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Leader of Majority Party
OF Anne Shubulwa

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THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
NATIONAL ENVIRONMENT MANAGEMENT
AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2018**



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2018

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

I. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information


The National Environment Management Authority is a State Corporation established by the Environmental Management and Co-ordination Act No. 8 of 1999 of laws of Kenya. The law has been revised to cap 387 of Environmental Management and Co-ordination Act of 2015. The principal activities of the Authority are to exercise general supervision and co-ordination over all matters relating to the environment and to be principal Instrument of Government in implementation of all policies relating to the environment. At cabinet level, NEMA is represented by the Cabinet Secretary for Environment and Natural Resources who is responsible for the general policy and strategic direction of the Authority.

(b) Principal Activities

The principal activity/mission of the Authority is to safeguard and enhance the quality of the environment through coordination, research, facilitation and enforcement, while encouraging responsible individual, corporate and collective participation towards sustainable development.

(c) Key Management

The Authority's day-to-day management is under the following key management team:

	<p>Director General:</p> <p>Professor Wahungu holds a Bachelor of Science and a Master's of Science in Wildlife Management from Moi University, and a PhD in Ecology from the Griffith University, Australia. He has previously worked for Kenya Wildlife Service. He has taught for several years at Moi University, rising through the ranks to an associate professor. Has extensive management experience, having served as the Chair of the Department of Wildlife Management for many years, and as Dean in the School of Natural Resources and Environmental Studies, Karatina University. He is a visiting Scholar to the Department of Fish, Wildlife and Conservation Biology in Colorado State University. He has many Research Publications and is a Board Member and Reviewer in various Environmental Journals. He was appointed the Director General in 2012.</p>
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2	 <p>Mr. Kennedy Ochuka</p>	<p>Director Finance and Administration:</p> <p>Director Ochuka holds a Master of Business Administration (Finance) and Bachelor of Commerce (Accounting) from the University of Nairobi. He is also a Certified Public Accountant of Kenya and a member of the Institute of Certified Public Accountant of Kenya.</p> <p>He has previously worked as Finance Manager at Water Services Trust Fund and General Manager Finance at National Water Conservation and Pipeline Corporation on secondment.</p>
3	 <p>Ms. Irene Kamunge</p>	<p>Director Legal Services:</p> <p>Director Irene holds a Master of Law in Environment and Natural Resources and a Bachelor of Law from the University of Nairobi. She also holds a diploma in Law from Kenya School of Law and is an advocate of the High Court.</p> <p>She has previously worked as Vice Chairperson and Joint Secretary of Task Force Drafting Legislation on Implementing Land Use, Environment and Natural Resource Provision in the Constitution of Kenya. She has also worked as Legal Officer in the Education Department, Ethics and Anti-Corruption Commission; Researcher at Commission of Inquiry into Illegal /regular Allocation of Public Land (Ndungu Commission) and Legal Officer, Ecumenical Centre for Justice and Peace.</p>
4	 <p>Mr. David Ongare</p>	<p>Director Compliance and Enforcement:</p> <p>Director Ongare holds Master of Science in Biology. He also holds Bachelor of Education (Science), Egerton University.</p> <p>He has worked as Deputy Director in charge of Environment Education and Information in the Authority. He has as well worked in various fields, including lecturing/ teaching Biology and rose through the ranks to become head of a school and examiner for the Kenya National Examination Council (KNEC).</p>

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1	Director General	Prof. Geoffrey Wahungu, PhD

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2	Director Finance and Administration	Mr. Kennedy Ochuka, B.Com, MBA, CPA (K)
3	Director Legal Services	Ms. Irene Kamunge, LLB, LLM
4	Director Compliance and Enforcement	Mr. David Ongare, BSc, MSc

(e) Fiduciary Oversight Arrangements

The primary organ responsible for fiduciary oversight arrangements is the Board of Management. Other Government bodies also provide oversight.

The Board exercised this oversight through Board Committees. These were the Finance and Human Resources Committee and the Audit, Governance and Risk Management Committee.

Finance and Human Resource Committee

The primary responsibility of Finance and Human Resource Committee is to provide advice to the Board on NEMA's financial and human resource management, performance and their financial implications.

The Committee reviews quarterly financial, human resource and procurement reports and recommends to the Board ways of raising and utilizing the Authority's funds and human resources and the establishment of systems and procedures for efficient financial management. It advises the Board on NEMA's human resource policies and guidelines which include the scheme of establishment and career progression and terms and conditions of service for the staff of the Authority.

Audit, Governance and Risk Management Committee

The scope of this Committee includes risk management, as well as compliance with the regulatory requirements. The Audit Committee broadly oversees NEMA's standards of integrity and behaviour, reporting of financial information and internal control systems.

Environmental Management and Conservation Technical Committee

The role of this Committee is to assist the Board of Management in determining NEMA's vision, mission and values, provide strategic direction to NEMA and recommend approval of strategic plan. The Committee also reviews annual work plan, corporate strategy and advices on policies, priorities and planning for the protection, management and conservation of the environment.

(f) Headquarters

National Environment Management Authority
P.O. Box 67839-00200, Nairobi
Eland House, Popo Road, South C.

(g) Authority's Contacts

Telephone: (254) 020 6005522
E-mail: dgnema@nema.go.ke
Website: www.nema.go.ke

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(h) Authority's Bankers

Kenya Commercial Bank Limited, Moi Avenue | P O Box 30081-00100, Nairobi

Standard Chartered Bank Kenya Limited, Harambee Avenue | P O Box 20063-00200, Nairobi

Co-operative Bank of Kenya Limited | P O Box 48231-00100, Nairobi

Commercial Bank of Africa, Mara / Ragati Road | P O Box 30437-00100, Nairobi

Barclays Bank of Kenya Limited | P O Box 30120-00100, Nairobi

(i) Independent Auditors

Auditor General

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GOP 00100

Nairobi, Kenya

(j) Principal Legal Adviser

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya

(k) Tax Consultant

Deloitte & Touche Kenya

Waiyaki Way

P.O. Box 40092

GPO 00100

Nairobi, Kenya

II. THE BOARD OF DIRECTORS



Mr. John Konchellah

Chairman:

Mr. Konchellah has over Twenty Six years of corporate management experience in banking industry rising through the career to the position of General Manager. Mr Konchellah served as the principal Secretary in the Ministry of Devolution and Planning where he was instrumental in establishment of Devolution structures and costing of the functions in the Forty Seven Counties. Previously he was the Principal secretary in the Ministry of East Africa Affairs.

He is a graduate of Poona University in India and Daystar University and holds a Masters Degree in Business Administration (Strategic and Marketing Management); and a Bachelor of Commerce Degree in Banking. He is also a Fellow of the Kenya Institute of Bankers.



Prof. Geoffrey Wahungu

Director General:

He holds a Bachelor of Science and a Master's of Science in Wildlife Management from Moi University, and a PhD in Ecology from the Griffith University, Australia. He has previously worked for Kenya Wildlife Service. He has taught for several years at Moi University, rising through the ranks to an associate professor. Has extensive management experience, having served as the Chair of the Department of Wildlife Management for many years, and as Dean in the School of Natural Resources and Environmental Studies, Karatina University. He is a visiting Scholar to the Department of Fish, Wildlife and Conservation Biology in Colorado State University. He has many Research Publications and is a Board Member and Reviewer in various Environmental Journals. He was appointed the Director General in 2012.

He was born in 1968.



Mr. Charles Sunkuli

Principal Secretary, Environment:

Mr. Sunkuli holds an Executive Masters of Business Administration (MBA) from the Eastern and Southern Africa Management Institute (ESAMI) and Maastricht School of Management (MSM) and a Bachelor of Education (Bed Arts) Moi University. Prior to his current appointment, he was the Managing Director for Ewaso Ng'iro South River Basin Development Authority (ENSDA) for six years where he oversaw the initiation of Lower Ewaso Ng'iro South Multipurpose project and other major flagship projects that have transformed livelihoods of communities in the counties of Narok, Nakuru Kajiado and Nyandarua.

He has served in major National policy formulation processes such as the National lands policy, regional development policy under the defunct Ministry of Regional Development Authorities. He also served as a member of the team that prepared

the new appraisal system currently being used in the entire public service in Kenya in October 2006. He has also participated in the preparation of the national investment guide under the auspices of the Kenya Investment Promotion Authority now Ken Invest. He was a member of the five man committee put in place to prepare the sustainability strategies of Regional Development Authorities (RDAs) in Kenya.



Dr. Kamau Thugge

Principal Secretary: National Treasury.

Dr. Kamau Thugge is currently the Principal Secretary at the National Treasury. He has previously worked in the Ministry of Finance as head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor.

Before joining the Ministry of Finance, he worked with the International Monetary Fund (IMF) as Economist, Senior Economist and Deputy Division Chief. Dr. Thugge has widely published and holds a Bachelor of Arts (Economics) degree from Colorado College, USA; Master's degree in Economics from John Hopkins University, USA; and a Doctor of Philosophy (PhD) degree in Economics also from John Hopkins University.



Dr. Susan Mwamlole

Madam Mwamlole holds a Bachelor of Dental Surgery degree from the University of Nairobi and Masters of Science in Dental Public Health from the University of London Eastman College and a Diploma in Dental Public Health from the Royal College of Surgeons (London). She has practiced extensively in her area of specialisation in Kenya and in Botswana. She joined the Board in 2013. She was born in 1958.



Prof. Barnabas Njiru Mitaru

He holds a PhD in Animal Nutrition from University of Saskatchewan, a Master of Science degree in Animal Production from University of Nairobi and a Bachelor of Science Agriculture from the same University. He is currently a Professor of Animal Production and has also worked as Associate Professor, Adjunct Professor, Senior Lecturer and Lecturer at the University of Nairobi. He also worked as Deputy Director Institute of Dry land Research and Regional Coordinator Eastern and Central Regional Sorghum and Millet Network. He joined the Board in April 2015. He was born in 1949.



Caroline Wakesho Sonje

She holds a Master of Arts degree in Environment Planning and Management from University of Nairobi and a Bachelor of Environmental studies from Kenyatta University. She has worked in Sustainability management, risk and card production management and accounts management with Kenya Commercial Bank. She joined the Board in April 2015. She was born in 1982.



