REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

NATIONAL OIL CORPORATION OF KENYA LIMITED

FOR THE YEAR ENDED 30 JUNE, 2022

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON NATIONAL OIL CORPORATION OF KENYA LIMITED FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

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

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the 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 National Oil Corporation of Kenya Limited set out on pages 1 to 61, which comprise of the statement of financial position as at 30 June, 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Oil Corporation of Kenya Limited as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in Bank and Cash Balances - Stale Cheques

The statement of financial position reflects bank and cash balances of Kshs.434,393,000 as disclosed in Note 25 to the financial statements. Review of bank reconciliation statements for the month of June, 2022 for various banks revealed a total of Kshs.10,965,903 reconciling items dated 3 December, 2021. The cheques had exceeded their statutory validity period of six (6) months and ought to have been reversed in the cashbooks. The overdrafts were included in cash and bank balances instead of being disclosed separately as required in International Accounting standard (IAS) 1 - Presentation of Financial Statements.

In addition, the accounts which were overdrawn in contravened Section 28(4) of Public Finance Management Act, 2012 which states that an accounting officer for a national Government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by The National Treasury or a Board of a national Government entity.

In the circumstances, the accuracy and completeness of the cash and bank balances of Kshs.434,393,000 could not be confirmed.

2. Unsupported Decline in Value of Freehold Land

As previously reported, the statement of financial position reflects property, plant and equipment with a net book value of Kshs.5,591,323,000. The values are based on revaluation of assets that resulted in decline in value of ten (10) parcels of freehold land by an amount of Kshs.145,640,000 or 43%, from a previous value of Kshs.336,140,000 to Kshs.190,500,000. The decline was not justified since it did not result from change in sizes from alienation of the parcels or any other adverse conditions. Management attributed the decline to premiums paid on acquisition of the parcels. However, the reason could not be justified by the prevailing market conditions and differences in land measurements cited in the valuation reports and those in the title deeds.

In the circumstances, the accuracy and valuation of property, plant and equipment balance of Kshs.5,591,323,000 could not be confirmed.

3. Unsupported Tax Recoverable Balance

The statement of financial position and disclosure Note 14(b) to the financial statements reflects a tax recoverable balance of Kshs.29,768,000. However, the balance was not supported by relevant documentation including tax returns, withholding tax certificates and correspondences with the Kenya Revenue Authority (KRA) among others. Additionally, review of tax computation provided for audit revealed that the Corporation had no tax recoverable for the year under review.

In the circumstances, the accuracy and completeness of the tax recoverable balance of Kshs.29,768,000 could not be confirmed.

4. Unsupported Fund Balances

The statement of financial position and as disclosed in Notes 23,38,39,40,41,42 and 43 to the financial statements reflects non-current liabilities in respect of deferred income fund balance of Kshs.1,655,537,000, Block 14T fund balance of Kshs.1,133,769,000, Ministry of Energy and Petroleum construction fund balance of Kshs.704,000, single buoy mooring jetty fund balance of Kshs.11,443,000, corporate social responsibility fund balance of Kshs.22,939,000, exploration and capacity building fund balance of Kshs.72,955,000 and laboratory equipment fund balance of Kshs.425,480,000 respectively, all totalling to Kshs.3,322,827,000. However, the corresponding cash and bank balances were not provided for audit. Management explained that the Funds were included in other Corporation's funds and some invested in fixed deposits at various commercial banks.

Further, the funds relate to activities and projects initiated in partnership with Government agencies and other donors. However, guidelines on utilization and liquidation of balances upon closure of such projects were not provided for audit. The Corporation continue hold funds for projects that were yet to be implemented or surplus funds for completed ones in its books, thereby denying citizens access to services intended or additional services that can be implemented using the idle funds.

In the circumstances, the accuracy, and completeness of the special funds projects balance of Kshs.3,322,827,000 could not be confirmed.

5. Unaccounted for Deferred Income

The statement of financial position and as disclosed in Note 23 to the financial statements reflects a balance of Kshs.1,655,537,000 in respect of deferred income. The balance includes Kshs.250,000,000 additional grants from Ministry of Petroleum and Mining towards support of Corporation's upstream operations which comprise of Kshs.220,000,000 from Petroleum Development Levy Fund for exploration activities in Block 14T and Kshs.30,000,000 from Petroleum Training Levy Fund for training activities in upstream petroleum operations respectively. During the year under review, an amount of Kshs.250,890,000 was utilized. However, expenditure returns, approved training plans, training attendance registers and work plans, cost statements for oil and gas exploration activities, oil exploration and monitoring reports were not provided for audit to show how the funds were utilized. Further, review of upstream records revealed that the funds were not separated from the rest of deferred income grants.

In the circumstances, the accuracy and proper utilization of an expenditure of Kshs.250,890,000 relating to training and exploration activities in upstream petroleum operations could not be confirmed.

6. Hived-Off Petroleum Products

The statement of financial position reflects inventories valued at Kshs.324,938,000 held by the Corporation as disclosed in Note 21 to the financial statements. The balance includes inventories valued at Kshs.2,664,174,000 out of which, a balance of Kshs.1,494,664,922 relates to the total value of products captured as hived-off in the books of the Corporation. In October 2016, the Management resolved to hive-off all historical non-reconciling items in a separate no-trading stock point to ensure new variances were not created. These historical non-reconciling items continue to be carried forward in the books of the Corporation without documentation to support their physical existence. Although the Board of Directors approved the write-offs through its resolution dated 24 May, 2017, which was also forwarded to the Cabinet Secretary for the Ministry of Petroleum and Mining on 23 September, 2022, the matter was still pending.

In the circumstances, the accuracy and completeness of the inventories balance of Kshs.324,938,000 could not be confirmed.

7. Unresolved Loss of Oil Products

As reported in the previous years, the Corporation recorded losses of at least 4,097,221 litres of diesel and 341,063 litres of super petrol valued at Kshs.365,957,917 in aggregate between July, 2017 and December, 2018. The losses were mainly through non-delivery of transporter's consignments to Kenya Ports Authority (KPA) sites. Despite the losses having been a subject of forensic investigations, a further loss of 32,000 litres of diesel valued Kshs.3,268,160 was reported in June, 2019, whereby the matter was a subject of High Court process under case No. E029 of 2021.

In addition, an estimated 390,000 litres of diesel destined for Geothermal Development Corporation was lost while in custody of the contracted transporter. This was disputed by the transporter in 2019 and the matter was still pending before the High Court. However, the Management did not recognize contingent liabilities in respect of the court cases.

In the circumstances, the accuracy of the financial statements could not be confirmed.

8. Unsupported Payments for Historical Pending Bills

Note 39 to the financial statements reflects a balance of Kshs.704,000 in respect of Ministry of Energy and Petroleum Construction Fund. Review of records relating to the fund revealed that during the year under review, the Corporation received Kshs.22,753,000 into the fund and utilized Kshs.22,049,000 in settlement of historical pending bills for works completed in 2016 relating to completion of Ministry of Energy Headquarters. The payments comprised of Kshs.16,413,378 and Kshs.5,635,324.40 paid to two private companies. However, the expenditure was not supported by invoices, contracts and works certificates. In addition, the payment vouchers used to pay the expenditures were photocopies from the Ministry of Energy.

In the circumstances, the accuracy and regularity of the payment of historical pending bills amounting to Kshs.22,049,000 could not be confirmed.

9. Payment of Unspecified Allowances

The ledger and the trial balance for the year under review reflects total payments to employees amounting to Kshs.103,540,988 described as "other allowances." However, the basis for the payment of these allowances, and the applicable rates were not provided for audit. Further, approval from State Corporations Advisory Committee (SCAC) was not provided to support the allowances.

In the circumstances, the accuracy, completeness and regularity of other allowances amounting to Kshs.103,540,988 could not be confirmed.

10. Unsupported Board Expenses

The statement of profit or loss and other comprehensive income reflects administrative costs amounting to Kshs.13,947,000. As disclosed in Note 10 (a) to the financial statements, the costs include Kshs.13,487,000 in respect of directors' costs and emoluments. Review of the expenditure revealed that an amount of Kshs.1,605,813 lacked supporting documents such as boarding passes and copies of passports as evidence of travel.

In the circumstances, the accuracy and regularity of the Board expenses amounting to Kshs.1,605,813 could not be confirmed.

11. Unregistered Leased Land

The statement of profit or loss and other comprehensive income and as disclosed in Note 10 (a) to the financial statements reflects an amount of Kshs.39,714,000 in respect of rents and services. Included in this amount is Kshs.3,600,000 paid to an individual in respect of a lease rental. Review of the payment voucher and its supporting documents revealed that the title had no lease charge registered in favor of the Corporation.

In the circumstances, the regularity of the lease agreement between the Corporation and lessee could not be confirmed.

12. Lack of Ownership Documents for a Motor Vehicle

Included in motor vehicles net book value of Kshs.2,442,000 as reported under Note 17 to the financial statements is a motor vehicle valued at Kshs.225,000 whose logbook is registered in the name of a third party instead of the Corporation's name as per the search conducted by a valuer during the valuation exercise conducted in 2019. Management indicated that the vehicle was repossessed from a staff who after separating with the Corporation failed to repay his car loan as per the terms of agreement with a commercial bank at the time and the bank recovered the outstanding loan from the Corporation. However, the logbook still remains with the bank and is yet to be transferred to Corporation.

In the circumstances, the regularity and ownership of the motor vehicles valued at Kshs.2,442,000 could not be confirmed.

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

Emphasis of Matter

Uncertainty Relating to Going Concern

The Corporation recorded a loss of Kshs.1,042,539,000 during the year under review (2021: Kshs.896,019,000) raising its accumulated losses to Kshs.4,993,995,000 from Kshs.3,951,455,000 in 2021. In addition, the Corporation's current liabilities totalling Kshs.9,668,379,000 exceeded the current assets balance of Kshs.2,503,704,000 by an amount of Kshs.7,164,675,000. These events or conditions indicate material uncertainty regarding the Corporation's ability to continue as a going concern. The Corporation therefore, was technically insolvent and its continued existence as a going concern is dependent upon the financial support of the Government, bankers, and its creditors unless Management puts in place measures to improve the performance of the Corporation and to reduce reliance on financial support from the shareholders.

Further, this material uncertainty in relation to going concern and any mitigating measures put in place by the directors to address the matter were not disclosed in the notes to the financial statements as required by the International Accounting Standards (IAS 1), presentation of financial statements.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Information

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

The other information does not include financial statements and my audited report thereon.

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Unaccounted for Mwananchi Gas Project Equipment

The Ministry of Petroleum and Mining delegated to the Corporation the responsibility of implementing Mwananchi gas Project on behalf of the National Government vide letter from the Ministry of Petroleum and Mining dated 16 September, 2021. The project was intended to promote the use of modern cooking fuels among low-income households, and entailed distribution of subsidized LPG cylinders, grills and burners purchased by the Ministry of Petroleum and Mining. According to the Ministry, funds realized from sales were to be used to purchase additional gas.

The pilot programme for the project roll out was expected to be during the 2020/2021 financial year. However, Management indicated that the Corporation lacked sufficient working capital to purchase Liquefied petroleum gas to be used in filing of the cylinders. Review of records at the Corporation relating to the project revealed that the items under the custody of the Corporation comprised of 179,684 6kg cylinders, of which 3,170 had been filled with gas, 329,325 burners, 330,115 6kg grills, 60,000 horse pipes and 71,999 double burner stoves. As at 30 June, 2022, only 11,675 6kg cylinders, 12,869 burners and 87,147 grills with an aggregate value of Kshs.20,501,191 had been included in the Corporation's financial statements. The rest of the items were not included in the Corporation's financial statements, a position Management attributed to lack of formal authority from the Ministry of Petroleum and Mining to transfer ownership of the items to the Corporation.

In the circumstances, the value for money on the expenditure incurred on the project could not be confirmed.

2. Breach of Repayment Terms on Borrowings

The statement of financial position reflects borrowings amounting to Kshs.6,200,874,000. Review of the loan account revealed that the Corporation was not servicing the loan as required in the loan agreement. Further, Management had negotiated with the bank to restructure the outstanding loan and extend the moratorium which had elapsed on 3 May, 2022 for an additional seven (7) months on both the principal and interest.

However, the bank declined the extension until Management undertakes recommendations of the liquidity and independent business review which was conducted by a consultant on behalf of the lenders. The recommendations included: overhaul and modernization of ICT systems including effective stocks control systems, upgrade of management stocks control processes, customer service and product costing and pricing; re-organize the Corporation for effectiveness and efficiency while upgrading management capabilities and culture, and reducing overall payroll costs; address the matter of inadequate working capital; and come up with a business model that mostly focuses on prime retail stations, while paying attention to brand image enhancement.

In addition, because of default on loan and interest repayment, the lenders confirmed that the Corporation had accrued a penalty of Kshs.92,446,966 thereby increasing the Corporation's liabilities.

In the circumstances, the Corporation could be exposed if financiers were to act on non-compliance with the loan agreement.

3. Stalled Liquefied Petroleum Gas (LPG) Project

The statement of financial position and as disclosed in Note 17 to the financial statements reflects property, plant and equipment with a net book value of Kshs.5,591,323,000. The balance includes capital work-in-progress of Kshs.5,603,000 in respect of construction of LPG Skid at Kipkaren Service Station comprising costs of civil works, two LPG Mini Skids and associated works. Although the skid foundation had been completed, no other works had been carried out, and the contractor had abandoned the site. Further, no clear road map was provided on how the Management intends to address the matter, neither was a plausible explanation provided on why the project was abandoned before completion.

In the circumstances, the value for money on the expenditure of Kshs.5,603,000 spent on the civil works could not be confirmed.

4. Irregular Leasing of Land

The statement of financial position reflects property plant and equipment net book value of Kshs.5,591,323,000. As disclosed in Note 17 to the financial statements, the balance includes freehold land valued at Kshs.518,200,000 which further includes a vacant parcel of land valued at Kshs.55,000,000. The parcel was leased to a private individual for a period of six (6) years with effect from 1 November, 2021 to 31 October, 2027 for purposes of putting up a semi-permanent mixed-use commercial space. Although Management received expression of interest or offers from various parties and had Government valuer undertake rental assessment, there was no evidence that the Corporation used any of the methods of procurement prescribed in Part IX of Public Procurement and Assets Disposal Act, 2015.

In the circumstances, Management was in breach of the law.

5. Failure to Adhere to Procurement Procedures

Review of documents revealed that the Corporation paid an amount of Kshs.3,796,290 to two (2) private appointed retailers, operating the Corporation's stations, as reimbursement for station refurbishment and renovations. However, review of the documents for the works revealed that the renovation and refurbishment of the stations were not done in accordance with the Public Procurement and Asset Disposal Act, 2015. Instead, Management approved the renovations and refurbishment to be undertaken by the dealers who would thereafter be reimbursed the costs incurred. This was despite the Corporation having a framework contract for provision of civil works for all its service stations.

Further, one of the operators quoted an amount of Kshs.1,676,290 as the cost incurred for the works. A field inspection report prepared by the Corporation's engineering team dated 7 December, 2021, stated that the rates used for plaster works and concrete works by the dealer were higher than the average market rates, therefore it recommended the Corporation to reimburse the dealer based on average market rates. However, the reimbursement was based on rates quoted by the dealer. In addition, there was no evidence provided to show the scope of works done, pre-inspection and post inspection rereports.

In addition, the reimbursements of Kshs.3,796,290 were not supported by evidence of payments to the contractors by the service stations' dealers.

In the circumstances, the value for money on the expenditure of Kshs.3,796,290 incurred on renovation and refurbishment of the stations could not be confirmed.

6. Un-Procedural Recruitment of Maternity Reliever

Review of human resource records revealed that the Management engaged an employee to serve as senior administrative assistant on six (6) months commencing 22 March, 2022 to 21 September, 2022 for a gross salary of Kshs.120,000 per month, to stand in for a staff who was proceeding on maternity leave. However, advertisement for the position, a shortlist of applicants and interview of applicants and results thereon were not provided for audit.

In the circumstances, the competitiveness and fairness of the recruitment process could not be confirmed.

7. Irregular Termination of Tender for Provision of Medical Insurance Cover

The Corporation tendered for framework contract for staff medical insurance services via tender through an open tender on 11 May, 2022. Twelve (12) bidders responded and were taken through the opening, preliminary, technical, and financial evaluation processes upon which the evaluation committee vide minutes dated 27 June, 2022 recommended the award of the contract to the lowest evaluated bidder at a contract sum of Kshs.104,933,923 for a period of 2 years. However, a professional opinion issued on 4 July, 2022 by the head of procurement to the Accounting Officer recommending award of the tender was rejected based on a whistle blower information, who claimed that the recommended bidder compromised employees in human resource and procurement departments. However, the allegations were not supported by an investigation report for validity and authenticity. In addition, review of the whistle blower information revealed disparities between dates of termination of tender and the email date of 8 July, 2022 which was three (3) days earlier than termination date of 5 July, 2022.

Following the termination of the contract, the Management subsequently procured the services through a direct procurement from an existing insurer at a cost of Kshs.14,899,985.00 for a period of three (3) months. Had the Management awarded the tender to the lowest bidder under the terminated open tender, the three (3) months' premiums chargeable would have amounted to Kshs.12,301,008.00. The Company therefore incurred Kshs.2,598,977 more than it would have spent under the terminated tender.

In the circumstances, it could not be confirmed whether the procurement process was fair, equitable, transparent, competitive and cost-effective.

8. Unauthorized Over Expenditures

Review of the budget against expenditures incurred during the year under review revealed instances of over expenditure on insurances, software licences, training and education, finance costs and medical expenses. However, no supplementary budget nor approval were provided to support the over expenditure. Further, the Corporation budgeted to collect sales revenue of Kshs.24,951,499,000. However, only Kshs.9,841,696,000 was realized resulting in under collection of Kshs.15,109,803,000.

The under collection may have affected the planned activities during the year.

9. Irregular Procurement of Fuel Through Spot Purchase

Review of the sales volumes of refined petroleum products (white products) revealed that during the year under review, 1,179,000 litres of Automotive Gas Oil (AGO) commonly known as diesel product and 646,000 litres of fuel oil were procured and sold under spot purchase arrangement. Review of purchase orders revealed that these products were purchased from five (5) different oil marketers, whereby only one (1) had been prequalified. The prequalification list consisted of only two (2) oil marketing companies. It was not clear why Management maintained a lean prequalification list while it sourced for products from oil marketing companies not prequalified. In addition, there was no evidence that the National Treasury granted the corporation exemption for specially permitted procurement procedure.

