

REPUBLIC OF KENYA



*Paper on
By Hon Aden Du
Leader of Majority
on Tue 20/9/16
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REPORT

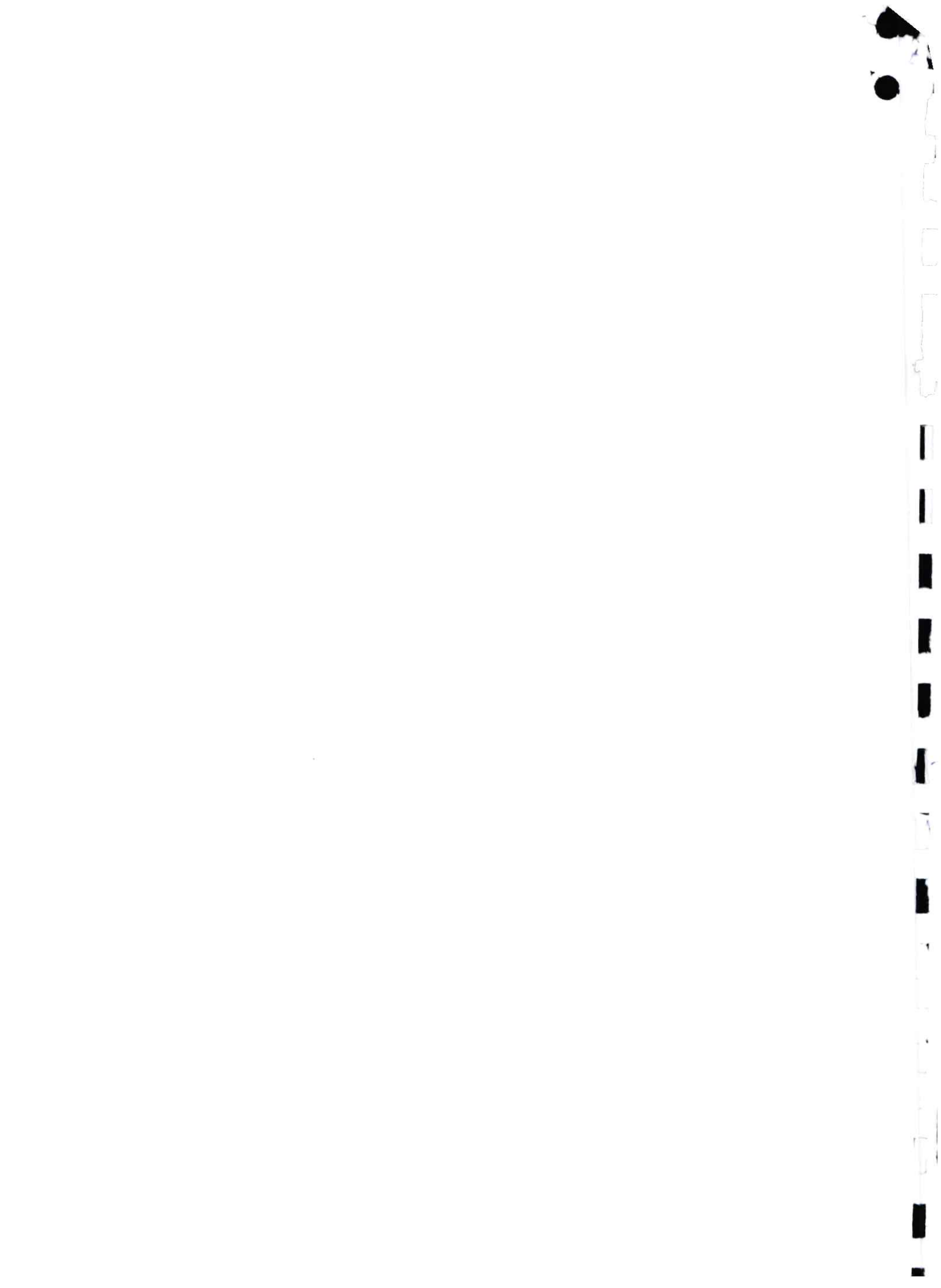
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
NATIONAL ENVIRONMENT TRUST
FUND**

