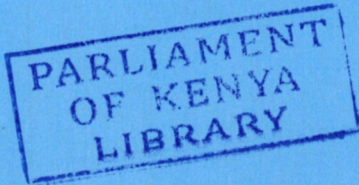




OFFICE OF THE AUDITOR-GENERAL

*Enhancing Accountability*

# REPORT



OF

## THE AUDITOR-GENERAL

ON

## NATIONAL ENVIRONMENT TRUST FUND

FOR THE YEAR ENDED  
30 JUNE, 2020

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE:	23 NOV 2021
TABLED BY:	L.O.M
CLERK-AT THE-TABLE:	Aetude Chobet
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**NATIONAL ENVIRONMENT TRUST FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDING**

**JUNE 30, 2020**

**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 Trust Fund (NETFUND) was established by the Environmental Management and Coordination Act (EMCA) 1999, Section 24 “to facilitate research intended to further the requirements of environmental management; capacity building; environmental awards; environmental publications; scholarships; and grants”. A subsequent amendment to EMCA section in June 2015 enabled the organisation to become a State Corporation.

**(b) Principal Activities**

The Fund’s principal activity is to mobilize funds from any legitimate source that will facilitate research intended to further the requirements of environmental management, capacity building, environmental awards, environmental publications, scholarships and grants

**(c) Key Management**

The entity’s day-to-day management is under the following key organs:

- Board of Trustees;
- Chief Executive Officer; and
- Management Team

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2020 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	CEO	Samson Toniok
2.	Director, Resource Mobilisation and Business Development	Dr. George Mwaniki
3.	Projects Manager	Andrew Machora
4.	Research Manager	Michael Okok

**(e) Entity Headquarters**

P.O. Box 19324-00202  
National Water Plaza, First Floor,  
Dunga Road, Industrial Area  
Nairobi, KENYA

**(f) Entity Contacts**

P.O. Box 19324-00200  
Telephone: +254 020-2369563  
E-mail: [info@netfund.go.ke](mailto:info@netfund.go.ke)  
Website: [www.netfund.go.ke](http://www.netfund.go.ke)

**(g) Entity Bankers**

Kenya Commercial Bank Limited,  
Upper Hill Branch  
P.O. Box 69695-00400  
City Square 00200  
Nairobi, Kenya

**(h) Independent Auditors**

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

**(i) Principal Legal Adviser**

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

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**II. THE MANAGEMENT TEAM**

<b>Name</b>	<b>Responsibility</b>
1. Samson Toniok	Chief Executive Officer
2. Andrew Machora	Projects Manager
3. Michael Okok	Research Manager
4. Chrispine Omondi	Resource Mobilization Manager
5. Evans Kiprotich	Finance Manager
6. Joshua Anampiu	Planning and Strategy Manager
7. Maryanne Thande	Business Development Manager
8. Annunciater Mouti	Human Resource and Administration Manager
9. Evelyne Nthini	Supply Chain Manager
10. Sweeny Ogeto	Linkages and Partnership Manager
11. Beatrice Wamuyu	Internal Auditor

**(j) Entity Headquarters**

P.O. Box 19324-00202  
National Water Plaza, First Floor,  
Dunga Road, Industrial Area  
Nairobi, KENYA

**(k) Entity Contacts**

P.O. Box 19324-00200  
Telephone: +254 020-2369563  
E-mail: [info@netfund.go.ke](mailto:info@netfund.go.ke)  
Website: [www.netfund.go.ke](http://www.netfund.go.ke)

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

**(n) Principal Legal Adviser**

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

**III. THE BOARD OF TRUSTEES**

Board of Trustee	Profile
<div data-bbox="248 483 632 916" data-label="Image"> </div> <div data-bbox="233 1061 638 1133" data-label="Caption"> <p><b>Hon. Moses Akaranga EGH- Board Chair</b></p> </div>	<p>Hon. Rev. Akaranga was born on 18<sup>th</sup> October 1953. He has a wealth of experience in public administration having worked in the public sector for more than twenty years. During his tenure as the Minister of State for Public Service in the Office of the President, he was awarded the most prestigious public service recognition; the- United Nations Public Service Award. Additionally, he is recognized for his role in initiating Performance Contracting in the Public Service, introducing the Rapid Results Initiative program, and overseeing the salary review and increment of pension to all retired civil servants.</p> <p>A renowned politician, Hon. Rev. Akaranga was the first Governor of Vihiga County. In 2002, he was elected the Member of Parliament for Sabatia Constituency. During this time, he served as a Commissioner with the Parliamentary Service Commission and was the Chairperson of the Parliamentary Staff Welfare Committee.</p> <p>Rev. Akaranga, holds a Master’s Degree in Business Administration (MBA) from the United States International University (USIU) and a Bachelor of Arts in International Business Administration. He is currently pursuing his Doctoral studies in Strategic Planning.</p> <p>He believes in accountability, respect for all, and integrity.</p>



**Ms. Judy Chebet Ngeny-  
Member-NETFUND Board of  
Trustees**

Ms. Ngeny was born on 12<sup>th</sup> January, 1982. She has practised law for over thirteen years with expertise in Commercial Transaction Advisory and Regulatory Advisory work. Specifically, she has expertise in Intellectual Property and Technology law, Pharmaceuticals and Agro-chemicals regulation and Corporate and Commercial law. Ms. Judy Ngeny is a well-known business savvy lawyer and advisor. She holds a Master of Laws (LL.M) Degree from the University of Manchester, UK, and a Bachelor of Laws (LL. B) degree from the University of Nairobi. She is also a finalist Certified Public Accountant (CPA) and Company Secretary (CPS). Judy is also a Public Notary and Commissioner for Oaths.

She is currently a Partner at Chebet & Munyaka Advocates LLP and serves as the Chairperson of the Board Finance, Human Resource and Procurement committee. Judy is also a member of the Board Governance, risk and compliance committee.



**Hon. Protus Akujah- Member-  
NETFUND Board of Trustees**

Hon. Akujah was born on the 8<sup>th</sup> April, 1974. He is a Programme Management expert with knowledge and expertise in project design, planning and reporting amassed in over 15 years of professional experience. Hon. Akujah holds a Master of Science Degree in Management of Development – specialization in Rural Development and Food Security/Livelihoods from Van Hall Larestein University of applied sciences, part of Wageningen University and Research in Netherlands. He is a graduate of Moi University with a Bachelor of Science in Botany and Zoology. He also holds two Diplomas; Community Development and integrated relief, and Education (Agricultural Education and Extension).

Hon. Akuja is the Chairman of the Board Resource Mobilisation, Programmes and Communications Committee. He also serves in the Board Audit Committee

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 <p><b>Mr. Bernard Wachira Kibanya-</b>  <b>Member-NETFUND Board of</b>  <b>Trustees</b></p>	<p>Mr. Wachira was born on the 18<sup>th</sup> December, 1960. He is a skilled attorney with over 29 years' experience performing Civil litigation, Conveyancing, Commercial Law, Family Law, Corporate Law, Legal and Security Audits, and Personal Injury Claims. He is currently a Senior Partner at Amolo and Kibanya Advocates where he has negotiated hundreds of settlements. He previously worked with Simiyu Wetangula and Company Advocates.</p> <p>Mr. Wachira holds a Bachelor of Laws (LL. B (Hons) from The University of Nairobi, a Diploma in Law from the Kenya School of Law (KSL) and is a Certified Public Secretary (CPS) of Kenya.</p> <p>Mr. Wachira is the Chairman of the Board Governance, risk and compliance committee.</p>
 <p><b>Mr. Wilberforce Muriungi-</b>  <b>Member-NETFUND Board of</b>  <b>Trustees</b></p>	<p>Mr. Ntwiga was born on the 23<sup>rd</sup> March, 1986. He is an Agricultural and Rural Development expert with a specialty in building and managing agribusiness initiatives. He holds a Master's Degree in Agriculture and Rural Development from the Kenya Methodist University (KEMU) and a Bachelor of Science in Agri-business Management from Egerton University.</p> <p>Mr. Ntwiga has over 10 years of progressive professional experience. He has previously worked at Bayer East Africa, Technoserve Kenya and Cereal Growers Association as a Project Field Officer in charge of Grain Value Chains. He served in the previous NETFUND Board of Trustees (2015-2017) as the Chairperson of the Finance, Human Resource and Administration Board Sub-Committee.</p> <p>Mr. Ntwiga is currently the Chairman of the Audit Board Committee and serves as a member in the Board Resource Mobilisation, Programmes and Communications Committee.</p>
 <p><b>Ms. Linnet Vitisia</b>  <b>Representative of the Principal</b>  <b>Secretary-National Treasury to</b></p>	<p>Ms. Linnet M. Vitisia was born on the 8<sup>th</sup> December, 1971. She holds a Masters of Business Administration Degree and is a Certified Public Accountant and a Certified Investment and Financial analyst. She has with over 25 years' experience in Public Service in areas of accounting, budgeting and finance.</p> <p>Linnet's career began at the Ministry of Foreign Affairs where she rose up the ranks and served as a Financial Attaché at the Kenya Embassies in Belgium and Sweden. In her current role as an Assistant Accountant General and the Head of Disbursement Unit at the Resource Mobilization Department of the Public Debt Management Office, National Treasury, she provides advisory services on Donor Funded Projects on matters of funds flow mechanism, disbursements and facilitates movement of funds under the Revenue and AIA mode of disbursements.</p>