Further, analysis of pricing of volumes traded under the product purchase arrangement revealed that the Corporation sold some products at a price that was less than the unit cost resulting in a loss of Kshs.1,489,120.

In the circumstances, the Management did not apply the funds effectively, and was in breach of the law.

10. Irregular Payment for Skilled Labour

The Corporation entered into a framework contract with a consultancy firm on 15 February, 2021 for provision of manpower services for a period of two years. The contract prescribed rates applicable for semi-skilled labour and the scope of work. However, a sample of payments examined revealed that the Corporation made payments in respect of skilled labour comprising overall supervisor, LPG plant supervisor and stocks supervisor amounting to Kshs.648,935 yet their scope of work and rates applicable were not included in the contract. There was no amendment to the framework agreement provided to support the additional payments.

In the circumstances, the regularity of the payments made in respect of skilled labour could not be confirmed.

11. Irregular Procurement of Transporters

The Corporation engaged three (3) transporters through a spot-hire arrangements for a period of six (6) months to transport petroleum products. Review of the procurement process revealed that Management engaged the transporters through an approval for spot method of procurement. Further, Management did not adhere to procedures of variation of contracts stipulated under Section 139(2) of the Public Procurement and Asset Disposal Act, 2015 which requires the Accounting Officer to approve a request for the extension of contract period after the recommendation of the evaluation committee. The extensions for two (2) transporters were not evaluated by an evaluation committee as required.

In addition, the transporters did not provide performance securities, goods-in-transit insurance policy and fidelity guarantee cover upon expiry of the contracts for the extended contract period as was provided in the signed agreement.

In the circumstances, Management was in breach of the law.

12. Irregular Extension of Individual Consultant Contract

The Management engaged an individual consultant for upstream petroleum activities for a period of one (1) year from 1 October, 2020 to 30 September, 2021 at a contract price of Kshs.900,000 per month plus reimbursable total of Kshs.10,800,000 for the contract period. Upon expiry of the contract, the consultant requested for one-year to ensure reorganization of the entire upstream department and training and mentoring of a new upstream team.

However, under clause 7.2 of the contract on general terms of reference, the consultant was expected to review organization structure for the upstream division and provide recommendations, prioritize talent development and recruiting initiative, prepare training plan for the upstream department and mentorship and guidance to the upstream team during the contract period. Therefore, the Consultant was seeking extension on complete contract deliverables.

In addition, the extension of the contract period was approved by the Accounting Officer without reference to an evaluation committee contrary to Section 139(2) of the Public Procurement and Asset Disposal Act, 2015 where the Accounting Officer of a procuring entity is required to approve a request for extension of contract period, which request shall be accompanied by a certificate from the tenderer making justifications for such cost, on the recommendation of an evaluation committee.

In the circumstances, Management was in breach of the law.

13. Non-Remittance of Statutory Deductions

Review of the Corporation's payables ageing analysis revealed long outstanding taxes amounting to Kshs.21,706,255 comprising of Value Added Tax (VAT) of 16,552,398 and domestic tax of Kshs.5,153,856. Non-remittance of the deductions on a timely basis puts the Corporation at risk of being penalized by the Kenya Revenue Authority (KRA).

In the circumstances, Management was in breach of the law.

14. Non-Compliance with the One-Third of Basic Salary Rule

During the year under review, at least twelve (12) employees were paid net salaries that were less than third (1/3) of their basic pay. This contravened Section 19(3) of the Employment Act, 2007. No sufficient explanation was given for failure to comply with the law on payment of salaries and allowances

In the circumstances, Management was in breach of the law.

15. Officers Acting for More than Six Months

Review of the payroll data revealed that five (5) employees had been in acting positions for more than six (6) months and were paid a total of Kshs.538,038 acting allowance during the year which contravened Section 8.8.3 of the Corporation's Human Resources and Procedures Manual which provides that acting allowance will be payable to an employee for a period of not more than six (6) months within which the position should be advertised and competitively filled.

In the circumstances, Management was in breach of the law.

16. Overpayment of Airtime Allowance

Analysis of the payroll data revealed that five (5) employees were overpaid airtime allowance amounting to Kshs.94,000 during the year under review contrary to Section 8.16.3 of the Corporation's Human Resources and Procedures Manual which provides that employees will be eligible for airtime allowance according to the respective employee's job grades.

In the circumstances, Management was in breach of the law.

17. Delays in Implementation of Initial Exploration Period

The statement of financial position and as disclosed in Note 37 to the financial statements reflects exploration expenditure on block 14T of Kshs.2,458,110,000. Review of documents relating to the Block revealed that the Corporation signed a Production Sharing Contract (PSC) with The Ministry of Energy and Petroleum on 15 November, 2010. The Corporation was authorized to conduct exploration operations within the contract area during an initial exploration period of three (3) years from the effective date. The Initial Exploration Period expired on 15 February, 2014 and subsequently, the PSC was extended with the latest one expiring on 14 February, 2023.

However, the Corporation has spent over twelve (12) years in conducting exploration operations within the contract area contrary to clause 2(1) of the Production Sharing Contract (PSC) which provides that the contractor is authorized to conduct exploration operations within the contract area during an initial exploration period of three (3) years from the effective date. The several extensions have been caused by the Corporation's failure to fulfil work and expenditure obligations under the contract during the initial exploration period of three (3) years.

This is an indication of the Corporation's lack of the capacity to undertake exploration activities in block 14T despite receiving funding from the Government of Kenya and Japan Oil, Gas and Metal National Corporation (JOGMEC). The Corporation currently holds an amount of Kshs.2,789,306,000 in respect of the block comprising of Kshs.1,655,537,000 from the Government and Kshs.1,133,769,000 from Japan Oil, Gas and Metal National Corporation (JOGMEC).

In the circumstances, the value for money on the expenditure of Kshs.2,458,110,000 spent over a period of twelve (12) years during the Initial Exploration Period could not be confirmed.

18. Petroleum Strategic Stock

Review of records revealed that Management did not hold any strategic stocks of the petroleum stocks. It was further noted that the Corporation's license to import and export Petroleum Products (Except LPG) expired on 28 July, 2021 and was yet to be renewed. This was contrary to Regulation 4 of the Energy (Petroleum Strategic Stock) Regulations, 2008 which states that the strategic stock shall be maintained in respect of each of the following petroleum products, at a level equivalent to up to ninety (90) days of consumption. Further, Regulation 5 stipulates that the strategic stock shall be procured by the National Oil Corporation of Kenya and stored by the Kenya Pipeline Company Limited, and, in case of consumption or draw down, shall be replenished accordingly to its optimal level.

In the circumstances, Management was in breach of the law.

19. Minimum Operational Stock

Review of records revealed that Management did not meet the minimum operational stocks of the petroleum contrary to Regulation 3(1) and (2) of the Energy (Minimum Operational Stock) Regulations, 2008 which states that all importers of petroleum products intended for use in Kenya shall maintain at all times physical operational stock, to be known as the minimum operational stock, in quantities not less than the minimum amounts specified in the Schedule. The minimum operational stock shall' be maintained in order to ensure short term supply of petroleum products in the event of disruption of supply of the products.

In the circumstances, Management was in breach of the law.

20. Database and ERP Application System

Review of the Corporation's information technology systems revealed that two (2) main systems in use were outdated necessitating an upgrade. The use of an outdated system increases vulnerability of losing crucial data and interruption of business operations. Further, a contract signed during 2016/2017 financial year at a cost of Kshs.95,624,321 for a period of fifteen (15) months and post-implementation services was terminated 10 July, 2020 by Management on the basis of non-performance. In addition, there was no evidence of recommendation from contract implementation team to terminate the contract as per Section 151(2)(g) of the Public Procurement and Asset Disposal Act, 2015. The Contractor filed a suit in the High Court against the Corporation for non-payment of outstanding invoices totalling Kshs.102,462,096 inclusive of interest.

In addition, the systems had attained their End of Life (EOL) which meant that updates and patches that enhance the system's security or any technical support from Oracle could no longer be received. Further, the Corporation had not paid the software vendor for two financial years and had accrued debts amounting to Kshs.146,217,220 in respect of annual software updates, technical support and additional license fees risking the data and business interruption in the case of a security attack.

In the circumstances, the value for money on the amount of Kshs.95,624,321 incurred on the system could not be confirmed.

21. Payment of Avoidable Penalties

The statement of profit or loss and other comprehensive income reflects cost of sales totaling to Kshs.9,284,655,000. As disclosed in Note 7 to the financial statements. The costs include Kshs.19,383,000 in respect of penalties and fines incurred by the Corporation paid mainly to the Commissioner of Customs and Oil Marketing Companies. This expenditure which could have been avoided with proper financial management led to increase in the cost of sales and affected cash flows negatively.

In the circumstances, efficiency and effectiveness in financial management could not be confirmed.

22. Irregular Payment of Contingency Allowances

Review of payments made through petty cash revealed payments totalling Kshs.959,042 described as contingency allowances to two (2) employees while on foreign travel. However, contingence allowance was not among allowances provided for in in the Corporation's Human Resources Policies and Procedures Manual. No authority was provided from Salaries and Remuneration Commission (SRC) to support the payment of the allowances.

In addition, review of user requisition workflow and approval system revealed that the allowances above were approved by the General Manager, Internal audit who was beneficiary of the allowances and was paid a total of USD 2500 or Kshs.278,439. No explanation was provided on why the head of internal audit was defined as approver of payments which amounted to conflict of interest and contradicts the internal audit oversight function.

In the circumstances, the regularity of the contingency allowance's payments amounting to Kshs.959,042 could not be confirmed.

23. Un-procedural Recruitment

During the year under review, the Corporation had four (4) drivers recruited over the years. Review of the recruitment process during the year revealed that recruitment of one of the drivers in December, 2021 was not done in accordance with the Corporation polices as there was no advertisement of vacant position, receipt of applications for the position, shortlisting and interviewing of candidates to fill the position.

In the circumstances, the Management contravened Corporation's Human Resource policies.

24. Un-Procedural Salary Increment

A review of human resource records showed that the Corporation advertised for the position of senior territory officer on 25 March, 2021. The shortlisted candidates were taken through interviews and the successful applicant was confirmed to the position in January, 2022 with a remuneration of Kshs.230,000 per month. However, one and half month after the officer was confirmed, the acting General Manager downstream operations made a recommendation to the Accounting Officer to have the employee's salary raised to a maximum of Kshs.272,000 per month with effect from 1 March, 2022. The justification for the salary increment was that the retail network territory managed by the officer was the largest. This was contrary to the Corporation's policy on salary increment.

In the circumstances, the Management contravened Corporation's Human Resource policies.

25. Encroached Corporation Land

Review of records relating to a parcel of land valued at Kshs.28,969,871 revealed that the Corporation granted a six (6) month lease agreement on 15 September, 2017 to an individual to operate a car wash and garage at a monthly rent of Kshs.60,000 exclusive of Value Added Tax (VAT). The lease agreement was extended for a further six (6) months from 1 April, 2018 to 30 September, 2018.

However, upon expiry of the agreement, Management continued to receive rent without renewing the agreement or giving notice of intention not to renew the lease. Management later issued notice of intention not to renew the license but the tenant took the Corporation to court and obtained a temporary order restraining/prohibiting the Corporation from trespassing on, entering into, taking possession, harassing, intimidating and or evicting the claimant from the plot. Therefore, the tenant continues to operate business on the Corporation land without paying any rent.

In the circumstances, the public may not realize value for money on the rented property while the ownership of the parcel of land is at risk.

26. Non-Implementation of E-Procurement System

Review of the procurement process carried out during the financial year under review revealed that procurements done by the Management were carried outside the e-procurement system. This was contrary to Regulation 49(2) of the Public Procurement and Assets Disposal Act Regulations, 2020 which requires works and services carried out by a procuring entity to be done through an e-procurement system integrated to the State Portal.

In the circumstances, 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 procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Duplicate Vendor Names

Review of the vendors' list in the Enterprise resource planning (ERP) revealed that sixty-one (61) vendors had duplicate names but different vendor codes in the system and were still active. This indicates that the creation of vendor codes was decentralized, and no internal checks are in place to confirm the accuracy.

Further analysis of vendor payments confirmed that three (3) vendors were paid by both vendor codes, totalling to Kshs.1,614,386

In the circumstances, the effectiveness of the internal controls in the ERP system could not be confirmed.

2. Inaccurate Payroll Data and Bank Remittances

Comparison between the payroll data and bank remittances provided for audit revealed differences between the net amount paid to various employees in payroll and the bank remittances. According to the analysis, one hundred and ninety-five (195) employees with total net pay of Kshs.215,977,714 in the payroll had a total net pay amount in bank remittance data of Kshs.186,492,170 resulting in unexplained positive and negative variances of Kshs.29,520,023 and Kshs.29,485,544 respectively. The variances resulted from the system reports which excluded including some allowances for some of the employees and the omission of various deductions reflected in payroll data extracted from the Oracle ERP HRM.

In the circumstances, the accuracy and effectiveness of the internal controls in the Oracle ERP HRM system could not be confirmed.

3. Lack of a Legal Compliance Audit

Review of records at the Corporation relating to Board activities revealed no evidence of the Board having undertaken an annual legal compliance audit during the year under review. The audit is expected to establish the level of adherence to applicable laws, rules, regulations and standards by the Corporation.

In the circumstances, the effectiveness of the overall governance of the Corporation could not be confirmed.

4. Lack of Strategic Plan

Review of the Corporation's strategic plan confirmed that it expired in the year 2020. The Management was yet to develop another strategic plan to cover the current period contrary to Section 68(2) of Public Finance Management Act, 2012. Therefore, achievement of the Corporation's strategic goal may not be possible.

In the circumstances, the effectiveness and direction of the Corporations' strategy could not be confirmed.

5. Lack of Information Communication Technology Steering Committee

During the year under review, Management did not establish Information Communication Technology Steering Committee which is mandated to oversee the development of the Information Communication Technology strategy of the Corporation. This implied that there exist gaps in information technology governance that might have affected the information technology management in achieving the organization's mandate.

In the circumstances, the effectiveness of the overall governance of the Corporation could not be confirmed.

6. Irregular Meetings Held by the Board of Directors

During the year under review, the Board of Directors held a total of twelve (12) full board meetings which exceeded the maximum number of six (6) recommended by the Office of the President circular referenced OP/CAB.9/1A dated 11 March, 2020. In addition, no approval by the relevant Cabinet Secretary, in consultation with State Corporation Advisory Committee (SCAC) was provided for the excess meetings held. The result of the irregular meetings held led to unauthorized expenditure of Kshs.1,260,000.

In the circumstances, the effectiveness of the overall governance of the Corporation could not be confirmed.

7. Irregular Composition of Board Committees

The Corporation's Board of Directors comprised thirteen (13) members. Review of membership and record of minutes of committee meetings revealed that the membership of board committees is expected to be a maximum of one third (1/3) of Board membership as guided by the Mwongozo code of governance for state corporations. However, the Audit committee, the Human Resource Committee and the Finance Committee have six (6) members each while the Strategy and Business Committee has five (5) members instead of the Maximum three (4) members. Further, a non-member of the committee attended its meetings held on 7 February, 2022 and 7 April, 2022 and a sitting allowance of Kshs.40,000 was paid to the non-member.

In addition, the head of internal audit unprocedurally acted as a Chief Executive Officer (CEO) and attended board finance committee meeting held on 14 December, 2021. No explanation was provided on why the head of internal audit was appointed to act as a CEO which contradicts the internal audit oversight function.

In the circumstances, the effectiveness of the overall governance of the Corporation could not be confirmed.

8. Long Outstanding Staff Imprest

The statement of financial position reflects trade and other receivables balance of Kshs.914,222,000. As disclosed in Note 22 to the financial statements. The balance includes deposits and prepayments totalling Kshs.616,179,000 out of which, Kshs.3,921,307 related to outstanding staff imprests for employees who exited the corporation without surrendering imprests issued to them. Further, an additional amount of Kshs.3,036,182 relates to subsistence allowances that were outstanding as at 30 June, 2022.

In the circumstances, the effectiveness of the internal controls on the imprest system could not be confirmed.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;

ii. In my opinion, adequate accounting records have been kept by the Corporation, so far as appears from the examination of those records; and,

iii. The Corporation's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls 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 controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal 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 controls 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 controls.

  Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the 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 Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

14 June, 2023

NATIONAL OIL CORPORATION OF KENYA LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2022

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

Table of Contents **Page**

I. KEY ENTITY INFORMATION

a) Background information

The National Oil Corporation of Kenya was established by the Companies Act Cap 486 on 3/4/1981. At Cabinet level, the Corporation is represented by the Cabinet Secretary for Ministry of Petroleum and Mining, who is responsible for the general policy and strategic direction of the *Corporation*. The *Corporation* is domiciled in Kenya and has branches in Mombasa, Kisumu, Nakuru and Eldoret.

b) Principal Activities

The principal activity of the Corporation as stipulated in the Memorandum and Articles of Association is trading in refined petroleum products and participation in related petroleum business such as refining, distribution and marketing; provision of related services such as hospitality, storage, transport, product receipt and loading; oil and gas exploration; and promotion activities and participation in energy sector activities as directed by the Government from time to time

Our Vision

To be a fully integrated world class oil and gas company.

Our Mission

Providing security of supply of petroleum product in the country.

Living our values, growing a sustainable, responsible and profitable company that contributes to national development.

