65	308,455,974.50	992,988,105.15
	2012	1,893,205,415.45	537,172,588.10	1,356,032,827.35
	2013	2,734,539,721.20	783,115,543.70	1,951,424,177.50
	2014	3,772,445,840.60	734,766,931.95	3,037,678,908.65
	2015	<b>5,137,458,103.20</b>	<b>1,061,873,075.15</b>	<b>4,075,585,028.05</b>

**Summary:**

Cash with PMG as per Statement 30 <sup>th</sup> June 2015	5,137,458,103.20
Cash with PMG as per Cashbook 30 <sup>th</sup> June 2015	<u>1,061,873,075.15</u>
<b>Difference</b>	<b><u>4,075,585,028.05</u></b>

Over the years accumulated cash with PMG has always been overstated as indicated above.

Financial Year 2016/2017 Statement of Financial position has been adjusted downwards by the total overstatement amount of **Kshs.4,075,585,028.05**. The PMG and cashbook figure are in agreement. Copies of cashbook balances and balance sheets as at 30<sup>th</sup> June from Financial Year 2010/2011 to 2014/2015 have been attached.

**(ii) Prior year Adjustment Statement of Cash Flow**

Cash and cash equivalent at the beginning of the year was overstated by KShs.303, 139,187.45. This is due to overcast in the Financial Statements for the Financial year 2013/2014, it has been adjusted downwards to agree with Bank and Cash Book balances.

**RECONCILIATION**

Description	2013/2014 KShs
Closing Balance As Per Financial Statements(Annex I ii(a))	1,037,906,119.40
Closing Balance As Per Cash Book (Annex I ii(b))	(734,766,931.95)
<b>Difference (Over Stated Amount)</b>	<b>303,139,187.45</b>

Opening Balance of the Fund Account 2016/2017 KShs	Adjustments Kshs	Adjusted Balance 2016/2017 Kshs
Balance b/f 1,952,167,790.20	303,139,187.45	1,649,028,602.75
-	-	-
<b>1,952,167,790.20</b>	<b>303,139,187.45</b>	<b>1,649,028,602.75</b>