<p>the NETFUND Board of Trustees.</p>	<p>She serves in the Audit Committee of NETFUND.</p>
<div data-bbox="245 443 608 898" data-label="Image"> </div> <p><b>Dr. Pacifica Ogola</b>  <b>Representative of the Principal Secretary in the Ministry of Environment and Forestry.</b></p>	<p>Dr Pacifica F. Achieng Ogola was born on the 11th of March 1970. She has over 20 years’ experience working in Energy, Environment and Climate Change in various capacity. She is currently the Director and Head of Climate Change Directorate at the Ministry of Environment and Forestry and National Focal Point to the United Nations Framework Convention for Climate Change (UNFCCC) and the Nairobi Convention.</p> <p>Dr. Ogola previously worked at the Kenya Electricity Generating Company Ltd as the Chief Clean Development Officer where she led environmental compliance in various power plant projects and managed their carbon credits.</p> <p>She holds a Doctor of Philosophy (PhD) in Environmental Science (Environment and Natural Resources) from the School of Engineering and Earth Sciences, University of Iceland in Geothermal Energy; Master’s Degree in Environmental Science (Natural Resource Management) from Kenyatta University focusing on Surface Water Utilization and Conservations Aspects, and a Bachelor’s Degree from Kenyatta University, Geography Major. She also holds a Diploma in International Environmental Law from the United Nations Institute for Training and Research (UNITAR); a Diploma in Environmental Studies in Geothermal Development from the United Nations University-Geothermal Training Program (UNU-GTP) in Iceland, and a Diploma in Environmental Management from Galilee College, Israel.</p> <p>Dr. Ogola serves in the Resource Mobilisation, programmes and communications committee of NETFUND.</p>

**IV. SENIOR MANAGEMENT TEAM**

**Samson Toniok – Chief Executive Officer**

Samson Lekokoo Toniok, has a Master's of Science Degree in Finance and a Bcom (Second Class Honours). He is a CPA (K), ISA and is the Chief Executive Officer. Samson has served as the Finance



Director for NETFUND since 2015. He is a highly accomplished, result driven senior accounting and financial management executive with more than 10 years of progressive experience in finance and accounting within state corporations and financial institutions. He has expertise in developing and implementing financial controls, financial reporting, IFRS, IPSAS, budgeting,

Taxation, Project accounting and financial management. He possesses solid leadership, communication and interpersonal skills to establish rapport with all levels of staff and management.



**George Mwaniki- Director Resource Mobilization and Business**

Dr. Mwaniki has over 10 years of experience in environment management specializing in various areas including air quality, environmental policy, sustainable development, alternative energy research among others. He has worked at the Institute of Nuclear Science and Technology, University of Nairobi as Deputy Researcher. Dr. Mwaniki holds a Ph.D. in Environmental Engineering from Washington State University, Master of

Science degree in Environmental Engineering from University of Montana and a Bachelor of Science degree from the University of Nairobi.

## **V. CHAIRMAN'S STATEMENT**

### **a) Review of the economy**

The global COVID pandemic has so gravely impacted the World in a manner rarely seen since the world financial crisis in 2008. The pandemic has brought to the fore the interlinkness of the World as the spread of the virus across International borders has been rapid and devastating. In recognition to the existential threat to mankind, nations responded with various measures of restricted movements internally and externally which precipitated an Economic Crisis the world over. In April 2020, the IMF revised the World economic growth to -3% which was a substantive 6 percentage points from what had been earlier predicted.

The Government of Kenya has taken measures to contain the spread of the virus since the first case was detected on March 12th 2020. The measures included dusk to dawn curfew to curtail movement, partial closure of businesses and guidelines on working offsite for Government employees, while private enterprises were encouraged to allow employees to work from home.

In recognition of the adverse effects on the Economy the Government through the Central Bank of Kenya took several actions including lowering of the Central Bank rate (CBR) from 7.25% to 7%. Additionally, the Monetary Policy Committee cut the Cash Reserve Ratio (CRR) from 5.25% to 4.25%. The CRR represents a proportion of the Banks' deposits that must by law be held at the Central Bank. The effect of this was to free an additional Kes. 35 billion to the Banks for lending to customers.

To cushion employees and businesses during these unprecedented times the Government also implemented a number of tax breaks including lowering VAT from 16% to 14%, 100% relief for low-income earners (earning a gross monthly income of Kes. 24,000), decrease of top Pay as you earn (PAYE) rate from 30% to 25% and decrease of resident corporate income tax from 30% to 25%.

There is optimism that the effects of the pandemic may not be as devastating to African nations as other parts of the world. However, the Economic effects present immense challenges due to job losses. It has been estimated by the Central Bank that over 75% of SMEs which are primarily the main source of employment in Kenya face imminent collapse unless urgent remedial measures are taken. According to the World Bank, the real GDP growth in 2019 was about 5.4%, down from 6.3 percent in 2018. The COVID-19 shock is expected to further reduce growth in 2020 with large impacts on services (transport, retail trade, tourism, events, leisure, etc.), industry (manufacturing and construction), and agriculture. Over the years, the Kenyan Economy has demonstrated resilience in the face of tough challenges.

Prior to the COVID 19, the Economy had been projected to grow at 5.8%, however the pandemic has caused unprecedented shocks which has caused the world bank to review the country's growth prospects to about 4%.

In May 2020 the Government announced a 53.7 billion stimulus package targeting various sectors including infrastructure, education, SME, health, agriculture and specifically horticulture, tourism, the green Kenya campaign and manufacturing.

**b) Review of the sector & any changes**

The Environment and Water Sector continued to support the Presidential directive to achieve a 10% tree cover by 2020. Sector Agencies have been heavily involved in various tree planting activities in the current year. The Ministry of Environment and Forestry has reclaimed parts of the Mau forest who forms part of one of the major water towers in Kenya. There have also been rehabilitation efforts done to the Michuki Memorial park which is a biodiversity centre in Nairobi. An inadvertent effect of COVID-19, is that the environment has recovered from degradation due to the diminished economic activity and going forward the Ministry has come up with a post covid recovery stimulus plan that involves setting up a fund for Kes. 2 billion to contribute to acceleration of attainment of the 10% tree cover by 2022. NETFUND has been designated as the lead fund raising Agency for the programme.

**c) Strategy**

The management put in place a new strategic plan for 5 years from 2019-2024. The strategic plan was designed to clearly articulate NETFUND's niche position in the environment sector and areas of focus for the next 5 years taking into account the emerging issues in the sector. The strategic plan focuses on 3 key result areas: - Partnerships and resource mobilization; Environment and Climate Change and Organisational Capacity.

**d) Corporate Governance**

Strong Corporate Governance is integral to the Board's long-term success and is essential in delivering the NETFUND's strategy. The Statement of Corporate Governance, included in this report, details the measures that the Fund has undertaken to ensure a robust corporate governance environment. The Fund also takes cognizance of its long-term sustainability while delivering on its mandates as highlighted in the Sustainability Statement.

**e) Future outlook FY 2020/2021**

As stated earlier, an unexpected benefit of the COVID-19 pandemic has been the deceleration of environmental degradation due to the concomitant decline in Economic Activity worldwide. It is important for policy makers and community of practice to take advantage of this situation and to come up with sustainability plans for the future. Post COVID recovery must take cognizance of not only economic recovery but safeguarding the gains in environmental recovery. The funds so far committed to post covid recovery are clearly inadequate and collaboration with development partners will still be critical in environmental management.

As the key environmental fund in Kenya, NETFUND is envisaged to play a pivotal role in mobilising resources for environmental management in Kenya. However as currently constituted in the Environmental Management and Coordination Act (Rev. 2015), the organisation is unable to fully function as a robust environmental fund. NETFUND has therefore commenced a review of the environmental and coordination Act and internal systems and structures which are aimed at transforming NETFUND into a basket fund for the environment sector in Kenya. This process is ongoing with the assistance of the Ministry of Environment, a development partner and consultants.

**Acknowledgement**

On behalf of NETFUND Board of Trustees and staff, I thank the Government of Kenya, Ministry of Environment and Forestry, and other stakeholders for their continued support. This support during the unprecedented time of the COVID pandemic has gone a long way towards ensuring sustainability of the organization and continuous provision of service the people of Kenya.

I also wish to thank my fellow trustees for dedicating their time and effort to steer the Board. Their advice and guidance have played a key role in the attainment of organizational targets. Our management and staff have risen to the challenges with a great deal of resourcefulness, diligence, resilience and determination. We are proud of the team and greatly appreciate their ability and commitment towards achieving the Fund's vision, mission and objectives.

I look forward to a promising financial year 2020/21. God Bless you all.

Thank you,

Signed: .....

Hon. Rev. Moses Akaranga  
**Chair, Board of Trustees**

## **VI. REPORT OF THE CHIEF EXECUTIVE OFFICER**

I am pleased to present to you the report on the performance of NETFUND for the financial year 2019-2020. Execution of the Fund's programmes was greatly affected by the COVID pandemic after announcement of the first case in March 2020. However, the Fund remains committed to implementation of strategies focused on fund raising for environment management. This was done through enhancing collaboration with sector players and participation in National events pertaining to our core mandate.

### **Financial Performance**

During the year under review Government recurrent grant increased by 26.9% from Ksh. 113 million to Ksh. 143 million. The overall Government grant increased marginally by 3.42 % from a total figure of Ksh. 164 million to Ksh. 170 million. Through there was an increase in recurrent inflows, the development funds declined by 48%. There was a marginal increase in donor funds inflows of 86%% from Kes. 12m to 22m which is due to intensified efforts towards resource mobilisation. The Fund continues to engage in aggressive resource mobilisation with promising prospects in the pipeline.

The total expenses decreased marginally by 2% from 174m to 170m. This was driven by repairs and maintenance expenses and staff costs which decreased by 111% and 13% respectively. However, the Fund continues to implement stringent cost controls that have led to overall cost decrease.