Exploring, developing and producing oil and gas resources for the benefit of the Kenyan people.

c) Directors

The directors who served the Corporation during the year were as follows:

1.	Dr. Julius Muia, CBS	PS, National Treasury and Planning
2.	Mr. Andrew Kamau, CBS	PS, Ministry of Petroleum and Mining
3.	Eng. Patrick Obath, MBS, OGW	Chairperson –Appointed on 16.10.2021
4.	Mr. Leparan Gideon Morintat	Chief Executive Officer- Appointed on 20.02.2020
5.	Mr. Edward Wamweya	Alternate to PS, National Treasury & Planning
6.	Ms. Electine M Nanzala	Alternate to PS, Ministry of Petroleum & Mining
7.	Ms. Lilian Matagaro	Representative, Attorney General
8.	Mr. James Sitieney	Representative, State Corporation Advisory Committee

9. Ms.Ogutu Okudo	Left on 21/04/2022
10. Ms. Dorothy Marami Kiarie	Appointed on 06.10.2021
11. Mr. Michael Rubia	Appointed on 06.11.2019
12. Ms. Victoria Karugu	Appointed on 06.10.2021
13. Mr. Godfrey Waluse	Appointed on 06.10.2021
14. Mr. Mundia Geteria	Appointed on 06.10.2021
15. Ms. Sureya Roble	Appointed on 06.10.2021
16. Eng. Elizabeth Rogo	Appointed on 21.04.2022
17. Mr. Peter Ngala Ekuleu	Left on 07.02.2022
18. Mrs. Emily Kiparki	Left on 07.02.2022
19. Eng. Abdulrazaq Ali	Appointed on 14.04.2022

d) Corporate Secretary

Leparan Gideon ole Morintat

Chief Executive Officer

P O Box 58567 – 00200

Nairobi

e) Registered Office

Kawi Complex, Popo Lane

Off Red Cross Road, South C

P O Box 58567 – 00200

Nairobi

f) Corporate Headquarters

Kawi Complex, Popo Lane

Off Red Cross Road, South C

P O Box 58567 – 00200

Nairobi

g) Corporate Contacts

Telephone: (254) -20-6952000

E-mail: ceo@nockenya.co.ke

Website: www.nationaloil.co.ke

h) Corporate Banks

Standard Chartered Bank Kenya Limited
P O Box 30003 – 00100
Nairobi.

Stanbic Bank Limited
P O Box 72833 – 00200
Nairobi.

KCB Bank Kenya Limited
P O Box 30081 – 00100
Nairobi.

Equity Bank Kenya Limited
P O Box 78569 – 00507
Nairobi.

National Bank of Kenya Limited
P.O Box 72866 – 00200
Nairobi.

NCBA Bank
P.O. Box 44599 – 00100
Nairobi.

The Co-operative Bank of Kenya Limited
P O Box 67881 – 00200
Nairobi.

i) Independent Auditors

Auditor General

The Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

Nairobi, Kenya

j) Principal Legal Advisers

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200

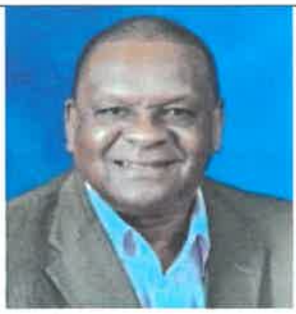
Nairobi, Kenya

II. THE BOARD OF DIRECTORS

Ref.	Directors	Details
1.	 **Dr. Julius Muia PhD., CBS** PS, National Treasury & Planning PhD in Finance, CPA(K),CPS(K)	**Dr. Julius Muhia** is a self-driven finance professional with 30 years proven track record of achieving superior and quantifiable results in various leadership roles at all levels of management. He have a wealth of experience in delivering on complex assignments in the public and private sector while working with different cultures. He is a non-independent director.
2.	 **Mr. Andrew Kamau, CBS** PS, State Department of Petroleum and Mining, Ministry of Petroleum & Mining BSc. Chemistry	**Mr. Andrew Kamau** is the Principal Secretary for the State Department of Petroleum and Mining, Ministry of Petroleum & Mining. Prior to this appointment, Eng. Kamau served as Principal Secretary for the State Department of Petroleum under the Ministry of Energy & Petroleum. His wealth of experience in the energy and mining sector spans over twenty-five (25) years, gained after lengthy engagements with both the Public and Private Sectors, Development Partners and Non-Governmental Organizations in Africa. He is a non-independent director.
3.	 **Eng. Patrick Obath, MBS, OGW** Chairperson BSc (Hons) Mechanical Engineering, Nottingham University	Born 1955, Eng. Obath is a consultant in Energy, Extractives and Engineering with special emphasis on Leadership, Governance and Sustainability. He has wide experience in management at the national and international level in the oil and gas sector and in addressing social, government and development issues. Patrick is a resource person on governance, leadership and sustainability issues in both Kenya and across Africa. He has worked with both private companies and various international development agencies. Patrick has been intimately involved in the business community in Kenya and East Africa at the top level since 2005 having served as the Chair of the Kenya Private Sector Alliance (KEPSA). He sits on the boards of several Business Member Organisations and has also served on the Boards of

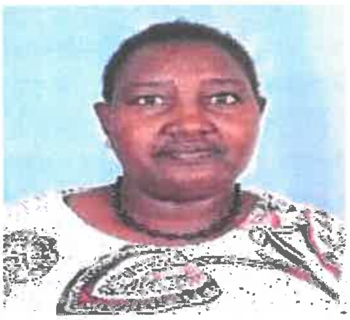
		companies involved in manufacturing, international development, automotive, FMCG and ICT sectors. Patrick is a Member of the Energy Institute (UK), the Petroleum Institute of East Africa and the Institution of Engineers in Kenya. Patrick is also a member of the Institute of Directors (UK) and a Fellow of the Aspen Global Leadership Network (AGLN) and the African Leadership Initiative (ALI). Patrick has been awarded the Moran of the Burning Spear (MBS) and Order of the Grand Warrior (OGW). He is an independent director.
4.	 **Leparan Gideon Morintat** Chief Executive Officer MBA in Strategic Management	Born 1979, Leparan joined the Corporation in February 2020. Prior to joining the National Oil Corporation of Kenya, he was d.light SOLAR's Country Manager for Ethiopia & Horn of Africa. He has over 18 years of leadership and management experience gained in the Oil & Gas, Energy, Infrastructure development, and ICT sectors in leading multinational companies among them Multi Choice Africa, Mitsui & Co. Ltd, Royal Dutch Shell Group and Equity Bank Group. He is a member of the Petroleum Institute of East Africa (PIEA), Kenya Institute of Management (KIM), Marketing Society of Kenya (MSK), Kenya Institute of Supplies Management (KISM) and Kenya Oil & Gas Association (KOGA). He is an executive director.
5.	 **Mr. Edward Wamweya** Alt. PS. The National Treasury and Planning MBA Finance; B.Com (Finance); **CPA (K); CIFA (K)**	**CPA, FA. Edward Wamweya** was born in 1984. He is the Alternate Director to the Cabinet Secretary National Treasury & Planning. He holds a Master of Business Administration (-Finance) degree, Bachelor of Commerce (-Finance) degree, Certified Public Accountant of Kenya (CPA-K) and Certified Investment and Financial Analyst (CIFA-K). He is a professional accountant and financial analyst who is a member in good standing of both ICPAK and ICIFA. He has served in several Boards of State Corporations as Alternate Director. Currently, he is a Principal Investment Officer in The National Treasury with vast experience in public financial management and State Corporations sector. He is a non-independent director.

6.	 **Ms. Electine M. Nanzala** Alt. PS.Ministry of Petroleum and Mining M.A. in Economics	Born 1971, Electine brings with her years of experience and knowledge in Public Policy and Analysis; leadership; Public Sector Reforms including Results Based Management and expertise in the Petroleum industry. She is a non-independent director.
7.	 **Ms. Lilian Matagaro** Alt. Attorney General M.A. in International Studies; LLB;Dip in Law (KSL).	Born in 1976, Lilian is the Chief State Counsel and Parliamentary Liaison Officer at the Office of the Attorney General and Department of Justice. She has vast experience in policy development, public sector negotiation and drafting of legal and legislative instruments. She has consistently proffered legal advice for over 16 years to Government Ministries and Agencies on diverse aspects. In addition to being a Board Member in NOCK, she is currently a member of the Registration Committee, Institute of Human Resources Management and the Financial Law Review Panel (Capital Markets). She is a non-independent director.
9.	 **Ms. Ogutu Okudo** Masters of Science in Oil and Gas Enterprise Management-University of Aberdeen BA Arts & International Relations. USIU Africa	Born 1991, Ms. Ogutu Okudo is an oil specialist and energy access expert. She holds a decade of experience in building public-private partnerships across the African continent in the energy sector. She has advised governments on oil and energy policy legislation, natural resource strategic development and decentralized energy solutions. Her wealth of experience in the oil and gas sector spans first oil project management, field development planning and new market expansion. Ogutu is a published researcher and strong critic of African energy sector dialogue having successfully lobbied for policy reform on behalf of governments and sector players. Ogutu continues to raise awareness of challenges different genders are facing with their interaction with the oil, mining and alternative energy sectors through her globally

		recognized and award-winning organization, Women in Energy and Extractives Africa (WEX Africa). She is an independent director.
10.	 **Ms. Dorothy Marami Kiarie** MBA in Marketing and Strategic Management	Born 1962, Ms. Dorothy is a Lead Consultant with Prolific Solutions, a consultancy firm that provides supply chain management solutions to both the Private and Public sector. Dorothy has extensive expertise in the Oil and Energy sector having worked for over 20years with an international oil marketing company in Kenya where she was responsible for the East Africa Supply Optimization. Dorothy has sat on the Board of Kenya Petroleum Refineries Limited and is currently a Director of Zenith Ventures Limited, a property development company. Outside of work, Dorothy enjoys discovering new travel destinations with her family, gardening, hiking and morning runs. Dorothy is highly experienced in crude oil and product importation, trading, contract negotiation, refining, pipeline distribution, export marketing and overall enterprise approach to business. She is an independent director.
11.	 **Mr. Michael Rubia** Master of Business and Public Administration	Born 1951, Michael has vast experience in International Sales and Marketing with expertise in the retail Industry. He is an independent director

12.	 **Ms. Victoria Karugu,** LLM in Energy, Environment & Natural Resource Law, University of Houston. MBA in Telecommunications, Management & International Marketing, Alaska Pacific University. Juris Doctor(J.D) Law, University of Kentucky College of Law.	Born 1967, Victoria is a licensed attorney with over 19 years' experience in corporate litigation, regulatory compliance, environmental law, telecommunications law, energy law, estate planning and taxation. Victoria has prowess in leading multidisciplinary teams of professionals both on local and international assignments and has experience working in fast-paced business environments while leveraging on good governance practices and technology. She is currently the Managing Director at the Energy Corridor Limited. Victoria has occupied senior leadership positions at System Integration Partners and common market real estate. She has extensive experience working as a legal project manager in various assignments. She is an independent director.
13.	 **Mr. Godfrey Waluse,** MBA. Public Policy, Fletcher School of Law MBA. Diplomacy, Tufts University in Boston, MA and an MBA from the Sloan School of Management at Massachusetts Institute of Technology (MIT).	Born 1971, Godfrey Waluse is a global executive with over 25 years' experience in energy, power, infrastructure, financial services among others. Godfrey has managed complex global operations with specific expertise in project development in high-risk environments. He has worked in various capacities at Japan International Cooperation Agency (JICA); the Secretary-General's office at the United Nations Office in New York, the World Bank in Washington D.C., and at the Standard Bank in Johannesburg, South Africa where he was a strategic advisor on continental initiatives and investments to the bank's executives. Godfrey works for the Energy Business Unit at Mitsui & Co. Ltd, where he has overseen several projects such as; the development of Mozambique LNG and development of renewable energy projects in London. He currently helps run East Africa operations with active involvement in developing power, oil & gas, infrastructure, renewable energy, healthcare and ICT projects, among others. He is an independent director.

14.	 **Mr. Mundia Geteria** MBA in Strategic Management, Moi University B.COM, University of Nairobi CPA(K), FCS,ICSA,FCIS	Born 1949, Mundia Geteria has over 35years experience in the business space with various investments in the tertiary training and education sector. Mundia is the founder of Dima College Ltd and currently runs Dima Driving School with branches in Runyenjes, Embu Town and Nairobi. Mundia has served in several senior leadership positions, which include; CEO and Board Secretary of the Institute of Certified Accountants of Kenya (ICPAK), Board Member of the Institute of Certified Secretaries (ICS), and Company Secretary of the Kenya Extelcoms among others. Mundia is the pioneer Chair of the Embu County Public Service Board and currently serves as the Chair of the Trustees of the Public Service Club Staff Retirement Benefits Scheme. He is a Certified Retirement Benefits Trustee (Kenya College of Insurance) and a Court Accredited Mediator. He is an independent director.
15.	 **Ms. Sureya Roble** MBA in Public Policy BA. Public Administration and Political Science	Born 1967, Sureya Roble is a gender and public policy specialist. She is a certified mediator accredited by the judiciary. She is the founder of Advocacy for Women in Peace and Security –Africa (AWAPSA), an organization that supports women empowerment through capacity building. Sureya has served as the National Vice Chairperson of the *Maendeleo ya Wanawake* organization, and is also the Vice Chairperson of Sisters without Borders. Sureya currently runs a program that engages women to play a role in countering violent extremism through dialogue, mentorship, rehabilitation and re-integration and is an active lobbyist for women's space in decision making both at the national and county levels. Sureya has over 30 years' experience in community development, project management, training, lobbying and advocacy on issues affecting women and girls. Sureya has presented various papers both locally and on international platforms which include one on Muslim Family Law and Women Rights that was adopted by the CEDAW Committee for implementation. She is an independent director.

16.	 **Eng. Elizabeth Rogo,** BSc. (Mount Saint Vincent University) B.Eng.(Dalhousie University) both in Halifax, Nova Scotia, Canada.	Born 1963, Elizabeth is an accomplished energy professional with over twenty (20) years international experience in the Oil & Gas sector (engineering, operations, business development and management), and Geothermal. She brings vast international and senior management experience, including onshore and offshore, working with global Oilfield Services companies during her career in the US, Africa and Europe – BJ Services, Baker Hughes and Weatherford International. She is an independent director.
17.	 **Mr. Ekuleu Ngala Peter** BSc. Public Health	Born 1972, Director Ngala Holds a B.Sc. in Public Health, with over 20 years' experience in planning, structuring, leading and executing community based health and development projects. He is also skilled in creating major platforms for social and community development. He has proven to be effective in organizing and coordinating Community based Health projects with the aim of motivating and empowering individuals and communities to proactively take charge of their own health needs and interventions. He is an independent director.
18.	 **Mrs. Emily Kiparki** MBA in Strategic Management	Born 1973, Emily holds a Master's in Business Administration-Strategic Management and has previously held various portfolios in Accounting with 10 years' experience. She is an independent director.

19.	 **Eng. Abdulrazaq Ali** MSC(Civil Engineering), MBA BSC(Civil Engineering)	Born 1963, Abdulrazaq holds of Masters and Bachelor degree in Civil Engineering. He has over 34 years' experience in public service having served in the Kenya Government as a deputy and chief executive of various state corporations, and later as the Permanent Secretary in the Ministries of Transport and Trade. Eng. Ali is a registered Consulting Engineer with the Engineers Board of Kenya and is a fellow of the Institution of Engineers of Kenya. He is also an associate of the Chartered Institute of Arbitrators (UK). He is an independent director.

III. MANAGEMENT TEAM

Ref.	Management	Details
1.	 **Leparan Gideon Morintat** Chief Executive Officer MBA in Strategic Management; B.Com Accounting	Born 1979, Leparan is the CEO of the National Oil Corporation of Kenya. Prior to joining the Corporation, he was d.light SOLAR's Country Manager for Ethiopia & Horn of Africa. Leparan has over 18 years of leadership and management experience gained in the Oil & Gas, Energy, Infrastructure development, and ICT sectors in leading multinational companies among them Multi Choice Africa, Mitsui & Co. Ltd, Royal Dutch Shell Group and Equity Bank Group. He is a member of the Petroleum Institute of East Africa (PIEA), Kenya Institute of Management (KIM), Marketing Society of Kenya (MSK), Kenya Institute of Supplies Management (KISM) and Kenya Oil & Gas Association (KOGA).
2.	 **Benson Theuri** Ag. General Manager- Downstream Operations MBA, Strategic Management; B.Com.	Benson is a petroleum enthusiast, proven sales leader, with 20+ years of leadership and management acumen in the FMCG and Oil and Gas. Has held senior leadership roles at Unilever and Shell for over 20 years and has extensive experience in leading sales teams, turnaround efforts, product launches, strategy development and implementation, project management among other key skills. During his short spell at National Oil, he has helped craft the retail and commercial strategy and is leading the team in the implementation and the corporation's turnaround effort with outstanding success to date.

3.	 **Robai Shiakhutsa** Company Secretary & Manager, Legal Affairs Master of Law (LL.M) International Law from the Uni. of Mysore. International Law and Legal studies from the Uni. of Nairobi Bachelor of Law (LL.B.)	Ms. Robai Shiakhutsa joined the Corporation in 2021 as the Company Secretary and Legal Affairs Manager. Ms. Robai is the secretary to the Corporation Board and also responsible for managing the Corporation's legal functions, overseeing litigation and reviewing of contracts to ensure policy compliance. She is an Advocate of the High Court and a Certified Public Secretary (CPS) K. She is also a member of the Law Society of Kenya (LSK) and Institute of Certified Secretaries (ICPSK). Ms. Robai comes with a wealth of experience gathered from having served in senior positions both in the private sector and Government. She has a proven record in legal expertise.
4.	 **Scoline Ojunga** Manager, Internal Audit MBA in Finance; B.Com, Finance; CPA (K	Scoline joined the Corporation in 2020 and is responsible for internal audit including developing and implementing an annual risk-based audit plan as well as enterprise risk management planning, execution, monitoring, evaluation and consolidation of the Company's Risk Management matrices.
5.	 **Alex Musungu** Manager, Procurement MSc. Procurement and Logistics; BSc.; MCIPS of Chartered Institute of Purchasing and	He joined the Corporation in 2017 and is responsible for optimal and cost effective procurement of goods, works and services through the development and implementation of appropriate procurement strategies. Prior to joining the Corporation, Alex held various positions in different companies including Unclaimed Financial Assets Authority, Kenya Forest Service,

	Supply; (CIPS-UK); Membership with (KISM)	Nairobi Hospital and Kenya Agricultural Research Organization.
6.	 **Duncan Waziri** Ag GM-Finance, Treasury and ICT, MSc. Project Management; B.A. Building Economics	Duncan is a seasoned business management professional with significant experience in oil & gas and logistics sectors. His work experience includes Business Analyst and Sales Manager at Kenya Shell, Consumer Manager at TOTAL Kenya and Director of Courier at G4S. He is a past recipient of The British Chevening Scholarship Award for postgraduate study in the UK from where he graduated with a distinction.
7.	 **Mr. Willis Otieno Anyango** Manager, Human Resource &Administration, BSc. Education, Membership with (IHRM)	Willis joined the Corporation as the Manager Human Resources and Administration in November 2021 and is responsible for the Management of the Corporations Human Capital. He has a broad wealth of experience in Human Resource practice specializing in Organization Design, Talent Management, HR strategy development and performance Management spanning over 18 years in Human Resource Management cutting across various sectors. Prior to joining the Corporation, he held various Senior HR Management roles at Safaricom Ltd, Kenya Shell Ltd, Kenya Airways Ltd and the Karen Hospital.