Charles Lukania Oluchina

He holds a Master of Business Administration degree from Management College of South Africa and a Bachelor of Science Natural Resources Management from Egerton University. He has worked as field assistant, community development specialist, national project monitoring coordinator, biodiversity and NRM specialist, and program and policy strategy advisor on environment, land policy and community. He recently joined TNC-Kenya as county program manager. He joined the Board in April 2015. He was born in 1974.



Isaac Memusi

Mr. Memusi represents the Cabinet Secretary National Treasury: He holds a Bachelor's Degree from the University of Nairobi in Public Administration and Philosophy, Postgraduate Diploma in Public Administration from Kenya School of Government and is currently pursuing a Master's Degree in Public Administration from University of Nairobi. He is a career Administrator having started as a District Officer in 2003 at the Office of the President and worked in Ijara and Wajir districts until 2008 when he was posted to the Ministry of Justice and Constitutional Affairs as an Assistant Secretary. He is currently at The National Treasury as a Senior Assistant Secretary. He joined the Board in September 2017.



Agnes Yobterik

Madam Yobterik is the Alternate to Principal Secretary, Environment She holds Bachelor of Science degree in forestry from Moi University and a Master of Science degree in Forestry from the University of Toronto. She is currently the Director of Programs, Projects & Strategic Initiatives at the Ministry of Environment, Water and Natural Resources. She has extensive management expertise, having worked at senior levels in both the public and the private sector. She joined the Board in June 2013. She was born in 1962.

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Alex Mbuvi

He is a Senior Principal State Counsel in the Legal Advisory Division at the Office of the Attorney General and Department of Justice.

He holds Bachelor of Social Laws, Bachelor of Laws degrees and a post graduate Diploma in Law. Alternate to the Attorney General. He joined the Board in August 2013. He was born in 1975.

The following board of directors members were appointed vide Gazette Notice No. 5618 dated 5th June, 2018 on a three (3) year term effective 30th May, 2018.

No.	Name
1	Ms. Teresia Malokwe
2	Mr. Agostinho Neto
3	Prof. Barnabas Njiru Mitaru
4	Prof. Peninah Aloo-Obudho
5	Ms. Halima Ware
6	Dr. Juma Ngeywa

III. MANAGEMENT TEAM

No.	Name	Designation/ Area of responsibility
1	Prof. Geoffrey Wahungu, PhD	Director General
2	Mr. Kennedy Ochuka, B.Com, MBA, CPA (K)	Director Finance and Administration
3	Ms. Irene Kamunge, LLB, LLM	Director Legal Services
4	Mr. David Ongare, BSC, MSC.	Director Compliance and Enforcement

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IV. CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to present the Annual Report and Financial Statements for the Financial Year ended on 30th June, 2018. This financial year has been my second year as Chairman of Board.

The Authority has endeavoured to provide to Kenyans a clean and healthy environment for a sustainable growth. My board has continued to support the NEMA management so as to create synergies in the management of environment.

This has enabled the Authority to undertake critical activities for the benefit of all Kenyans.

Economy

Kenya's economic performance decelerated to 5.5% in 2017 because of drought, weak credit growth, security concerns, elections and the pick-up in oil prices. Medium-term Gross Domestic Product growth was expected to rebound to 5.8% in 2018 dependent on completion of on-going infrastructure projects, resolution of slow credit growth, strengthening of the global economy and tourism..

Financial Performance

During the financial year under review, the Authority realised revenues of KES 1.34 billion which was an increase of 9% on KES 1.24 billion raised the previous year.

The Authority collected KES 153 million in Appropriations in Aid (AIA) compared to 404.1 million in the previous year. This represents a decrease of 62% from the previous year mainly attributable to the scrapping of the EIA fees. The Authority realised a deficit of KES 138 million.

Operations

I am pleased to report that the Authority was able to achieve most of the targets set for the financial year. We continued to work within our mandate as stipulated in the EMCA Act. In this regard, we issued licenses to proponents, undertook research activities related to environmental issues as well as created awareness in different regulated sectors of the Kenyan economy. We also continued to embrace the spirit of devolution by working with the County governments especially on matters related to waste management and noise pollution.

The Board

The Board is committed to ensuring the Authority's prosperity by collectively directing its affairs whilst meeting the diverse interests of stakeholders. The Authority has a Board Charter that guides the operation of the Board as well as defining the roles and responsibilities of the Directors and Management. The Board strives to observe the highest standards of corporate governance and corporate ethics in providing overall policy and strategic direction of the Authority.

The future and conclusion

The Authority has made her share of contribution to Kenya's economy and well-being in protecting, conserving and improving the quality of environment. It is my belief that the conservation of our environment will lead to sustainable development in all the sectors of the economy. The performance in the year has been attained against a backdrop operating environment. The Authority has an opportunity to increase in delivering on her role if the challenge of inadequate funding is addressed.

Appreciation

Lastly, I wish to express my sincere appreciation to my fellow Board members, management and staff for their dedication in improving the operations of the Authority. In addition, I wish to thank our clients and all other stakeholders for continued patronage and support of our activities. Finally, I would like to thank the government for the continued support, guidance and a good working relationship.



.....
Mr. John Konchellah

Chairman



.....
Date

Nairobi

V. REPORT OF THE DIRECTOR GENERAL

I am pleased to present the annual report and financial statements for the year ended 30th June 2018.

Environmental Management

Environmental governance at the national, regional and global levels is critical for the achievement of environmental sustainability and ultimately sustainable development. NEMA as the principal instrument of Government in the coordination and supervision of environment matters and the implementation of all policies relating to the environment has continued to implement its mandate to ensure proper management of environment in the country. In this case, the Authority continued to undertake this mandate to ensure Kenyans enjoy a clean and health environment as provided for in the Constitution of Kenya 2010 in Article 42 despite the challenges the Authority faces. Environment is a critical foundation for sustainable development and the Authority will continue to play a pivotal role in the implementation of its environmental management agenda for supporting sustainable development in Kenya.

The Environmental Management and Co-ordination Act (EMCA, CAP 387), provides for the integration of environmental concerns into national and county policies, plans and programmes through the formulation of County and National Environment Action Plans. The purpose of Environmental Action plans (EAPs) is to co-ordinate and harmonize the environmental policies, plans, programmes and decisions of the national and county governments.

Towards this end, guidelines for the preparation of Environmental Action Plans (EAPs) were developed by the Authority and launched by the Cabinet Secretary, Ministry of Environment and Natural resources on January 2017. The Authority facilitated regional capacity building workshops on the use of the EAP guidelines in the preparation of County Environment Action Plans (CEAPs) with an aim to harmonize and identify Trans-County, emerging, and Prevalent/widespread environmental issues for incorporation into the NEAP. The EAP preparation guidelines facilitated developed of 44 draft County Environmental Action Plans and the National Environment Action Plan. During the period under review, following the Gazette Notice No. 2334 of 28th February, 2017 on the ban of plastic carrier bags which took effect on 28th August, 2017, a study to investigate prevalence of. Further milestones realized include; development of bankable proposals for resource mobilization and commemoration of the World Day to Combat Desertification at Huluhula Marsabit County on 17th June 2017.

Financial Performance

The allocations received from the exchequer as recurrent disbursements increased from KES 615 million to KES 885 million this was to cover for the abolishment of the levies charged by the Authority for various services by the government.

The Authority was however able to collect KES 153 million as Appropriation in Aid from licensing. This was a decrease of 62% over the KES 404.1 million collected previous year. This decrease was due to abolishment of the levies charged by the Authority.

The development partners disbursed KES 303 million. These development partners included Danida through the Natural Resource Management Programme (NRMP) and Green Growth and Employment Program (GGEP), the United Nations through UNEP and Adaptation Fund. The Authority intends to maintain and deepen these partnerships and bring in more development partners.

The Authority's expenses were KES 1.48 billion. This represents 5% increase from last years of KES 1.41 billion. Staff costs still remain the major cost component accounting for 58% of total expenses.

Innovation

During the year, the Authority in an effort to improve efficiency in the Licensing Process, embarked on a journey to automate invoicing of Effluent Discharge (EDL) Facilities. NEMA licenses all the facilities which discharge effluent waste in line with Water Quality Regulations, 2006 (Legal Notice No. 121)

Previously, invoices were prepared and generated when the facilities came to pay to renew their licenses. Invoicing of EDL facilities involves sending invoices to all facilities prior to the expiry of their licenses. This automation has been helpful in terms of tracking EDLs, assisted in revenue projections and will continue to inform Compliance and Enforcement Operations since it will be clear on which facilities have complied with the Water Quality Regulations, 2006. The Invoicing is currently being done within the newly customized Billing Module within MS Navision 2015.

State of Environment Reports

The National Environment Management Authority (NEMA) reports on the State of the Environment for Kenya since 2003. The aim of this process is to undertake a comprehensive assessment of the environment of the Country. It encompasses presenting accurate and timely information on the state of the Environment and natural resources, identifying and documenting the causes of change and their subsequent impact. This mandate is also provided for in the Environment Management and Coordination Act (EMCA) Cap 387. The development of the SOE is done once every two years. The Authority is in the process of preparing 2016/2018 State of the Environment Report (SOE) and will be presented to the National Assembly for adoption.

NEMA Green points

Under the devolved governance framework, NEMA will continue to promote the principles of green economy by establishing Green Points in selected counties guided by a number of criteria including eco-climatic zones of the country, the Authority's strategic plan and devolution strategy amongst others. The centres are intended to improve and expand the advisory role of NEMA in the counties especially on issues related to the promotion of sound environmental management that can support the green economy, in conjunction with the private sector. This will demonstrate the public-private partnership in the communities – a policy direction that the government has been advocating for. Additionally, green points enhance the concept of decentralized environmental management in line with the new constitution. The green points as examples of eco-friendly buildings have been designed leveraging on aspects such as low energy consumption, water harvesting, use of local materials, and proper waste management.

