

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

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of the majority
Party, Hon
Aden Duale
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REPORT

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THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2016**





nema

mazingira yetu | uhai wetu | wajibu wetu

NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2016

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

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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:

1	 <p>Prof. Geoffrey Wahungu, PhD</p>	<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>
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>



<p>3</p>		<p>Director Environmental Planning & Research Coordination:</p> <p>He holds a PhD in Environmental Planning and Management from Moi University. He has taught and supervised postgraduate as well as undergraduate students in environmental planning and management and tourism planning and product development. He has held senior management positions in the Ministry of Lands and at Moi University.</p>
<p>4</p>		<p>Director Environmental Education, Information and Public Participation:</p> <p>He holds PhD in Environmental Education from Rhodes University, South Africa. He has previously worked as a teacher with the Teachers Service Commission, as a lecturer at Kenyatta University and Strathmore University. He has top level management experience having served as the acting Director General in the Authority for a period of two years.</p>
<p>5</p>		<p>Director Legal Services:</p> <p>She 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>





6 Mr. David Ongare

Director Compliance and Enforcement:

Director Ongare holds Master of Science in Biology. He also holds Bachelor of Education (Science), Egerton University. 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).

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility were:

No.	Designation	Name
1	Director General	Prof. Geoffrey Wahungu, PhD
2	Director Finance and Administration	Mr. Kennedy Ochuka, B.Com, MBA, CPA (K)
3	Director Environmental Planning & Research Coordination	Dr. Kennedy Ondimu, PhD
4	Director Environmental Education, Information and Public Participation	Dr. Ayub Macharia, PhD
5	Director Legal Services	Ms. Irene Kamunge, LLB, LLM
6	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

(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
Kenya National Audit Office
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





Dr. Richard Lesiyampe

Principal Secretary, Environment:

Dr. Lesiyampe holds a PhD in Management from Kenya Methodist University. He has held senior management positions in the public sector. He worked at the Kenya Wildlife Services for many years. Prior to his appointment as the Principal Secretary, he was the Chief Executive Officer at the Kenyatta National Hospital. He left board in November 2015 after being appointed Principal Secretary of Agriculture.



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 is 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

Madame 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.



Patrick Ngatia

He holds a Bachelor of Science in Botany and Zoology and Master of Arts in Environmental Planning and Management, both at the University of Nairobi. He has a certificate in leadership studies from Friedrich Ebert Foundation (FES) of Germany and is an Associate of the Chartered Institute of Arbitrators.

He also works in the Presidents Private office at State House as Director of Liaison. He joined the Board in April 2015. He was born 1976.



II. THE BOARD OF DIRECTORS



Maluki Mwendwa

Chairman:

Mr. Maluki Mwendwa is the Chairman of NEMA Board of Management. He holds an MBA (Finance and Entrepreneurial Management) from Wharton School, University of Pennsylvania, USA and a BA (Hons) Economics and Commerce from the University of Hull, UK. He has been involved in policy planning, strategy formulation and implementation, as well as Human Resource training and recruitment. He has wide experience acquired both locally and internationally in Switzerland and the Middle East. Mr. Maluki was appointed the Chairman of the NEMA Board of Management in 2013, having joined the Board in 2005. He was born in 1968.



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.





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.



Dr. Daniel K. Tuitoek

He holds a PhD in Water Resources Engineering from University of Alberta and a Master of Science and Bachelor of Science in Water and Irrigation Engineering from Moscow Hydro technical Institute of Engineering. He is currently a member of University Senate and has served in other membership roles in Egerton University. He is as well a Senior Lecturer Water and Environmental Engineering at Egerton University. He has also worked as Acting Vice Chancellor, Deputy Vice-Chancellor; Deputy Vice Chancellor/Founding CEO all at Kabarak University .He joined the Board in April 2015. He was born in 1959.



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.





Erastus Wahome

Alternate to Kamau Thugge: He is an economist and holds a masters and post graduate degrees in Economics from the Monash University, Melbourne, Australia and a bachelor degree from the University of Nairobi. Prior to assuming his current position as Chief Economist, he had worked in other Government Ministries and served in various positions. He served as an advisor to the Secretary Generals of COMESA and EAC, IGAD and IOC under the auspices of the Inter-Regional Coordinating Committee (IRCC) from 2006-2009. He is an expert on regional integration issues and climate change. He has served as coordinator and expert in many regional and international conferences in the field of trade and regional integration, climate policy development and climate finance among others. He joined the Board in 2011. He was born in 1961.



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, Programs, Projects & Strategic Initiatives, 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.



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 was born in 1975.



II.