8.	 **Mr. John Ego** Manager, Exploration MSc. Petroleum & Geology; BSc (Hons) in Geology	John joined the Corporation in 1988 and has wealth of experience spanning over 30 years in Geology and Petroleum Exploration. He is responsible for the overall technical evaluation of Kenyan Basins and active promotion of petroleum potential of Kenyan Basins at International levels.

IV. CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of National Oil Corporation of Kenya ("National Oil" or the "Corporation"), I am pleased to present the Annual Report and Financial Statements of the Corporation for the Fiscal Year ended 30th June 2022. During the year under review, National Oil continued with its transformation journey to profitability and consequently provider of strategic petroleum reserves in Kenya as envisioned in Vision 2030. This shall be achieved through operational excellence, market leadership, cost efficiency and strategic partnerships.

Operating Environment

The Kenyan economy grew by 6.7% in 2021 as a result of Government supportive policies and eased COVID-19 restrictions. The increase in global oil prices during the period has led to a rise in fuel prices in the market as well as working capital requirements. After Block 14T's Production Sharing Contract (PSC) was extended for a further two years, the upstream company saw increased activity, further solidifying our position in the industry. More significantly, the Corporation has completed the construction of a state-of-the-art geochemical and petrophysical laboratory that will be availed to other international oil companies to analyse oil and gas samples.

The Transformation Plan

National Oil has created a turnaround plan that has started a transformational journey for the Corporation towards profitability for the implementation of its core mandate. The turnaround plan focuses on strengthening internal controls, operational excellence and revenue growth. Key to delivering this plan is the re-organization of the Corporation for effectiveness and efficiency and ensuring that seasoned industry professionals are in key management positions to spearhead the initiatives. We are certain that the successful implementation of this plan will lead the Corporation to turn around its fortunes in order to play its rightful role and contribute to the National Development Agenda.

The Corporation's plans to commercialize the upstream business will complement downstream revenue. The pursuit of a commercially viable hydrocarbon presence will eventually be the biggest contributor to the national economy.

Future Outlook

The rising worldwide oil prices continue to make the economic environment challenging. Particularly concerning is the company's huge debt load brought on by non-performing bank loans, which is hurting its profitability. We are continuously engaging with our financiers and shareholders to come up with a workable solution for our portfolio of non-performing loans. The Board of Directors and Management have also taken steps to explore lucrative growth opportunities, and we are confident that this long-term plan will provide favourable outcomes over time.

Appreciation

I wish to thank the various stakeholders including our shareholders; the Ministry of Petroleum and Mining and the National Treasury & Planning, The Board of Directors, Management, Staff and our customers and suppliers and service providers for their loyalty and commitment. We appreciate!

Patrick Obath **Date.....................................**
BOARD CHAIRMAN

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

It is my pleasure to present to you the National Oil Corporation of Kenya's Annual Report and Financial Statements for the year ended 30th June 2022. The National Oil Corporation of Kenya began the year with high expectations and a determination to reverse the negative trend in our downstream business and return to profitability and to aggressively ramp up our exploration activities in our upstream assets. Our primary focus was and remains "profitable downstream and more upstream', driven by operational excellence leading to growth in revenues, enhanced controls and efficiency.

Financial Performance

The Corporation recorded a decrease in gross profit from Kshs 0.633 billion for the year ended 30th June 2021 to Kshs 0.56billion for the year ended 30th June 2022, representing a 12% decrease. During the year under review, the Corporation's loss before tax increased from Kshs 1.249 Billion in the financial year ended 30th June 2021 to Kshs 1.399Billion. The reported loss is primarily attributable to the huge bank penalties as a result of non-performing loan portfolio.

Revenue

Sales revenue increased by 5.43 % to Kshs.9.84 billion during the year under review from KShs9.33 Billion recorded in FY 2020/21.This was due to continuous supply to few commercial customers. i.e. GDC

Operating Expenditure

Operating expenses decreased to Kshs 0.962 Billion in the year ended 30 June 2022 compared to Kshs 1.031Billion in the year ended 30 June 2021. This was due proactive cost management measures by management to align the cost structure with the business size. Net financing costs increased from Kshs0.941 Billion in FY2020/2021 to Kshs 1.116 Billion in the year under review. This was as a result of higher bank penalties incurred during the year under review on account of non-payment of loans and capitalization of interest.

Upstream Operations

During the year under review, National Oil successfully applied for and obtained the extension of Block 14T's Production Sharing Contract (PSC) for a further 2-year period. The corporation embarked on undertaking further geophysical studies and data acquisition which when completed will be packaged to aid in marketing the block to prospective farm-in partners. The corporation has also been working closely with other licensed exploration and production companies in the other exploration blocks in the pursuit of making Kenya an oil and gas producer.

The Transformation Plan

The Corporation has embarked on a 15-year transformational plan that seeks to return its downstream business to profitability. Further, the implementation of the transformation plan will enable the Corporation to play its pivotal role in the growth of Kenya's Oil and Gas sector. A transformed National Oil Corporation of Kenya will be a key contributor to the country's economic development as envisioned in both the BIG 4 agenda and Vision 2030.

Our Transformation Plan is centred on people, product, processes and profit (4 Ps). Its High Level Implementation Plan focuses on commercialization of the upstream business, leadership in LPG business, profitable growth of the retail segment, profitable commercial business, oil trading in midstream and being the aggregator of Natural Gas Imports. The plan also seeks to transform NOC and make it the custodian of the country's strategic petroleum reserves – a critical component of our national security as a country. This will be achieved by having on board the right people with the right skills & competencies in the right jobs, enhancing controls and hinged upon the on boarding the right strategic partner. Leveraging on the potential strategic partner's skills base and capital, the future NOC will fulfil its legal mandate of importing 30 percent import quota of industry's petroleum requirements.

In our quest to achieve a sustainable working capital & liquidity position, we have and will continue to engage with our bankers and the shareholder. These engagements are at an advanced stage and will bear fruits in the coming financial year.

Appreciation

In conclusion, I take this opportunity to express my sincere appreciation to all our stakeholders led by our shareholders; The National Treasury & Planning and the Ministry of Petroleum & Mining for their significant contribution through both policy and budgetary support to the Corporation.

On my own behalf and that of the Executive Management team, I also thank the Chairman and the Board of Directors for the support that they have continued support, steadfast leadership, and guidance throughout the financial year. I would also like to most sincerely appreciate the stakeholders that give us a reason to be our customers without whom we would not have downstream business - for continuing to support us and for believing in our products. I also thank in a special way, our suppliers, service providers, partners and bankers for their invaluable support during the financial year.

Last but not least, on behalf of the Board of Directors and Management, I congratulate our staff for their continued commitment and wish to commend them for their resilience which has yielded these results and urge them to redouble their efforts as we all strive to return the National Oil Corporation of Kenya back to profitability in the very near future.

Leparan Gideon Ole Morintat **Date** ....

Chief Executive Officer

(1) Number of Board meetings held

During the period under review, the Board held the following number of meetings. Requisite approvals were obtained to hold the extra number of meetings as per the provisions of section A (1) to (3) of circular Ref. NO:OP/CAB.9/1A on Management of State Corporations.

NO	NAME OF COMMITTEE/BOARD MEETINGS	NUMBER OF MEETINGS
1.	Full Board meetings	7
2.	HR Committee Meetings	6
3.	Strategy & Business Committee Meetings	4
4.	Finance Committee Meeting	3
5.	Audit & Risk Committee Meetings	5
6.	Special Ad-hoc Meetings	6
	TOTAL	**31**

The attendance to those meetings by members.

Section 3 of the board charter provides that the quorum for the conduct of business at a meeting of the Board shall be 2/3rd the number of the members of the Board. The details of the members who attended the respective meetings were captured in the respective minutes of meetings held during the year 2021/2022FY.

Succession Plan.

The Corporation has a well-defined Succession plan which enhances the dynamic nature of the board. The Board Members have different appointment dates and hold various professional competencies.

Section 6(1) and (2) of the State Corporations Act, 1986 provides as follows-

"… A Board shall, subject to subsection (4), consist of—

(a) a chairman appointed by the President who shall be non-executive unless the President otherwise directs;

(b) the chief executive;

(c) the Permanent Secretary of the parent Ministry;

(d) the Permanent Secretary to the Treasury;

(da) the Attorney-General or his representative;

(e) Not more than eleven other members not being employees of the state corporation, of whom not more than three shall be public officers, appointed by the Minister.

(2) Every appointment under subsection (1)(a) and (e) shall be by name and by notice in the *Gazette* and shall be for a renewable period of five years or for such shorter period as may be specified in the notice..."

The appointment of the aforementioned members by the Cabinet Secretary has been staggered in order to ensure continuity and smooth transaction of NOCK's Board's roles and responsibilities.

Existence of A Board Charter

The NOCK Board approved its board charter during its meeting held on 28th May 2019 in line with the provisions of Mwongozo, Code of Governance for State Corporations.

Process of Appointment and Removal of Directors.

Section 3 of the NOCK Board Charter provides that the relevant appointing authority shall select and appoint the respective directors. Every appointment shall be by name and by notice in the Kenya Gazette or nomination by a body mandated to do so but shall cease if the Board member:

(i) Serves the appointing authority with written notice of resignation; or

(ii) Is absent, without the permission of the Chairperson, from three consecutive meetings; or

(iii) Is convicted of an offence by a court of competent jurisdiction and sentenced to imprisonment for a period exceeding six months without the option of a fine; or

(iv) Is incapacitated by reason of infirmity of body or mind; or

(v) Is otherwise unable or unfit to discharge the functions of the Board; or If the member dies.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS

National Oil Corporation of Kenya Limited is a fully integrated State Corporation involved in all aspects of the petroleum value chain covering the upstream oil and gas exploration, midstream petroleum infrastructure development and downstream marketing of petroleum products.

National Oil has an active downstream business segment with a growing retail network of 70 service stations spread across Kenya. The Corporation also serves a cross-section of resellers, industrial, export and government businesses from its modern Nairobi National Terminal.

The Corporation is also actively involved in the upstream activities key among them being analysis and keeping of exploration data in the petroleum sector on behalf of the Government where there is collaboration with other stakeholders.

During the year, the Corporation has focused more on turn around strategies with a view to competing effectively in the market space to ensure there is a positive trend in the business activities with a view to making a positive return for the shareholders.

Financial Key performance indicators

There was a 5.4% increase in revenues from Shs 9.33 billion for the year ended 30 June 2021 to Shs 9.84billion for the year ended 30 June 2022. Gross profit decreased from Shs 0.633 billion in the year 2020/2021FY to Shs 0.557 billion in the year review which is a 12% decrease. The Operating loss for the year under review was Shs 1.399 billion compared to a loss of Shs 1.249billion in the year ended June 2021. Operating expenses decreased from Shs 1.031 Billion to Shs 0.962Billion to be in line with the level of business. Net financing costs increased in the year from Shs 0.941Billion to Shs 1.116Billion. This was as a result of huge bank penalties incurred during the year under review due to late payment.

Principal risks and uncertainties facing the Corporation

1) Fluctuations of the local currency against the USD: - Petroleum products at the international markets are traded in USD and any appreciation of the USD against the local currency leads to a negative effect to the profitability of the Corporation particularly, the downstream activities.

2) Lack of Financial muscle: - The Corporation is competing in the market place with multinationals who have very strong parent Companies and are able to fund them in the expansion program with low interest funds. The Corporation on the other hand has to borrow from the local banks at high interest. This increases the financing costs and minimizes the returns per litre of oil products sold by the Corporation.
3) Independent marketers: - Quite a number of independent oil marketers are getting into the oil market. These Companies have low operating costs, which enable them to undercut the other oil marketers in the market and eventually eating into their market share.
4) Bureaucratic Government processes: - The Corporation's management are unable to make quick decisions, as they have to consult with the parent ministry, since the Corporation is a government entity. For example where decisions have to be made particularly about getting out of certain markets by disposing of non-performing assets, such decisions have not been approved for over a year now. The Corporation continues to hold assets that are not optimally utilised in its books.

IX. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

i) Sustainability strategy and profile

The Kenya Government has set an ambitious goal to enhance Liquefied Petroleum Gas (LPG) penetration in the country and ensure universal access of LPG especially in low-income households. The overarching objective is to reduce the use of biomass and kerosene as primary household cooking fuels, which have a negative impact on the environment, respiratory health and sustainable economic development. This will be done using distribution of subsidized gas cylinders to this market. National Oil, on behalf of the Ministry of Petroleum and Mining and with support from the government prepared the Mwananchi Gas Communication and Distribution plans in readiness for the roll out of the program. We are piloting the provision of piped LPG to homes in apartments to increase convenience and safety in partnership with CFAO and the National Housing Corporation.

We engaged with the government, regulators and policymakers to help shape comprehensive policy, legislation and regulation that advocate our positions on matters, which affect us. We engaged in the review and developed of the review of the upstream regulations.

ii) Environmental performance

National Oil Corporation, in undertaking its mandate, has integrated environmental considerations in their operations to fulfil the requirements of a clean, healthy and sustainable environment for all as per Article 42 of the Constitution of Kenya, 2010 and Environmental Management and Coordination Act (EMCA) Cap. 387. The Corporation undertakes to uphold environmental standards that exceed the minimum legal and regulatory requirements. To this end, the Corporation shall adopt all reasonable and practical measures to endeavour to comply with and exceed the requirements of all applicable environmental laws, regulations, permit and licence conditions and other requirements to which the organization subscribes to. National Oil Corporation recognizes that her operations have impacts on the environmental, social and financial aspects. In view of this, the Corporation has put in place several operational controls geared towards reducing pollution impacts. National Oil retail stations emit waste oils that, if not properly contained, could have adverse impact to underground and riparian water. This calls for implementation of measures such as: engaging a waste oil collection firm to periodically collect waste oil as well as conduct interceptor cleaning at National Oil retail sites and National Nairobi Terminal (NNT); and engaging a NEMA-designated laboratory to undertake effluent sampling and analysis to provide assurance that effluents into municipal waste drainage are within parameters as prescribed by Water Quality Regulations, 2006.

iii) **Employee welfare**

The Corporation has put in place a Human Resources & procedures manual which stipulates that the Corporation is an equal opportunity employer and shall not in its recruitment and selection process, discriminate on the basis of gender, race, religion, ethnicity or any other form of discrimination. The constitutional requirement on mainstreaming of gender and persons with disabilities as stipulated in Article 232 of the Constitution shall be observed alongside policies issued by any of the relevant Government Institutions. In addition the Corporation has a functional Gender Mainstreaming Policy that ensures gender parity is taken into account during hiring The HR Policy Manual is reviewed every 3 years.

There is annual appraisal system out of which areas of staff development are identified and an implementation is put in place.

There is a clear policy on reward and recognition of outstanding performance

iv) **Market place practices-**

The organisation should outline its efforts to:

a) Responsible competition practice.

Fair Competitor and respect for completion

- The Corporation achieves this through conducting ***price market surveys*** in pricing products (white fuels,lpg and lubricants) this will ensure NOC doesn't not undercut the market

- ❖ Industry bench marking –the corporation also ensure that it embraces best industry practices as it conduct its business operations. Such practices include charging throughput fees as opposed to rental based fees. The fees charged should also be within average range of the industry.
- ❖ Below the line and above the line market activities e.g. forecourt discounts and other incentives to the final consumer

Anti-corruption

There is policy in NOC in regards corruption activities and how they are reported

b) Responsible Supply chain and supplier relations

The Corporation has employed the following strategies in its supply chain management function;

- ➢ Purchase in volume for cost reduction- Common users goods and services are procured on framework contracts basis
- ➢ All purchases we use POs or contracts
- ➢ Increase penetration of technology in its operations.

Treats its own suppliers responsibility

- ➢ We endeavours to pay suppliers the amount agreed upon and on time
- ➢ We communicate regularly with our suppliers hence establishing and maintaining a business connection
- ➢ We treat our suppliers not just as vendors business partners
- ➢ Where payments are overdue/ pending we normally enter into a payment agreement which we adhere to

c) Responsible marketing and advertisement

The Corporation achieves this through:

- ❖ Response to customer complains within the SLA
- ❖ Being transparent ie access to information about safety and its effective use
- ❖ NOC websites is also accessible to the public for any information regarding all the activities in upstream and downstream operations
- ❖ Protecting customers data and privacy-NOC ensures confidentiality as far data and other sensitive information are concerned of its entire customer base

- Maximize benefits and minimize risks-NOC prioritize on safety first and is being driven by a slogan **"if it is not safe it is not worth it"**

d) Product stewardship

The Corporation achieves this through:

- Ensuring high quality and standard for her products that meets industry and KEBS standard.
- Timely response to customers complaints
- Disposing of used oil as per the approved NEMA procedures

Corporate Social Responsibility / Community Engagements

The National Oil Corporation of Kenya gives back to the communities through a hand up approach. This is through key Corporate Sustainability (CS) programs, projects and activities.

The Corporation is guided by a robust Corporate Sustainability (CS) strategic plan, focused on community living within its Block 14T in Magadi sub-basin.

The Corporation interacts with communities in Block 14T where it has been conducting Upstream exploration activities. These activities are conducted within land and conservancies owned or managed by three communities. In a bid to get the social license from the community to enable the operations run smoothly, the Corporation held extensive community engagements with the communities. The communities are namely Olkiramatian Group Ranch, Shompole Group Ranch and Musenke Community.