**FOR THE YEAR ENDED
30 JUNE 2015**





NATIONAL ENVIRONMENT TRUST FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2015**

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

NATIONAL ENVIRONMENT TRUST FUND

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V. REPORT OF THE CHIEF EXECUTIVE OFFICER

I am pleased to present you with a report on the performance of NETFUND for the financial year 2014-2015. Focused execution and implementation of our 5-year strategic plan drove growth in amounts of funds raised for environment management.

Financial Performance

During the year under review Government Grants increased by 26% from 87.48 million to 110.32 million. Grants from foreign Governments and public contributions increased by 32% from 34.67 million to 45.81 million. NETFUND increased its efforts of resource mobilisation and building partnerships further to enhance its chances of success in future. The fruits of these efforts will continue to be realised more in the coming years.

The expenses grew 60% from 96.95 million to 154.72 million driven by increased number of development projects implemented by NETFUND and funded by foreign governments and other development partners aimed improving exploitation of natural resources and sustainable development.

Strategic Objective Performance

This report is a compilation of NETFUND's programs for 2014/2015 financial year. The programs are aligned to the Fund's Strategic Objectives which are:

1. NETFUND Green Innovations Award (NETFUND GIA) Phase II:

NETFUND is implementing the Green Innovations Award which aims to promote green growth through recognition and adoption of innovations that reduce the effects of climate change. The implementation of the NETFUND GIA has resulted in the achievement of the following key result areas;

- a) **Increased awards for innovative best practices:** 22 green initiatives awarded with cash prizes and in-kind prizes. This represents 100% increase on the number of beneficiaries from the previous year
- b) **Scaling up of best practices:** NETFUND enhanced the capacity of 12 NETFUND GIA beneficiaries comprising of community based organizations, schools, green villages, individuals, small and medium enterprises to scale up their projects. This was through a capacity building workshop where the beneficiaries were trained on various business and entrepreneurial aspects.
- c) **Increased number of partnerships:** During the period under review, the organisation secured funding from the Embassy of Sweden worth KES 65m for the Green innovations award. Additionally, there was an upsurge of new project partners from six to 12 which was a 100% increase. 50% of these partners have contributed a total of KES. 5 Million and provided in-kind contributions worth over KES. 66 Million. These new partnerships resulted in more innovations being taken through the incubation process as compared to the number that was previously envisaged.




- d) **Enhanced Awareness on green innovations:** Countrywide outreach initiatives conducted in the mainstream media. NETFUND in partnership with the Kenya Television Network (KTN) documented some of the best projects supported through this programme- The Entrepreneur through documentaries that have been aired on TV. The organization has supported the development of 14 short video clips that have been aired on various TV channels with an aim of promoting best practices and need for self-regulation. The organization also conducted talks in seven (7) universities in effort to stimulate green innovations among the youth.
- e) **Green Innovations Supported:** The organisation has also developed a dynamic incubation program that provides technical and business support services to green enterprises. Currently the program is incubating six innovations in partnership with Daystar University. The innovators have received support to develop business plans, register their businesses and develop their brand identity. In addition, to the technical and business support services, the innovators have received support to participate in award programs, exhibitions, symposiums, conferences, grant application processes and experiential learning visits.
- f) **Internal capacity enhanced:** NETFUND's capacity was also enhanced through trainings and establishment of appropriate systems and structures that supported the award process. These include; the MIS which provided a platform for managing data as well as platform for the judging process. NETFUND developed the NETFUND GIA policy, manual and energy guidelines.