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	Dr. Kennedy Ondimu, PhD	Director Environmental Planning & Research Coordination
4	Dr. Ayub Macharia, PhD	Director Environmental Education, Information and Public Participation
5	Ms. Irene Kamunge, LLB, LLM	Director Legal Services
6	Mr. David Ongare	Director Compliance and Enforcement



.V. CHAIRMAN'S STATEMENT

On behalf of the Board, I have the pleasure of presenting the Annual Report and Financial Statements for the year ended 30 June 2016

Economy

Kenya's economic performance remained solid, with the growth rate expected to improve from 5.6% in 2015 to 5.9% in year 2016. This positive indicator was attributed to low oil prices, good agriculture performance, supportive monetary policy, and on-going infrastructure investments. However, Kenya's economy remains vulnerable to domestic risks that moderated the growth prospects.

These include the possibility that investors could defer investment decisions until after the elections, which election-related expenditure could result to a cut back in infrastructure spending together with security related challenges. The reduction in infrastructure spending is likely to negatively affect the Authority's revenues.

Financial Performance

During the financial year under review, the Authority realised revenues of KES 1.16 billion which was a reduction of 12% on KES 1.24 billion raised the previous year.

The Authority collected KES 662.1 million in Appropriations in Aid (AIA) compared to KES 684.9 million in the previous year. This marked a decrease of 3% from the previous year. To sustain the Authority's financial sustainability and independence, the Authority will strengthen its revenue collection methods and inspection in the coming years. As a result of reduction in government recurrent grant in the year of KES 240 million, the Authority realised a deficit of KES 162 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 in matters on waste management and noise.

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 believe 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.

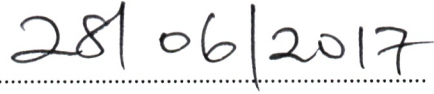
Appreciation

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. Maluma Mwendwa

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 2016.

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 implementation of all policies relating to the environment has continued to implement its mandate to ensure proper management of environment in the country is upheld. In this case, the Authority continued to undertake this mandate to ensure Kenyans have a better place to live in. despite the challenges faced, the Authority continued implementing its environmental management agenda in the development of the Country.

The National Environment Management Authority through the Environmental Management Co-ordination Act 2015 cap 387 has provided leadership in mainstreaming environmental concerns into the development planning process. It has been able to achieve this through its County Environment offices spread across the country.

Some of the milestones are the Preparation of National Environment Action Plans (NEAPs), and County Environment Action Plans (CEAPs) which serve as policy framework for mainstreaming environmental planning and management. The Authority has also prepared the State of Environment (SoE) Reports for Kenya and selected Counties with outstanding environmental challenges.

Financial Performance

The allocations received from the exchequer have continued to decline over the years. In the financial year ending 30th June, 2016, KES 253.5 million were received from the Government as recurrent disbursements compared to KES 374 million received in the previous year.

The Authority was however able to collect KES 662.1 million as Appropriation in Aid from licensing. This was a decrease of 3.3% over the KES 684.9 million collected previous year.

The development partners disbursed KES 224.4 million. These development partners included Danida through the Natural Resource Management Programme (NRMP), the World Bank on the Kenya Coastal Development Programme (KCDP), and the United Nations through UNEP. The Authority intends to maintain and deepen these partnerships and bring in more development partners.

The Authority's expenses were KES 1.322 billion. This represents 9% increase from last years of KES 1.214 billion. Staff costs still remain the major cost component accounting for 54% of total expenses.

Innovation

The Authority has not been left behind in embracing technology and innovation in service delivery.

The Authority has embraced the use of Information Communication Technology (ICT) in the provision of services. In the concluded, the Authority fully automated the Environmental Impact Assessment (EIA) process. This has made it easy to for proponents to file their license application as well as monitor the progress of the application online. This minimized time previously being taken to attain EIA licenses. The automation process is on progress until all processes are fully automated.

The Authority has also made it easy to for the public to pay for fees charged by the Authority. In collaboration with Safaricom Ltd, the MPESA services were incorporated as a payment method making the process very convenient. Moreover, the Authority implemented the payment of staff claims through the MPESA system reducing time wastage.

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 provided for in Cap 387 of the revised Environment Management and Coordination Act (EMCA) of June 2015. The Act has provided for the preparation of State of Environment Report (SOE) once every two years commencing from the date of the revision.

The Authority completed the State of the Environment Report (SOE) for the financial year 2014. The preparation of SOE for 2015 is on-going and will be presented to the National Assembly in 2017.

Establishment of Green points

Green technology has become a common phenomenon in the recent past. The National Environment Management Authority has therefore come up with a novel idea of promoting the growth of green technologies in Kenya. This idea had been piloted in various Counties.

A Green Point is a concept that practically embraces the use of green economy and upholds the use of natural resources and energy while enabling economic growth that supports creation of jobs opportunities and improvement of livelihoods thus reducing poverty.

The concept of Green Economy stimulates green investments in and across various economic and social sectors. This investments help to reduce the natural capital and ecosystems. So far, five centres of Green Points have been completed and operationalized; they are in six counties of Taita Taveta, Isiolo, Homa Bay, Embu, Kajiado and Kilifi. The Kilifi Green Point is at an advanced stage of development while Elgeyo Marakwet Green Point is at pre-development stage.