The Corporation proposed to give back to the communities through Corporate Sustainability (CS) projects that the community would come up with, within the budget capability of the Corporation.

During the period, Corporation constructed a modern girls dorminatory and installed 40 double deckers beds for Oloika Secondary School. In additional the Corporation provided 150 desks and chairs for Olkiramatian arid zone school.

X. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2022, which show the state of the Corporation's affairs.

i) Principal activities

The core business of the Corporation as stipulated in the Memorandum and Articles of Association is trading in refined petroleum products and participation in related petroleum business such as refining, distribution and marketing; provision of related services such as hospitality, storage, transport, product receipt and loading; petroleum exploration; and promotion activities and participation in energy sector activities as directed by the Government from time to time.

ii) Results

The results of the Corporation for the year ended June 30, 2022 are set out on page below. Below is summary of the profit or loss made during the year.

	2022	**2021**
	Shs'000	Shs'000
Loss before taxation	(1,398,517)	(1,248,522)
Taxation credit	355,977	352,503
Loss for the year transferred to retained earnings	(1,042,539)	(896,019)

iii) Dividends

The Directors do not recommend payment of dividend in respect of the current financial year (2021: nil).

iv) Directors

The members of the Board of Directors who served during the year are shown on page iv

v) Auditors

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

By Order of the Board

Name: **Leparan Gideon Ole Morintat** Signature……………………………………Date ……………………
(Secretary to the Board)

XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Companies Act 2015 require the Directors to prepare financial statements in respect of the Corporation, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year/period and the operating results of the Corporation for that year/period. The Directors are also required to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of the Corporation.

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year (period) ended on June 30, 2022. This responsibility includes: (i)Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;(ii)maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 Corporation; (v)selecting and applying appropriate accounting policies; and (vi)Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the Corporation*'s* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the Companies Act 2015.

STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30, 2022, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Corporation will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Corporation's financial statements were approved by the Board on ....2023 and signed on its behalf by:

Patrick Obath	**Leparan Gideon Ole Morintat**
Chairperson of the Board	**Chief Executive Officer**

XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHESIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2022.

Description	Note	2021/2022	Restated 2020/2021
		Kshs'000'	Kshs'000'
REVENUES			
Revenue	6	9,841,696	9,334,969
Cost of sales	7	9,284,655	8,701,777
Gross profit		**557,041**	**633,192**
Other Income			
Release of exploration expenditure	11	250,890	217,906
Interest income	8	6,221	10,883
Other income	9	116,504	79,924
TOTAL REVENUES		**930,656**	**941,906**
OPERATING EXPENSES			
Exploration expenditure	11	250,890	217,906
Administrative costs	10(a)	961,947	1,031,246
Finance costs	12	1,116,336	941,276
TOTAL OPERATING EXPENSES		**2,329,173**	**2,190,428**
PROFIT/(LOSS) BEFORE TAXATION		**(1,398,517)**	**(1,248,522)**
INCOME TAX EXPENSE/(CREDIT)	14(a)	**355,977**	**352,503**
PROFIT/(LOSS) AFTER TAXATION		**(1,042,539)**	**(896,019)**
Earnings per share – basic and diluted	15	**(20)**	**(17)**
Earnings per share – diluted	15	-	**(9.58)**
OTHER COMPREHENSIVE INCOME			
Profit/ (Loss) after taxation		**(1,042,539)**	**(896,019)**
Surplus or deficit on revaluation of PPE		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(1,042,539)**	**(896,019)**

XIV. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022.

Description	Note	2021/2022	Restated 2020/2021
		Kshs'000'	Kshs'000'
ASSETS			
Non-Current Assets			
Property, plant and equipment	17	5,591,323	5,755,171
Intangible assets	18	87,651	104,995
Investment property	19	9,870	10,105
Right of use of leased assets	20	277,641	281,902
Exploration expenditure-block 14T	38	2,147,148	2,423,039
Deferred tax asset	30	1,779,881	1,412,857
Total Non-Current Assets		**9,893,514**	**9,988,071**
Current Assets			
Inventories	21(a)	324,938	652,917
Trade and other receivables	22	914,222	752,336
Tax recoverable	14(b)	29,768	34,291
Short-term deposits	24	800,383	836,147
Bank and cash balances	25	434,393	401,073
Total Current Assets		**2,503,704**	**2,676,764**
TOTAL ASSETS		**12,397,218**	**12,664,835**
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	26	1,032,000	1,032,000
Share premium	26	1,183,000	1,183,000
Revaluation reserves	27	1,998,087	2,000,442
Retained earnings	44	(4,993,995)	(3,951,455)
Capital and Reserves		**(780,908)**	**263,987**
Non-Current Liabilities			
Deferred income liability	23	1,655,312	1,638,984
Block 14T fund	38	1,133,769	1,133,769
Lease liability	30	175,510	181,884

MOE HQ construction fund	39	704	(0)
Gratuity provision	32	11,635	10,299
SBM capital grants	40	11,443	11,443
CSR projects	41	22,939	30,237
Laboratory equipment grants	43	425,480	425,480
E&P capacity building grants	42	72,955	72,955
Total Non-Current Liabilities		**3,509,747**	**3,505,051**
Current Liabilities			
Borrowings	28	6,200,874	5,727,876
Trade and other payables	31	3,458,219	3,155,299
Gratuity provision	32	9,286	12,622
Total Current Liabilities		**9,668,379**	**8,895,797**
TOTAL EQUITY AND LIABILITIES		**12,397,218**	**12,664,835**

The financial statements were approved by the Board on ………………… 2023 and signed on its behalf by:

Chief Executive Officer
Leparan Gideon Ole Morintat

Ag. Head of Finance
Andrew Ringera
ICPAK.M/NO: 2020

Chairman of the Board
Patrick Obath

XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30th JUNE 2022.

Descriptions	Notes	Ordinary share capital	Revaluation reserve	Share Premium	Retained earnings	Proposed dividends	Total
		Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
As at July 1, 2020		1,032,000	2,016,093	1,183,000	(3,055,436)	-	1,175,657
Reversal of revaluation gain on disposal		-	(15,651)	-	-	-	(15,651)
Profit(Loss) for the year		-	-	-	(896,019)	-	(896,019)
As of June 30, 2021(Restated)		**1,032,000**	**2,000,442**	**1,183,000**	**(3,951,455)**	-	**263,987**
As at July 1, 2021		**1,032,000**	**2,000,442**	**1,183,000**	**(3,951,455)**	-	**263,987**
Reversal of revaluation gain on disposal		-	(2,355)	-	-	-	(2,355)
Profit(Loss) for the year		-	-	-	(1,042,539)	-	(1,042,539
At June 30, 2022		**1,032,000**	**1,998,088**	**1,183,000**	**(4,993,995)**	-	**(780,907)**

XVI. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2022.

Description	Note	2021-2022	Restated 2020-2021
		Kshs(000)	Kshs(000)
Cash flows from operating activities			
Cash generated from/(used in) operations	33	**234,055**	**(36,641)**
Interest received	8	6,221	10,883
Interest accrued	12	(1,116,336)	(920,047)
Tax paid	14 (b)	(6,523)	(19,681)
Net cash generated from/(used in) operating activities		**(882,583)**	**(965,486)**
Cash flows from investing activities			
Purchase of property, plant and equipment	17	(73,266)	(18,807)
Proceeds from disposal of property, plant & equipment		2,231	32,000
Purchase of intangible assets	18	-	(9,966)
Increase(decrease) in block 14T assets	37	275,891	(24,369)
Payment of leases	30	(58,339)	(21,792)
Increase(decrease) in CSR	41	(7,298)	(18,530)
PPE adjustments		-	937
Intangible assets adjustment		-	650
Net cash generated from/(used in) investing activities		**139,219**	**(59,878)**
Cash flows from financing activities			
Increase in block 14T fund		-	380
GOK grants	23	250,000	280,000
Proceeds from borrowings/capitalized interest	28	472,998	1,379,015
Repayment of borrowings	28	-	(256,589)
Receipts from MOE construction fund	39	704	(2,481)
Interest received under deferred income	23	17,218	35,045
Net cash generated from/(used in) financing activities		**740,920**	**1,435,371**
Increase/(decrease) in cash and cash equivalents		**(2,444)**	**410,007**
Cash and cash equivalents at beginning of year		**1,237,220**	**827,213**
Cash and cash equivalents at end of the year	33b	**1,234,776**	**1,237,220**

XVII. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE 2022.

	Original Budget	Adjmt	Final Budget	Actual on Comparable Basis	% of Utilisation
Description	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	
Revenue					
Sales of goods	24,951,499	-	24,951,499	9,841,696	39%
Interest income	-	-	-	6,221	#DIV/0!
Other income	189,800	-	189,800	116,504	61%
Total income	**25,141,299**	-	**25,141,299**	**9,964,421**	**40%**
Expenses	-	-	-	-	-
Cost of sales	23,034,375	-	23,034,375	9,284,655	40%
Staff costs	528,513	-	528,513	468,881	89%
Rents and services	56,228	-	56,228	39,714	71%
Repairs and maintenance	124,987	-	124,987	20,610	16%
Insurance	20,000	-	20,000	29,129	146%
Security charges	10,505	-	10,505	6,269	60%
Electricity & water	8,760	-	8,760	6,269	72%
Cleaning services	12,832	-	12,832	6,303	49%
Hire and rentals	12,649	-	12,649	20,859	165%
Books and newspapers	909	-	909	394	43%
Postage and courier	1,159	-	1,159	556	48%
Traveling & accommodation	41,228	-	41,228	19,306	47%
Telephone	2,678	-	2,678	2,657	99%

Printing and stationaries	4,933	-	4,933	3,854	78%
Office expenses	1,955	-	1,955	287	15%
Subscription and donations	13,652	-	13,652	1,975	14%
Audit fees	8,382	-	8,382	6,237	74%
Legal fees	44,775	-	44,775	70	0%
Advertising and publicity	30,679	-	30,679	11,014	36%
Groceries and drinks	3,176	-	3,176	4,712	148%
Directors costs and emoluments	21,744	-	21,744	13,947	64%
Professional fees	50,056	-	50,056	9,851	20%
Staff uniforms	1,848	-	1,848	485	26%
Depreciation & amortization	309,080	-	309,080	278,035	89%
Amortization-intangible assets	12,418	-	12,418	10,533	85%
Finance costs	648,825	-	648,825	1,116,336	174%
Total expenditure	**25,006,347**	-	**25,006,347**	**11,362,938**	**45%**
Surplus for the period	**134,952**	-	**134,952**	**(1,398,517)**	**(1036)%**

Note:

1. Sales revenue for the year was 39% of the budget. The low sales are attributed to the following; reduced sales volumes due to stock outs, constrained working capital and the delayed price stabilization compensation.

2. Other income for the year was 61% of budget, this attributed to low hospitality income due to lack of products at NNT which makes it difficult to attract customers
3. Most of the other operating expenses are within the budget except for.
   a) Intangible licenses which is a result of high cost of oracles licenses, which are accrued as pending bill.
   b) General Insurance costs who's the IRA increased the rates beyond anticipated.

c) Medical expenses surpassed the budget to the additional medical expenses due to Covid-19 pandemic

4. Finance costs was 172% of the budget, the increase was due to unanticipated loan fines and penalties arising from the KCB bank Kenya limited and Stanbic Bank Kenya Limited Non-performing loans.

XVIII. NOTES TO THE FINANCIAL STATEMENTS.

1. General Information

National Oil Corporation of Kenya Limited ("the Corporation") is incorporated as a limited Corporation in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The Corporation is involved in both the upstream and downstream activities in the oil industry in Kenya. In the Upstream activities, the Corporation is involved in the exploration of oil in one of the exploration blocks i.e. block 14T in Magadi. In the downstream activities, the Corporation is involved in the purchase and sale of white products, liquefied petroleum gas, lubricants and other by-products of the refining process. The address of its registered office is as follows:

Kawi Complex, Popo Lane
Off Red Cross Road, South C
P O Box 58567 – 00200
Nairobi

2. Statement of Compliance and Basis of Preparation

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

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

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

Notes to the Financial Statements (Continued)

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

i. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.*

Title	Description	Effective Date
Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use (issued in May 2020)	The amendments, applicable to annual periods beginning on or after 1 January 2022, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing an asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendments to IAS 37 titled Onerous Contracts - Cost of Fulfilling a Contract (issued in May 2020)	The amendments clarify that for the purpose of assessing whether a contract is onerous; the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. They are effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IFRS 1 titled Subsidiary as a First-time Adopter	The amendment, applicable to annual periods beginning on or after 1 January 2022, provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

Title	Description	Effective Date
Amendment to IFRS 9 titled Fees in the '10 per cent' Test for De-recognition of Financial Liabilities	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IFRS 9 clarifies the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IAS 41 titled Taxation in Fair Value Measurements (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IAS 41 removed the requirement to exclude taxation cash flows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

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

Notes to the Financial Statements (Continued)

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

ii. ***New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.***

Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020)	The amendments, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their **material** accounting policy information rather than their **significant** accounting policies	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The company does not issue insurance contracts.	The amendments are effective for annuals periods beginning on or after January 1, 2023 earlier application is permitted.
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
IAS 8- Accounting Policies, Errors and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

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

iii. Early adoption of standards

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

Notes to the Financial Statements (Continued)

4. Summary of Significant Accounting Policies

a) Revenue recognition

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

i) **Revenue from the sale of goods and services** is recognized in the year in which the Corporation delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

ii) **Grants from National Government**. are recognized in the year in which the Corporation actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognized in profit or loss on a time proportion basis using the effective interest rate method.

iv) **Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.

v) **Rental income** is recognized in the income statement as it accrues using the effective interest implicit in lease agreements.

vi) **Other income** is recognized as it accrues.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

b) In-kind contributions

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

c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.
Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses.

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

d) Depreciation and impairment of property, plant and equipment

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

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

Notes to the Financial Statements (Continued)

Freehold Land	Nil
Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	8 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	8 years

A full year's depreciation charge is recognized both in the year of asset purchase and in the year of asset disposal.

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

e) Intangible assets

Intangible assets represent computer software which is measured at cost less accumulated amortisation. Amortisation is calculated to write off the cost of the assets on a straight line basis over their estimated useful life of 3 years, from the date that they are available for use.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The amortisation of intangible assets is included in other operating expenses in the statement of profit or loss and other comprehensive income.

f) Amortization and impairment of intangible assets

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

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

g) Investment property

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

h) Right of Use Asset

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

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

i) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of sale. Specific provision is recognised for obsolete, slow moving and defective inventories.

j) Trade and other receivables

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

k) Taxation

i) Current income tax

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

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

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

l) Deferred tax

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

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

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

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

m) Borrowing costs

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

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as finance cost irrespective whether foreign currency are in a net gain or net loss position.

n) 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

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

o) Borrowings

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

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

p) Trade and other payables

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

q) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2012. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at 15% per employee basic salary per month.

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

r) Provision for staff leave pay

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

s) Exchange rate differences

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

t) Budget information

The original budget for FY 2021-2022 was approved by the National Assembly on June 2021. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded no additional appropriations on the 2021-2022 budget

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

Notes to the Financial Statements (Continued)

in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

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

u) Service concession arrangements

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

v) Comparative figures

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

w) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2022.

5. Significant Judgments and Sources of Estimation Uncertainty

Notes to the Financial Statements (Continued)

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

State all judgments, estimates and assumptions made: e.g.

a) Estimates and assumptions

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

b) Useful lives and residual values

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

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

Notes to the Financial Statements (Continued)

c) Provisions

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

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

6. Revenue

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
Sales of goods	9,841,696	9,334,969
Total	**9,841,696**	**9,334,969**

7. Cost of Sales

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
Cost of sales on goods	9,284,655	8,701,777
Total	**9,284,655**	**8,701,777**

8. Interest Income

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
Interest from commercial banks	6,221	10,883
Total	**6,221**	**10,883**

Notes to the Financial Statements (Continued)

9. Other Income

	2021/2022	Restated 2020/2021
Description	Kshs'000'	Kshs'000'
Fines and penalties	12,031	330
Rental income	50,466	58,402
Throughput fees	39,118	3,565
LPG plant throughput fees	-	**509**
Capital gain	2,573	19,250
Reversal of bad debt provision	9,804	-
Sundry Income	2,512	(2,132)
Total	**116,504**	**79,924**

10. (a)Administrative costs

	2021/2022	Restated 2020/2021
Description	Kshs'000'	Kshs'000'
Staff costs - note 10(b)	468,881	504,459
Rents and services	39,714	31,683
Repairs and maintenance	20,610	45,122
Insurance	29,129	6,978
Security charges	6,269	5,798
Utility costs:- electricity and water	6,269	7,800
Sanitary and cleaning services	6,303	10,324
Traveling and a ccommodation	19,306	25,548
Telephone and fax	2,657	3,201
Printing and stationary	3,854	3,617
Books and newspaper	394	538
postage and courier	556	415
Office expenses	287	304
Subscription and donations	1,975	2,356
Audit fees	6,237	10,198
Legal fees	70	8,134
Advertising and publicity	11,014	2,474
Groceries and drinks	4,712	5,277
Bad debts provisions	-	69,993

Directors costs and emoluments	13,947	2,818
Professional fees	9,851	4,170
Staff uniforms	485	194
Hire and rentals	20,859	25,098
Depreciation and amortization	278,035	236,395
Amortization-intangible assets	10,533	18,353
Total	**961,947**	**1,031,246**

10. (b) Staff costs

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
Salaries and allowances of permanent employees	432,243	452,539
Employer's contributions to NSSF scheme	463	405
Employer's contributions to pension scheme	21,001	24,842
Leave pay	5,423	14,855
Gratuity provisions	9,750	11,818
Total	**468,881**	**504,459**
The average number of employees at the end of the year was:		
Permanent employees – management	155	137
Permanent employees – unionisable	21	22
Temporary and contracted employees (included in the management and unionisable)	27	26
Total	**176**	**159**

11. Exploration Costs

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
Staff expenses	140,468	129,573
Facilities expenses	26,890	25,619
Administrative expenses	62,969	37,158
Depreciation and amortization	20,562	25,557
Total	**250,890**	**217,906**

These are costs incurred by the Exploration department of the Corporation, and they relates to exploring for oil and gas.