So far, eight Green Points have been completed and operationalized. Lead Agencies, the public, learning institutions and county governments have continued to use these facilities for various activities and meetings. These are; Taita Taveta, Isiolo, Homa Bay, Embu, Kajiado, Lamu and Kilifi. The Elgeyo Marakwet Green Point has just been completed and now Samburu Green Point is under construction and the Authority is considering other Green points in Nandi, Marsabit and Nyandarua.

These Green Points have been constructed through funding support from Danida and the World Bank and the Authority aims at having at least twelve Green Points dotted in different parts of the country at the conclusion of the programme. These Green Points will boost the work of the Authority.

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Public Education and Awareness Creation

Authority undertakes the core function of educating the public and creating environmental awareness in the Country. The Department of education, awareness, information and public participation is charged with;

- Undertaking, in co-operation with relevant lead agencies, programmes intended to enhance environmental education, environmental awareness and public participation
- Publish and disseminate manuals, codes or guidelines relating to environmental management and prevention or abatement of environmental degradation
- Render advice and technical support, where possible, to entities engaged in natural resources management and environmental protection so as to enable them to carry out their responsibilities in a satisfactory manner guided by the Act.
- This is done by engaging several stakeholders in diverse sectors of the economy both private and public in areas of environmental conservation, undertaking education and awareness activities, and holding forums to engage the general public as well as engaging with schools and institutions of higher learning. Some of the activities undertaken include:-
- Media campaigns on plastic bags ban and waste management
- Publications on plastic bags ban in Daily Newspapers-Daily Nation, Standard, The Star, and People Daily among other online journals.
- Press conferences on plastic bags ban -at NEMA HQ, MENR Headquarters, Nakuru, Mombasa and in the field.
- Talk shows on TV and FM stations to sensitize the public on the ban.
- Developed awareness content on plastics waste, emerging environmental issues and disseminated to the counties and Information Centres
- Produced documentaries and web based materials on best environmental practices in plastics carrier bags management
- Supported two themes at the national music festival competition for National schools and tertiary institutions on waste management in Kakamega
- Undertook environmental awareness campaigns on Plastic carrier bag management through exhibitions in Kisumu and Mombasa ASK shows
- Engaged Regional Retailers, hoteliers and other small business enterprises in Forums, Seminars and Conferences to sensitize them on effects of plastics on the environment in Mombasa and Nairobi
- Organized regional sensitization workshop on effects of plastics on the environment for stakeholders and communities in Mombasa with the theme of Beat Plastic Pollution.
- Prepared and commemorated the World Wetland Day, World Environment Day, World Oceans day and World Day to Combat Desertification
- Developed IEC materials (brochure and Poster) on Education for Sustainable Development
- Held RCE meetings on plastic ban awareness creation in Murang'a, Nairobi, Narok and Nakuru
- Engaged the Council of governors and County government's staff on devolved environmental functions and gazettelement of CECs during the annual devolution conference.
- Training of Marsabit and Kitui county government staff on environmental legislation and proposed by laws..

Partnerships

During the year, the Authority had the following development partners supporting its mandate:

- The Ministry of Environment and Forestry Resources
- Government of Denmark (Danida)

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VI. CORPORATE GOVERNANCE STATEMENT

Establishment and composition of the board:

The Board of Management of the National Environment Management Authority (NEMA) is established under revised Environmental Management and Co-ordination Act (EMCA) 2015 cap 387. It is made up of eight independent non-executive directors who consist of a Chairperson appointed by the President for a period of four years and seven directors appointed by the Minister of Environment for a period of four years. The other members of the Board are the Principal Secretary, Ministry of Environment and Natural Resources, the Director General, Board Secretary appointed by the Board, the Principal Secretary, National Treasury, the Attorney General and the State Corporations (Inspectorate General).

In considering nominations for appointment to the Board, gender and diversity of experience is taken into consideration. Professional qualifications of Board members is further provided for in EMCA which stipulates that no person shall be appointed to the Board, unless such person holds at least a post-graduate degree from a recognized university in the field of environmental law, environmental science or natural resource management or a relevant social science and in the case of the Director-General, has at least fifteen years' working experience in the relevant field.

The Board exercises leadership, enterprise, integrity and judgement in managing the Authority. The Directors are provided with full, appropriate and timely information that enables them to maintain full and effective control over the strategic, financial, operational and compliance issues.

The day-to-day running of the operations of the Authority is delegated to the Director General but the Board of Management is responsible for establishing and maintaining the Authority's system of internal controls for the realization of the Authority's mandate.

All members of the Board of Management are taken through a comprehensive induction programme and adequately trained on their roles through various corporate governance trainings. The Directors are professional, committed and guided by the mission, vision and core values of the Authority in the execution of their duties. At the end of each financial year, the Board, its Committees, individual directors and the Director General are evaluated by an independent body against targets agreed to at the beginning of the year.

Board Committees:

The Board is assisted in its work by Board Committees attending to specific matters. The Committees report to and remain accountable to the Board for all their activities. The Board Committees' main function is to reinforce the wholeness of the Board's responsibility.

The Board has three standing committees which meet at least once per quarter and work under the terms of reference set by the Board. The membership of all the Committees is reviewed on a regular basis by the Board.

Finance and Human Resource Committee

The primary responsibility of Finance and Human Resource Committee is to provide advice to the Board on NEMA's financial and human resource management, performance and their financial implications.

- **Youth internships/ industrial attachments and apprenticeships**

During the year, the Authority engaged 45 interns who were duly paid honoraria/ stipend. 571 youths also received attachment opportunities in the Authority.

Work Environment and employee satisfaction

The Authority undertook several measures to enhance the working environment of staff. The Authority managed to establish the first ever NEMA laboratory during the financial year. Three (3) new vehicles were procured for supervision and coordination of environment matters. The Authority also managed to refurbish Kisumu, Kirinyanga and Nairobi regional offices.

Commitment to Quality

a) The National Environment Management Authority (NEMA) transited its ISO 9001:2008 certification to the new standard ISO 9001:2015 on Quality Management System (QMS), during the year under review. The certification scope was extended to cover NEMA Headquarters and all the 47 Counties offices.

The Authority is committed to implementing the Quality Management System to ensure a clean, healthy, secure and sustainably managed environment for all. The Authority is further committed to the continual improvement of Quality Management System (QMS) processes and services and compliance with the requirements of ISO 9001:2015 international standard to achieve customer satisfaction.

b) The Authority initiated certification process for ISO 14000 on Environmental Management Systems (EMS) Standard. Awareness training was done for all NEMA section Heads and the Sustainability Committee.

Conclusion

I thank the Government and the development partners for their financial support that has enabled NEMA to fulfil its mandate. I extend our gratitude to the Board of Management for their invaluable support and provisions of strategic leadership that was critical in achievement of the Authorities objectives. Special appreciation goes to NEMA Management and staff for their relentless effort and dedication in delivering services to our esteemed customers. Finally, I wish to extend my sincere gratitude to the Kenyan Citizenry for their support in the delivery of a clean and healthy environment for all.



.....
Mr. Mamo B. Mamo
Ag. Director General



.....
Date
Nairobi

VI. CORPORATE GOVERNANCE STATEMENT

Establishment and composition of the board:

The Board of Management of the National Environment Management Authority (NEMA) is established under revised Environmental Management and Co-ordination Act (EMCA) 2015 cap 387. It is made up of eight independent non-executive directors who consist of a Chairperson appointed by the President for a period of four years and seven directors appointed by the Minister of Environment for a period of four years. The other members of the Board are the Principal Secretary, Ministry of Environment and Natural Resources, the Director General, Board Secretary appointed by the Board, the Principal Secretary, National Treasury, the Attorney General and the State Corporations (Inspectorate General).

In considering nominations for appointment to the Board, gender and diversity of experience is taken into consideration. Professional qualifications of Board members is further provided for in EMCA which stipulates that no person shall be appointed to the Board, unless such person holds at least a post-graduate degree from a recognized university in the field of environmental law, environmental science or natural resource management or a relevant social science and in the case of the Director-General, has at least fifteen years' working experience in the relevant field.

The Board exercises leadership, enterprise, integrity and judgement in managing the Authority. The Directors are provided with full, appropriate and timely information that enables them to maintain full and effective control over the strategic, financial, operational and compliance issues.

The day-to-day running of the operations of the Authority is delegated to the Director General but the Board of Management is responsible for establishing and maintaining the Authority's system of internal controls for the realization of the Authority's mandate.

All members of the Board of Management are taken through a comprehensive induction programme and adequately trained on their roles through various corporate governance trainings. The Directors are professional, committed and guided by the mission, vision and core values of the Authority in the execution of their duties. At the end of each financial year, the Board, its Committees, individual directors and the Director General are evaluated by an independent body against targets agreed to at the beginning of the year.

Board Committees:

The Board is assisted in its work by Board Committees attending to specific matters. The Committees report to and remain accountable to the Board for all their activities. The Board Committees' main function is to reinforce the wholeness of the Board's responsibility.

The Board has three standing committees which meet at least once per quarter and work under the terms of reference set by the Board. The membership of all the Committees is reviewed on a regular basis by the Board.

Finance and Human Resource Committee

The primary responsibility of Finance and Human Resource Committee is to provide advice to the Board on NEMA's financial and human resource management, performance and their financial implications.

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The Committee reviews quarterly financial, human resource and procurement reports and recommends to the Board ways of raising and utilizing the Authority's funds and human resources and the establishment of systems and procedures for efficient financial management.

The Committee advises the Board on NEMA's human resource policies and guidelines which include the scheme of establishment and career progression and terms and conditions of service for the staff of the Authority.

During the financial year, the following were the members of the Committee:

- a) Mr. Charles Oluchina- Chairperson
- b) Principal Secretary, Water and Natural Resources
- c) Director General
- d) Prof. Barnabas Mitaru
- e) The Attorney General
- f) Principal Secretary National Treasury

Audit, Governance and Risk Management Committee

The scope of this Committee includes risk management, as well as compliance with the regulatory requirements. The Audit Committee broadly oversees NEMA's standards of integrity and behaviour, reporting of financial information and internal control systems.