Photo 1: One of the NETFUND GIA Phase II winners during an Award Ceremony

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II. THE BOARD OF TRUSTEES

Board of Trustee	Profile
 <p data-bbox="190 757 474 789">NAUMY JEPTANUI</p>	<p data-bbox="709 421 1449 710">Dr. Jeptanui holds a B.Ed, M.Ed. and PhD in Planning & Economics of Education. She is a highly accomplished, result driven planning and economics of education executive with more than 28 years of progressive experience in education and teaching within schools and universities. Dr. Jeptanui currently lectures at Kenyatta University and Mount Kenya University and has previously held the positions of Polling Clerk and Presiding Officer at the Kenyan Elections in 2002 for the Electoral Commission of Kenya, the Kenyan Referendum in 2010 for the IIEC and the Kenyan General Elections in 2013 for the IEBC. She is a trained Olympics coach and guidance counsellor.</p>
 <p data-bbox="190 1332 535 1364">DR. LOSENGE TUROOP</p>	<p data-bbox="709 910 1438 1229">Dr Turoop holds a BSC in Phytopathology and Entomology (Horticulture), an MSc.in Horticulture and a PhD in Phytopathology Dr Turoop is the current Associate Dean at JKUAT's Faculty of Agriculture. Widely published, currently the Chair to a successful resource mobilization committee with a wealth of knowledge in agriculture and horticulture. Dr. Turoop is a renowned Phytopathologist in Kenya. With over 23 years of work experience, Dr. Turoop has undertaken extensive research projects covering various Phytopathologist topics. He is member to various organizations namely The American Phytopathologist Society (APS), the Horticultural Association of Kenya (HAK) and the Kenya DAAD Scholars Association Chapter.</p>
 <p data-bbox="190 1864 545 1896">DR MNANGAT PTOTON</p>	<p data-bbox="709 1417 1449 1761">Dr. Ptoton holds a BSC (Hons) in Industrial Chemistry and a PhD in Organic Chemistry. In Philosophy in Organic Chemistry from the University of Oxford (UK). Dr. Ptoton has a wealth of knowledge from a background in organic chemistry and the successful management of developmental funds through CDF. Dr. Ptoton has over 8 years of experience in organic chemistry under his belt. He is also a certified Environmental Auditor. He has strong qualifications in developing Research and Development Policies, receiving, evaluating and allocating research funds to qualified researches and developing and implementing ISO procedures. As a member of the Jomo Kenyatta University Senate, Dr. Ptoton has experience in strategic planning and development as well as mediation of issues which are decided and passed for implementation.</p>

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WILBERFORCE MURIUNGI

Mr. Muriungi holds a BA in Agri-business management and a Masters in Agricultural and Rural development. Mr. Muriungi is a highly accomplished, result driven senior agribusiness and project implementation executive with more than 6 years of progressive experience in project planning and M&E within various private corporations. He has an ability to build synergy between county governments, Ministries and relevant stakeholders. He is an active member of the Kenya Red Cross and the Agribusiness Society Egerton Chapter (AMSEC). Mr. Muriungi is actively involved in giving motivational talks to youth groups, university students and high school students. He possesses solid leadership, communication and interpersonal skills to establish rapport with all levels of staff and management.

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”.

(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 30th June 2015 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Chief Executive Officer	Catherine Ndegwa
2.	Director Resource Mobilisation	Phyllis Ombonyo
3.	Director Technical Services	Joy Juma
4.	Head of Finance	Samson Toniok

(e) Entity Headquarters

P.O. Box 19324-00202
Matumbato Road, Upper Hill, Geomaps Centre
Nairobi, KENYA

(f) Entity Contacts

P.O. Box 19324-00200
Telephone: +254 (0) 202369563/4
E-mail: info@netfund.go.ke
Website: www.netfund.go.ke

(g) Entity Bankers

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

(h) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
G.P.O 00100
Nairobi, Kenya

(i) Principal Legal Adviser

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

III. MANAGEMENT TEAM



Catherine Ndegwa – Chief Executive Officer

Catherine is an alumna of the Kenya High School and holds a Bachelor of Arts (Literature and Philosophy) from Kenyatta University, Master of Arts in Communication from Daystar University and Executive Master of Business Administration from Strathmore Business School. She has served in many management positions in the nonprofit, academic and public sectors. She is experienced in organizational development and resource mobilization