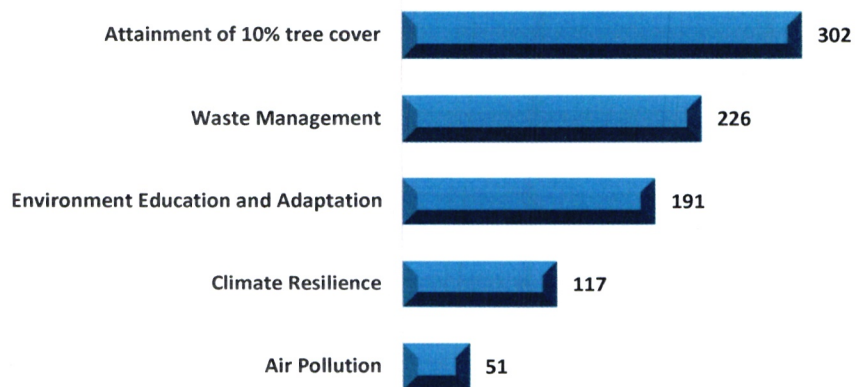
### **Review of performance; Programme achievements**

#### **1. NETFUND Green Innovations Award Phase IV**

The NETFUND GIA is the organisation's flagship programme that recognizes and awards environmental heroes and heroines whilst actively sensitizing the public on the importance of environmental conservation. It has a strong business incubation component whose purpose is to nurture innovative initiatives and transform them into viable green enterprises. The programme is purposed to promote green growth through recognition and adoption of innovations that reduce the effects of climate change with a particular emphasis of ensuring that there is an environmentally responsible society embracing best practices for a clean, healthy and productive environment. Highlighted below are key programme achievements for the period under review: -

The fourth phase of the NETFUND Green Innovations Award was launched on the 20<sup>th</sup> February up to 20<sup>th</sup> March, 2020. The programme targeted applicants from counties, academic institutions (Primary and secondary schools, universities and colleges), journalists, community-based organizations, micro, small and medium enterprises (MSMEs) and individuals. Total number of applications received 887 from all counties in Kenya with a breakdown of the thematic areas and categories as shown in the diagrams below:

### Applications by Thematic Areas



### Applications by Categories



Thereafter the first level judging was undertaken and the shortlisted projects will be evaluated through site visits to determine the eventual winners who will be feted in a Gala event to be held later this year.

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**2. Tree Growing Initiatives**

NETFUND has continued to support the Government’s efforts towards attainment of 10% tree cover by 2022, by organising and participating in various functions with the Ministry of Environment and related Agencies. During the period under review NETFUND participated in tree planting in the following areas:

No.	Name of the County	Tree seedlings Planted
1	Kirinyaga	10,000
2	Narok	50,000
4	Kajiado	14,000
5	Elgeyo Marakwet	82,830
	Total	156,830

NETFUND was designated the lead Agency in fund raising for the 4<sup>th</sup> edition of the Kaptagat Integrated Conservation Programme which took place on the 26<sup>th</sup> June, 2020. A total of 82,830 tree seedlings were planted and Ksh. 9.8 million in financial contributions were obtained from the Ministry.



*Photo 1: The Elgeyo Marakwet governor, Alex Tolgos joins NETFUND board chair Moses Akaranga, NETFUND CEO Samson Toniok among other board members in a tree planting exercise to mark the 4th edition of Kaptagat Integrated Conservation Programme tree planting exercise*



*Photo 2: Environment and Forestry CS Keriako Tobiko, Member NETFUND Board of Trustees, NETFUND, CEO Samson Toniok together with NETFUND Staff members together with KFS officials preparing to plant a ceremonial tree seedling at KFS forest station in Kirinyaga Co*

### **3. Key Partnership established**

NETFUND and the Kenya National Innovation Agency signed an agreement where NETFUND was to manage funding to selected projects as accredited incubator. NETFUND therefore on boarded 6 projects; Safi Organics Sarvi fertilizers, Simatech-the Save Machine, Biofit feeds, 3-wheeler Utility Vehicles, Eco Tiles and Super Moto and Super Moto. The projects have been supported to enhance efficiency in production through purchase of machinery, expert advice in business development and business planning. Some of the projects are shown below:



*Photo 3: Fabricated 3 wheeler vehicle at Tumaini Centre*



*Photo 4: Production of Organic fertilizer at Safi Organics*

### **4. Performance Contracting**

NETFUND has been engaged in performance contracting with the Government of Kenya through the Ministry of Environment and Forestry to ensure that the organisation remains focused on execution of mandate, sector performance standards and Vision 2030. The Key Performance Indicators outlined in the Performance Contract include financial & stewardship, service delivery, operational and qualitative indicators derived from the Medium-Term Expenditure Framework, Vision 2030 and Sector Performance standards.

## 5. Human Capital



*Photo 5: Staff members after a staff meeting*

NETFUND has continued to enhance productivity through offering competitive terms to its staff members. As an organisation we believe that human capital is a key pillar to the successful execution of the Board's Strategic Plan. NETFUND has therefore continued to develop the human capital through on-the-job training, mentoring and coaching and creating of an enabling environment for the staff to fully develop their talents. Since its launch in 2004, the Fund has grown gradually, from 1 (one)

staff member to a current workforce of 32 (thirty-two) members of staff.

In the year under review, NETFUND was categorised as a Financial Institution paving the way for the organisation to take its rightful place as the premier environmental Fund in Kenya.

### **Future Outlook**

The environment sector in Kenya remains largely underfunded due to the immense resource requirements compared to availability. NETFUND intends to play a major role in bridging this financing gap through resource mobilization. However, in order to be effective in carrying out its mandate of being the principal environmental fund in Kenya, NETFUND recognizes the need for a review of EMCA section 24 to give the organization more latitude in resource mobilization. Additionally, a review will refine its mandate more concisely enabling NETFUND to focus on environmental resource fundraising more robustly.

NETFUND has received funding from a development partner to undertake an organization structural review that will encompass both legal and financing structures of the organization. The results of the review will inform proposals for review of EMCA 1999 and other operational adjustments to streamline NETFUND's operations.

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Meanwhile, NETFUND will be focusing on efforts to fundraise in collaboration with relevant stakeholders in the environment sector. The fund implements various Programmes including NETFUND Green Innovations Award which will identify and support innovative green enterprises for incubation and acceleration.

NETFUND had also partnered with NEMA, ASCENT and the County Government of Makueni to develop a GCF proposal titled *Makueni Climate Resilient project* which was submitted to the GCF in October last year. The concept received a favourable review by the GCF and is progressing well.

**Appreciation**

It would not have been possible to succeed in our endeavours in the previous year without the support from our key stakeholders including the Government of Kenya, especially the National Treasury and our parent ministry, the Ministry of Environment and Forestry. We appreciate them for their continued support and insight. The COVID pandemic has been unprecedented in economic devastation to the Economy and the support of the Government of Kenya has been invaluable.

As we gravitate toward the post covid era, NETFUND will take a major role in fundraising and supporting the Government of Kenya to actualise the various stimulus programmes to kick-start the Economy.

I am also grateful to our development partners and to all other our stakeholders for their unwavering trust, support and partnership.

Above all, I would like to thank the Board of Trustees, management and staff for their dedication, determination and commitment to NETFUND. I believe that with their continued support and commitment, we shall propel NETFUND to greater heights of success.



.....

Samson Toniok  
**Chief Executive Officer**

## **VII. CORPORATE GOVERNANCE STATEMENT**

### **Establishment and Composition of the Board**

The National Environment Trust Fund (NETFUND) was established by the Environmental Management and Coordination Act (EMCA) 1999, Revised (2015), Section 24 “to facilitate research intended to further the requirements of environmental management; capacity building; environmental awards; environmental publications; scholarships; and grants”.

A Board of Trustees comprising of five professionals (Also includes 2 representatives from the Ministry of Environment and Forestry and the National Treasury) is in place in accordance to EMCA 1999 (and subsequent revisions) and the NETFUND Board of Trustees is the highest decision making organ with fiduciary responsibility for the FUND.

### **Management and Governance of the Fund**

NETFUND is administered by a Board of Trustees (BoT) appointed by the Cabinet Secretary of Environment and Forestry. The BoT is the main decision-making organ charged with, amongst other things, policy formulation, provision of advisory services, control of NETFUND funds and assets and undertaking other activities in line with the mission and vision of NETFUND.

### **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 NETFUND’s strategy and ensuring best practice of corporate governance.

The Board retains full and effective control over the Fund 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 NETFUND’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 Fund, performance reporting processes as well as other disclosure requirements.

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 Trustees in good time before the meeting.

### **BOARD EFFECTIVENESS**

The separation of the functions of the Chairperson of the Board of Trustees and Chief Executive Officer ensures independence of the Board from NETFUND’s corporate management. There is a clear definition of the roles and responsibilities of the two offices.

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

**Trustees Remuneration**

In accordance with guidelines provided in the State Corporations Act, the trustees are paid taxable sitting allowance for every meeting attended, as well as travel and accommodation allowances while on NETFUND's duty. The Chairman is also paid a monthly honorarium. However, it is important to note that the immediate former Board of Trustees did not have a substantive chairman.

**Statement of Compliance**

The Board of Trustees confirms that National Environment Trust Fund has throughout the 2019/2020 financial year complied with all Statutory and Regulatory requirements and that NETFUND has been managed in accordance with the requisite principles of Corporate Governance.

**INTERNAL CONTROL AND RISK MANAGEMENT**

**Internal Control**

The Trustees are responsible for reviewing the effectiveness of the Fund's system of internal control which is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorized use or disposal 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 Fund has a Code of Ethics and Service Charter that is applicable to all employees. These are among a number of Standing Instructions to employees of the fund designed to enhance internal control. The Fund has also designed additional 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

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to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the Fund can meet its future management requirements.