Its members were:

- a) Dr. Susan Mwamlole- Chairperson
- b) PS- Water and Natural Resources
- c) The Attorney General
- d) Principal Secretary, National Treasury
- e) Ms. Caroline Sonje
- f) Mr. Charles Oluchina

Environmental Management and Conservation Technical Committee

The Committee is charged with determining NEMA's vision, mission, values and providing strategic direction of the Authority. The Committee reviews policies on environment management and conservation, channelling research findings, communication, and management of compliance, enforcement policies and procedures, management of legal and legislative issues, advice on environmental impact assessment and audit policies and processes.

The Committee's membership was as follows:

- a) Prof. Barnabas Mitaru-Chairperson
- b) Dr. Susan Mwamlole
- c) Director General
- d) Mr. Charles Oluchina
- e) Ms. Caroline Sonje

Meetings

The table below is a summary of the meetings which were held by the Board and Committees in the period under review.

Name	Regular Meetings	Special Meetings	Total Meetings
Board of Management	4	5	9
Finance and Human Resources	4	8	12
Audit, Governance and Risk Management	4	3	7
Environment Management and Conservation Technical Committee	4	6	10

The Role of the Board

As guided by EMCA, the State Corporations Act, Cap 446 and other relevant laws of Kenya, the Board's role is to provide effective leadership and control, in terms of approving the NEMA's strategy and ensuring best practice of corporate governance.

The Board retains full and effective control over the Authority by monitoring the implementation of Board plans and strategies, review of management accounts and major capital expenditure. It reviews processes for the identification and management of risks as well as those concerning compliance with key regulatory and legal areas.

The Board also reviews the NEMA's succession plans for the management team and endorses senior executive appointments, organisational changes and remuneration matters. It is concerned with key elements of the governance processes which sustain the operations of the Authority, performance reporting processes as well as other disclosure requirements.

On a quarterly basis, the Board considers reports from each Board Committee. The Board meets at least once a quarter. The calendar of meetings is prepared annually in advance and detailed papers to be discussed are made available to Directors in good time before the meeting.

Board effectiveness

The independence of the Board from the NEMA's corporate management is ensured by the separation of the functions of the Chairperson and Director General and a clear definition of their responsibilities.

The Chairperson is a non-executive Director and is primarily responsible for providing leadership to the Board while the Director General is responsible for the day-to-day management of the Authority. This achieves an appropriate balance of power, increased accountability and improved capacity for decision making.

The Board has a Board Charter to facilitate its governance system. Each Board member has signed the Charter.

Director's remuneration

In accordance with guidelines provided in the State Corporations Act, the Directors are paid taxable sitting allowance for every meeting attended, as well as travel and accommodation allowance while on the Authority's duty. The Chairman is also paid a monthly honorarium.

Statement of Compliance

The Board of Directors confirms that National Environment Management Authority has throughout the 2017/2018 financial year complied with the entire Statutory and Regulatory requirement and that the Authority has been managed in accordance with the principles of Corporate Governance.

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Internal control and risk management:

Internal Control

The Directors are responsible for reviewing the effectiveness of the Authority's system of internal control which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorized use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

Standing Instructions

The Authority has a Code of Ethics and Service Charter that is applicable to all employees. These are two of a number of Standing Instructions to employees of the Authority designed to enhance internal control. The Authority has also designed a set of standing instructions to be followed in the management of various functions in the organization.

Organization Structure

A clear organizational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements. Training plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the Authority can meet its future management requirements.

Strategic Plan

The business of the Authority is determined by the Strategic Plan. The Strategic Plan sets out the objectives of the Authority, and the annual targets to be met to attain those objectives. The Strategic Plan is evaluated annually to assess the achievement of those objectives. The Board on an annual basis approves the work plan supported by the financial plan for the year. Progress against the plan is monitored on a quarterly basis.

Internal Control Framework

The Authority continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. Business processes and controls are reviewed on an on-going basis. A risk-based audit plan, which provides assurance over key business processes and operational and financial risks facing the Authority, is approved by the Audit Committee.

The Audit Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board. Where weaknesses are identified, the Audit Committee ensures that management takes appropriate action. No significant failings or weaknesses were identified during 2016/17.

Risk Management

The Authority has a structure and process to help identify, assess and manage risks. The process was in place for the period up to the time this report was approved. This team reviews all the risks in the Authority and updates the risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The identified risks are reported to the Audit Committee to assist the Board in the management of risk.

Management Team

The management team headed by the Director General implements the Board decisions and policies through action plans. The team meets regularly to review these action plans to ensure that the Board's objectives are achieved effectively and efficiently. Such policies developed include the Anti-corruption policy, Disability, Gender and HIV mainstreaming, the ICT policy, among others.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

Operational Performance

During the period ending 30th June 2018, guidelines for the preparation of Environmental Action Plans (EAPs) were developed by NEMA and launched by the Cabinet Secretary, Ministry of Environment and Natural resources. The Authority facilitated four regional capacity building workshops on the use of the EAP guidelines in the preparation of County Environment Action Plans (CEAPs) with an aim to harmonize and identify Trans-boundary, emerging, and Prevalent/widespread environmental issues for incorporation into the NEAP. A draft NEAP has also been developed. Another milestones achieved was the gazettement of the ban of the plastic carrier bags which took effect on 28th August, 2017. The ban was meant to protect the environment from negative effects which are non-biodegradable. This was through a gazette notice No. 2536 of 28th February, 2017, which banned the use, manufacture and importation of plastic carrier bags. The development of the SOE is done once every two years. The Authority is in the process of preparing 2016/2018 State of the Environment Report (SOE) and will be presented to the National Assembly for adoption.

The Authority undertakes a core function of educating the public and creating environmental awareness in the country. Some of the activities undertaken include:-

- Participation in ASK Shows and international trade fairs and educating the public on environmental matters of concern to them.
- Stakeholders' meeting with the registered Environmental Experts and with them the Authority's vision as far as environmental assessment is concerned.
- Construction of Green Points to serve as resource centres for local communities in entrenching green technologies.
- Stakeholder's sensitization meetings on different regulation to promote compliance with the said regulations.
- Carry out environment exhibitions on diverse forums to educate the public as well as stakeholders on current environmental obligations and responsibilities.
- Develop, publish and disseminate diverse relevant materials for diverse stakeholders to spread awareness on the environment.
- Conduct one award for best environmental practices annually.
- Held the second national RCEs conference with all the RCEs in the country with a view to forge partnerships and learning experiences amongst them.
- Hosted and participated in World Clean-up Day, World Environment Day, World Oceans Day, World Wetlands Day and World Day to Combat Desertification.
- The promotion of Education for Sustainable Development (ESD) in Kenya, such as the waste management project in Ngong and a botanical garden at the coast. Consultations were also held with two County Education Boards of Muranga and Kakamega on mainstreaming sustainability within the educational sector through training on Education for Sustainable Development.
- Adopt - a - River Project for Nairobi Rivers has also been initiated. The project was aimed at Mobilizing and Empowering Youths to Champion Monitoring and Restoration of Rivers and other Wetlands within Nairobi River Basin. This is a 'people-driven' wetlands monitoring and restoration project that is being piloted within Nairobi River Basin before up scaling to other parts of the country.

Financial Performance

The allocations received from the exchequer as recurrent disbursements increased from KES 615 million to KES 885 million this was to cover for the abolishment of the levies charged by the Authority for various services by the government.

The Authority was however able to collect KES 153 million as Appropriation in Aid from licensing. This was a decrease of 62% over the KES 404.1 million collected previous year. This decrease was due to abolishment of the levies charged by the Authority.

The development partners disbursed KES 303 million. The Authority's expenses were KES 1.48 billion. This represents 5% increase from last years of KES 1.41 billion. Staff costs still remain the major cost component accounting for 58% of total expenses.

Key Projects

In an effort to digitize operations, a Mobile Application for incident reporting, Knowledge Management System and Reengineered MS Navision ERP were developed. The Mobile Application dubbed 'NEMA Incident Reporter' has given the public opportunity to report environmental incidences using their mobile phones, where such information is subsequently relied to the Incident Management System. With internet connectivity in most NEMA's county offices, the Authority developed a Knowledge Management System which manages the authority's shared corporate knowledge. The KMS has enhanced storage, retrieval and improved communication and knowledge sharing within the organization. In addition it has a module for monitoring and evaluation, county profiles and business intelligence reporting for easy decision making. Reengineering of MS Navision ERP system has eased the functions of finance, procurement and Human resources thus improving efficiency and effectiveness in service delivery.

Green technology has become a common phenomenon in the recent past. The National Environment Management Authority continues to promote the Green Economy concept through the establishment of Green Points in various ecological zones of the country.

So far, seven centres of Green Points have been completed and operationalized. These are; Taita Taveta, Isiolo, Homa Bay, Embu, Kajiado, Lamu and Kilifi. The Elgeyo Marakwet Green Point is under construction and the Authority is considering other Green points in Samburu, Nandi, Marsabit, Nyandarua, and Siaya.

These Green Points have been constructed through funding support from DANIDA and the World Bank.

Entity's compliance with statutory requirements

During the year the Authority complied with all Statutory and Regulatory requirement and there are no major non-compliance issues that may expose the Authority to potential contingent liabilities.

Major risks facing the entity

The Authority has a structure and process to help identify, assess and manage risks. The process was in place for the period. This team reviews all the risks in the Authority and updates the risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The identified risks are reported to the Audit Committee to assist the Board in the management of risk.

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Material arrears in statutory/financial obligations

There were statutory obligations at year end KES 74.3 million and major financial obligations totalling to KES 190.6 million for the year mainly caused by failure to receive Government recurrent fund KES 324.9 million as per the supplementary budget.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Corporate social responsibility (CSR) has become one of the standard business practices of our time. For companies committed to CSR it means kudos and an enhanced overall reputation – a powerful statement of what they stand for in an often cynical business world.

Social and environmental responsibilities are an integral part of the Authority's practices. To ensure a harmonised and orderly approach to our CSR activities, we developed our CSR policy.

We have over the years strived to mainstream environmental conservation in the development of the country so as to ensure the sustainable development of the country. In order to attain this, we have mainstreamed environmental sustainability in the performance contracts of all government institutions. We visit these institutions and assist them be more environmentally conscious in their activities. This is done at the Authority's cost.