The selection of green point locations was based on a number of criteria including eco-climatic zones of the country, the current constitution of Kenya, Vision 2030, the authority's strategic plan and devolution strategy amongst others. The green points were designed as examples of eco-friendly buildings, with minimal carbon emissions. This have been leveraged on aspects such as low energy consumption, water harvesting, use of local materials, proper waste management. The Green Points have been constructed through funding support from Denmark's development partnership arm - Danida.

Education and Awareness creation

The Authority undertakes a core function of educating the public and creating environmental awareness in the country. This is done by engaging several stakeholders in diverse sectors of the economy, undertaking awareness activities, and meeting the general public. 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.
- Holding the second national RCEs conference with all the RCEs in the country with a view to forge partnerships and learning experiences amongst them.
- Hosting and participation 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.

Partnerships

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

- The Ministry of Environment, Water and Natural Resources
- Government of Denmark (Danida)
- United Nations Development Programme (UNDP)
- United Nations Environment Programme (UNEP)
- World Bank
- UNFCCC
- Adaptation Fund Board

In the coming year, the Authority will strive to bring more development partners on board.

Customer focus

The Authority considers its customers experience an in integral part of measure success of operations. Therefore, the Authority continually strives to remain customer centric in its service delivery.

We are aware that in order to be successful, we need to continually change and adapt to the customer's ever-changing needs and wants. In this regard, processes have been designed and re-engineered to ensure that customer get the best service in the Authority. These efforts are oriented towards serving the client's needs, and measure customer-satisfaction levels in order to determine the success of their business.

Customer complaints are resolved promptly. In the financial year under review, the Office of the Ombudsman awarded the Authority a score of 88%.

Moreover, the Customer Satisfaction Survey was conducted to identify NEMA's speed of service, quality of service, accessibility to customers, courtesy levels among employees, information of products/services and our adherence to the commitments set out in the Authority's service charter. The recommendations in the survey have been implemented in this reporting period.

Employee Relations

The Authority is committed to ensuring that there is an adequate work force to deliver on its mandate. During the year, 13 employees were recruited and joined the Authority in various positions and grade; out of which there were 7 male and 6 female (54 % Male: 46% Female). The Human Resource compliment in NEMA continues to play a critical role in the achievement of the organisations goals as stipulated in the 2013-2018 Strategic Plan.

The Authority has invested heavily in the human resource and especially capacity building/development of Human Resource Capital. The Authority believes in equipping the staff with the necessary and the best skills for enhanced performance. This has continuously improved staff development. During the year, several courses were held for the management and members of staff.

The Authority also organized various workshops for the staff especially on prevention of HIV/AIDs at the work place, gender mainstreaming, alcohol and drug prevention.

The spirit of team work was also considered vital in the growth of the Authority's workforce. To achieve this, welfare activities like end of year party was organized where staff were recognised for good performance. In addition several team building activities were done. The Authority has also adhered to the constitution requirement of not more than two thirds of staff being of one gender. There were 33% female and 67% male employees. The Authority also monitors the ethnic ratios to ensure regional balance in recruitment.

Work Environment and employee satisfaction

The Authority undertook several measures to enhance the working environment of staff. The Authority availed adequate working space to staff and purchased equipment for use by the staff. The Authority also procured a customised laptop with the relevant software to be used a disabled staff. Embu, Homa Bay, Taita Taveta and Isiolo green points are now in use. Additional green points are being constructed in Kajiado, Kilifi and Lamu. The additional green points are in completion stage.

The Authority has commenced renovation of sewer line at the head office. Renovation works has also been done in Kiambu and Kakamega offices. Partitioning for Kisumu office is almost complete. In order to enhance work place ambience, the Authority has put in place parking shades and disability lodge in the headquarters. The Authority has also been re-categorised from 6B to 6A by the government.

Commitment to Quality

The Authority retained its ISO 9001:2008 certification during the year under review. The Authority is committed to implementing a Quality Management System to ensure a clean, healthy, secure and sustainably managed environment for all.

The Authority is cascading ISO to prioritized 20 county offices. Staffs in these counties have been ISO 9001: 2008 sensitized. Internal auditors have been identified; trained and internal audit undertaken. Once the prioritized counties are certified, then other counties will follow.

We are committed to the continual improvement of Quality Management System (QMS) processes and services and compliance with the requirements of ISO 9001:2008 international standards to achieve customer satisfaction. The management installed Q-Pulse software in its endeavour to efficiently and effectively manage the certification activities and sustenance of the ISO 9001:2008.

Conclusion

The Management and employees of NEMA are committed in delivering on the mandate of Protecting and conserving the environment. As management, we shall continue to harness and direct all our efforts in utilization of available opportunities in order to sustain the operations and activities of the Authority for future growth. We therefore look upon all our stakeholders to support our efforts as we conserve our environment.


.....
Prof. Geoffrey Wahungu
Director General


.....
Date
Nairobi

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.