12. Finance Costs

Description	2021/2022 Kshs'000'	2020/2021 Kshs'000'
Interest expense on loans	892,683	806,204
Interest expense on overdraft	91,083	60,566
Bank charges & LC commission charges	67,591	53,277
Net foreign exchange loss	64,978	21,229
Total	**1,116,336**	**941,276**

Finance costs comprise of expense on borrowings.

Foreign currency gains and losses on financial assets and financial liabilities are reported on the net basis as finance cost irrespective whether foreign currency are in net gain or loss position.

13. Operating Profit/ (Loss)

Description	2021-2022 Kshs000	2020-2021 Kshs000
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff Costs	468,881	504,459
Depreciation of property, plant and equipment	278,035	260,712
Depreciation of investment property	235	235
Amortization of intangible assets	10,533	25,398
Provision for bad and doubtful debts	(9,804)	69,993
Inventory provisions	-	31,715
Directors' emoluments – fees	-	-
-Other	13,947	6,528
Auditors' remuneration - current year fees	6,237	10,198
Totals	768,064	909,238

14. Income Tax Expense/(Credit)

(a) Current taxation

Description	2021-2022 Kshs	Restated 2020-2021 Kshs000
Current taxation based on the adjusted profit for the year at 30%	**11,047**	**20,785**
Tax effect of expenses not deductible for tax rate	-	-
Effect of change in tax rate	-	(1,732)
Under/ (Over) provision of deferred taxation asset in the prior year	-	-
Deferred tax on losses, utilized	(367,024)	(371,556)
Total	**(355,977)**	**(352,503)**

(b) Tax Recoverable

Description	2021/2022 Kshs'000'	2020/2021 Kshs'000'
At beginning of the year	34,291	**33,663**
Current tax expense	(11,046)	(19,053)
Income tax paid	6,523	19,681
At end of the year	**29,768**	**34,291**

15. Earnings/Loss Per Share

The earnings per share is calculated by dividing the profit /loss after tax of Kshs.(1,248,466,000) (2020/2021: by the average number of ordinary shares in issue during the year of 26,600,000 (2021-2022 :). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

	2021-2022	2020-2021
Description	Kshs000	Kshs000
Loss attributable to ordinary shareholders	**(1,042,539)**	**(895,963)**
Weighted average number of ordinary shares used in the calculation of basic loss per share ('000)	51,600	51,600
Basic loss per share (Shs)	(20.20)	(34.68)
Diluted loss per share		
Weighted average number of ordinary shares used in the calculation of basic loss per share ('000)	-	26,600
Weighted average number of ordinary shares deemed to be issued in respect of funds awaiting allotment of shares ('000)	-	25,000
Weighted average number of ordinary shares used in the calculation of diluted loss per share ('000)	-	51,600
Diluted loss per share (Shs)	-	(17.79)

16. Dividend Per Share

No dividends were declared in the year under review.

Notes to the Financial Statements (Continues)

17. Property, Plant and Equipment

	Freehold Land	Leasehold Land	Building & Civil Works	Plant & Machinery	Motor Vehicles	Computer & Computer Accessories	Office Equipment & Furniture	Capital Work in progress	Total
	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Cost									
At 1 July 2020	**518,198**	**3,003,035**	**1,561,395**	**1,816,713**	**16,721**	**230,470**	**234,910**	**35,771**	**7,417,213**
Additions	-		8,533	-	-	10,274	-	-	18,807
Adjustment	-		1,801	-	-	-	-	-	1,801
Disposals (note 45)		(15,000)	(12,650)	(6,717)	-	-	(270)	(9,521)	(44,159)
Adjustments	2	(1,039)	-	(1,734)	(1)	-		33	(2,739)
At June 2021(Restated)	**518,200**	**2,986,996**	**1,559,079**	**1,808,261**	**16,720**	**240,744**	**234,640**	**26,283**	**7,390,924**
Depreciation									
At 1 July 2020	-	**51,127**	**8,026**	**1,033,470**	-	**188,165**	**157,320**	-	**1,438,109**
Depreciation	-	43,542	40,886	66,980	9,805	24,307	18,363	-	**203,883**
On Disposals(note 45)	-	(145)	(149)	(5,674)	-	-	(270)	-	**(6,237)**
At June 2021(Restated)	-	**94,524**	**48,763**	**1,094,777**	**9,805**	**212,472**	**175,413**	-	**1,635,754**
NBV at June 30 2021	**518,200**	**2,892,472**	**1,510,316**	**713,485**	**6,915**	**28,272**	**59,227**	**26,283**	**5,755,171**

	Freehold Land	Leasehold Land	Building & Civil Works	Plant & Machinery	Motor Vehicles including motor Cycles	Computer & Computer Accessories	Office Equipment & Furniture	Capital Work in Progress	Total
	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Cost									
At 1 July 2021	**518,200**	**2,986,996**	**1,559,079**	**1,808,261**	**16,720**	**240,744**	**234,640**	**26,283**	**7,390,924**
Additions	-	-	26,033	-	-	1,969	31,904	13,359	73,265
Disposals	-	-	-	-	(2,350)	(201)	-	-	(2,551)
Transfer from CIP	-	-	13,359	20,680	-	-	-	(34,039)	-
At June 2022	**518,200**	**2,986,996**	**1,598,471**	**1,828,941**	**14,370**	**242,512**	**266,544**	**5,603**	**7,461,638**
Depreciation									
At 1 July 2021	-	94,525	48,763	1,094,776	9,805	212,472	175,413	-	**1,635,754**
Depreciation	-	58,355	73,304	64,430	2,461	19,901	16,651	-	235,101
On disposals	-	-	-	-	(338)	(201)	-	-	(539)
At June 2022	-	**152,880**	**122,067**	**1,159,206**	**11,928**	**232,172**	**192,064**	-	**1,870,315**
At 30 June 2022	**518,200**	**2,834,116**	**1,476,404**	**669,735**	**2,442**	**10,340**	**74,480**	**5,603**	**5,591,323**

Notes to the Financial Statements (Continued)

18. Intangible Assets

	2021/2022	2020/2021
Description	**Kshs'000'**	**Kshs'000'**
Cost		
As at the beginning of the year	696,549	677,712
Additions	-	18,837
Adjustment	-	(650)
As at the end of the year	**696,549**	**696,549**
Amortization		
As at the beginning of the year	591,553	566,155
Charge for the year	17,345	25,398
Disposals	-	-
As at the end of the year	608,898	591,553
Net Book Value at year end	**87,651**	**104,997**

The intangible assets relate to computer software acquired by the Corporation.

19. Investment Property

	2021/2022	2020/2021
Description	**Kshs'000'**	**Kshs'000'**
Opening Costs	13,531	13,531
Additions	-	-
Disposals	-	-
Closing Costs	**13,531**	**13,531**
Depreciation		
As at the beginning of the year	3,425	3,190
Charge for the year	235	235
Disposals	-	-
As at the end of the year	**3,661**	**3,425**
Net Book Value at year end	**9,870**	**10,105**

Investment property relate to a building held for rental purposes. The building is constructed on freehold land. The Directors estimate the fair value of the investment property to be about Shs 172,500,000 (2021: Shs 172,500,000).

Notes to the Financial Statements (Continued)

20. Right-of-Use Assets

Description	2021/2022 Kshs'000'	2020/2021 Kshs'000'
Cost		
As at the beginning of the year	341,037	341,037
Additions	25,219	-
As at the end of the year	**366,256**	**341,037**
Accumulated Depreciation		
As at the beginning of the year	59,135	30,534
Charge for the year	29,480	28,601
As at the end of the year	**88,615**	**59,135**
Carrying Amount		
As at the end of the year	**277,641**	**281,902**

21. (a) Inventories

Description	2021/2022 Kshs'000'	2020/2021 Kshs'000'
White products ,lubricants and LPG gas	2,664,174	3,001,609
Inventory in transit	-	-
Provision for stocks losses	(2,339,236)	(2,348,693)
Total	**324,938**	**652,917**

(b). Reconciliation of impairment allowance for Inventories

Description	2021/2022 Kshs'000'	2020/2021 Kshs'000'
At the beginning of the year	(2,348,693)	(2,316,978)
Additional provisions during the year	-	(31,715)
Recovered during the year	9,457	-
Written off during the year	-	-
At the end of the year	**(2,339,236)**	**(2,348,693)**

22. (a)Trade and Other Receivables

Description	2021/2022 Kshs'000'	2020/2021 Kshs'000'
Trade receivables	807,787	719,438
Deposits and prepayments	616,179	552,445
Gross trade and other receivables	**1,423,966**	**1,271,883**
Provision for bad and doubtful receivable	(509,744)	(519,547)
Net trade and other receivables	**914,222**	**752,336**

(b) Trade Receivables

Description	2021/2022 Kshs'000'	2020/2021 Kshs'000'
Gross trade receivables	807,787	687,438
Provision for doubtful receivables	(509,744)	(519,547)
Net trade receivables	**298,044**	**167,891**
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	193,659	154,193
Between 30 and 60 days	47,740	1,125
Between 61 and 90 days	28,474	4,185
Between 91 and 120 days	52,328	3,303
Over 120 days	485,586	524,632
Total	**807,787**	**687,438**

(c) Reconciliation of Impairment Allowance for Trade Receivables

Description	2021/2022 Kshs'000'	2020/2021 Kshs'000'
At the beginning of the year	(519,548)	(449,555)
Additional/reduction provisions during the year	9,804	(69,993)
At the end of the year	(509,744)	(519,548)

Notes to the Financial Statements (Continued)

23. Deferred Income

Description	Training funds grants Shs(000)	Oil Exploration grants (000)	Government downstream grants (000)	Total Deferred income Shs000
At 1 July 2020	10,225	1,528,521	3,100	1,541,846
Receipts during the year	-	280,000	-	280,000
Interest income	-	35,044	-	35,044
Exploration expenditure	-	(217,906)	-	(217,906)
At 30 June 2021	**10,225**	**1,625,659**	**3,100**	**1,638,984**
At 1 July 2021	10,225	1,625,659	3,100	1,638,984
Receipts during the year	-	250,000	-	250,000
Interest income	-	17,442	-	17,218
Exploration expenditure during the year	-	(250,890)	-	(250,890)
At 30 June 2022	**10,225**	**1,642,211**	**3,100**	**1,655,312**

Training fund grants relates to amounts received from oil exploration companies as part of the contractual commitments between the oil exploration companies and government. Withdrawals from this funds are utilized for training staff involved in exploration activities.

Oil exploration grants funds are received from the government for exploration activities (upstream business). Government grants relating to upstream business are also treated as deferred income received. The grants are then realised to and presented to as credit in the statement of profit or loss and other comprehensive income under other income as and when the grants are utilised.

Government downstream grants relates to funds received from the Government for expansion of downstream distribution assets. Government grants relating to downstream assets, including non-monetary grants, are presented in financial statements as deferred income liability and are recognised as credit in the statement of profit or loss and other comprehensive income on a systematic basis over the useful life of the assets. Grants relating to income are presented as a credit in the statement of profit or loss and other comprehensive income in the year in which they have granted

24. Short Term Deposits

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
KCB Bank Kenya Limited	775,703	822,247
Stanbic Bank Kenya Limited	11,917	10,400
NCBA Bank Kenya Limited	556	-
Equity Bank Limited	12,208	3,500
Total	**800,383**	**836,147**

The weighted average interest rate received on call deposits during the year was 4% (2021:6%)

25. Bank and Cash Balances

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
Staff mortgage and car loan scheme deposit	259,941	257,355
Cash at bank	168,989	142,300
Cash in hand	5,462	1,418
	434,393	**401,073**

(a)Detailed analysis of the cash and cash equivalents

		2021/2022	2020/2021
Financial institution	Account number	Kshs'000'	Kshs'000'
a) Current Account			
KCB Bank Kenya Limited - Kshs.	1107169380	(1,731)	-
KCB Bank Kenya Limited - USD	1109158068	2,764	34
Equity Bank of Kenya-Kshs	560292466991	45,580	2,133
Cooperative Bank of Kenya-Kshs	1120002167901	14,614	12,530
Cooperative Bank of Kenya-Kshs	1120002167902	80,739	126,197
Stanbic Bank of Kenya Limited -Kshs	100001516439	(3)	
Stanbic Bank of Kenya Limited -USD	100001516447	(23)	5
NCBA Bank Kenya PLC-Kshs	8110800013	713	(848)
National Bank of Kenya-Kshs	1020056960000	3,706	3,221
Standard Chartered Bank -Kshs	106004961200	22,532	2,884

Stanbic Bank of Kenya Limited –Kshs	100001516439	-	-
Stanbic Bank of Kenya Limited –USD	1000004398194	97	89
Sub- Total		**168,989**	**146,244**
b) Staff Car Loan/ Mortgage Scheme			
KCB Bank staff mortgage	MM1714569496	96,781	140,431
KCB Bank staff mortgage	MM1833959258	44,660	-
KCB Bank staff mortgage	1119821548.00	339	-
Housing Finance staff mortgage	2000085373.00	50,228	73,865
Housing Finance staff mortgage	3000011572.00	24,845	-
CFC staff car loan	MM1529518225	43,088	43,059
Sub- Total		**259,941**	**257,355**
c) Others (Specify)			
Cash in Hand		728	708
Mpesa		4,733	710
Sub- Total		**5,462**	**1,418**
Grand total		**434,393**	**401,073**

b) Mortgage Scheme Facility -Housing Finance

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
Opening Balance	73, 865	66,621
Addition	-	6,000
Interest earned during the year	1,208	1244
Closing Balance	75,073	**73,865**

Funds Summary Mortgage Scheme Facility- Housing Finance

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
Utilized Funds	50,228	73,865
Available for lending	24,845	-
Total Scheme funds held as at 30.06.2022	75,073	73,865

c) Mortgage Scheme Facility -KCB Kenya Limited

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
Opening Balance	**140,431**	**139,070**
Addition	-	-
Interest earned during the year	39,716	1361
Closing Balance	**141,781**	**140,431**

Funds Summary KCB Kenya Limited

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
Utilized Funds	**102,064**	**111,561**
Available for lending	39,716	28,871
Total Scheme funds held as at 30.06.2022	**141,781**	**140,432**

Funds Summary CFC Car Loan Facility

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
Utilized Fund	42,367	**30,864**
Available for lending	721	11,503
Total Scheme funds held as at 30.06.2022	**43,088**	**42,367**

26. Ordinary Share Capital

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
Authorized:		
51,600,000ordinary shares of KShs 20 par value each	1,032,000	1,032,000
Issued and fully paid:		
51,600,000 ordinary shares of KShs 20 par value each	**1,032,000**	**1,032,000**

On 29 October 2008, the general meeting of shareholders approved the issuance of 9,100,000 ordinary shares at a price of Shs 150 per share resulting in a share premium of Shs 130 per share totalling to a share premium of Shs.1,183,000,000

SHAREHOLDING STRUCTURE

	2022 No. of shares '000'	2021 No. of shares '000'
National Treasury (99%)	51,084	51,084
Ministry of Energy and Petroleum (1%)	516	516
	51,600	51,600

27. Revaluation Reserve

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the statement of changes in equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
At the beginning of the year	2,000,442	2,016,092
Revaluation gain(loss)	-	-
Reversal of revaluation gain on disposal	(2,355)	(15,651)
At the end of the year	**1,998,087**	**2,000,442**

28. Borrowings

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
a) External Borrowings		
Balance at beginning of the year	-	-
External borrowings during the year	-	-
Repayments of during the year	-	-
Balance at end of the year	**-**	**-**
b) Domestic Borrowings		
Balance at beginning of the year	5,727,876	5,040,287
Domestic borrowings during the year/capitalized interest	472,998	944,178
Repayments during the year	-	(256,589)
Balance at end of the year	**6,200,874**	**5,727,876**
Balance at end of the year- Domestic and External borrowings c = a+b	**6,200,874**	**5,727,876**

Borrowings from KCB Bank Kenya Limited are secured over the following Corporation's land.