**Strategic Plan**

The business of the fund is determined by the Strategic Plan. The Strategic Plan sets out the objectives of the fund, and the annual targets to be met to attain those objectives. The Strategic Plan is evaluated annually to assess the achievement of those objectives. On an annual basis, NETFUND's Board of Trustees approves the work plan supported by the financial plan for the year. Progress in achieving the set objectives in the plan is monitored on a quarterly basis.

**Internal Control Framework**

The Fund 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 ongoing basis. A risk-based audit plan, which provides assurance over key business processes and operational and financial risks facing the Fund, is approved by the Board.

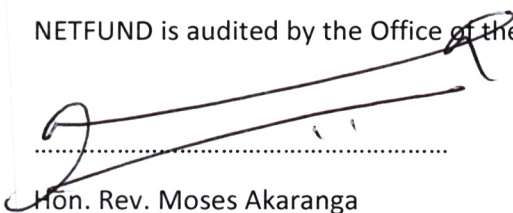
The Board considers significant control matters raised by management and both the internal and external auditors. Where weaknesses are identified, the Board ensures that management takes appropriate action. No significant failings or weaknesses were identified during 2019/2020

**Management Team**

The management team headed by the Chief Executive Officer 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.

**Audit**

NETFUND is audited by the Office of the Auditor General as required by statute.

  
.....  
Hon. Rev. Moses Akaranga  
**Chair Board of Trustees**

  
.....  
**Date**

## VIII. MANAGEMENT DISCUSSION AND ANALYSIS

### The Entity's operational performance

NETFUND is established under the provisions on EMCA 1999 Revised 2015 'to facilitate research intended to further the requirements of environmental management; environmental awards; capacity building; environmental publications; scholarships and grants'.

In line with its mandate of supporting environmental awards, the NETFUND has developed the Green Innovations Award. NETFUND is mandated to identify, recognize and reward innovative projects and ideas that contribute to improved livelihoods and environmental sustainability in Kenya. NETFUND GIA is an annual flagship programme of NETFUND that promotes green growth and address the impacts of climate change through efforts that will contribute to a low carbon and climate resilient development pathway.

During the FY 2019/20 the programme has supported 8 micro and medium enterprises to access financial support as well as other growth opportunities.

Under the research component NETFUND supported research titled: *A Systems Approach to Air Pollution – East Africa (ASAP-East Africa)*. There were 2 major achievements; Development of a Nairobi City urban profile which provides an understanding of the factors contributing to air pollution in contexts of rapid urbanization, and its impact upon the city and a Vulnerability Scoping Study: *Air Pollution Exposure in an Inner City Nairobi Primary School*. The study provides an insight vulnerable populations, occupations and locations in Nairobi, exposed to high levels of both indoor and outdoor air pollutants, and the associated impacts

The organisation has recently finalised review of its five-year strategy in order to respond to the challenges and opportunities within the sector as well as align its work with national priorities. Some of the key trends within the sector include; Climate change and green entrepreneurship and innovation. These issues are captured in national plans such as the National Climate Change Action Plan and Green Economy and Implementation Strategy.

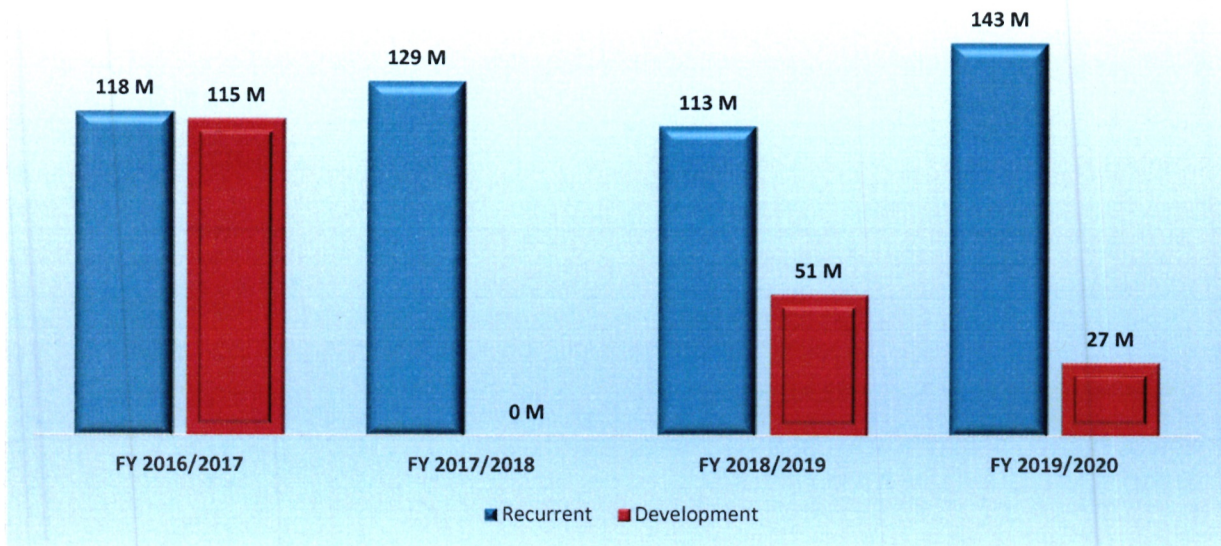
### Financial Performance

During the year under review Government recurrent grant increased by 26.9% from Ksh. 113 million to Ksh. 143 million. The overall Government grant increased marginally by 3.42 % from a total figure of Ksh. 164 million to Ksh. 170 million. Through there was an increase in recurrent inflows, the development funds declined by 48%. There was a marginal increase in donor funds inflows of 86%% from Kes. 12m to 22m which is due to intensified efforts towards resource mobilisation. The Fund continues to engage in aggressive resource mobilisation with promising prospects in the pipeline.

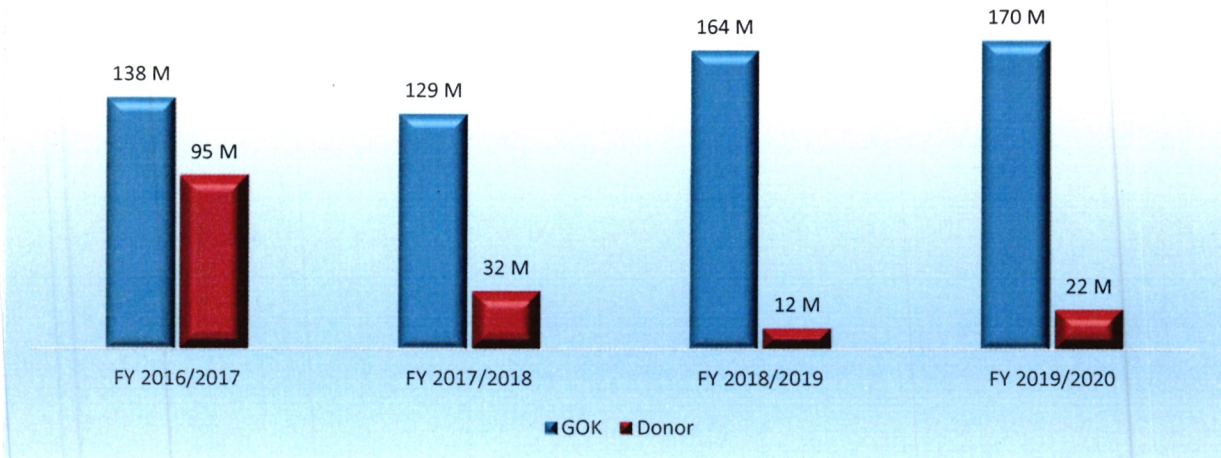
The total expenses decreased marginally by 2% from 174m to 170m. This was driven by repairs and maintenance expenses and staff costs which decreased by 111% and 13% respectively. However, the Fund continues to implement stringent cost controls that have led to overall cost decrease.

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NETFUND Revenue Trends in Millions (Kes)



NETFUND Revenue by Source in Millions (Kes)



## **SECTION B**

### **Entity's compliance with statutory requirements**

NETFUND being a state agency has a duty to ensure that all the relevant laws and regulations are adhered to and complied with. In addition, NETFUND does acknowledge its obligation to have all statutory dues such PAYE, NHIF, NSSF, withholding tax and industrial training levies processed and remitted before the set timelines.

NETFUND has put in place sufficient controls to ensure full compliance to all laws and regulations. There are no major non-compliance issues that may expose the fund to potential contingent liabilities.

## **SECTION C**

Key projects and investment decisions the entity is planning/implementing

In line with its new five-year strategy; the organisation has outlined four major strategic areas to focus on. These include;

- i) Development of strategic relationships with development partners;
- i) Collaboration with Sector Agencies;
- ii) Development and review policies and procedures for environmental research;
- iii) Facilitate the strengthening of research institutions to carry out environmental research;
- iv) Enhance dissemination of environmental research findings
- v) Support strengthening of stakeholders' institutional capacity on climate action, ecosystem restoration and managing environmental pollution.
- vi) Support green innovations/enterprises that contribute to climate resilience, ecosystem restoration and reduction of environmental pollution.:
- vii) Enhance processes and systems for improved service delivery.
- viii) Improve human capital development to deliver on the strategy.

To ensure sustainable financing of its programs and projects, the organisation is in the process of acquiring GCF accreditation. This will enhance NETFUND's capability to handle a variety of financial instruments and earn income through fees and commission which will enhance sustainability. Concomitantly NEFUND is proposing amendments to EMCA that grant NETFUND the legal backing to deal in diverse income generating activities and set up various financing mechanisms including endowment funds and loans.