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. Patrick Ngatia- Chairperson
- b) Principal Secretary Water and Natural Resources
- c) Director General
- d) Dr. Daniel Tuitoek
- e) Prof. Barnabas Mitaru
- f) The Attorney General
- g) 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. Daniel Tuitoek
- c) Mr. Patrick Ngatia
- d) Dr. Susan Mwamlole
- e) Director General
- f) Mr. Charles Oluchina
- g) 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	5	10	15
Finance and Human Resources	6	9	15
Audit, Governance and Risk Management	3	5	8
Environment Management and Conservation Technical Committee	8	5	13

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 2015/2016 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.

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 2015/16.

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. 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 during the year.

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 2015/16, the Authority carried out the following CSR activities;

The Authority took part in the Ndakaini Half Marathon held on 4th September 2015. This marathon was started under the auspices of Ndakaini Dam Environment Conservation Association (NDEKA).

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 also supported and participated in Mau Marathon held 6th February 2016. The Cross country, whose theme was 'Run for the Mau', was geared towards creating environmental awareness and raise funds for the rehabilitation of the Mau ecosystem, and was organized by the Egerton University in partnership with the Ministry of Environment and Natural Resources and other stakeholders.

The Authority also sponsored the Lari Marathon which was themed, Save Kireita Forest on 4th June, 2016 in Limuru, Kiambu County by meeting part of the event's publicity budget to the tune of Ksh 350,000. This event provided an opportunity for the Authority to give back to society as well as promote its corporate image. As one of the sponsors; NEMA got its own exhibition booth to undertake awareness creation to stakeholders. Staff also participated in the marathon.

The Authority also supported and participated in the First Lady's Beyond Zero Half Marathon at Nyayo stadium. Beyond Zero Foundation was formed to partner with the government in reducing maternal and child mortality. Spearheaded by The First Lady of the Republic of Kenya, Her Excellency Margaret Kenyatta, the Beyond Zero Campaign is part of the initiatives outlined in her strategic framework towards HIV control, promotion of maternal, new born and child health in Kenya. The event was held on 6th March 2016.



VIII. REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 30th June 2016, 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 162,360 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.

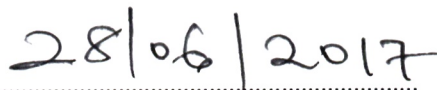
Auditor

The Auditor-General is responsible for the statutory audit of the Authority's books of account in accordance with section 14 of the Public Audit Act, 2003. The Auditor General continues in office in accordance with the constitution of Kenya.

FOR AND ON BEHALF OF THE BOARD OF MANAGEMENT.



Mr. Maluki Mwendwa
Chairman



Date
Nairobi



X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 68 of the Public Finance Management Act, 2012 and section 15 of the State Corporations Act, require the Directors to prepare financial statements in respect of the Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year/period and the operating results of the Authority for that year/period. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30, 2016. 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 Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority'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 and the State Corporations Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2016, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority'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 Authority 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 statement has been reviewed by the Director General and board of management and signed on 28/06/2017 2017



Mr. Maluk Mwendwa
Chairman

Date 28/06/2017



Prof. Geoffrey Wahungu
Director General

Date 28/6/2017



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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of National Environment Management Authority set out on pages 1 to 17, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets and statement of cash flows 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.

Management's Responsibility for the Financial Statements

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

The 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

Report of the Auditor-General on the Financial Statements of National Environment Management Authority for the year ended 30 June 2016

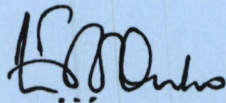
assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Environment Management Authority as at 30 June 2016, 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 and Coordination Act, 1999 of the laws of Kenya.



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

Nairobi

17 July 2017

XI.

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2016

	Note	2016 Kshs '000'	2015 Kshs '000'
Revenue from non-exchange transactions			
Government grants – recurrent	3	253,456	374,156
Government grants – development	4	15,076	59,010
Donor funds	5	224,478	116,459
		<u>493,010</u>	<u>549,625</u>
Revenue from exchange transactions			
Revenue receipts	6	662,113	684,967
Interest received	7	762	929
Other income	8	3,731	564
		<u>666,606</u>	<u>686,459</u>
Total revenue		<u>1,159,616</u>	<u>1,236,084</u>
Expenditure			
Staff costs	9	710,364	652,630
Administrative costs	10	300,829	247,972
Board expenses	11	35,957	8,135
EMCA Agencies	12	-	6,123
Project expenses	13	172,970	224,691
Depreciation expense	14	44,333	26,974
Repairs and Maintenance	15	33,655	26,438
Utilities	16	23,868	21,405
Total Expenditure		<u>1,321,976</u>	<u>1,214,369</u>
Deficit / (surplus)		<u>(162,360)</u>	<u>21,715</u>

The notes set out on pages 6 to 16 form an integral part of the Financial Statements.