We worked closely with the several communities especially the weak and vulnerable. Several activities to commemorate world environment events were organised and held with these communities.

During the financial year 2017/18, the Authority carried out the following CSR activities;

The Authority participated in the Ndakaini Half Marathon held on 30th September 2017. This marathon was started under the auspices of Ndakaini Dam Environment Conservation Association (NDEKA). The theme for this year's edition was 'Run for water, in good company' is held annually to generate funds towards supporting the conservation of the Ndakaini Dam that seats 2041 metres above the sea level with a capacity of 70,000,000M3. The mission of NDEKA is to support sustainable supply of safe water to the Ndakaini dam, the source of water for Nairobi City, through conservation to the catchment area and the empowerment of the local community to develop viable social economic enterprise associated with the dam.

The Authority has endeavoured to partner with various organisations to enhance environment education with various targeted groups. As part of the CSR, Nema partnered with some faith-based organisation in educating the groups on alternatives they should adopt in place of the plastic carrier bags in wake of the ban on plastic bags which took place on 28th August 2017. The Authority mounted exhibitions and further gave talks on the available alternatives to congregants from the Friends Church (Quakers) Nairobi and Liberty Christian Centre on different occasions.

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IX. REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 30th June 2018, which disclose the state of affairs of the Authority.

Principal activities

The principal activities of the Authority are to exercise general supervision and co-ordination over all matters relating to the environment and to be the principal Instrument of Government in the implementation of all policies relating to the environment.

Results for the year

The deficit for the year of KES 138 million has been charged to Revenue Reserves.

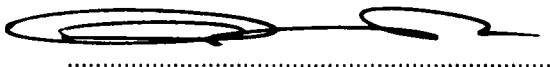
Directors

The directors who held office during the year and to the date of this report are set out on in earlier sections of the report.

Auditors

The Auditor-General is responsible for the statutory audit of the Authority in accordance with Article 229 of the constitution of Kenya and the Public Audit Act, 2015. The Auditor General continues in office in accordance with the constitution of Kenya.

FOR AND ON BEHALF OF THE BOARD OF MANAGEMENT.



.....
Mr. John Konchellah

Chairman

29/07/2018

.....
Date

Nairobi

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Section 14 of the State Corporations Act require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the entity at the end of the financial year/period and the operating results of the entity for that year/period. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.

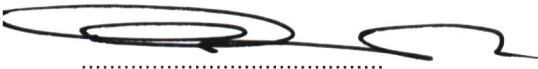
The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial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

The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2018, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the entity 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 Authority's financial statements were approved by the Board on 27/09/2018 and signed on its behalf by:



Mr. John Konchellah
Chairman

Date..... 29/07/2019



Mr. Mamo B. Mamo
Ag. Director General

Date..... 29/09/2019



Mr. Michael Omusula
For: Director Finance & Administration

Date..... 27/09/2018



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements National Environment Management Authority set out on pages 1 to 23, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year 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 National Environment Management Authority as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Environment Management and Coordination (Amendment) Act, 2015.

Basis for Qualified Opinion

1. Going Concern

As previously reported, the Authority recorded a loss of Kshs.138,191,000 (2017 Loss: Kshs.174,554,000) thereby increasing the cumulative losses to Kshs.32,419,000 as at 30 June 2018. Further, the statement of financial position reflects current liabilities balance of Kshs.651,931,000 which exceeds current assets balance of Kshs.531,751,000 resulting to a negative working capital of Kshs.120,180,000 (2017 Kshs.19,586,000).

In the circumstances, the Authority is therefore technically insolvent and its' continued existence as a going concern is dependent upon the financial support of the Government and its creditors.

2. Property, Plant and Equipment

Note 20 to the financial statements reflects the net book value of property, plant and equipment of Kshs.294,626,000 as at 30 June 2018 which does not include the value

Report of the Auditor-General on the Financial Statements of National Environment Management Authority for the year ended 30 June 2018

of (9) parcels of land where County Green Points have been established but which are not registered in the name of the Authority even after some buildings constructed having been capitalized. The areas include Kilifi, Lamu, Taita Taveta, Homa Bay, Isiolo, Embu, Kajiado, Elgeyo Marakwet, and Samburu.

Consequently, it has not been possible to confirm the accuracy, completeness and ownership of the property, plant and equipment balance of Kshs.294,626,000 as at 30 June 2018.

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

Emphasis of Matter

Assets Valuation Policy

Although it is indicated that the Authority regularly revalues its assets, the note does not clarify how regularly this should be carried out. The Financial Management Manual for the Authority does not have clear policy guidelines to guide the management in the valuation of its assets. In addition, International Public Sector Accounting Standard Section 42, requires an entity to choose either the cost model in paragraph 43 or the revaluation model in paragraph 44 as its accounting policy and shall apply that policy to the entire class of property, plant and equipment. IPSAS 17 further requires that revaluation should be carried out regularly, so that the carrying amount of an asset does not differ materially from its fair value at the balance sheet date.

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. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Budget Analysis

Under Funding

The Authority had an approved grant of Kshs.1,200,000,000 recurrent and Kshs.55,000,000 for development. During the period, it received Kshs.875,078,000 or (73%) for recurrent and nil amount for development resulting to an underfunding of Kshs.324,922,000 and Kshs.55,000,000 (27% and 100%) respectively. Further, the Authority budgeted to receive Kshs.509,000,000 as donor grants but ended up

receiving Kshs.303,393,000 representing 60%. With such huge revenue shortfall, the Authority may not be able to discharge its mandate as envisaged in Environment Management and Coordination (Amendment) Act, 2015.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Report 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

Environment Impact Analysis (EIA) Fees Abolishment

During the year under review, the Authority incurred a shortfall in self-generated revenue of Kshs.250,974,000 as indicated at note 7 to the financial statements due to abolishment of Environmental Impact Assessment (EIA) fees. The abolishment was approved through a Cabinet decision and was communicated through a letter ref. OP/CAB/58/4A dated 22/11/16 by the Chief of Staff and Head of Public Service. A legal notice amending the existing law on abolishment of fees was not however availed for audit and the management was not in a position to explain the way forward. The charging of the fees was initially approved and mandated through an Act of parliament thus poses a legal challenge as the intended purpose of the fees may no longer have a backing of Environmental Management and Co-ordination Act, 2015 and the Authority may not be able to accomplish its mandate as stipulated in the Environmental Management and Co-ordination (Amendment) Act ,2015.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion 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 overall governance were not effective.

Report of the Auditor-General on the Financial Statements of National Environment Management Authority for the year ended 30 June 2018

Basis for Conclusion

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

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

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

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists.

*National Environment Management Authority
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I. STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2018

	Notes	2018 Kshs '000'	2017 Kshs '000'
Revenue from non-exchange transactions			
Government grants - recurrent	4	885,078	615,026
Government grants - development	5	-	18,302
Donor funds	6	303,393	195,475
		1,188,471	828,803
Revenue from exchange transactions			
Revenue receipts	7	153,197	404,171
Interest received	8	-	709
Other income	9	3,058	1,989
		156,255	406,869
Total revenue		1,344,725	1,235,672
Expenditure			
Staff costs	10	862,291	765,205
Administrative costs	11	236,732	322,120
Board expenses	12	21,676	59,632
Project expenses	13	295,555	173,627
Depreciation expense	14	35,096	47,135
Repairs and Maintenance	15	11,920	19,589
Utilities	16	19,646	22,918
Total Expenditure		1,482,916	1,410,226
Deficit		(138,191)	(174,554)

The notes set out on pages 6 to 23 form an integral part of the Financial Statements.

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XII. STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	2018 Kshs '000'	2017 Kshs '000'
Assets			
Current assets			
Cash and cash equivalents	17	302,074	424,054
Receivable from non-exchange transactions	18	206,396	282,762
Inventories	19	23,281	22,078
		<u>531,751</u>	<u>728,894</u>
Non-current assets			
Property, plant and equipment	20	276,695	249,563
Capital Work in Progress		17,931	26,899
		<u>294,626</u>	<u>276,462</u>
Total assets		<u>826,377</u>	<u>1,005,356</u>
Liabilities			
Current liabilities			
Payables from exchange transactions	21	504,999	684,603
Employee benefits obligations	22	91,851	19,411
Provisions	23	55,081	44,466
Total liabilities		<u>651,931</u>	<u>748,480</u>
Net assets		<u>174,446</u>	<u>256,876</u>
Equity			
Capital Fund	24	175,473	175,473
Revenue Reserves	24	(32,419)	(56,237)
Revaluation Reserves	24	31,392	137,640
Total equity		<u>174,446</u>	<u>256,876</u>

The Financial Statements set out on pages 1 to 23 were signed on behalf of the Board of Directors by:




Mr. John Konchellah
Chairman

Mr. Mamo B. Mamo
Ag. Director General



Mr. Michael Omusula
For: Director Finance & Administration
ICPAK Member Number: 7214

Date: 29/07/2019 Date: 29/07/2019 Date: 27/09/2018

XI STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30 June 2018

	Note	Accumulated Fund Kshs '000'	Revenue Reserve Kshs '000'	Revaluation Reserve Kshs '000'	Total Kshs '000'
At 1st July 2016		175,473	99,164	137,640	412,277
Prior year adjustment		-	19,153	-	19,153
Net deficit for the year		-	(174,554)	-	(174,554)
At 30th June 2017		175,473	(56,237)	137,640	256,876
At 1st July 2017		175,473	(56,237)	137,640	256,876
Prior year adjustment	25	-	162,010	(106,248)	55,762
Net deficit for the year		-	(138,191)	-	(138,191)
At 30th June 2018		175,473	(32,419)	31,392	174,446

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XIV. **STATEMENT OF CASH FLOWS**