## **SECTION D**

### **Major risks facing the entity**

The Fund's activities expose it to a variety of strategic, operational and financial risks. The Fund's overall risk management programme focuses on the proactive identification and management of risks and seeks to minimise potential adverse effects on the achievement of its strategic objectives.

**Strategy risk** – This is the risk associated with an entity's inability to formulate and/or execute a successful strategy.

Programmes at NETFUND are carefully selected and formulated to ensure its mandate is achieved in a sustainable manner. To achieve this goal, NETFUND has developed and documented the new 5-year strategic plan (2019-2024). The plan is to be operationalised starting this financial year. In addition, a risk management and controls framework has been put in place to assist the Board and Management in understanding business risk issues and key performance indicators affecting the ability of the Fund to achieve its objectives both in the short and long term.

**Operational risk** - This is the risk of failure or loss resulting from inadequate or failed processes, people, or systems. At NETFUND, this risk has been managed through defining and documenting key procedures and embedding internal controls in all the processes. These internal controls include- though not limited to- obtaining authorizations for all transactions and ensuring compliance with laws and regulations as well as agreements with our stakeholders especially the development partners and beneficiaries. Additionally, NETFUND is implementing the ISO 9001:2015 which will assist in standardising processes in line with International best practice and mitigating operational risks.

**Liquidity risk** – This is the risk that an entity will be unable to meet its obligations as they fall due. Prudent liquidity management includes maintaining sufficient cash balances to cover anticipated expenditures. NETFUND endeavours to identify anticipated expenditure through a consultative budgeting process and communicate the same to the parent ministry and donors for approvals and funding.

**Credit risk**- NETFUND's credit risk is primarily attributable to its liquid funds with financial institutions, deposits and prepayments made for provision. The credit risk on the liquid funds with financial institutions is low because the counter parties are banks with high credit-ratings. The deposits and prepayments are fully performing as FUND continues to enjoy the services secured by these balances. The default rate is low.

**Market risk** --NETFUND takes on exposure to market risk, which is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect NETFUND's surplus or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Monitoring of market risk is done by management in conjunction with the Board of Trustees.

Market risk exposures are measured by the use of sensitivity analyses. The market risk exposure for the NETFUND relates primarily to currency risk.

**SECTION E**

**Material arrears in statutory/financial obligations**

NETFUND has no existing Loans at the moment and has been able to settle statutory obligations before the set deadline. NETFUND however has pending bills in its books that it anticipates to settle within the operating cycle/financial year. Strict adherence to the budget and planning ensures that no material variance is accumulated.

**SECTION F**

**The entity's financial probity and serious governance issues**

There has not been any major financial impropriety reported by the internal audit/Board audit committee, external auditors, or other oversight bodies. NETFUND has a duly constituted Board of Trustees which came into office in September 2018. The Board provides oversight on all matters of the organisation.

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**IX. REPORT OF THE TRUSTEES**

The Board of Trustees submit their report together with the audited financial statements for the year ended June 30, 2020 which shows the state of the Fund's affairs.

**Principal activities**

The Fund's principal activity is to mobilize funds from any legitimate source that will facilitate research intended to further the requirements of environmental management, capacity building, environmental awards, environmental publications, scholarships and grants

**Results**

The results of the entity for the year ended June 30, 2020 are set out from page 1

**Trustees**

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

**Auditors**

The Auditor General is responsible for the statutory audit of the Fund in accordance with the Public Finance Management (PFM) Act, 2012. The Auditor General continues in office in accordance with the Public Finance Management (PFM) Act, 2012.

**X. STATEMENT OF TRUSTEES' RESPONSIBILITIES**

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

The Trustees are responsible for the preparation and presentation of the *entity's* financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2020. 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;

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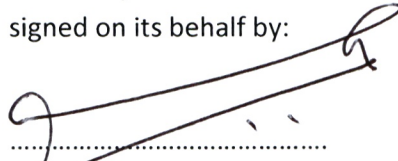
- iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- iv) Safeguarding the assets of the *entity*;
- v) Selecting and applying appropriate accounting policies; and
- vi) Making accounting estimates that are reasonable in the circumstances.

The Trustees accept responsibility for the *entity's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act). The Trustees are of the opinion that the *entity's* financial statements give a true and fair view of the state of *entity's* transactions during the financial year ended June 30, 2020, and of the *entity's* financial position as at that date. The Trustees further confirm the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the *entity's* financial statements as well as the adequacy of the systems of internal financial control.

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

**Approval of the financial statements**

The *entity's* financial statements were approved by the Board on \_\_\_\_\_ 2020 and signed on its behalf by:



Hon. Rev. Moses Akaranga

**Chair Board of Trustees**

Date..... 28/4/21



Samson Toniok

**Chief Executive Officer**

Date..... 28/04/2021



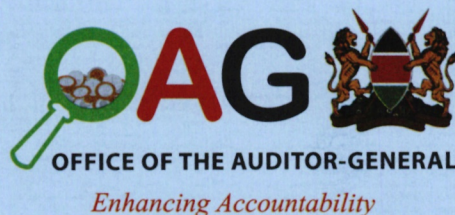
Evans Kiprotich

**Finance Manager**

Date..... 28/4/21

# REPUBLIC OF KENYA

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**HEADQUARTERS**  
Anniversary Towers  
Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON NATIONAL ENVIRONMENT TRUST FUND FOR THE YEAR ENDED 30 JUNE, 2020**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Opinion**

I have audited the accompanying financial statements of National Environment Trust Fund set out on pages 1 to 30, which comprise the statement of financial position as at 30 June, 2020 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Environment Trust Fund as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Environment Management and Coordination Act, 1999 and the Public Finance Management Act, 2012.

#### **Basis for Opinion**

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

#### **Key Audit Matters**

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

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

#### **Conclusion**

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

and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Irregular Procurement of Legal Fees**

During the year under review, the Fund incurred legal expenses amounting to Kshs.560,800. The amount was paid to a law firm for representing the entity in an employment and labour relations Court petition. However, the payment for the legal services was based on an expired contract. Further, details of the procurement method used to identify the law firm were not provided for audit review.

In the circumstances, the validity and propriety of expenditure amounting to Kshs.560,800 could not be confirmed.

#### **2. Single Sourcing of Advertising Services**

Examination of expenditure records revealed that the Fund contracted a media house to advertise and showcase the Fund's activities through radio and television at a cost of Kshs.2,320,000. However, details of the procurement method used to identify the media house were not provided for audit review.

In the circumstances, the validity and propriety of expenditure amounting to Kshs.2,320,000 could not be confirmed.

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

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

#### **Basis for Conclusion**

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

## **Responsibilities of Management and the Board of Trustees**

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

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

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

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

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

## **Auditor-General's Responsibilities for the Audit**

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the sustainability of services, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and express an opinion on the Fund's financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**03 November, 2021**

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**XII. STATEMENT OF FINANCIAL PERFORMANCE**

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019-2020 Ksh.	2018-2019 Ksh.
Revenue from non-exchange transactions			
GOK Grants	7	169,600,000	163,998,000
Public contributions and donations	8	543,300	-
Transfers from other governments – gifts and services-in-kind	9	540,918	11,604,324
<b>Total revenue</b>		<b>170,684,218</b>	<b>175,602,324</b>
<b>Expenses</b>			
Employee costs	10	87,071,662	98,083,816
Board of Trustees Expense	11	12,159,399	9,004,235
Depreciation and amortization expense	12	3,097,599	3,834,681
Repairs and maintenance	13	372,408	785,580
Contracted services	14	3,738,438	5,656,981
Project Costs	15	24,261,818	12,088,492
General expenses	16	38,820,378	44,840,954
<b>Total expenses</b>		<b>169,521,703</b>	<b>174,294,739</b>
Other gains/(losses)		-	-
<b>Surplus before tax</b>		<b>1,162,515</b>	<b>1,307,585</b>
Taxation		-	-
<b>Surplus for the period</b>		<b>1,162,515</b>	<b>1,307,585</b>

The notes set out on pages 6 to 31 form an integral part of these Financial Statements

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**XIII. STATEMENT OF FINANCIAL POSITION**

AS AT 30 JUNE 2020

	Note	2019-2020	2018-2019
		Ksh.	Ksh.
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	17	27,520,431	19,622,655
Receivables from Exchange Transactions	18	2,608,680	2,893,742
Receivables from non-exchange Transactions	19	1,336,284	1,912,750
Inventory	20	1,452,614	1,356,792
Work in progress	21	6,304,000	-
		<b>39,222,010</b>	<b>25,785,939</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	22	7,178,997	8,257,700
Intangibles	23	3,347,438	4,074,769
		<b>10,526,435</b>	<b>12,332,469</b>
<b>Total Assets</b>		<b>49,748,445</b>	<b>38,118,408</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and Other payables from exchange transactions	24	15,142,510	4,512,818
Accrued staff gratuity	25	14,637,652	14,800,000
<b>Total Current Liabilities</b>		<b>29,780,162</b>	<b>19,312,818</b>
<b>Total Liabilities</b>		<b>29,780,162</b>	<b>19,312,818</b>
<b>Net Assets</b>			
Capital Reserves		7,714,898	7,714,898
Accumulated surplus		12,253,385	11,090,692
		<b>19,968,282</b>	<b>18,805,590</b>
<b>Total net assets and liabilities</b>		<b>49,748,445</b>	<b>38,118,408</b>

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:



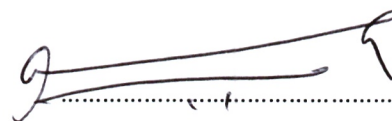
Samson Toniok  
 ICPAK No 6632.  
**Chief Executive Officer**