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XII. STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	2016 Kshs '000'	2015 Kshs '000'
Assets			
Current assets			
Cash and cash equivalents	17	782,506	537,797
Receivable from non-exchange transactions	18	155,099	91,085
Inventories	19	24,899	4,155
		<u>962,503</u>	<u>633,037</u>
Non-current assets			
Property, plant and equipment	20	254,249	267,667
Capital Work in Progress		15,527	12,000
		<u>269,776</u>	<u>279,667</u>
Total assets		<u>1,232,279</u>	<u>912,704</u>
Liabilities			
Current liabilities			
Payables from exchange transactions	21	746,462	291,020
Employee benefits obligations	22	34,490	38,319
Provisions	23	39,050	43,829
Total liabilities		<u>820,002</u>	<u>373,168</u>
Net assets		<u>412,277</u>	<u>539,536</u>
Equity			
Capital Fund	24	175,473	175,473
Revenue Reserves	24	99,164	226,424
Revaluation Reserves	24	137,640	137,640
Total equity		<u>412,277</u>	<u>539,536</u>

The Financial Statements set out on pages 1 to 17 were signed on behalf of the Board of Directors by:



Mr. Maluk Mwendwa
Chairman

Date: 28/06/2017



Prof. Geoffrey Wahungu
Director General

Date: 28/6/2017



XIII. STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30 June 2016

	Note	Accumulated Fund Kshs '000'	Revenue Reserve Kshs '000'	Revaluation Reserve Kshs '000'	Total Kshs '000'
At 1st July 2014		175,473	170,470	-	345,942
		-	-	-	-
Prior year adjustment		-	34,240	-	34,240
Revaluation surplus		-	-	137,640	137,640
Net surplus for the year		-	21,715	-	21,715
At 30th June 2015		175,473	226,424	137,640	539,536
At 1st July 2015		175,473	226,424	137,640	539,536
Prior year adjustment	25	-	35,100	-	35,100
Net deficit for the year		-	(162,360)	-	(162,360)
At 30th June 2016		175,473	99,164	137,640	412,277



IV. STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

	Notes	2016 Kshs '000'	2015 Kshs '000'
Cash flows from operating activities			
Deficit / (Surplus) for the year		(162,360)	21,715
Adjustments for:			
Tax expense		727	346
Loss on disposal of property, plant & equipment		324	-
Interest received	7	(762)	(929)
Depreciation of property, plant & equipment	21	44,333	26,974
Prior year adjustment	25	35,100	34,240
Operating loss (profit) before working capital changes		(82,639)	82,346
Changes in operating assets and liabilities			
Increase/(decrease) in trade and other receivables		(64,014)	69,664
Increase/(decrease) in trade payables from exchange transactions		455,443	8,703
(Increase)/decrease in employee benefits obligations		(3,829)	20,835
(Increase)/decrease in provisions		(4,778)	(10,601)
Increase/ (decrease) in inventories		(20,744)	2,586
Cash generated from operations		279,438	173,532
Tax paid		(727)	(346)
Net cash from operating activities		278,712	173,186
Cash flows from investing activities			
Purchase of property, plant and equipment	20	(34,921)	(13,992)
Proceed from disposal of property, plant & equipment		156	-
Interest received	7	762	929
Net cash used in investing activities		(34,003)	(13,063)
Net increase (decrease) in cash and cash equivalents		244,709	160,124
Cash and cash equivalents at start of year		537,797	377,674
Cash and cash equivalents at end of year		782,506	537,797



XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original and final budget 2015-2016	Actual on comparable basis 2015-2016	Performance difference 2015-2016	
Revenue	Kshs '000'	Kshs '000'	Kshs '000'	
Recurrent Grant	494,000	253,456	(240,544)	a)
Development Grant	76,600	15,076	(61,524)	b)
Revenue Receipts	559,000	662,113	103,113	c)
Prior Year A-in-A (opening balance)	64,800	-	(64,800)	
Donor Funds	184,750	224,478	39,728	d)
Other Income	-	4,493	4,493	
Total income	1,379,150	1,159,616	(219,534)	
Expenses				
Personnel Expenses	617,888	617,642	246	e)
Staff Expenses	6,100	5,981	119	f)
Communication Expenses	22,080	21,698	382	g)
Printing & Stationery	7,629	7,569	60	h)
Staff Training Expenses	33,110	33,039	71	i)
Resource Center Expenses	2,400	1,724	676	j)
Travelling & Accommodation	122,211	119,370	2,841	k)
Motor Vehicle Expenses	47,451	45,997	1,454	l)
Computer Expenses	9,344	8,979	365	m)
Consultancy & Professional Fees	23,032	20,914	2,118	n)
Publicity and Communication	9,390	8,644	746	o)
Board Expenses	30,000	35,957	(5,957)	p)
Office Running Expenses	6,593	5,069	1,524	q)
Insurance Expenses	53,288	52,948	340	r)
Office Rent & Land Rates	20,600	20,321	279	s)
Office Utilities	12,100	11,656	444	t)
Maintenance and Repairs	15,810	15,134	676	u)
Bank Charges	2,600	2,519	81	v)
Depreciation & Amortization Expenses	-	44,333	(44,333)	w)
Environmental Expenses	88,300	69,511	18,789	x)
Project Expenses	217,924	172,970	44,954	y)
Cost of Land and Buildings	16,000	-	16,000	
Cost of Office Equipment	8,000	-	8,000	
Cost of Furniture, Fixtures and Fittings	4,300	-	4,300	
Cost of Computer Equipment	3,000	-	3,000	
Total expenditure	1,379,150	1,321,976	57,174	
Deficit for the period	-	(162,360)	(162,360)	z)