For the year ended 30 June 2018

	Notes	2018 Kshs '000'	2017 Kshs '000'
Cash flows from operating activities			
Deficit for the year		(138,191)	(174,554)
Adjustments for:			
Tax expense		-	263
(Gain)/Loss on disposal of property, plant & equipment	9	(419)	945
Interest received	8	-	(709)
Depreciation of property, plant & equipment	14	35,096	47,135
Accumulated depreciation adjusted	20	27,587	-
Prior year adjustment	25	55,762	19,153
Operating (loss) before working capital changes		(20,165)	(107,766)
Changes in operating assets and liabilities			
(Increase)/decrease in trade and other receivables		76,367	(127,664)
Increase/(decrease) in trade payables from exchange transactions		(179,604)	(61,859)
Increase/(decrease) in employee benefits obligations		72,440	(15,079)
Increase/(decrease) in provisions		10,615	5,416
(Increase)/ decrease in inventories		(1,203)	2,821
Cash used in operations		(41,551)	(304,131)
Tax paid		-	(263)
Net cash used in operating activities		(41,551)	(304,394)
Cash flows from investing activities			
Purchase of property, plant and equipment	20	(81,354)	(55,803)
Proceed from disposal of property, plant & equipment		925	1,036
Interest received	8	-	709
Net cash used in investing activities		(80,429)	(54,058)
Net (decrease) in cash and cash equivalents		(121,980)	(358,452)
Cash and cash equivalents at start of year		424,054	782,506
Cash and cash equivalents at end of year	17	302,074	424,054

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XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

For the year ended 30 June 2018

	Original budget 2017-2018	Adjustment 2017-2018	Final budget 2017-2018	Actual on comparable basis 2017-2018	Performance difference 2017-2018	
Revenue	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	
Recurrent Grant	900,000	300,000	1,200,000	875,078	(324,922)	a)
Recurrent Grant - Other	-	-	-	10,000	10,000	
Development Grant	55,000	-	55,000	-	(55,000)	b)
Revenue Receipts	90,000	-	90,000	153,197	63,197	c)
Donor Funds	509,000	-	509,000	303,393	(205,607)	d)
Other Income	-	-	-	3,058	3,058	
Total income	1,554,000	300,000	1,854,000	1,344,725	(509,275)	
Expenses						
Personnel Expenses	750,000	50,000	800,000	773,267	26,733	e)
Staff Expenses	5,600	3,520	9,120	7,426	1,694	f)
Communication Expenses	17,000	10,550	27,550	16,943	10,607	g)
Printing & Stationery	5,500	2,200	7,700	3,781	3,919	h)
Staff Training Expenses	23,600	10,600	34,200	19,733	14,467	i)
Resource Center Expenses	1,000	2,500	3,500	2,368	1,132	j)
Travelling & Accommodation	36,500	46,700	83,200	70,963	12,238	k)
Motor Vehicle Expenses	36,000	16,200	52,200	52,306	(106)	l)
Computer Expenses	8,000	4,300	12,300	13,039	(739)	m)
Consultancy & Professional Fees	1,080	1,050	2,130	2,394	(264)	n)
Publicity and Communication	800	5,800	6,600	6,278	322	o)
Board Expenses	20,700	9,300	30,000	21,676	8,324	p)
Office Running Expenses	15,000	6,700	21,700	19,007	2,693	q)
Insurance Expenses	63,500	6,500	70,000	61,691	8,309	r)
Office Rent & Land Rates	23,000	11,500	34,500	29,573	4,927	s)
Office Utilities	9,000	6,000	15,000	10,998	4,002	t)
Maintenance and Repairs	13,000	5,850	18,850	4,197	14,653	u)
Bank Charges	720	730	1,450	1,372	78	v)
Depreciation Expenses	-	50,000	50,000	35,096	14,904	w)
Environmental Expenses	15,000	50,000	65,000	35,252	29,748	x)
Project Expenses	509,000	-	509,000	295,555	213,445	y)
Total expenditure	1,554,000	300,000	1,854,000	1,482,916	371,084	
Deficit for the period	-	-	-	(138,191)	(138,191)	z)

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (CONTINUED)

Notes on the significant variances

- i) a) Non remittance of KES 324.9 Million recurrent grant as per the original budget and supplementary budget.
- ii) b) Development grant KES 55 Million was not received.
- iii) c) More revenue receipts collected of 63 Million above the budget.
- iv) d) Deficit of 205.6 million was caused by poor absorption of Adaptation funds.
- v) e) – y) The supplementary recurrent allocation of KES 300 million was not disbursed therefore the Authority was unable to execute the budgeted activities.
- vi) z) The deficit of 138 Million has been caused by failure to receive part of the government recurrent grant 324.9 Million.

VI. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation – IPSAS 1

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the 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 Note 3n.

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

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

2. Adoption of new and revised Standards

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard	Impact
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach. The entity has engaged a pension fund provider and does not operate a defined benefit scheme and therefore the standard does not apply.

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

3. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Fees (Licences)

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

The Authority collected KES 153 million from licence fees compared to KES 404.1 million in previous year (62% decrease).

Transfers from other government entities

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

The total revenue received from government and other development partners was KES 1.19 billion compared to KES 828.8 million in previous year.

ii) Revenue from exchange transactions – IPSAS 9

Revenues from exchange transactions are recognised at the fair value of the consideration received of receivable.

Interest income

No interest income was received in the year.

Rental income

No rental income was received in the year.

Donor funds

An amount of KES 303 million was received from various donors. The donations are recognised by the Authority when received and any unexpended fund at the end of period adjusted to unspent donor fund.

b) Budget information – IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Taxes – IAS 12

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. 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.

Following amendments to the Public Finance Management Act regulations, NEMA is no longer required to pay corporate taxes but to remit 90% of its surplus funds to Kenya Revenue Authority.

d) Property, plant and equipment – IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. Assets valued at KES 81.3 million were acquired during the financial year.

e) Intangible assets – IPSAS 31

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite. The Authority has an ERP Navision system included in list of assets.

f) Inventories – IPSAS 12

Inventories of consumable nature are stated at the lower of cost and net realizable value. Cost comprises the purchase price and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of selling the item. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity. During the year the Authority had a closing stock of consumable stock valued at KES 23.3 million.

g) Provisions – IPSAS 19

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Authority expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

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The Authority has recognized provisions of goods and services amounting to KES 55 million as compared to KES 44.4 million in the previous period.

Contingent liabilities

The Authority recognizes a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. Sources of contingent liabilities are mainly legal litigations.

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

h) Changes in accounting policies and estimates – IPSAS 3

The Authority recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

i) Employee benefits – IPSAS 25

Retirement benefit plans

The Authority provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable. The Authority contributes to a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The assets of this scheme are held in a separate trustee administered fund. The company's contributions to the defined contribution retirement benefit scheme are charged to the income statement in the year to which they relate. The scheme is funded by contributions from both the employees and employer. Benefits are paid to retiring staff in accordance with the scheme rules.

j) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

k) 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 various commercial banks at the end of the financial year. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held on call with banks, net of bank overdrafts. In the balance sheet, bank overdrafts are included within borrowings in current liabilities.

l) Comparative figures

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

m) Subsequent events – IPSAS 14

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, 2018.

n) Significant judgments and estimates

In the process of applying the Authority's accounting policies, management has made estimates and assumptions that affect the Authority. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future revenue flows that are believed to be reasonable under the circumstances. The key areas of judgment in applying the Authority's accounting policies are dealt with below:

Critical judgments in applying the Authority's accounting policies

The Authority makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair values of financial instruments

The Authority uses judgment to select a variety of methods and make assumptions that are mainly based on both historical costs and market conditions existing at each balance sheet date.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Property and equipment

Critical estimates are made by the Authority in determining depreciation rates of property and equipment.

Intangible assets

Critical estimates are made by the Authority in determining amortization rates of intangible assets.

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 asset
- Changes in the market in relation to the asset

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All property, plant and equipment are initially recorded at cost and thereafter stated at historical cost less depreciation. Depreciation is calculated on straight line method to write down the cost of each asset to its residual value over its estimated useful life using the following per annum rates:

Motor vehicle	25%
Furniture & fittings	12.5%
Computer, printers and software	30%
Office equipment	12.5%
Buildings	2.5%

Gain/ (Loss) on disposal is recognized in the statement of comprehensive income.

	2018 Kshs '000'	2017 Kshs '000'
4 Government grant - recurrent		
National Environment Management Authority (NEMA)	875,078	615,026
Government grant Other	10,000	-
	885,078	615,026

	2018 Kshs '000'	2017 Kshs '000'
5 Government grant - development		
National Environment Management Authority (NEMA)	-	18,302
	-	18,302

	2018 Kshs '000'	2017 Kshs '000'
6 Donor funds		
Danida NRM Project	3,063	57,378
KCDP World Bank	-	1,799
Adaptation Fund Income	158,069	61,850
Exchange Gain (Adaptation Fund)	-	6,273
UNEP NCNSA	818	1,425
GIZ Proklima	-	-
DANIDA GGECF	127,880	60,000
Other Donor funds (TNA, SNC, ABS)	13,562	6,749
	303,393	195,475

	2018 Kshs '000'	2017 Kshs '000'
7 Revenue receipts		
EIA Registration fees	-	13,631
Water Quality	72,351	71,575
Waste Management	19,925	17,060
Biodiversity	410	335
Ozone Depleting Substances	290	405
Noise Pollution	412	1,257
EIA Income	18,223	269,829
Direct bank credits	39,787	30,078
Air quality	1,800	0
	153,197	404,171