Date: 28/4/21



Evans Kiprotich  
 ICPAK No 23383.  
**Finance Manager**

Date: 28/4/21



Hon. Rev. Moses Akaranga  
**Chair Board of Trustees**

Date: 28/4/21

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**XIV. STATEMENT OF CHANGES IN NET ASSETS**

FOR THE YEAR ENDED 30 JUNE 2020

	Capital Reserve Ksh.	Accumulated Surplus Ksh.	Total Ksh.
<b>Balance as at 1st July 2018</b>	7,714,898	5,992,448	13,707,346
Prior year adjustment	-	3,790,659	3,790,659
Surplus/(deficit) for the period	-	1,307,585	1,307,585
Transfers to/from accumulated surplus	-	-	-
<b>Balance as at 30 June 2019</b>	<b>7,714,898</b>	<b>11,090,692</b>	<b>18,805,590</b>
Prior year adjustment	-	178	178
<b>Balance as at 1st July 2019</b>	7,714,898	11,090,692	18,805,590
Surplus/(deficit) for the period	-	1,162,515	1,162,515
Transfers to/from accumulated surplus	-	-	-
<b>Balance as at 30 June 2020</b>	<b>7,714,898</b>	<b>12,253,385</b>	<b>19,968,283</b>

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**XV. STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 30 JUNE 2020

	Note	2019-2020	2018-2019 (Restated)
		Ksh.	Ksh.
<b>Surplus for the year</b>		<b>1,162,515</b>	<b>1,307,585</b>
Adjustment for:			
Prior year adjustments		177	3,790,659
Depreciation and Amortization		3,097,599	3,834,681
<b>Net Cashflows generated from operating Activities before working capital changes</b>		<b>4,260,291</b>	<b>8,932,925</b>
<b>Changes in Working Capital</b>			
(Increase) / Decrease in Trade Receivables		861,528	10,535,494
(Increase) / Decrease in Inventories		(95,822)	53,859
(Increase) / Decrease in work in progress		(6,304,000)	-
Increase / (Decrease) in Payables		10,629,692	(27,658,537)
Increase / (Decrease) in Deferred income		-	(3,259,169)
Increase / (Decrease) in Provisions		(162,348)	14,800,000
		<b>4,929,050</b>	<b>(5,528,353)</b>
<b>Net Cashflows from operating Activities</b>		<b>9,189,341</b>	<b>3,404,572</b>
<b>Cashflows from Investing Activities</b>			
Purchase of Assets	22	(1,291,565)	(4,663,000)
<b>Net Increase / (Decrease) and Cash Equivalents</b>		<b>7,897,776</b>	<b>(1,258,428)</b>
<b>Cash and Cash Equivalents as at 1st July 2019</b>		<b>19,622,655</b>	<b>20,881,083</b>
<b>Cash and Cash Equivalents as at 30 June 2020</b>		<b>27,520,431</b>	<b>19,622,655</b>

(IPSAS 2 allows an entity to present the cash flow statement using the direct or indirect method but encourages the direct method. PSASB also recommends the use of direct method of cash flow preparation). **NETFUND has prepared the Cash Flow statement using the indirect method.**

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**XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**

FOR THE YEAR ENDED 30 JUNE 2020

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2019-2020	2019-2020	2019-2020	2019-2020	2019-2020
	Ksh.	Ksh.	Ksh.	Ksh.	Ksh.
<b>Revenue</b>					
GOK Grants -Recurrent	143,100,000	-	143,100,000	143,100,000	-
GOK Grants -Development	53,000,000	(5,000,000)	48,000,000	26,500,000	(21,500,000)
Public contributions and donations	-	543,300	543,300	543,300	-
Other Government grants and subsidies	-	540,918	540,918	540,918	-
<b>Total income</b>	<b>196,100,000</b>	<b>(3,915,782)</b>	<b>192,184,218</b>	<b>170,684,218</b>	<b>(21,500,000)</b>
<b>Expenses</b>					
Compensation of employees	83,960,000	-	83,960,000	87,071,662	(3,111,662)
Goods and services	36,565,000	-	36,565,000	34,790,096	1,774,904
Rent paid	11,315,000	-	11,315,000	11,238,728	76,272
Other payments	11,260,000	-	11,260,000	12,159,399	(899,399)
Project Cost paid	53,000,000	26,500,000	26,500,000	24,261,818	2,238,182
<b>Total expenditure</b>	<b>196,100,000</b>	<b>26,500,000</b>	<b>169,600,000</b>	<b>169,521,703</b>	<b>78,297</b>
<b>Surplus for the period</b>	<b>-</b>	<b>-</b>	<b>22,584,218</b>	<b>1,162,515</b>	<b>(21,578,297)</b>

**Budget Notes**

The differences between actual and budgeted amounts all fall within then the 10% threshold as provided by IPSAS 24.14

Compensation to employees had an over expenditure due to provision for gratuity for staff to be paid in FY 2020/2021. This was however within the budget threshold limit.

The project costs had an under expenditure due to a component on forestry that was deferred by the donor in terms of implementation to the following financial year under the project titled Implementation of National Green Economy Strategy. NETFUND had not received a letter of no objection from AfDB to sign the contract thus delaying the component. The component had been budgeted at KES 2M

The Development budget was reduced by KES 21,500,000 from KES 48M to KES 26.5M as a result of lack of exchequer from the National Treasury.

**XVII. NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

The National Environment Trust Fund (NETFUND) was established by the Environmental Management and Coordination Act (EMCA) 1999, Section 24 “to facilitate research intended to further the requirements of environmental management; capacity building; environmental awards; environmental publications; scholarships; and grants”. A subsequent amendment to EMCA section in June 2015 allowed the organisation to become a State Corporation. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya.

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The Financial statements for the year ended 30<sup>th</sup> June 2020 have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) as issued by International Public Sector Accounting Standards Board (IPSASB), the Public Finance Management Act, 2012, Public Audit Act, 2015 and Environment Management and Coordination Act 1999 (Cap 387 of the laws of Kenya)

For the Public Finance Management Act, 2012, Public Audit Act, 2015 and Environment Management and Coordination Act 1999 reporting purposes, in these financial statements the “balance sheet”/ “statement of assets and liabilities” is represented by and is equivalent to the statement of “financial position” and the “profit and loss account”/ “statement of income and expenditure” is presented in the statement of “financial performance.”

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

The accounting policies adopted have been consistently applied to all the years presented and The financial statements are prepared on accrual basis.

**3. ADOPTION OF NEW AND REVISED STANDARDS**

**i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2020**

Standard	Impact
<p><b>IPSAS 40:</b></p> <p><b>Public Sector Combinations</b></p>	<p>Applicable: 1<sup>st</sup> January 2019</p> <p>The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3(applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.</p> <p>This standard does not apply to NETFUND</p>
<p><b>IPSAS 41:</b> Financial Instruments</p>	<p>Applicable: 1<sup>st</sup> January 2022:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul> <p>This standard does not apply to NETFUND</p>

Standard	Impact
<b>IPSAS 42:</b> Social Benefits	Applicable: 1 <sup>st</sup> January 2022  The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:  (a) The nature of such social benefits provided by the entity;  (b) The key features of the operation of those social benefit schemes; and  (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.  NETFUND will factor in the application of the Standard on due date

**ii. Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2019.

**1. General Information**

The National Environment Trust Fund (NETFUND) was established by the Environmental Management and Coordination Act (EMCA) 1999, Section 24 “to facilitate research intended to further the requirements of environmental management; capacity building; environmental awards; environmental publications; scholarships; and grants”. A subsequent amendment to EMCA section in June 2015 allowed the organisation to become a State Corporation. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya.

**2. Statement of compliance**

The Financial statements for the year ended 30<sup>th</sup> June 2019 have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) as issued by International Public Sector Accounting Standards Board (IPSASB), the Public Finance Management Act, 2012, Public Audit Act, 2015 and Environment Management and Coordination Act 1999 (Cap 387 of the laws of Kenya)

For the Public Finance Management Act, 2012, Public Audit Act, 2015 and Environment Management and Coordination Act 1999 reporting purposes, in these financial statements the

“balance sheet”/ “statement of assets and liabilities” is represented by and is equivalent to the statement of “financial position” and the “profit and loss account”/ “statement of income and expenditure” is presented in the statement of “financial performance.”

### **3. Basis of preparation**

The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Fund. 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 direct method. The financial statements are prepared on accrual basis.

### **4. Presentation of financial statements**

The financial statements comprise of statement of financial performance, statement of financial position, statement of changes in net assets/equity and the statement of cash flows and the notes to the financial statements.

The Board classifies its expenditure by the nature of expense methodology. The disclosure on risks are presented in the financial risk management objectives and policies.

The statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating, investing and financing activities.

Starting 1st July 2013, National Environment Trust Fund adopted the IPSAS 1 on Presentation of Financial Statements. In previous years the financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs). The change was necessitated by the reporting standards on public entities which are not Government Business Entities (GBE) as defined and required by IPSAS 1- ‘Presentation of Financial Statements’ which states that the scope of application is for ‘all public sector entities other than Government Business Enterprises’.

### **5. Functional Currencies**

#### **(a) Functional and Presentation Currency**

The financial statements are presented in the functional currency, Kenya Shillings (Kes.), which is the Board’s presentational currency.

#### **(b) Transactions and Balances**

##### **i) Translation of Foreign Currencies**

Transactions in foreign currencies during the year are converted into the functional currency using the prevailing exchange rates ruling at the dates of the transactions.