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (CONTINUED)

Notes on the significant variances

- a) Reduced net exchequer funding from government and refund of overdisbursed recurrent fund.
- b) Non remittance of development grant by the government.
- c) Sound monitoring program and tight revenue collection policies resulting in a higher income.
- d) The budget level was surpassed arising from increased donor funding in the year.
- e) Personnel costs were well within budget allocation.
- f) On target
- g) On target
- h) Paperless initiative and cost control strategies resulted to low cost
- i) On target
- j) Cost control strategies contributed to the low costs
- k) On target
- l) Cost control strategies (e.g use of fuel cards) and downward adjustment of fuel prices contributed to the low costs.
- m) On target
- n) On target
- o) On target
- p) Board expense surpassed budget level by 20% due to increased board activities.
- q) Deliberate efforts to control costs and maximise benefits generated the under spend.
- r) On target
- s) On target
- t) On target
- u) On target
- v) On target
- w) Depreciation expense is not a cash item thus the huge variance.
- x) The under spend is largely due to carry over of activities into next year.
- y) The under spend is largely due to lengthy procurement process leading to carry over of activities into next year.
- z) The difference in deficit between statement of financial performance and statement of comparison of budget and actual amount of KES 64,800 million is as a result of prior year savings from A-in-A collection in previous financial periods.

XVI. NOTES TO THE FINANCIAL STATEMENTS

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

The entity's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

2. 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 662.1 million from licence fees compared to KES 684.9 million in previous year (3.3% 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.

The total revenue received from government and other development partners was KES 493 million compared to KES 549 million in previous year (23.9% decrease). This decrease was mainly attributed to significant reduction of Government Recurrent Grant.

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

An amount of KES 762,365 was received as interest from bank balances held in various savings accounts of the Authority. This is compared to KES 928,972 in previous year. Interest received is earned annually in December when the said banks end their calendar year.

Rental income

The Authority has rented out canteen services and received KES 300,000 during the year. KES 240,000 was received in the previous period. Rent is earned at the end of every quarter of the financial year.

Donor funds

An amount of KES 224 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.

With the passing and subsequent enactment of the Public Finance Management Act No. 18 of 2012, NEMA is no longer exempted from income tax as previously stipulated in the Financial Management Act No. 5 of 2004. The Authority has complied with this requirement and paid instalment tax of KES 726,964.

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 34.9 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. During the year the Authority had a closing stock of consumable stock valued at KES 24.8 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.

The Authority has recognized provisions of goods and services during the period amounting to KES 39 million as compared to KES 43 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.

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. The Authority changed the depreciation method from reducing balance method to straight line method after revaluation of the assets this method was adopted because it is more realistic and practical due to the nature of the Authority's activities. The change in depreciation method will be applied prospectively as 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) 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.

k) Comparative figures

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

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.

D) 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, 2016.

m) 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.

	2016	2015
	Kshs '000'	Kshs '000'
3 Government grant - recurrent		
National Environment Management Authority (NEMA)	253,456	374,156
	-	-
4 Government grant - development		
National Environment Management Authority (NEMA)	15,076	59,010
	15,076	59,010

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	2016	2015
	Kshs '000'	Kshs '000'
5 Donor funds		
Danida NRM Project	136,316	87,598
KCDP World Bank	15,916	11,490
Adaptation Fund Income	7,453	-
Exchange Gain (Adaptation Fund)	52,188	-
UNEP NCNSA	6,427	10,300
GIZ Proklima	-	568
Other Donor funds (TNA, SNC, ABS)	6,179	6,501
	<u>224,478</u>	<u>116,459</u>
6 Revenue receipts		
EIA Registration fees	13,239	12,083
Water Quality	67,247	65,258
Waste Management	17,412	16,890
Biodiversity	160	50
Ozone Depleting Substances	433	223
Noise Pollution	1,835	1,474
EIA Income	524,803	469,788
Direct bank credits	36,985	119,201
	<u>662,113</u>	<u>684,967</u>
7 Interest received		
Interest received	762	929
8 Other Incomes		
Canteen Services	300	240
Donations	1,039	50
Miscellaneous Income	2,392	274
	<u>3,731</u>	<u>564</u>
9 Expenditure		
Staff Costs		
Personal Emoluments	545,540	514,707
Employer's Pension/Gratuity	71,974	64,313
Employer's NSSF Contribution	882	885
Training Expenses	33,039	11,745
Medical Insurance Expense	52,948	53,214
Staff welfare expenses	5,981	5,838
Human Resources policy	-	1,930
	<u>710,364</u>	<u>652,630</u>
10 Administrative expenses		
Local Travelling & Accommodation	98,872	71,709
Foreign Travelling & Accomodation	19,744	6,567
Rent	20,321	18,983
Regional/ County Operation Expenses	28,392	35,815
EIA Expenses	29,965	17,537
Office & General Supplies & Services	21,712	19,786
Fuel and lubricants	22,961	22,446
Contracted Professional Services	19,607	13,515
Corporation tax	727	346