	2018 Kshs '000'	2017 Kshs '000'
8 Interest received		
Interest received	0	709
	0	709

2018	2017
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9 Other Incomes	Kshs '000'	Kshs '000'
Canteen Services	-	300
Donations	2,150	1,301
Miscellaneous Income	489	388
Gain on Disposal	419	-
	<u>3,058</u>	<u>1,989</u>
10 Expenditure	2018	2017
Staff Costs	Kshs '000'	Kshs '000'
Personal Emoluments	684,363	580,838
Employer's Pension/Gratuity	88,124	78,318
Employer's NSSF Contribution	953	912
Training Expenses	19,733	32,319
Medical Insurance Expense	61,691	58,394
Staff welfare expenses	7,426	14,424
Human Resources policy	-	-
	<u>862,291</u>	<u>765,205</u>
11 Administrative expenses	2018	2017
	Kshs '000'	Kshs '000'
Local Travelling & Accommodation	67,022	104,607
Foreign Travelling & Accomodation	3,767	10,201
Rent	29,573	21,438
Regional/ County Operation Expenses	11,562	24,153
EIA Expenses	16,601	30,611
Office & General Supplies & Services	37,291	42,286
Fuel and lubricants	42,663	31,105
Contracted Professional Services	1,814	22,023
Corporation tax	-	263
Provision for Audit fees	580	580
Other Administrative Expenses	25,859	34,852
	<u>236,732</u>	<u>322,120</u>
12 Board expenses	2018	2017
	Kshs '000'	Kshs '000'
Board and Committee Expenses	20,606	58,357
Honoraria	1,065	965
Medical Insurance cover	5	310
	<u>21,676</u>	<u>59,632</u>
13 Project expenses	2018	2017
	Kshs '000'	Kshs '000'
UNEP NCSA Project expenses	873	197
NRM DANIDA Project expenses	3,063	15,204
UNEP GEF Project expenses	-	-
IDF World Bank Grant	-	-
GTZ Ozone Depleting Substances	382	-
River Sosiani Basin Expenses	-	246
KCDP World Bank Project expenses	-	1,996
Access & Benefit Sharing Expen.	9	13
UNIDO Expenses	-	-
UNFCCC SNCC Expenses	9	77
UNFCC TNA Expenses	8	11
Adaptation Fund (NIE) Expenses	158,069	61,850
Exchange loss	5,263	-
GGECP Expenses	127,880	94,033

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	295,555	173,627
	2018	2017
	Kshs '000'	Kshs '000'
14 Depreciation expense	35,096	47,135
Property, plant and equipment	35,096	47,135
	2018	2017
	Kshs '000'	Kshs '000'
15 Repairs and Maintenance	2,214	5,114
Building	1,982	846
Equipment	287	407
Computer and networks	7,437	13,223
Vehicles	11,920	19,589
	2018	2017
	Kshs '000'	Kshs '000'
16 Utilities	1,641	1,134
Electricity Expenses	1,062	839
Water & Conservancy	10,901	5,895
Telephone Expenses	2,240	10,562
Internet Services	3,802	4,487
Postal & Telegrams	19,646	22,918
	2018	2017
	Kshs '000'	Kshs '000'
17 Cash and Bank Balances	4,658	63,189
a) Bank Balances	35,719	35,718
KCB Development Account [Acc No.1102292354]	5,820	11,341
KCB Restoration Account [Acc No.1101628758]	54,181	(468)
KCB Revenue Account [Acc No.1102298158]	0	0
KCB Gateway Recurrent [Acc No.1112705546]	723	795
KCB Gateway EPS Project [Acc No.1112714359]	1,556	1,642
KCB Nairobi Regional Account [Acc No.1144988209]	8	1
KCB Coast Regional Account [Acc No.1145067611]	34	852
KCB Eldoret Regional Account [Acc No.1144811988]	30,471	62,424
KCB NCNSA Project [Acc No.1135682763]	519	526
KCB NRM Project Account [Acc No.1119972434]	2,370	2,377
KCB ABS Project Account [Acc No.1127404164]	157	162
KCB SNC Project Account [Acc No.1144217628]	96,196	224,917
KCB TNA Project Account [Acc No.1144217865]	33,823	-
KCB Adaptation Fund [Acc No.1165595192]	22,720	2,300
KCB Adaptation Fund [Acc No.1218639164] KSH	1,144	1,145
KCB GGECF Project [Acc No.1204171068]	3,679	3,679
COOP Revenue Account [Acc No.1100030858900]	-	5,075
CBA CBF (Biodiversity) [Acc No.6587230044]	5,285	5,292
Stanchart KCDP Project Account [Acc No.0108016188409]	299,065	420,969
BBK Pension Account [Acc No.708165964]		
b) Cash in Hand	6	81
Nema Hq		
c) Mpesa Holding	3,003	3,003
Mpesa		
Total Cash and bank balance	302,074	424,054

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	2018	2017
	Kshs '000'	Kshs '000'
18 Trade and other receivables		
Outstanding Advance - NEMA	20,821	45,022
Outstanding Advance - PCC	-	-
Receivable due to Adaptation Fund	172,080	225,905
Grant Receivable - Development	-	-
Other debtors	13,495	11,836
	<u>206,396</u>	<u>282,763</u>

	2018	2017
	Kshs '000'	Kshs '000'
19 Inventories		
Consumable stores	23,281	22,078
	<u>23,281</u>	<u>22,078</u>

20 Property, plant and equipment

	Buildings	Motor Vehicles	Furnitures & Fittings	Computers & Printers	Intangible Asset	Office Equipment	Capital Work In Progress	Total
	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'
	2.5%	25%	12.5%	30%	30%	12.5%	-	-
Cost								
1st July 2016	96,344	95,270	49,598	28,471	6,696	22,172	15,527	314,079
Additions	-	27,780	7,747	7,301	-	1,603	11,372	55,803
Disposal	-	(3,800)	(88)	-	-	(21)	-	(3,909)
	<u>96,344</u>	<u>119,250</u>	<u>57,258</u>	<u>35,773</u>	<u>6,696</u>	<u>23,754</u>	<u>26,899</u>	<u>365,974</u>
30th June 2017	96,344	119,250	57,258	35,773	6,696	23,754	26,899	365,974
Accumulated depreciation								
1st July 2016	2,408	23,818	5,470	8,072	2,011	2,525	-	44,303
Charge for the year	2,400	24,242	6,316	9,249	2,011	2,919	-	47,135
Accm dep on disposal	-	(1,900)	(22)	-	-	(5)	-	(1,927)
	<u>4,808</u>	<u>46,159</u>	<u>11,764</u>	<u>17,320</u>	<u>4,021</u>	<u>5,438</u>	<u>-</u>	<u>89,512</u>
30th June 2017	4,808	46,159	11,764	17,320	4,021	5,438	-	89,512
Carrying amount								
30th June 2017	<u>91,536</u>	<u>73,090</u>	<u>45,493</u>	<u>18,452</u>	<u>2,675</u>	<u>18,316</u>	<u>26,899</u>	<u>276,462</u>
30th June 2017	91,536	73,090	45,493	18,452	2,675	18,316	26,899	276,462
Cost								
1st July 2017	96,344	119,250	57,258	35,773	6,696	23,754	26,899	365,974
Additions	29,156	25,041	9,733	2,440	-	3,389	11,594	81,354
Disposal	-	(1,600)	-	(23)	-	(6)	-	(1,629)
Transfer	20,563	-	-	-	-	-	(20,563)	-
	<u>146,064</u>	<u>142,691</u>	<u>66,991</u>	<u>38,189</u>	<u>6,696</u>	<u>27,137</u>	<u>17,931</u>	<u>445,698</u>
30th June 2018	146,064	142,691	66,991	38,189	6,696	27,137	17,931	445,698
Accumulated depreciation								
1st July 2017	4,808	46,159	11,812	17,320	4,021	5,390	-	89,512
Charge for the year	381	15,367	3,121	11,135	1,861	3,232	-	35,096
Accm dep on revaluation Adj	2,374	18,131	4,910	-	150	-	-	25,565
Accm dep Prior year Adj	-	1,364	645	3	-	10	-	2,022

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Accm dep on disposal	-	(1,100)	-	(21)	-	(2)	(1,123)	
30th June 2018	7,563	79,921	20,489	28,437	6,032	8,631	-	151,072
Carrying amount								
30th June 2018	138,500	62,770	46,503	9,752	665	18,506	17,931	294,626

	2018	2017
	Kshs '000'	Kshs '000'
21 Trade and other payables from exchange transactions		
Sundry Payables	173,111	151,694
Taxes Payable	3,906	8,654
Unspent donor funds	267,502	463,436
Other Payables	60,481	60,819
	<u>504,999</u>	<u>684,603</u>

	2018	2017
	Kshs '000'	Kshs '000'
Breakdown of Unspent donor funds		
NRM Project	30,471	62,424
ABS Project	519	526
NCNSA Project	34	852
KCDP Project	0	5,075
SNC Project	2,370	2,377
TNA Project	157	162
Adaptation Fund	233,950	392,019
	<u>267,502</u>	<u>463,436</u>

	2018	2017
	Kshs '000'	Kshs '000'
22 Employee benefits obligations		
Net salary	24,574	-
Statutory deductions (PAYE, NHIF, NSSF, HELB)	13,191	-
NEMA Staff Welfare Society	133	-
Staff Housing Scheme	1,260	1,242
Bank Deduction Payable	4,773	119
Insurance Deduction Payable	980	118
Sacco Deduction Payable	7,840	2,928
Pension Fund Payable	21,610	-
Provision for gratuity	-	-
Assurance Cover Payable	17,490	15,005
	<u>91,851</u>	<u>19,411</u>

	2018	2017
	Kshs '000'	Kshs '000'
23 Provisions		
General provisions	55,081	44,466

	2018	2017
	Kshs '000'	Kshs '000'
24 Reserves		
Accumulated Fund		
At start of the year	175,473	175,473
At end of the year	<u>175,473</u>	<u>175,473</u>

	2018	2017
	Kshs '000'	Kshs '000'
Revenue Reserve		
At start of the year	(56,237)	99,164
Prior year Adjustment	162,010	19,153
Deficit	(138,191)	(174,554)
At end of the year	<u>(32,419)</u>	<u>(56,237)</u>

	2018 Kshs '000'	2017 Kshs '000'
Revaluation Reserve		
At start of the year	137,640	137,640
Revaluation Adjustment	(106,248)	-
At end of the year	<u>31,392</u>	<u>137,640</u>

25. Prior year adjustments – IPSAS 3

The prior year adjustments amounting to a total of KES 162.01 million relates to capitalization of various assets previously expensed taking into account the accumulated depreciation for the period the assets have been in use, Certification of Building Works (WIP) transfers to the Class of Land and Buildings previously expensed, also as per IPSAS 17 requirements, Revaluation reserve adjustment of Kshs.106.24 million relates to accumulated depreciation of revalued assets, Kshs. 72.62 million for the previous financial periods, Kshs. 25.56 million for FY 2017/2018 and Kshs. 8.06 million for Capital work in progress.

26. Provisions, Contingent Liabilities and Contingent Assets-IPSAS 19

No contingent liabilities are recognized by the Authority.