Phyllis Ombonyo – Director Resource Mobilisation

Phyllis Engefu Ombonyo, MBA, BSC (Honors), CISA, is the Director, Business Development at the National Environment Trust Fund (NETFUND) in which capacity she spearheads resource mobilization, partnerships and capacity building in order to achieve appropriate and sustainable funding base for NETFUND



Joy Juma – Director, Technical Services

Joy holds an M.Phil in Conservation Leadership from the University of Cambridge, UK and a Bachelor of Environmental Studies from Kenyatta University, Kenya. Ms Joy Juma is a Programme management professional with an 11 year track record managing projects in East Africa. She has vast experience and expertise in strategy development, program design and implementation, monitoring and evaluation, research, stakeholder/donor relations, and grants management.



Samson Lekokoo Toniok, BCOM (Second Class Honors), CPAK, ISA is the Director, Finance at the National Environment Trust Fund (NETFUND). 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. Has strong qualifications in developing and implementing financial controls, financial reporting, IFRS, IPSAS, budgeting, Taxation, Project accounting and financial management. Possesses solid leadership, communication and interpersonal skills to establish rapport with all levels of staff and management

IV. CHAIRMAN'S STATEMENT

It gives me great pleasure to present to you the report for the National Environment Trust Fund (NETFUND) for the financial year 2014-2015.

The year under review has been an eventful one for the organisation and we have achieved various milestones:

The first major achievement was the successful launch of the organisational strategic plan for the next three years 2015-2018. This was an important milestone as the organisation was able to internally interrogate the vision and mission and decide on the strategic direction for the future. It is out of this process that the organisation has crafted a new vision: of a society empowered and motivated to sustainably manage the environment which will be driven by the organisational mission of empowering Kenyans to sustainably manage the environment through promotion and support of green growth.

Our long term goal is to create over 100 green enterprises with at least one of these having a turnover of Kes. 100 million.

These aspirations of the organisation are in tandem with the Government blue print Vision 2030 which envisions creation of a middle income nation with a growth rate of 10% and a clean and secure environment.

NETFUND aims to contribute to poverty alleviation while promoting individual and community engagement in environmental management through its NETFUND GIA programme. Indeed this programme has become the cornerstone of NETFUND programmes.

In this regard I would like to thank our development partners specifically the Embassy of Sweden for their continued support for this programme.

The second milestone is the launch of the mango processing and drying technology in Kitui County. This is a programme supported by the Intergovernmental Authority on Development (IGAD) and has impacted many lives in that region. This programme is innovative in that it involved fabrication of new technology for processing mango into powder for preservation and thus improvement of the value chain leading to increased profits for the mango farmers in Kitui who are mainly women.

The third milestone is the launch of the Incubation programme at NETFUND. This initiative is tied to our long term goal of developing the 100 green enterprises by 2025. I am pleased to announce to you that we have now have an established incubation centre offering services that nurture green enterprises through business acceleration processes including financial management, marketing and networking.

Our major funding from our development partners has come from the Embassy of Sweden and we are also in talks with other major development partners for funding.

I am optimistic that NETFUND will continue grow and mature to take its rightful place as a major player in environmental management in Kenya. All this would not be possible without a dedicated, committed and hardworking team which gives me immense fulfilment as we navigate the future.

Thank you.



Naumy Jeptanui
Trustee



Date
Nairobi

2. Capacity Building

NETFUND has been implementing an IGAD funded project aimed at piloting a new approach to mango value addition by drying mangoes and converting it to powder. This is expected to reduce the post harvest loss mango farmers are experiencing in Kitui County as a result of lack of better storage facilities as well as long periods of drought due to effects of climate change.