Location	Description	Net book Value
Nakuru	L.R. NO: NAKURU MUN/BLOCK 16/263	64,791,762
Nakuru	RAVINE SERVICE STATION- LR NO: NAKURU MUN BLOCK 21/581	39,196,989
Mombasa	L.R NO: KWALE/UKUNDA/3061	9,820,628
Nairobi	NAIROBI NATIONAL TERMINAL-L.R NO: 209/12298	839,239,631
Nakuru	New Gilgil PSS-L.R NO: 1317/19/1/11	17,000,000
Eldoret	Highway PSS-L.R NO: ELD MUN/BLOCK 2/73/1	47,653,959
Eldoret	West Indies PSS-L.R NO: ELD MUN/BLOCK 5/628	44,116,564
Eldoret	Kipkaren PSS-LR NO: ELD MUN/BLOCK 13/417 & 689	49,442,748
Eldoret	L.R NO: ELD MUN BLOCK 21/Kingongo875	56,944,255
Mombasa	Magongon PSS Land-LR NO: MAINLAND NORTH/SECTION VI/2495/2& 29/1	53,500,000
Kisumu	Magharibi PSS –LR NO:KIS MUN/BLOCK 4/73	58,004,158
Kisumu	Kisumu Market PSS-LR NO:KIS MUNBLOCK 9/6	76,743,003
Kisumu	Kisumu Family –LR NO: KIS MUN BLOCK 8/7	57,377,049
Kisumu	Kisumu Lake PSS-LR NO: KISUMU MUN BLOCK 7/7	47,826,087
Thika	Bidco Thika station- LR NO: THIKA MUN/BLOCK 12/176	19,638,418
Mombasa	Gulshan Kenyattah Avenue PSS-LR NO:MOMBASA/BLOCK/XVI/136	34,951,557
Mombasa	Ganjoni PSS Land-LR NO:MOMBASA BLOCK/XX11/127	35,000,000
Mombasa	Mwembe Tayari PSS Land- LR NO:MOMBASA/BLOCK/XVIII/424	70,000,000
Mombasa	Mackinon PSS Land-LR NO:MOMBASA/BLOCK XVII/390,391&629	43,800,000
Nairobi	Ngong Road PSS Land L.R NO: 209/7753	218,949,580
Nairobi	Tassia Nairobi Vacant Plot-LR NO:NRB/BLOCK/97/59.60,61,&62	128,969,871
TOTAL		**2,012,966,259**

Borrowings

	2021-22	2021/2022	2020-21	2020/2021
Description	Avr int rates %	Kshs'000'	Avr int rates %	Kshs'000'
CFC short term loan	17	1,550,423	13	1,459,340
KCB term out 2	-	4,650,451	-	4,268,536
At end of the year	-	**6,200,874**	-	**5,727,876**

29.Deferred Tax Asset

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

	2021/2022	2020/2021
	Kshs000	Kshs000
Assets:		
Temporary provisions	870,078	878,840
Tax losses	1,173,578	818,800
Deferred tax adjustment on IFRS 16	32,715	16,387
Unrealised exchange loss	-	1,499
Deferred tax liability	**2,076,370**	**1,715,526**
Liabilities	-	
Revaluation surplus	161,081	161,080
Unrealized exchange gain	(338)	-
Accelerated capital allowances	(457,232)	(463,750)
Deferred tax liability	**(296,489)**	**(302,670)**
Net deferred tax asset	**1,779,881**	**1,412,856**
Reconciliation of deferred asset	-	
At beginning of the year	**1,412,858**	1,041,301
Deferred tax credit	367,023	371,557
Prior year under/(over) provision of deferred tax note	-	-
	1,779,881	**1,412,858**
Deferred tax on tax losses (derecognised)/ not recognised now utilised		
At end of year	**1,779,881**	**1,412,858**

Notes to the Financial Statements (Continued)

30.Lease Liability

Description	2021/2022 Kshs'000'	2020/2021 Kshs'000'
At the start of the year	181,884	177,653
Addition during the period	25,219	-
Interest on lease liability	26,745	26,024
Paid during the year	(58,339)	(21,793)
At end of the year	**175,510**	**181,884**

31. Trade and Other Payables

Description	2021/2022 Kshs'000'	2020/2021 Kshs'000'
Trade payables	1,027,464	967,487
Accrued expenses	1,375,430	2,151,084
Payables provisions	37,754	36,727
Other payables	1,017,571	-
Total	**3,458,219**	**3,155,299**

32. Gratuity Provisions & Other provisions

	Gratuity	
	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
Balance at the beginning of the year	22,921	26,271
Additional Provisions	12,294	15,900
Payments during the year	(14,295)	(19,251)
Balance at the end of the year	**20,921**	**22,921**
The amounts are due as Bellow		
Within one year	9,286	12,622
After one year	11,635	10,299
At the end of the year	**20,921**	**22,921**

The gratuity represents the value of future obligations in respect of Government staff sent on secondment to National Oil Corporation of Kenya Limited.

Several legal claims have been made the corporation. The plaintiffs are suing for various specific and general damages which the Corporation has disputed. The cases are ongoing and the outcome is unknown. These pending legal and tax cases may not necessarily be resolved in the manner that is favourable for the corporation. Additionally the resolution of disputes could result in the obligation for the Corporation. Therefore, based on information currently available, the Directors have made a provisions of Shs 37,756,000 (2021: Kshs 36,727,000) for the claims

33.Notes to the Statement of Cash Flows

Description	2021-2022	2020-2021
	Kshs'000'	Kshs'000'
(a) Reconciliation Of Operating Profit/(Loss) To Cash Generated From/(Used In) Operations		
Profit or Loss before tax	(1,398,517)	(1,248,522)
Depreciation of PPE	221,351	231,467
Depreciation of investment property	235	235
Discount interest on leases liability	26,745	26,024
Amortization of intangible assets	10,533	18,351
Amortization right of use of leased assets	29,480	28,601
Capital gain	(2,573)	(19,250)
Release of deferred income	(230,328)	(192,350)
Finance income recognized in the profit & loss	(6,221)	(10,883)
Finance cost recognized in profit & Loss	1,116,336	920,048
Adjustment on the revaluation reserve	-	(53,620)
(Increase)/Decrease in inventories	327,978	(215,945)
(Increase)/Decrease in trade and other receivables	(161,885)	(186,511)
Increase/(Decrease) in trade and other payables	302,921	661,542
Increase/(Decrease) in gratuity provision	(2,000)	4,172
Cash Generated from/(used In) Operations	**234,055**	**(36,641)**
(b) Analysis of Cash and Cash equivalents		
Short term deposits	800,383	836,147
Cash at bank	428,931	399,655
Cash In hand	5,462	1,418
Balance at end of the year	**1,234,776**	**1,237,220**

34. Related Party Disclosures

The Government of Kenya is the sole shareholder of the Corporation.

The Corporation's sales include sales made to Government agencies, departments and companies.

The amounts due from/(to) related parties have been included in the trade and other receivables and the trade and other payables respectively in the statement of financial position.

Other related parties include:

i) The Parent Ministry

ii) Key management

iii) Board of directors

iv) County Government

Ttransactions with related parties

Description	2021-2022	2020-2021
	Kshs	Kshs (000)
a) Sales to related parties		
Sales-fuel card lifting's and bulk sales to govt agencies	2,229,642	612,807
Rent income from govt agencies	-	-
Water sales to govt agencies	-	-
Interest income from govt commercial banks	-	-
Interest income from bills and bonds	-	-
Others (*specify*)	-	-
Total	**2,229,642**	**612,807**
b) Purchases from related parties		
Purchases of electricity from KPLC	4,651	8,365
Purchase of water from govt service providers	1,145	1,143
Rates and licenses to county government	7,171	18,376
Training and conference fees paid to govt. agencies	-	-
Bank charges paid to govt commercial banks	-	-
Interest expense to investments by other govt. entities	-	-
Others (*specify)*	-	-
Total	**12,967**	**27,884**
c) Grants from the government		
Grants from national govt	250,000	280,000
Grants from county government	-	-
Donations in kind	-	-
Total	**250,000**	**280,000**

Description	2021-2022	2020-2021
	Kshs	Kshs (000)
d) Expenses incurred on behalf of related party		
Payments of salaries and wages for employees	-	-
Payments for goods and services	-	-
Total	-	-
e) Key management compensation		
Directors' emoluments	13,487	1,774
Compensation to key management	58,310	96,326
Total	**71,797**	**98,100**

35. Capital Commitments

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

Description	2021-2022	2020-2021
	Kshs	Kshs
Amounts authorized and contracted for	-	-
Amounts authorizes but not contracted for	-	-
Less: Amounts included in work in progress	-	-

Commitment related to construction work and purchase of assets at the year-end for which no provision has been made in these financial statements.

36. Contingent Liabilities

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
Opening Balance	**36,727**	**36,727**
Addition	-	-
Decrease in contingent liabilities	(2,129)	-
Closing Balance	**34,598**	**36,727**

The Corporation is a defendant in two legal suits in which the claimants are claiming sh. 252 million and sh. 11.5 million. Based on the legal advice and information currently available, the Directors do not expect any significant amounts to crystalize from assessments and therefore no provision has been made on these financial statements. The Directors have disclosed the nature of the disputes as they do not want to prejudice the position of the Corporation over these matters that are currently in court.

37. Block 14T Exploration Expenditure

(a) Capitalised exploration expenses

In November 2010, the Corporation entered into an agreement with the Government of Kenya (GoK) giving the Corporation the rights of tenure to an exploration block in Magadi i.e. Block 14T. Under this agreement, the Corporation:

(a) Is responsible to the GoK for execution of petroleum operations;

(b) Will provide all capital, machinery, equipment, technology and personnel necessary for petroleum operations; and

(c) Will bear all the risks of the petroleum costs required in carrying out petroleum operations and therefore have an economic interest in the development of petroleum deposits in the contract area. Such costs shall be included in petroleum costs recoverable.

The exploration activity began during the year ended 30 June 2012. The exploration and evaluation expenses incurred to date with regards to this block are as follows:

Description	2021/2022 Kshs'000'	2020/2021 Kshs'000'
Cost		
As at the beginning of the Year	2,423,039	2,398,670
Additions	35,071	24,369
Adjustment of over accrued expenses	(310,962)	-
As at the end of the period	**2,147,148**	**2,423,039**

The value of Corporation's interest in exploration expenditure is dependent upon the:

- Continuance of the economic entity rights to tenure of the areas of interest;
- Results of future exploration; and
- Recoupment costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

38. Block 14T Fund

The Government of Kenya in partnership with Japan Oil Gas and Metals National Company (JOGMEC) has funded the exploration activities through the Block 14T as follows:

Description	2021/2022 Kshs'000'	2020/2021 Kshs'000'
At the beginning of the year	1,133,769	1,133,389
Receipts during the year	-	**380**
At the end of the year	**1,133,769**	**1,133,769**

39. Ministry Of Energy and Petroleum Headquarter Construction Fund

The Corporation receives funds from the Ministry of Energy and Petroleum (Ministry) for the construction of both headquarters offices and a laboratory for the Ministry. The Corporation holds these funds on behalf of the Ministry. The movement in the funds is as follows:

Description	2021/2022 Kshs'000'	2020/2021 Kshs'000'
At the beginning of the year	-	2,481
Receipts during the year	22,753	(2,481)
Payments made toward construction of Kawi complex	22,049	-
At the end of the year	**704**	**- -**

40. Single Buoy Mooring Jetty Fund

Description	2021/2022 Kshs'000'	2020/2021 Kshs'000'
At the beginning of the year	11,443	11,443
Receipts during the year	-	-
Payments made toward the project	-	-
At the end of the year	**11,443**	**11,443**

The Government has undertaken to put up a floating jetty at the port of Mombasa, with the Corporation being the facilitator of the project. National Oil arranges the operational works with the contractor, and pays the contractors using the funds which the Government has advanced to it and which it maintains in a fiduciary capacity.

41. Corporate Social Responsibility Project Fund

As guided by the Production Sharing Contracts (PSC), Exploration Companies are required to spend a percentage of their funds in CSR projects within the communities where they are carrying out exploration.

ENI is one of the exploration companies in the coast region whose it's CSR activities in their block is administered by the Corporation into the current year.

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
At the beginning of the year	30,237	48,767
Receipts during the year	28,242	12,960
Payments during the year	(35,540)	(31,490)
At the end of the year	**22,939**	**30,237**

42. Exploration and Production Capacity Building Fund

The Corporation received funds from the Ministry of Energy and Petroleum which are meant to equip the Exploration department staff with the requisite knowledge. In 2013, the Corporation enhanced the capacity of the Exploration department by among other things recruiting 32 management trainees. The Corporation uses this fund for training and salaries to these staff.

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
At the beginning of the year	72,955	72,955
Receipts during the year	-	-
Payments during the year	-	-
At the end of the year	**72,955**	**72,955**

43.Laboratory Equipment Fund

The funds from the Ministry of Energy and Petroleum which are meant for Laboratory Equipment amounting to Shs 425,480,000

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
At the beginning of the year	425,480	425,480
Receipts during the year	-	-
Payments during the year	-	-
At the end of the year	**425,480**	**425,480**

44. Retained Earning

	2021/2022	2020/2021
Description	Kshs'000'	Kshs'000'
At the beginning of the year	(3,951,455)	(3,055,436)
Loss for the year	(1,042,539)	(896,019)
At the end of the year	**(4,993,995)**	**(3,951,455)**

45. Prior year Adjustments

(a). Restatement of audited statement of Profit and Loss and other Comprehensive Income for the year ended 30th June 2021

For the year ended 30 June 2021	As previously Reported Kshs'000'	Prior Year Adjustment Kshs'000'	Restated Kshs'000'
Other income(i)	60,674	19,250	79,924
Operating expenses(ii)	1,085,773	(54,527)	1,031,246
Retained earning(iii)	(4,025,234)	73,835	(3,951,399)

(b). Restatement of the Audited Statement of Financial Position for the year ended 30th June 2021

For the year ended 30 June 2021	As previously Reported Kshs'000'	Prior Year Adjustment Kshs'000'	Restated Kshs'000'
Property, Plant and Equipment(iv)	5,783,569	(28,399)	5,755,170
Trade Receivables(v)	720,336	32,000	752,336
Bank and Cash Equivalents(vi)	405,017	(3,945)	401,072

Borrowings(vii)	5,731,821	(3,945)	5,727,876
Payables(viii)	3,209,826	(54,527)	3,155,299

(c). Restatement of the Audited Statement of Changes in Equity for the year ended 30th June 2021

For the year ended 30 June 2021	As previously Reported Kshs'000'	Prior Year Adjustment Kshs'000'	Restated Kshs'000'
Revaluation Reserves(ix)	2,016,092	(15,650)	2,000,442
Retained Earning	(4,025,234)	73,835	(3,951,399)

(d). Restatement of the Audited Cashflow statement for the year ended 30th June 2021

For the year ended 30 June 2021	As previously Reported Kshs'000'	Prior Year Adjustment Kshs'000'	Restated Kshs'000'
Profit /(Loss) before tax(x)	(1,322,301)	73,778	(1,248,523)
Cash generated from operating activities(xi)	(954,497)	(32,001)	(986,498)

Notes:

i. Relates to capital gain on impact of assets disposal which took place in FY 2021.
ii. Relates to the impact reversal of accrued expenses.
iii. Relates to the impact of the capital gain and reversal of accrual expenses.
iv. Relates to the impact on cost and depreciation of the disposed assets.
v. Relates to proceeds of the disposed assets.
vi. Relates to reclassification of current borrowing into cash and cash equivalents
vii. Relates to reclassification of current borrowing into cash and cash equivalents
viii. Relates to the impact of the reversal of accrued expenses
ix. Relates to revaluation gain on the disposed assets
x. Relates to the impact of capital gain and the reversal of accrued expenses.
xi. Relates to proceeds of asset disposal.

46. Financial Risk Management

The Corporation's activities expose it to a variety of financial risks, including credit risk, liquidity risk and market risk. The Corporation's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Management identifies, evaluates and mitigates the financial risks under general principles for overall risk management.

(a)Fair Values

(i) **Comparison by class of the carrying amounts and fair values of the financial instruments is as set out below.**

	Carrying amount		Fair value	
	2022	2021	2022	2021
	Shs'000	Shs'000	Shs'000	Shs'000
Financial assets				
Trade receivables	997,851	360,094	997,851	360,094
Call deposits	790,486	836,147	790,486	836,147
Bank and cash balances	327,263	405,516	327,263	405,516
Financial liabilities				
Borrowings	6,200,874	5,011,749	6,200,874	5,011,749
Trade payables	3,682,344	2,493,756	3,682,344	2,493,756

Trade and other receivables are evaluated regularly to assess the likelihood of impairment. Based on this evaluation, allowances are taken to account for the expected losses on these receivables. As at 30 June 2020, the carrying amounts of such receivables, net of allowances, approximates their fair value.

The fair values of term deposits, bank and cash balances and trade and other payables approximates their carrying amounts largely due to the short term maturities of these instruments.

(ii) **Fair value hierarchy**

The Corporate uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Disclosures of non-financial assets recorded at fair value by level of the fair value hierarchy have been made under note 17.

c) Capital Risk Management

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Corporation consists of borrowings (net of cash and cash equivalents) and equity attributable to equity holders comprising issued share capital, share premium, shareholders' funds awaiting allotment of shares and revenue reserve.

The Corporation monitors capital adequacy on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. Note 8 summarises the procedures the Directors' are putting in place to address the solvency challenges facing the Corporation.

The composition of capital managed by the Corporation is as shown below

	2022 Shs'000	2021 Shs'000
Share capital	1,032,000	1,032,000
Share premium	1,183,000	1,183,000
Revaluation surplus	1,998,088	2,000,442
Accumulated deficit	(5,001,353)	(3,951,399)
Equity	(788,265)	264,043
Borrowings	6,200,874	5,727,876
Structured trade finance facility	-	-
Less: Cash and cash equivalents (excluding borrowings)	(1,224,879)	(1,237,219)
Net debt	4,975,995	4,490,657
Gearing ratio	Over 100%	Over 100%

d) Operational Risk Management

Operational risk is the risk of the direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Corporation's operations.

The Corporation's objective is to manage the operational risk so as to balance the avoidance of financial losses and damage to the Corporation's reputation with overall costs effectiveness and to avoid control procedures that restrict initiative and creativity.

The ultimate accountability for operational risk management within the Corporation rests with the Board of Directors. Consequently, the level of risk that the Corporation accepts, together with the basis for managing those risks are assigned to senior management. The responsibility is supported by the development of overall standards for the management of operational risk.

e) Credit Risk

Credit risk refers to the risk that a counter party will default on their contractual obligations resulting in financial loss to the Corporation.

Credit risk arises from cash and cash equivalents, deposits with banks, as well as trade and other receivables. The Corporation's exposure to credit risk is minimal because the Corporation assesses potential customers' creditworthiness prior to granting credit. In addition the Corporation closely monitors customer's accounts to ensure no exposure exists above the approved credit limits established by credit control.

The Corporation's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognizing expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12 month ECL
Doubtful	Amount is past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit impaired
In default	Amount is >180 days past due or there is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit impaired
Write off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery.	Amount is written off

The tables below detail the credit quality of the Corporation's financial assets as well as the Corporation's maximum exposure to credit risk by credit risk rating grades;

2022	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
				Sh	Sh	Sh
Trade receivables	N/A	Doubtful	Lifetime ECL	1,398,766	(509,744)	889,022
Bank balances	A, BBB, B+, B-	Performing	12 month ECL	434,393	-	434,393
Call deposits	AA	Performing	12 month ECL	790,486	-	790,486
				2,623,645	(509744)	2,113,901

2021	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
				Sh	Sh	Sh

Trade receivables	N/A	Doubtful	Lifetime ECL	1,271,883	(519,547)	752,336
Bank balances	A, BBB, B+, B-	Performing	12 month ECL	401,072	-	401,072
Call deposits	AA	Performing	12 month ECL	836,147	-	836,147
				2,509,102	(432,180)	1,989,555

Credit risk (Continued)

Credit risk profile based on provision matrix

30 June 2020	Not Due	< 30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 361 days	Total
ECL rate	-	5%	11%	21%	36%	40%	82%	
Expected Gross Carrying Amount	131,338	18,718	1,125	4,130	2,938	11,596	448,220	618,065
Lifetime ECL	-	(259)	(179)	(930)	(1,318)	(8,242)	(421,252)	(432,180)

30 June 2020	Not Due	< 30 days	31-60 days	61-90 days	91-180 days	181-360 days	Over 361 days	Total
ECL rate	-	5%	11%	21%	36%	40%	82%	
Expected Gross Carrying Amount	53,012	8,037	2,774	3,219	58,844	89,144	104,271	319,302
Lifetime ECL	-	(187)	(425)	(1,457)	(23,394)	(53,897)	(282,825)	(362,187)

Concentration risk

The Corporation does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The Corporation defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year.

f) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Corporation's Board of Directors who have built an appropriate liquidity risk management framework for the management of the Corporation's short, medium and long-term funding and liquidity requirements.