27. Related Party Disclosures-IPSAS 20

The Authority has six key management personnel. The managers participate in making key management decisions of the Authority and reports to Board of Management for guidance and the parent ministry for policy direction. The four key managers' remuneration for the financial year ended June 30, 2018 was KES 22 million. The Authority received KES 885 million from the parent ministry as recurrent grant and no development grant was received.

28. Financial Instruments Disclosure-IPSAS 30

Financial assets and liabilities are recognized in the Authority's statement of financial position when the Authority has become a party to the contractual provisions of the instrument. Specific accounting policies adopted by the Authority and are key for financial instruments outstanding at the end of the reporting period are summarized below:

Receivables

Receivables are carried at anticipated realizable value. They comprise mostly of staff debtors and outstanding donor funds committed but not received at the end of the financial year. The staff debtors comprise of imprests and field advances issued and not surrendered. Since the staffs are still in employment, it is probable that the surrenders will be effected in the subsequent year. The donor funds will be released in the next financial since the project is still active.

Payables

Payables are not interest bearing and are stated at their nominal value. They comprise mostly of supplier's goods and services received but not paid and unspent donor funds. In both cases the Authority's contractual relationship does not entail interest risk exposure.

29. Revaluation of Assets-IPSAS 17

The Authority revalues its assets and the amounts reported per each class of the assets in the financial statement measured at fair value. The increase in carrying amount of each class of assets is credited directly to revaluation surplus. The revaluation increase relating to assets within a class is offset against another within that class. There was no revaluation of assets during the period.

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30. Contingent Liabilities -IPSAS 19

The Authority does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

31. FINANCIAL RISK MANAGEMENT POLICIES

The Authority's financial risk management objectives and policies are detailed below:

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in note 2 to the financial statements.

(b) Financial risk management objectives

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks. The Authority's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

(c) Credit risk

The Authority's credit risk is primarily attributable to its limited prepayments notably rent and medical insurance premiums. In both cases the risk is minimal since the prepayments do not in any case exceed one financial year and the Authority does not have her own premises. The amount that best represents the Authority's maximum exposure to credit as at 30th June is made up as follows

	Kshs '000'
At 30 June 2018	
Cash at bank	302,074
Receivables	206,396
	<hr/>
	508,470
At 30 June 2017	
Cash at bank	424,054
Receivables	282,762
	<hr/>
	706,816

(d) Liquidity risk management

The Authority's liquidity risk result from lower funding by the Government and inability to collect adequate appropriation in aid through licensing fees to supplement the reduced government funding. Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents.

Management perform cash flow forecasting and monitor rolling forecasts of the Authority's liquidity requirements to ensure it has sufficient cash to meet its operational needs

The Authority's approach when managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Authority's reputation.

(e) Market risk management

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls. The Authority takes on

exposure to market risk, which is the risk of changes in market prices and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee. The Authority includes projected inflation rate in her budget in order to cushion against price changes. With regards to interest rate risks, the Authority prudently manages her cash flows so as to avoid overdraft facilities.

Currency Risk

The Authority's transactions are denominated in Kenya Shillings and in cases of foreign currency payments, sufficient negotiations are carried out to obtain better foreign currency exchange rates.

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XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised in the final external audit report 2016/2017., and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe
FY 2016/2017	<p>Accuracy of the Financial Statements The statement in net assets reflects a negative balance of Kshs.56,273,000 as at 30th June 2017. However, in arriving at the balance a prior year adjustment of Kshs. 19,153,000 has been added back without supporting details/analysis. Further, Note 25 on prior year adjustments only indicates that the amount is in respect of previous adjustment provisions and transfer of buildings to capital work in (CWIP) previously expensed. In the absence of the prior year adjustment, the accumulated revenue reserve would have increased to negative Kshs. 75,390,000 as at 30 June 2017. Consequently, it has not been possible to confirm the accuracy and completeness of the financial statements for the year ended ended 30 June 2017.</p>	<p>The detailed analysis/ schedule and all the journal entries were provided for audit and therefore the financial statements are accurate and complete.</p>	Benedict Musyoki Senior Accountant	Resolved	31/10/2018
FY 2016/2017	<p>Financial Performance During the period under audit, the Authority made a deficit of Kshs. 174,554,000 (2016: Kshs.162,360,000). This reduced the revenue reserve to (Kshs. 56,237,000) (2016 Kshs. 99,164,000). Further, the Authority's current liabilities of Kshs.748,480,000 as at 30 June 2017 exceeded the current assets of Kshs. 728,894,000 as at the same date leading to a negative working capital of Kshs. 19,586,000. In the circumstance, the Authority's service sustainability capability is threatened.</p>	<p>Management is in agreement that the Authority is in a negative working capital position. The Authority is however optimistic of a better financial performance in the financial years ahead after getting additional allocation of recurrent grants from the National Treasury. In addition, management is in the process of increasing internally generated revenues by enhancing the compliance and enforcement on the payment of Effluent Discharge Licenses (EDL). Further, the Authority is undertaking cost management and control measures to reduce the overall operating costs.</p>	Kennedy Ochuca Director Finance & Administration	In progress	30/06/2019
FY 2016/2017	<p>Depreciation on Revalued Assets The depreciation charge of Kshs. 47,135,000 charged to the statement of financial performance include depreciation of revalued assets contrary to IPSAS 17 paragraph 54 which requires depreciation on revalued assets to be charged to the revaluation reserve. This treatment will leave the revaluation reserve of Kshs. 137,640,000 without adequate supporting assets contrary to the provisions of IPSAS 17.</p>	<p>Management concurs that depreciation charge on revalued assets should be charged from revaluation reserve and not from statement of financial performance. The correct treatment for the year under review and previous financial years will be done and reflected in the financial year ended 30th June 2018</p>	Alphonse Omollo Accountant	Resolved	31/10/2018

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status:	Timeframe
FY 2016/2017	<p>Under Funding The Authority had an approved grant of Kshs. 855,337,000 (Kshs. 822,000,000 recurrent and Kshs. 33,337,000 for development). During the period, it received Kshs. 633,328,000 or 74%. There was underfunding of Kshs. 222,009,000 or 26%. Further, it budgeted to receive Kshs. 572, 100,000 as donor grants of which it received Kshs. 195,426,000 or 34%. With such huge revenue shortfall, the Authority may not be able to discharge it mandate as described in Environment Coordination Act 1999</p>	<p>Management concurs that the Authority has not been able to receive all her disbursements from both exchequer and development partners. The Authority is however optimistic of a better financial performance in the financial years ahead after getting additional allocation of recurrent grants from the National Treasury. In addition, management is in the process of increasing internally generated revenues by enhancing the compliance and enforcement on the payment of Effluent Discharge Licenses (EDL). Further, the Authority is undertaking cost management and control measures to reduce the overall operating costs.</p>	Kennedy Ochuka Director Finance & Administration	In progress	30/06/2019
FY 2016/2017	<p>Slow implementation of the Adaptation Fund The Authority had a brought forward cash balance of Kshs.441,155,000 for implementation of the Adaptation Fund Project. However only Kshs.216,000,000 was utilized during the year under review. The absorption rate of 49% is low considering the Authority had the funds available from the beginning of the year. At this rate, the Authority may not absorb the project funding within the agreed project duration.</p>	<p>The management concurs with the observation however considering the project is running up to 2019 the Authority expects the funds to be fully utilized before the end of the project. The authority has also put in place mechanisms to ensure faster uptake of the funds.</p>	Wangare Kirumba Project Coordinator	Resolved	31/12/2018

XVIII. Appendix 1: 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 KShs	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1 Integrated Programme to Build Resilience to Climate Change & Adaptive Capacity of Vulnerable Communities in Kenya under United Nations Framework Climate Change Convention (UNFCCC)	KEN/NIE/Multi/2013/1	ADAPTATION FUND BOARD	The project official start date is 01 05 2016- The project end date is 31 04 2019	501,659,177	Yes	Yes
2 Green Growth & Employment Program (GGEP)	2015-39789	Denmark - Danida	The project official start date is 2016 The project end date is 2020	200,000,000	Yes	Yes

Status of Projects completion

	Project	Total project Cost	Total expended to date KShs	Completion % to date	Budget KShs	Actual KShs	Sources of funds
1	Integrated Programme to Build Resilience to Climate Change & Adaptive Capacity of Vulnerable Communities in Kenya under United Nations Framework Climate Change Convention (UNFCCC)	One billion	371,639,945	37%	267,000,000	158,068,508	GRANT (ADAPTATION FUND)
2	Green Growth & Employment Program (GGEP)	660 Million	221,912,966	34%	140,000,000	127,880,310	Denmark - Danida

XIX. Appendix 2: INTER-ENTITY TRANSFERS

ENTITY NAME:		NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY		
Break down of Transfers from the Ministry of Environment and Natural Resources				
FY 17/18				
a. Recurrent Grants				
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>FY to which the amounts relate</u>	
	25-Aug-17	100,000,000	2017/2018	
	18-Sep-17	80,000,000	2017/2018	
	13-Oct-17	50,000,000	2017/2018	
	3-Nov-17	50,000,000	2017/2018	
	16-Nov-17	25,000,000	2017/2018	
	1-Dec-17	75,000,000	2017/2018	
	29-Dec-17	70,077,597	2017/2018	
	2-Feb-18	75,000,000	2017/2018	
	22-Feb-18	5,000,000	2017/2018	
	5-Mar-18	75,000,000	2017/2018	
	28-Mar-18	70,000,000	2017/2018	
	29-May-18	100,000,000	2017/2018	
	16-Jul-18	5,000,000	2017/2018	
	18-Jun-18	65,000,000	2017/2018	
	29-Jun-18	40,000,000	2017/2018	
	Total	885,077,597		
b. Donor Receipts				
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>FY to which the amounts relate</u>	
	24-Aug-17	10,000,000	2017/2018	
	3-Oct-17	30,000,000	2017/2018	
	4-Dec-17	35,000,000	2017/2018	
	15-Mar-18	35,000,000	2017/2018	
	22-Mar-18	30,000,000	2017/2018	
	Total	140,000,000		