Some of the key achievements made with regards to the above project include:

- a) **Baseline survey:** This was jointly conducted by NETFUND and the Green Africa Foundation. The study sought to establish baseline indicators about key variables in the mango value chain upon which the project seeks to make impacts in the project intervention areas (Kitui East, Kitui West Mwingi North).
- b) **Installation of Mango Processing Plant at KDC:** The research findings informed the establishment of mango powdering technology in Kitui Development Centre (KDC) and two others are to be installed later.
- c) **Training farmers: More than 600 farmers trained on** operations and maintenance of the equipment has been undertaken.
- d) **Production of first batches:** The first batch of the products has been done. Acquisitions of product standards are ongoing.



Photo 2: NETFUND Mango Processing Plant at Kitui Development Centre supported by IGAD

Challenges

Some of the challenges experienced during the reporting period include;

- a) The main challenges in the period under review was in the mango processing project where we encountered difficulty in technology transfer in fabrication of the mango powdering equipment.
- b) Inadequate funding to support project implementation of the mango powdering in all the six counties of Kitui which meant scaling down to three counties.
- c) The incubation project in NETFUND also needed more capital to enable the organisation incubate more winners.

Human Capital Development

We recognize that our employees are critical in realizing our strategic objectives. One of our four strategic theme is attracting and retaining a motivated and productive team. This we have done by offering all cadres of staff training and development opportunities that equips them with the necessary skills to enhance their effectiveness, ensuring cultural alignment across all level of staff and reviewing the effectiveness and adequacy of staffing as well as competencies within key functions of the fund.

We are continuously recruiting skilled staff to bring new perspectives in realization of our corporate objectives. This will augment the experience and corporate knowledge of the existing staff.

As a way of entrenching performance system and culture in the fund, NETFUND has adopted the Balance Score Card tool of measuring employee performance. The balance score card is a strategic planning and management system that is used to align business activities to the vision and strategy of the organisation, improve internal and external communication and monitor organisation performance against strategic goals.

Investment in Technology

We realize that technology plays a major role in enhancing operations and effective service delivery to stakeholders. It is against this backdrop that we replaced a substantial number of our ICT hardware.

Future outlook

Steady growth and sustainable development are basic tenets of Kenya Vision 2030 and the Constitution of Kenya 2010. The Constitution recognizes clean and healthy environment as a basic human right and provides for sustainable exploitation, utilization, management and conservation of the environment and natural resources. On the other hand, Kenya Vision 2030 aims at achieving an annual growth of 10 percent per annum and transforming Kenya into “a globally competitive and prosperous country with a high quality of life b 2030”. NETFUND recognizes transition to the Green Economy as an important means towards sustainable development and hence the need to direct substantial effort and resources towards Green Growth initiatives. To ensure that we deliver on the

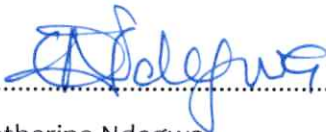
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foregoing, we have outlined four strategic themes among them; Fund development, Green Enterprise Development, People, and Operational excellence in our Strategic Plan (2014-2019). These four pillars will ensure that we continue to engage in improving customer service, continue to provide new & innovative service offerings, enhance our processes and operations and build relationship with our stakeholders.

Appreciation

I extend my appreciation to the Government including the National Treasury, our parent ministry, the Ministry of Environment, Natural Resources and Regional Development Authorities for their continued support and insights. I am also grateful to our development partners and to all our stakeholders for their unwavering trust, support and partnership.

Above all 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.



.....
Catherine Ndegwa

Chief Executive Officer

VI. CORPORATE GOVERNANCE STATEMENT

ESTABLISHMENT AND COMPOSITION OF THE BOARD

ESTABLISHMENT

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”.

Since its launch in 2004, the Fund has grown gradually, from 1 (one) staff member at its launch to a current workforce of 24 (twenty four) members of staff.

MANAGEMENT AND GOVERNANCE OF THE FUND

NETFUND is administered by a Board of Trustees (BoT) appointed by the Cabinet Secretary of Environment and Natural Resources. 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 the 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 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.