The table below analyses the Corporation's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	1 – 3 Months Shs'000	3-12 Months Shs'000	Over 12 months Shs'000	Total Shs'000
At 30 June 2022:				
Ministry of Energy and Petroleum Headquarters construction fund	-	704	-	704
SBM Jetty fund	-	11,443	-	11,443
CSR Funds				
Exploration and Production		-		-
Capacity Building fund	-	72,955	-	72,955
Laboratory equipment fund	-	425,480	-	425,480
Trade payables	109,600	3,572,744	-	3,682,344
Borrowings	4,772,593	1,428,281	-	6,200,874
Structured trade financing	-	-	-	-
	4,882,193	5,511,607	-	10,393,800
At 30 June 2021:				
Ministry of Energy and Petroleum Headquarters construction fund	-	2,481	-	2,481
SBM Jetty fund	-	11,443	-	11,443
CSR Funds				
Exploration and Production		48,768		48,768
Capacity Building fund	-	72,955	-	72,955
Laboratory equipment fund	-	425,480	-	425,480
Trade payables	109,600	242,774	213,202	565,576
Borrowings	4,772,593	267,694	-	5,040,287
Structured trade financing	-	-	-	-
	4,882,193	1,071,595	213,202	6,166,990

g) Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market related factors. Market risk includes currency risk, other price risk and interest rate risk.

(i) Currency risk

The Corporation is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (US Dollar or USD). Currency risk arises from future commercial transactions, recognised assets and liabilities.

To manage the foreign exchange risk, the Corporation maintains a bank account in US Dollars to facilitate transactions in foreign currency. The Corporation also negotiates with its bankers to get favourable exchange rates when converting foreign currencies to the Kenya shilling.

NATIONAL OIL CORPORATION OF KENYA LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Market risk *(Continued)*

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market related factors. Market risk includes currency risk, other price risk and interest rate risk.

(i) Currency risk (Continued)

The Corporation purchases its products in US Dollars and mainly buys US Dollars via spot deals as opposed to forward deals. However, when there is reliable information in the market about the anticipated exchange rate movements in the US Dollar to the Kenya Shilling, the Corporation enters into short term forward deals to mitigate foreign exchange risks.

	2022 Sh'000	2021 Sh'000
Assets		
Bank and cash balances	434,393	401,072
Trade and other receivables	889,022	752,336
	1,323,414	1,153,408
Liabilities		
Trade and other payables	3,768,217	3,155,242
Borrowings	6,200,874	5,727,876
	9,969,091	8,883,118

10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis covers only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

(ii) Other price risk

The Corporation does not hold investments that would be subject to market price risk. Therefore, the Corporation is not exposed to this financial risk.

(iii) Interest rate risk

The Corporation holds interest earning assets in form of call deposits. The risk of fluctuation in the interest rates is mitigated by the fact that the interest rates are pre-fixed for the term of the call deposits by the banks prior to the Corporation placing these deposits.

Interest rate risks arise from fluctuations in the bank borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. Since the base rates charged by the banks are determined by the market forces, the Corporation negotiates with its bankers to get favourable interest rates

Market risk (Continued)

(iii) Interest rate risk (Continued)

Exposure to interest rate risk

The weighted average interest rate profile of the Corporation's interest bearing financial instruments as reported to management of the Corporation is as follows:

	Nominal amount			
	30 June 2022		30 June 2021	
	Effective interest rate	Sh'000	Effective interest rate	Sh'000
Call deposits	7.88%	790,486	7.88%	836,147
Term loans	13.00%	(6,200,874)	13.00%	(5,727,876)
Bank overdrafts	13.00%		13.00%	
Total exposure		(6,200,874)		(5,727,876)

Sensitivity Analysis

A 1% increase/decrease in the interest rates at the reporting date would have increased/ decreased profit or loss and equity by the amounts shown below. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant and is applied on interest bearing instruments.

	Profit or loss/equity	
	30 June 2022	30 June 2021
	Sh'000	Sh'000
1% increase	(5,410)	(5,731)
1% decrease	5,410	5,731

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

a) Foreign currency sensitivity analysis

The above table demonstrate the effect of sensitivity of exchange rate on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in exchange rate of the three main transaction currencies, with all other variables held constant

b) Interest rate risk

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

c) Management of interest rate risk

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

47. Incorporation

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

48. Events after the Reporting Period

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

49. Currency

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

Appendix 1: Implementation Status of Auditor-General prior year recommendations

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
1	**<u>Inaccurate in Bank and Cash balances</u>** The statement of financial position and Note 28 to the financial statements reflects Bank and Cash balances of Kshs 405,017,000 as at 30 June 2021.The balance includes an amounts of Ksh. 257,355,000 in respect of staff Car loan and Mortgage scheme. However Management did not separate financial statements for the Corporation's staff car loan and Mortgage scheme. Further, bank reconciliation statements, cash books and certificates of bank balances for bank accounts with total bank balances of Kshs. 45,320,000 were not provided for audit. In the circumstances, the regularity, accuracy and completeness of the bank and cash balances of ksh. 405,017,000 could not be confirmed However, bank reconciliation statements, cashbooks and certificate of bank balances for five accounts with total bank	Going forward, the Corporation will be preparing separate financial statements for Corporation's Staff car loan and mortgage Scheme. However the disclosures on Mortgage and Car Loan fund was provided in the Corporation's financial statements. All the Bank reconciliation were provided.	Resolved	N/A

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
	balances of Kshs.185, 751,000 were not provided for audit review. The details are provided below:			
2.	**<u>Decline in value of Freehold Land</u>** As reported previously, the statement of financial position reflects property, plant and equipment with a net book value of kshs. 5,783, 569,000. The values are based on revaluation of assets that resulted in decline in value of ten (10) parcels of freehold land by an amount of kshs. 145,640,000or 43%, from previous value of kshs. 336,140,000 to kshs. 190,500,000. The decline was not justified since it did not result from change in the sizes due to alienation of parcels or any other adverse conditions. Management attributed the decline to premiums paid on acquisition of parcels. However, the reason could not be justified by the prevailing markets conditions and differences in land measurements cited in the valuation reports and those in the title deeds. In the circumstances, the accuracy and valuation of property, plant and equipment balance of Kshs. 5,783,569,000 could not be confirmed.	Ebony Estate limited who are professional Carried out the revaluation of the Corporation's asset in the year 2019/2020 and independent valuers. The valuers gave their Professional opinion on the value this properties through valuation reports which were subsequently adopted by corporation as the fair value of the properties. Valuer's confirmation report were provided	Resolved	N/A

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
3.	**Unsupported provisions in inventory balance** The statement of financial position and as disclosed in Note 24 to the financial statements reflects net inventories valued at Kshs. 652,917,000. Inventories with a gross value of kshs. 3,001,637,000 were adjusted for provisions of Kshs. 2,348,693,000 which included an amount of kshs. 31,715,000 relating to full cost provision of book value on defective gas cylinders. Further, included in the inventory gross value of kshs.3, 001,637,000 is inventories is inventories balance of Kshs.1, 494,624,827 written off from books the books. This represents the amount carried forward in the books without corresponding physical inventories. The Board of Directors in a meeting held in October 2016, passed a resolution and approved the write off of inventories totaling to Kshs. 1,023,891,492 resulting to an unapproved write off valued at Kshs. 470,733,335 In addition, despite having made provisions of Kshs. 2,316,977,535, the historical non-reconciling items continue to be carried in the books against the	In the year under review, a provision was made of ksh. 31,715,000 relating to defective cylinders in line with IAS 2 in relation to reporting inventory. IAS 2 require an organization to make provisions for inventories that are considered defective. Failure to make to make provision for inventory will be overstating the value of inventory which would be misleading to the users of the financial statements. The corporation has also initiated the process of writing off of unaccounted stock in line with the Provision of PFM Act 20212.Board resolutions on the same were shared.	Resolved	N/A

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
	requirements of Management did not provide an approved policy for the provisions. In the circumstances, the regularity, accuracy and completeness of the inventories balance of kshs. 652,917,000 could not be confirmed.			
4.	**<u>Inaccuracy in Trade and other Receivables</u>** The statement of financial position and as disclosed in Note 25 to the financial statements reflects trade and other receivables balance of Kshs. 720,336,000. The balance was arrived at by adjusting gross receivables balance of Kshs. 1,239,883,000 for provision of bad and doubtful receivables of Kshs. 519,547,000. However, there was an unreconciled variance between the ledger and the trial balance of kshs. 13,707,690 made up of value Added Tax- Output of Kshs.13,291,421 and trade debtors control account of Kshs. 416,269 In the circumstances, the accuracy and completeness of trade and other receivables balance of Kshs. 720,336,000 could not be confirmed.	The Output VAT Reconciliation schedule that ties with the trial balance were provided.	Resolved	N/A

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
5.	**<u>Unsupported Deferred Income</u>** The statement of financial position and as disclosed in Note 26 to financial statements reflects deferred income balance of Kshs. 1,638,984,000. The balance comprises of training funds grants, oil exploration grants and government downstream grant of Ksh. 10,225,000, kshs 1,625,659,000 and Kshs.3, 100,000 respectively. During the financial year under review, an expenditure of Kshs. 217,906,000 was incurred under oil exploration grants component. It was explained that expenditure which is not directly attributed to exploration costs is absorbed into the downstream and upstream operations on 80% and 20% basis. However, the approved policy guidelines were not provided to support the absorption of indirect costs. In the circumstances, the accuracy and completeness of deferred income balance of Kshs.1, 638,984,000 could not be confirmed	The Exploration Expenditure of Ksh. 217,906,325 is broken down into ksh. 124,504,918 and ksh.93, 403,407 for Direct and indirect costs respectively. The break down were shared, The call Deposits closing balances amounting to Ksh.836,147,000 Were also shared.	Resolved	N/A
6.	**<u>Inaccuracies in Trade Payable</u>** The statement of finance position and as disclosed in note 34 to the	The sample selected for verification amounting to Ksh. 802,214,962 all the	Resolved	N/A

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
	financial statement reflects trade and other payables balance of Ksh. 3,209,825,000. However, the amount differs with the supporting schedule provided totaling to Kshs 954,536,000 resulting in un explained variances of Kshs. 2,091877,000 Further, from a sample of trade payables totaling to Kshs 802,214,962 selected for verification, purchase orders, invoice, supplier's invoices and contrats were not provided to support a balance of Kshs. 798,304,734. In addition, the trade creditors balance includes creditors with debit balance amounting to Kshs42,324,706 reflected in the aged creditor listing report In the circumstances the regularity, accuracy and completeness of the trade and other payable balance of Kshs 3,209,825,000 could not be confirmed.	payment documents were provided for, for verification. The trade Creditors balance amounting to Kshs.42, 324,706 were part of Kshs. 155,614,609 which was reclassified, posted and closed.		
7.	**Unsupported Fund** The statement of financial position and as disclosed in Notes 40,42,44,45 to the financial statement reflects non-current liability in respect of Block 14T fund balance of Kshs.	The Corporate runs a number of funds accounts for various stakeholders. When the corporation receives funds meant for a specific activity/project. To	Resolved	N/A

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	1,133,769.000, single Buoy Mooring Jetty Fund balance of Kshs. 11,443,000 Corporate Social Responsibility (CST) project fund balance of Kshs. 30,238.000, Exploration and production Capacity Building Fun balance kshs. 72,955,000 and Laboratory Equipment Fund balance Kshs. 425,480,000 all totaling Kshs. 1,673,885,000. However, the corresponding cash and bank balance were not provided. Management explained that the fund were mixed up with the rest of Corporation Funds. Further, the funds related to activates and project initiated in Partnership with Government agencies and lanced guideline on utilization and liquidation of balances upon closure of such projects. The Corporation continued to hold fund for projects that are yet to be implemented or surplus funds for completed ones in its books, thereby denying citizen access to service intended or additional service that can be implemented using idle funds. In the circumstance, regularity, accuracy and completeness of special Funds projects balance of Kshs 1,673,884.000 could not be confirmed.	ensure correct accounting and tracing of transactions relating to the fund, the corporation opens a fund account in its book for that particular purpose. Expenditure that are Capex in nature will not have an impact on the balance of the fund account, due to the creation of a new asset and reduction of the fund's cash balance. Expenditure that are operation in nature will be charged to the respective fund account they relate to Basis the above nature of fund accounting it will be misleading to expect fund balances to have an equal corresponding Cash/bank balance. The deficit of cash/bank balances is compensated by the assets relating to the fund. For instance Block 14 Fund accounts is		

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
		represented by an asset (Block 14T asset) in the financials of the Corporation. The reconciliation for fund account were provided for.		
8.	**Inaccuracies in Staff Cost** The statement of profit or loss and other comprehensive income and as disclosed in note 12 to the financial statement reflects staff cost of Kshs 504,459,000. Review of records indicate that the cost relates to downstream operation. In addition, note 14 to the financial statement reflects exploration cost – staff costs of Kshs. 129,572,000, bringing the total staff cost to Kshs.634, 031, 000. Further, review of staff record revealed variances between ledger and the payroll details amounting to Kshs. 50,731,794. In the circumstance, the accuracy and completeness of staff cost of Kshs 634,031,000 could not be confirmed.	The Variance of Kshs.50,731,794 relates to Ksh. 15,932,011 for the final dues paid to ex-staff outside the payroll and all schedules/documents Supporting kshs. 34,798,974 were provided.	Resolved	N/A
9.	**Inaccuracies in Exploration and Operating Expenses** The statement of profit of loss and other comprehensive income and as disclosed in note 14 to the financial statement reflects	Note 12c relating to exploration and training expenses has been aligned to statement of profit and loss and other	Resolved	N/A

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
	exploration costs cost of Kshs 217,906,000. Further Note 13 to the finances statement reflects operating expenses of Kshs 581,314,000. The exploration costs comprise of exploration staff cost and other exploration costs of Kshs. 129,572,000 and Kshs 88,333,000 respectively. Management explained that the total cost incurred under each expenditure item are absorbed between downstream and upstream operation on 80% and 20% basis respectively. However, the approved policy was not provided to support the absorption of the costs to either upstream or downstream and the rates applied. Therefore, the basis for separation of exploration costs from other operating expenses could not be ascertained. In the circumstances, the accuracy and completeness of exploration costs and operation expenses of Kshs 217,906.00 and Ksh 581,314,000 respectively could not be confirmed.	comprehensive income. The basis of separating the shared costs is on the basis of 20% and 80% for upstream and downstream respectively. All the support documents for downstream and upstream were provided for		
10.	**Payment of Unspecified Allowances** The ledger and the trial balance provided for audit reflected total	The categorization of salaries structure was guided by ministry of energy through a letter ref	Resolved	N/A

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	payment to staff amounting of Kshs 112,743,802 described as 'other allowances' however, the basis of payment of the allowance, and the applicable rates were note provided for audit. In addition, approval from State Corporation Advisory committee (SCAC) .was not provided. In this circumstances, the accuracy, completeness and regularity of the allowances amounting Kshs. 112,743,168 could not be ascertained. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs. I am independent of National Oil Corporation of Kenya Management in accordance with ISSAIs 130 on code of Ethics. I have fulfilled other ethical responsibility in accordance with ISSAI and in accordance with other ethical requirements applicable to performing audit of financial statement in Kenya. I believe that the audit evidence l have obtained is sufficient and appropriate to provide a basic for my qualified opinion Emphasis of Matter Uncertainty in the Corporation's Ability to continue as a Going	No. ME/CONF/3/2/41 dated on 1st August 2012. Currently the corporation is engaging Salaries and remuneration Commission on the categorization of the salary structure.		

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
	ConcernThe Corporation recorded a loss of Kshs. 969,798 during the year under Review (2020: Kshs495, 502,000) rising its accumulated losses to Kshs. 4,025,234,000 from Kshs 3,055,436,000 in 2020. In addition, the Corporation current liabilities balance of Kshs 8,954,268,000 exceeded the current assets balance of Kshs. 2,648,708,000 by amount of Kshs. 6,305,560,000. These events or conditions, along with other matters set forth in the note indicate material uncertainty regarding the Corporation's ability to continue as a going concern, The Corporation is therefore, technically insolvent and its continued existence as a going concern is depended upon the financial support of the Government, bankers and its creditors unless Management puts in place measures to improve the performance of the Corporation and reduce reliance of financial support from shareholder.			

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*

Guidance Notes:

(i) Use the same reference numbers as contained in the external audit report;

(ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management.

(iii) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury

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Leparan Gideon Ole Morintat
Chief Executive Officer
(National Oil Corporation of Kenya)

Date…………………………………

Appendix II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

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

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1	N/A	N/A	N/A	N/A	N/A	N/A
2	N/A	N/A	N/A	N/A	N/A	N/A

Status of Projects completion

APPENDIX III: INTER-ENTER TRANSFER

	Entity Name	Ministry of energy and Petroleum					
		Break down of Transfer from the State Department of Energy & Petroleum					
	FY 2020/2021						
		Bank Statement Date	Amounts (Kshs)	Indicate the FY to which the amount relates			
a)	Recurrent Grants	N/A	N/A	N/A			
b)	Development Grants	18.Oct.2021 19-May-2022 19-Jan-20202 18.May2022	15,000,000 15,000,000 110,000,000 110,000,000	2021/2022 2021/2022 2021/2022 2021/2022	N/A	N/A	N/A
	Total		250,000,000				

c)	**Direct Payment**	N/A	N/A	N/A	N/A	N/A	N/A
d)	**Donor Receipts**	N/A	N/A	N/A	N/A	N/A	N/A

c)	**Direct Payment**	N/A	N/A	N/A	N/A	N/A	N/A
d)	**Donor Receipts**	N/A	N/A	N/A	N/A	N/A	N/A