Assets and liabilities denominated in foreign currencies are translated at the mean rates of exchange ruling at the end of the reporting period. The foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized through the statement of financial performance in the year in which they arise. However, there were no transactions denominated in foreign currencies in the period under review.

ii) Translation of Foreign Operations

The Board does not have any foreign operations

**6. Summary of significant accounting policies**

**1. Revenue recognition**

vii) Revenue from non-exchange transactions – IPSAS 23

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the fund and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognized:

Government grants are recognized as income when there is reasonable assurance that the grants will be received and the entity will comply with the conditions attached to them. The grants are recognized as income on a systematic and rational basis over the period necessary to match them with the related costs.

**Transfers from foreign governments and 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 Fund and can be measured reliably.

viii) Revenue from exchange transactions – IPSAS 9

**Rendering of services**

The Fund recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

## **Interest income**

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

### **2. 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 Fund 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.

Depreciation is calculated using the straight-line method on 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	25%
Office equipment	12.5%

### **3. 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 Fund. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or Fund 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.

### **4. 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 Fund 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.

#### **5. 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.

##### ix) Research and development costs

The Fund expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Fund can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

#### **6. Financial instruments – IPSAS 29**

##### **Financial assets**

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: **Recognition and Measurement** are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Fund determines the classification of its financial assets at initial recognition.

##### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

#### **Held-to-maturity**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Fund has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

#### **Impairment of financial assets**

The Fund assesses at each reporting date whether there is objective evidence that a financial asset or a Fund of financial assets is impaired. A financial asset or a Fund of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Fund of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a Fund of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

#### **Financial liabilities**

##### **Initial recognition and measurement**

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Fund determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

##### **Loans and borrowing**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

#### **IPSAS 29.65**

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

#### x) Inventories – IPSAS 12

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Fund.

#### **7. Provisions – IPSAS 19**

Provisions are recognized when the Fund 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.

#### **Contingent liabilities**

The Fund 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.

#### **Contingent assets**

The Fund does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Fund in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately

reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**8. Nature and purpose of reserves**

The Fund creates and maintains reserves in terms of specific requirements.

**9. Changes in accounting policies and estimates – IPSAS 3**

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

**10. Related parties – IPSAS 20**

The Fund regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Fund, or vice versa. Members of key management are regarded as related parties. Service concession arrangements – IPSAS 32

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

**11. 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.

**12. Comparative figures**

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

**13. Significant judgments and sources of estimation uncertainty – IPSAS 1**

The preparation of the Fund's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could

result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

#### **Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Fund based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Fund. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

#### **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:

1. The condition of the asset based on the assessment of experts employed by the Fund
2. The nature of the asset, its susceptibility and adaptability to changes in technology and processes
3. The nature of the processes in which the asset is deployed
4. Availability of funding to replace the asset
5. Changes in the market in relation to the asset

#### **Provisions**

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

#### **14. 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, 2019.

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**7. GOK GRANTS**

	2020 Ksh	2019 Ksh
Actual		
Recurrent	143,100,000	112,700,000
Development	26,500,000	51,298,000
<b>Total revenue</b>	<b>169,600,000</b>	<b>163,998,000</b>

**8. Public contributions and donations**

	2020 Ksh	2019 Ksh
ZALF	543,300	-
<b>Total Transfers and Sponsorship</b>	<b>543,300</b>	<b>-</b>

**9. Transfers from other Governments-gifts and services-in-kind**

	2020 Ksh	2019 Ksh
African Development Bank	540,918	11,604,324
<b>Total grants from other governments</b>	<b>540,918</b>	<b>11,604,324</b>
Reconciliation of conditional grants from other governments		
Balance unspent at the beginning	-	-
Current year receipts	-	-
Conditions met-Transferred to revenue	-	-
Conditions to be met-Liabilities (see note 24)	-	-

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**10. Employee Costs**

	2020 Ksh	2019 Ksh
Employee related costs – Basic Pay	41,548,860	43,620,960
Employee related costs - Allowances	25,754,890	23,547,199
Employee related costs – Pension contribution & NSSF Employer	106,000	96,240
Employee related costs - Leave allowances	3,541,590	841,870
Employee related costs - Gratuity	16,093,723	29,953,697
Employee related costs - NITA Employer expense	26,600	23,850
Employee costs	<b>87,071,662</b>	<b>98,083,816</b>
Number of Staff	<b>32</b>	<b>32</b>

**11. Board of Trustees Expenses**

	2020 Kshs	2019 Kshs
Chairman's Honoraria	960,000	800,000
Sitting Allowances	3,824,000	3,060,000
Travel & Accommodation allowance	7,375,399	5,144,235
Total Board remuneration	<b>12,159,399</b>	<b>9,004,235</b>

**12. Depreciation and amortization expense**

	2020 Kshs	2019 Kshs
Property, plant and equipment	2,370,268	3,143,606
Intangible assets	727,331	691,075
Total depreciation and amortization	<b>3,097,599</b>	<b>3,834,681</b>

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**13. Repairs and maintenance**

	2020 Ksh	2019 Ksh
Property	-	-
Equipment	6,220	33,579
Vehicles	340,088	752,001
Other	26,100	-
<b>Total repairs and maintenance</b>	<b>372,408</b>	<b>785,580</b>

**14. Contracted/Consultancy Services**

	2020 Ksh	2019 Ksh
Strategy	1,191,400	3,186,755
Legal Fees	585,800	417,600
Human Resources	1,044,880	-
ICT Services	621,023	2,052,626
Other	295,335	-
<b>Total contracted services</b>	<b>3,738,438</b>	<b>5,656,981</b>

**15. Project Costs**

	2020 Ksh	2019 Ksh
NETFUND GIA Project	-	735,400
Development grant projects-GIA	17,135,331	4,493,528
ACCF Project	7,126,487	6,859,564
<b>Total grants and subsidies</b>	<b>24,261,818</b>	<b>12,088,492</b>

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**16. General Expenses**

	2020 Kshs	2019 Kshs
Advertising	968,234	-
Local Travel	1,978,578	4,117,428
Foreign Travel	-	275,966
Computer Expenses	676,651	1,126,258
Rent and Rates	11,238,728	10,819,794
Consumables	1,092,324	1,217,476
Fuel and oil	826,569	778,259
Insurance	8,068,608	8,442,343
Internet charges	1,055,160	603,432
Telephone and Postage	1,311,833	956,917
Printing and stationery	958,772	1,023,007
Bank charges	167,636	108,189
Corporate Events & CSR	7,909,342	8,872,789
Training Expenses	1,936,844	4,572,178
Staff Welfare Costs	631,100	1,926,918
<b>Total general expenses</b>	<b>38,820,378</b>	<b>44,840,954</b>

**17. Cash and cash equivalents**

	2020 Kshs	2019 Kshs
Bank	27,520,431	19,622,655
Cash-on-hand and in transit	-	-
Short-term deposits	-	-
<b>Total cash and cash equivalents</b>	<b>27,520,431</b>	<b>19,622,655</b>

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**17. (a) Detailed Amounts of the Cash and Cash Equivalents**

		2019-2020	2018-2019
Financial institution	Account number	KShs	KShs
<b>a) Current account</b>			
Kenya Commercial Bank-Recurrent A/C	1119280788	8,468,659	10,400
Kenya Commercial Bank Development A/C	1157932495	4,375,755	7,946
Kenya Commercial Bank-GIA/SIDA A/C	1147263396	14,113,946	14,202,896
Kenya Commercial Bank-ACCF A/C	1211283143	562,071	5,401,413
Sub- total		<b>27,520,431</b>	<b>19,622,655</b>
<b>b) Others(specify)</b>			
Cash in Transit		-	-
Cash in Hand		-	-
<b>Grand total</b>		<b>27,520,431</b>	<b>19,622,655</b>

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**18. Receivables from exchange transactions**

	2020 Ksh	2019 Kshs
Current receivables		
Staff Debtors	1,305,747	1,592,170
Other exchange debtors	1,302,933	1,301,572
Less: impairment allowance	-	-
<b>Total current receivables</b>	<b>2,608,680</b>	<b>2,893,742</b>

<b>2020</b>				
	0-3 Months	3 – 12 Months	Over 12 Months	Total
Staff Debtors	-	1,301,572	-	1,301,572
Other Exchange Debtors	-	-	1,302,933	1,302,933
	-	<b>1,301,572</b>	<b>1,302,933</b>	<b>2,608,680</b>
<b>2019</b>				
	0-3 Months	3 – 12 Months	Over 12 Months	Total
Staff Debtors	-	1,592,170	-	1,592,170
Other Exchange Debtors	-	-	1,301,572	1,301,572
	-	<b>1,592,170</b>	<b>1,301,572</b>	<b>2,893,742</b>

**Note:**

Other exchange debtors relate to rental security deposit where the Fund has given a guarantee for rent to Tysons Valuers for Kshs 1,301,572 which expired on 31<sup>st</sup> July 2020. This guarantee covers the obligation to Tyson Valuers of three months' rent. The guarantee was issued by the Trustees' bankers in favor of Tyson Valuers. The Board entered into counter indemnity with the same bank. The guarantee was issued in the normal course of the business.