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

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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 allowance while on NETFUND's duty. The Chairman is also paid a monthly honorarium.

Statement of Compliance

The Board of Trustees confirms that National Environment Trust Fund has throughout the ^{14/15}~~2013/2014~~ financial year complied with all Statutory and Regulatory requirement 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 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

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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 2013/14

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. Such policies developed include the ICT Manual, Awards manual and Communication manual, among others.

Audit

NETFUND is audited by the Auditor General.



Naomy Jeptanui
Trustee



Catherine Ndegwa
Chief Executive Officer

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

NETFUND's CSR activities are guided by the following principles:

1. Mutual Beneficial Partnerships

NETFUND seeks to establish mutually beneficial partnerships by synergizing CSR efforts by Corporates through partnerships to work with NETFUND on already existing projects.

2. Fund Ethics and Transparency

NETFUND is committed to maintaining the highest standards of integrity and corporate governance practices in order to maintain excellence in its daily operations, and to promote confidence in our governance systems.

3. Corporate Governance

NETFUND endeavors to ensure that stakeholders have confidence in the decision-making and management processes of the fund, by the conduct and professionalism of all staff. We do this by continually training and developing our staff.

4. Environment Health & Safety

NETFUND takes its environmental responsibilities seriously believing that responsible environmental activity is in the interests of both our Fund and the communities in which we work closely with.

5. Human Rights

NETFUND does not tolerate human rights abuses, and does not engage in any activity that solicits or encourages human rights abuse; this zero tolerance to human rights abuses means that in NETFUND there is respect for cultures, customs, and values of individuals and groups.

6. Equality and Diversity

NETFUND aims at elimination of discrimination on any grounds and promotes equality of opportunity in all aspects such as recruitment, awards, and distribution of donor funds.

7. Workforce

In keeping with this policy NETFUND has invested in the care of her employees through trainings capacity building and skills development programmes, a good Performance management system and a Medical cover for staff and dependants.

8. Community

NETFUND endeavors to contribute to the wellbeing of the community we work with in different ways including "giving back to the community". This is through direct donations to charities and/or

causes or in kind where the staffs of NETFUND volunteer their services in activities to do with the environment that directly affect the lives of the community members for the better.

Activities carried out under CSR in 2014/2015 Financial year.

NETFUND staff joined the First Lady H.E Margaret Kenyatta and other Kenyans in the 'Beyond Zero Half Marathon Race' at Nyayo Stadium in March 2015.

The event which is an initiative of the First Lady aims to mobilize and provide leadership towards ending new HIV Infection and reducing the number of deaths among women and children in Kenya. The Campaign also aims to deliver prenatal and postnatal medical treatment to women and children as part of the strategic framework for HIV control and promotion of maternal newborn and child health care in the country. The race was held to raise awareness and funds to improve access to better health care through mobile clinics.

During the event, NETFUND was represented by a team of eighteen (18) who participated in 21 Km and 10 Km races. All staff members finished their respective races in good time.



A section of the NETFUND members of staff who participated in the First Lady's Beyond Zero Marathon.

VIII. REPORT OF THE TRUSTEES

The Board of Trustees submit their report together with the audited financial statements for the year ended June 30, 2015 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, 2015 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.

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.

FOR AND ON BEHALF OF THE BOARD OF TRUSTEES.

.....
Naumy Jeptanui

Naumy Jeptanui
Trustee

.....
30.09.2015

Date
Nairobi

NATIONAL ENVIRONMENT TRUST FUND

IX. STATEMENT OF TRUSTEES' RESPONSIBILITIES

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

The Trustees are responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year (period) ended on June 30, 2015. 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 Fund; (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 Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Trustees accept responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act and the State Corporations Act. The Trustees are of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2015, and of the Fund's financial position as at that date. The Trustees further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund'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 Fund will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

Approved by the Board of Trustees on *28/09/2015* 2015 and signed on its behalf by