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	Provision for Audit fees	580	580
	Other Administrative Expenses	37,949	40,689
		<u>300,829</u>	<u>247,972</u>
		2016	2015
11	Board expenses	Kshs '000'	Kshs '000'
	Board and Committee Expenses	34,562	6,898
	Honoraria	960	960
	Medical Insurance cover	435	278
		<u>35,957</u>	<u>8,135</u>
		2016	2015
12	EMCA Agencies	Kshs '000'	Kshs '000'
	National Environment Trustfund Expenses	-	6,123
		2016	2015
13	Project expenses	Kshs '000'	Kshs '000'
	UNEP NCSA Project expenses	4,224	10,327
	NRM DANIDA Project expenses	133,795	179,006
	UNEP GEF Project expenses	-	1,599
	IDF World Bank Grant	944	431
	GTZ Ozone Depleting Substances	269	227
	River Sosiani Basin Expenses	4,513	8,077
	KCDP World Bank Project expenses	15,916	13,452
	Access & Benefit Sharing Expen.	14	2,811
	UNIDO Expenses	378	2,203
	UNFCCC SNCC Expenses	7,101	6,315
	UNFCCC TNA Expenses	14	8
	Adaptation Fund (NIE) Expenses	5,804	236
		<u>172,970</u>	<u>224,691</u>
		2016	2015
14	Depreciation expense	Kshs '000'	Kshs '000'
	Property, plant and equipment	44,333	26,974
		<u>44,333</u>	<u>26,974</u>
		2016	2015
15	Repairs and Maintenance	Kshs '000'	Kshs '000'
	Building	13,490	10,652
	Equipment	1,645	1,022
	Computer and networks	327	358
	Vehicles	18,193	14,406
		<u>33,655</u>	<u>26,438</u>
		2016	2015
16	Utilities	Kshs '000'	Kshs '000'
	Electricity Expenses	1,042	1,652
	Water & Conservancy	1,128	158
	Telephone Expenses	10,233	8,698
	Internet Services	7,173	5,346
	Postal & Telegrams	4,293	5,551
		<u>23,868</u>	<u>21,405</u>
		2016	2015
17	Cash and Bank Balances	Kshs '000'	Kshs '000'
	a) Bank Balances		
	KCB Development Account [Acc No.1102292354]	82,426	149,491

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KCB Restoration Account [Acc No.1101628758]	35,497	35,274
KCB Revenue Account [Acc No.1102298158]	13,269	158,419
KCB Gateway Recurrent [Acc No.1112705546]	45,479	25,317
KCB Gateway EPS Project [Acc No.1112714359]	0	0
COOP Revenue Account [Acc No.1100030858900]	11,004	10,853
KCB Nairobi Regional Account [Acc No.1144988209]	2,551	-
KCB Coast Regional Account [Acc No.1145067611]	1,366	-
NCNSA Project [Acc No.1135682763]	2,278	8,705
CBA CBF (Biodiversity) [Acc No.6587230044]	3,681	3,683
NRM Project Account [Acc No.1119972434]	119,802	122,351
BBK Pension Account [Acc No.708165964]	5,306	5,319
ABS Project Account [Acc No.1127404164]	539	300
SNC Project Account [Acc No.1144217628]	8,072	6,048
TNA Project Account [Acc No.1144217865]	175	189
KCDP Project Account [Acc No.0108016188409]	6,874	9,209
Adaptation Fund [Acc No.1165595192]	441,155	-
	<u>779,474</u>	<u>535,158</u>

b) Cash in Hand

Nema Hq	<u>37</u>	<u>500</u>
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c) Mpesa Holding

Mpesa	<u>2,995</u>	<u>2,139</u>
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Total Cash and bank balance

	<u>782,506</u>	<u>537,797</u>
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	2016	2015
	Kshs	Kshs
	'000'	'000'
18 Trade and other receivables		
Outstanding Advance - NEMA	69,080	78,826
Outstanding Advance - PCC	-	676
Receivable due to Adaptation Fund	59,638	-
Grant Receivable - Development	15,076	-
Other debtors	11,305	11,584
	<u>155,099</u>	<u>91,085</u>

	2016	2015
	Kshs '000'	Kshs '000'
19 Inventories		
Consumable stores	<u>24,899</u>	<u>4,155</u>
	<u>24,899</u>	<u>4,155</u>