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**19. Receivables from Non-Exchange Transactions**

	2020 Ksh	2019 Ksh
LECRED	567,880	-
TREE PLANTING	768,404	1,912,750
Less: impairment allowance	-	-
<b>Total current receivables</b>	<b>1,336,284</b>	<b>1,912,750</b>

**20. Inventories**

	2020 Ksh.	2019 Ksh.
Consumable stores	306,835	410,804
Other general office supplies	144,346	190,800
Computer Accessories	1,001,433	755,188
<b>Total inventories</b>	<b>1,452,614</b>	<b>1,356,792</b>

**21. Work in progress**

	2020 Ksh.	2019 Ksh.
Purchase of Motor Vehicle	6,304,000	-
<b>Total work in progress</b>	<b>6,304,000</b>	<b>-</b>

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**22. Property, plant and equipment**

	Motor Vehicle	Furniture & Fittings	Computers & Printers	Equipment	Total
Cost	Ksh.	Ksh.	Ksh.	Ksh.	Ksh.
At 1 July 2018	7,704,720	11,669,059	9,663,388	8,156,126	37,193,293
Additions	-	2,136,992	650,500	38,280	2,825,772
Disposals	-	-	-	-	-
<b>At 30 June 2019</b>	7,704,720	13,806,051	10,313,888	8,194,406	40,019,065
Additions	129,900	320,064	151,601	690,000	1,291,565
<b>At 30 June 2020</b>	7,834,620	14,126,115	10,465,489	8,884,406	41,310,630
Depreciation and impairment					-
<b>At 30 June 2018</b>	7,704,720	7,767,504	7,632,366	5,513,168	28,617,758
Depreciation	-	1,143,912	1,103,602	896,092	3,143,606
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
<b>At 1st July 2019</b>	7,704,720	8,911,416	8,735,968	6,409,260	31,761,364
Depreciation	8,008	1,167,850	744,245	450,166	2,370,269
<b>At 30 June 2020</b>	7,712,728	10,079,266	9,480,213	6,859,426	34,131,633
<b>Net book values</b>					-
<b>At 30 June 2020</b>	121,892	4,046,849	985,276	2,024,980	7,178,997
<b>At 30 June 2019</b>	-	4,894,635	1,577,920	1,785,145	8,257,700

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**23. Intangible Assets**

Cost	
At 1 July 2018	4,168,873
Additions	1,633,878
At 30 June 2019	5,802,751
Additions	-
At 30 June 2020	5,802,751
Amortisation & Impairment	
At 1 July 2019	1,036,907
Amortisation	691,075
At 30 June 2020	1,727,982
Amortisation	727,331
Impairment Loss	-
At 30 June 2020	2,455,313
Net Book Values	
At 30 June 2020	3,347,438
At 30 June 2019	4,074,769

**24. Trade and other Payables**

Payables are expected to be settled in NETFUND's normal operating cycle and within 12 months after the reporting period and are not attached to an unconditional right to defer payment of the liability for at least 12 months after the reporting period.

	2020 Ksh.	2019 Ksh.
Trade Payables	6,304,000	1,551,108
Payments received in Advance	8,838,510	2,961,710
Employee Advances	-	-
Other Payables (PAYE Taxes)	-	-
<b>Total Trade and other payables</b>	<b>15,142,510</b>	<b>4,512,818</b>

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**25. Accrued Staff Gratuity**

Description	2020	2019
	Ksh	Ksh
Accrued gratuity	14,637,652	14,800,000
Total accrued gratuity as at 30.06.2020	<b>14,637,652</b>	<b>14,800,000</b>

**26. Financial Assets**

Exposure to currency, commodity, interest rate, liquidity and credit risk arises in the normal course of the Fund's operations. This note presents information about the Fund's exposure to each of the above risks, policies and processes for measuring and managing risk, and the Fund's management of capital. Further quantitative disclosures are included throughout these financial statements.

**Fair values**

Set out below, is a comparison by class of the carrying amounts and fair value of the Fund's financial instruments.

2020	Carrying Amount	Fair Value
Receivable from exchange Transactions	2,608,680	2,608,680
Receivable from Non-exchange Transactions	1,336,284	1,336,284
Cash and cash equivalents	27,520,431	27,520,431
<b>Total Financial Assets</b>	<b>31,465,395</b>	<b>31,465,395</b>
<b>2019</b>		
Receivable from exchange Transactions	2,893,742	2,893,742
Receivable from Non-exchange Transactions	1,912,750	1,912,750
Cash and cash equivalents	19,622,655	19,622,655
<b>Total Financial Assets</b>	<b>24,429,147</b>	<b>24,429,147</b>
<b>Financial Liabilities</b>		
<b>2020</b>		
Trade and other payables from Exchange Transactions	15,142,510	15,142,510
Deferred Income	-	-
<b>Total Financial Liabilities</b>	<b>15,142,510</b>	<b>15,142,510</b>
<b>2019</b>		
Trade and other payables from Exchange Transactions	4,512,818	4,512,818
Deferred Income	-	-
<b>Total Financial Liabilities</b>	<b>4,512,818</b>	<b>4,512,818</b>

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

**(c) Financial risk management objectives**

The Fund's activities expose it to a variety of financial risks including credit and liquidity risks and the effects of changes in foreign currency. The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The management has drafted a risk management policy that guides the management of the risks affecting NETFUND.

**(d) Credit risk**

NETFUND's credit risk is primarily attributable to its liquid funds with financial institutions, deposits and prepayments made for provision. The credit risk on the liquid funds with financial institutions is low because the counter parties are banks with high credit-ratings. The deposits and prepayments are fully performing as FUND continues to enjoy the services secured by these balances. The default rate is low.

**(e) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Board members, who have built an appropriate liquidity risk management framework for the management of the fund's short, medium and long-term funding and liquidity management requirements. Liquidity risk is the risk of the Fund not being able to meet its obligations as they fall due. The Fund's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund ensures that it has sufficient cash on demand to meet expected operating expenses through the use of cash flow forecasts.

**(f) Market risk management**

NETFUND takes on exposure to market risk, which is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect NETFUND's surplus or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Monitoring of market risk is done by management in conjunction with the Board of Trustees.

Market risk exposures are measured by the use of sensitivity analyses. The market risk exposure for the NETFUND relates primarily to currency risk.

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**Currency Risk**

The Authority undertakes certain transactions denominated in foreign currencies mainly the USD and Euro. This results in exposures to exchange rate fluctuations. NETFUND does not hedge its foreign currency risk. In light of the above, any adverse movements in exchange rates may result in either exchange gain or loss, with the latter having a negative impact on earnings, as NETFUND reports its financial performance in Kenya Shillings.

**Interest rate risk**

NETFUND is exposed to interest rate risk due to fluctuations in interest rates on the bank balances that it holds.

**Capital Risk Management**

NETFUND manages its funds to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and fund balance. The capital structure of NETFUND consists of capital reserve and accumulated surplus.

**27. Related Party Disclosure**

2020			
Designation	Basic Pay	Allowances	Total
Ag. Chief Executive Officer	2,531,520	2,599,728	5,131,248
Director Resource Mobilisation and Business Development	2,427,120	1,920,000	4,347,120
Finance Manager	2,228,040	792,000	3,020,040
<b>Total</b>	<b>7,186,680</b>	<b>5,311,728</b>	<b>12,498,408</b>
2019			
Chief Executive Officer	1,176,780	615,000	1,791,780
Director Resource Mobilisation and Business Development	2,531,520	2,429,796	4,961,316
Director Technical Services	2,427,120	1,920,000	4,347,120
Finance Manager	2,228,040	792,000	3,020,040
<b>Total</b>	<b>8,363,460</b>	<b>5,756,796</b>	<b>14,120,256</b>

## 28. Cash Generated from Operations

	2020 Ksh.	2019 Ksh.
Surplus for the year before tax	1,162,515	1,307,585
Adjusted for: Prior year adjustments	177	3,790,659
Depreciation	3,097,599	3,834,681
Loss on Disposal	-	-
Working capital adjustments:		
Increase in inventory	(95,822)	53,859
Increase in receivables	861,528	10,535,494
Decrease in deferred income	-	(3,259,169)
Decrease in payables	10,629,692	(27,658,537)
Decrease in provisions	(162,348)	14,800,000
Increase in work in progress	(6,304,000)	-
<b>Net cash flows from operating activities</b>	<b>9,189,341</b>	<b>3,404,572</b>

## 29. Contingent Liabilities.

### Legal Matters

A former member of Staff- Senior communications manager had sued the Fund for wrongful dismissal and filed case no. ELRC Petition No. 102 of 2018. The case was decided in favour of the Fund and attracted no damages and the matter is now closed.

## 30. Commitments; Operating Lease Rentals

Non-Cancellable operating lease rentals are payable as follows:	2020	2019
	Ksh	Ksh
Not later than One year	4,417,984	4,417,984
Later than One year	8,016,174	8,016,174
<b>Total</b>	<b>12,434,158</b>	<b>12,434,158</b>

The Fund has leased office premises under an operating lease. The lease typically runs for 6 years with an option for renewal. Lease payments are increased accordingly to reflect market rentals. The Fund does not have an option to purchase the leased asset at the expiry of the lease period. There are no contingent rents recognized in the Statement of Financial Performance.

### **31. Fair Value**

The Board of Trustees consider that there is no material difference between the fair value and carrying value of the company's financial assets and liabilities, where fair value details have not been presented.

### **32. Capital Commitments**

All capital commitments contracted for/authorized at the reporting period end have been recognized in the financial statements.

### **33. Events after the reporting period**

The Board of Trustees are not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the financial position of National Environment Trust Fund and results of its operation as laid out in these financial statements.

### **34. Comparatives**

Where necessary, comparative figures have been adjusted to conform to changes in presentation of the Financial Statements as required by International Public Sector Accounting Standards and any amendment whenever necessary in the current year.

### **35. Currency**

The financial statements are presented in Kenya Shillings.

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**APPENDIX I. PROJECTS IMPLEMENTED BY THE ENTITY**

**Projects**

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

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)
1. Green Innovation Awards		GOK	8 Years	40 Million	No
2. African Climate Change Fund		AFDB	4 Years	56 Million	No

**Status of Projects Completion**

	Project title	Total project Cost	Total expended to date	Completion % to date	Budget	Actual per quarter	Source s
1	Green Innovation Awards	40 Million	20 Million	50%	40 Million		GOK
2	African Climate Change Fund	63 Million	7.3 Million	80%	63 Million		AFDB& GOK