20 Property, plant and equipment

	L&B	MV	F&F	Comp & Printers	Intangible Asset	Office Equip	CWIP	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 2014	37,917	175,807	47,824	103,096	4,000	31,368	14,773	414,784
Additions	10,837	-	923	4,879	2,582	5,608	(10,837)	13,992
30th June 2015	<u>48,754</u>	<u>175,807</u>	<u>48,746</u>	<u>107,975</u>	<u>6,582</u>	<u>36,976</u>	<u>3,936</u>	<u>428,776</u>

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Accumulated depreciation

1st July 2014	2,788	136,468	24,995	77,116	3,040	15,368	-	259,774
Charge for the year	1,149	9,835	2,969	9,258	1,063	2,701	-	26,974

30th June 2015	3,937	146,302	27,964	86,373	4,102	18,069	-	286,749
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Carrying amount

30th June 2015	44,817	29,504	20,782	21,602	2,480	18,907	3,936	142,028
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Revalued amount

30th June 2015	79,500	95,270	39,377	27,134	6,582	19,804	12,000	267,667
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Cost

1st July 2015	79,500	95,270	39,377	27,134	6,582	19,804	12,000	279,667
Additions	8,844	-	10,221	1,846	115	2,369	11,527	34,921
Disposal / transfer	8,000	-	-	(509)	-	-	(8,000)	(509)

30th June 2016	96,344	95,270	49,598	28,471	6,696	22,172	15,527	314,079
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Accumulated depreciation

1st July 2015	-	-	-	-	-	-	-	0
Charge for the year	2,408	23,818	5,470	8,101	2,011	2,525	-	44,333
Accm dep on disposal	-	-	-	(29)	-	-	-	(29)

30th June 2016	2,408	23,818	5,470	8,072	2,011	2,525	-	44,303
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Carrying amount

30th June 2016	93,936	71,453	44,127	20,400	4,686	19,647	15,527	269,776
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21 Trade and other payables from exchange transactions

Sundry Payables	Kshs '000'	Kshs '000'
	110,424	105,580
Taxes Payable	6,658	4,105
Unspent donor funds	578,895	146,801
Other Payables	50,486	34,534
	<u>746,462</u>	<u>291,020</u>

Breakdown of Unspent donor funds

	2016	2015
	Kshs '000'	Kshs '000'
NRM Project	119,802	122,351
ABS Project	539	300
NCNSA Project	2,278	8,705
KCDP Project	6,874	9,209
SNC Project	8,072	6,048
TNA Project	175	189
Adaptation Fund	441,155	-
	<u>578,895</u>	<u>146,801</u>

22 Employee benefits obligations

	2016	2015
	Kshs '000'	Kshs '000'
Staff Housing Scheme	1,297	1,231
Bank Deduction Payable	3,845	3,459
Insurance Deduction Payable	786	-
Sacco Deduction Payable	8,292	-

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Pension Fund Payable	7,849	7,484
Provision for gratuity	-	2,656
Assurance Cover Payable	12,422	23,490
	<u>34,490</u>	<u>38,319</u>
	2016	2015
23 Provisions	Kshs '000'	Kshs '000'
General provisions	<u>39,050</u>	<u>43,829</u>
	2016	2015
24 Reserves	Kshs '000'	Kshs '000'
Accumulated Fund		
At start of the year	175,473	175,473
At end of the year	<u>175,473</u>	<u>175,473</u>
	2016	2015
Revenue Reserve	Kshs '000'	Kshs '000'
At start of the year	226,424	170,470
Prior year Adjustment	35,100	34,240
Surplus	(162,360)	21,715
At end of the year	<u>99,164</u>	<u>226,424</u>
	2016	2015
Revaluation Reserve	Kshs '000'	Kshs '000'
At start of the year	137,640	-
Revaluation surplus	-	137,640
At end of the year	<u>137,640</u>	<u>137,640</u>

25. Prior year adjustments – IPSAS 3

The prior year adjustments amounting to KES 35.7 million relates to provisions made in previous periods which have since not been claimed because the services/goods have not been supplied, Recognition of buildings cost as an asset previously expensed and write off of previous years balances cleared through a court process. Further, the statement of cash flow was adjusted with the same amount being non-cash items relating to the prior year adjustment since there was no actual movement of cash outflow.

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

An amount of KES 16 Million under contingent liabilities of probable employee legal cases is 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 six key managers' remuneration for the financial year ended June 30, 2016 was KES 28,660 million. The Authority received KES 268,532 million from the parent ministry as recurrent grant.

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:

29. Revaluation of Assets-IPSAS 17

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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.

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.

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.

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 2016	
Cash at bank	782,506
Receivables	155,774
	<u>938,280</u>
At 30 June 2015	
Cash at bank	537,797
Receivables	91,085
	<u>628,882</u>

(d) Liquidity risk management

The Authority's liquidity risk result from her probable inability to collect adequate appropriation in aid through licensing fees to supplement the continual lower funding by the Government. 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 Authority takes on exposure to market risk, which is the risk of changes in market prices and interest rates. 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.

XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

There were no unresolved issues as per the final external audit report 2014/2015.