..... *[Signature]*

Naomy Jeptanui
Trustee

..... *[Signature]*

Catherine Ndegwa
Chief Executive Officer

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X. REPORT OF THE INDEPENDENT AUDITORS ON THE FUND (NETFUND)

We have audited the accompanying (consolidated) financial statements of *National Environment Trust Fund for the year ended June 30, 2015*, which comprise: (i) a statement of financial performance; (ii) a statement of financial position; (iii) a statement of changes in net assets; (iv) a statement of cash flows; (v) a statement of comparison of budget and actual amounts and (v) a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the *Fund's* preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2015, and its financial performance as well as cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Auditor General

Date

2



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON NATIONAL ENVIRONMENT TRUST FUND FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of National Environment Trust Fund set out on pages 1 to 20, which comprise the statement of financial position as at 30 June 2015, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act 2003 and submit the audit report in compliance with Article 229 (7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

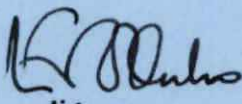
In my opinion, the financial statements present fairly, in all material respects, the financial position of National Environment Trust Fund as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Environment Management Coordination Act, 1999.

Other Matter

Lack of Board Chairman and Internal Audit Function

Section 15 (1) of the State Corporation Act, Cap 446 stipulate that a Board shall be responsible for proper management of the affairs of a state corporation and shall be responsible for the moneys, financial business and the management of the state corporation. However, the Fund has been operating without a Board Chairman in place though other Board members had been appointed. As a result, several policy matters of the Fund had not been undertaken during the year under review due to lack of policy direction and ownership of decisions made by the management. In addition, the Fund has not established internal audit unit. Lack of such an important unit to mitigate against risks inherent to internal control systems puts the Fund at precarious position.

My opinion is not qualified in respect of this matter.



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

Nairobi

28 July 2016

XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

There were no unresolved issues as per the final external audit report 2013/2014

NATIONAL ENVIRONMENT TRUST FUND

XI. STATEMENT OF FINANCIAL PERFORMANCE For the year ended 30 June 2015

	Note	2014-2015 Kshs	2013-2014 Kshs
Revenue from non-exchange transactions			
GOK Grants	3	110,324,000	87,480,000
Public contributions and donations	4	6,085,700	800,000
Transfers from other governments – gifts and services-in-kind	5	39,720,436	33,872,008
		<u>122,152,008</u>	<u>122,152,008</u>
Revenue from exchange transactions			
Finance income - external investments	6	825,890	2,122,282
Other income	7	-	251,784
		<u>825,890</u>	<u>2,374,066</u>
Total revenue		<u>156,956,026</u>	<u>124,526,074</u>
Expenses			
Employee costs	8	58,340,515	51,664,036
Board of Trustees Expense	9	1,508,347	207,200
Depreciation and amortization expense	10	4,086,471	3,661,997
Repairs and maintenance	11	1,143,065	1,158,006
Contracted services	12	5,695,976	3,635,528
Grants and subsidies	13	60,111,918	19,479,653
General expenses	14	23,757,717	17,046,673
Finance costs	15	74,004	91,265
Total expenses		<u>154,718,014</u>	<u>96,944,358</u>
Other gains/(losses)		-	-
Surplus before tax		<u>2,238,012</u>	<u>27,581,716</u>
Taxation		-	-
Surplus for the period		<u>2,238,012</u>	<u>27,581,716</u>

The notes set out on pages 6 to 18 form an integral part of the Financial Statements

NATIONAL ENVIRONMENT TRUST FUND

XII. STATEMENT OF FINANCIAL POSITION


As at 30 June 2015

	Note	2014-2015 Kshs	2013-2014 Kshs
Assets			
Current assets			
Cash and cash equivalents	16	27,609,932	52,340,685
Receivables from exchange transactions	17	2,987,812	1,326,467
Receivables from non-exchange transactions	18	-	7,396,363
Inventory	19	1,256,601	1,222,822
		31,854,345	62,286,338
Non-current assets			
Property, plant and equipment	20	13,835,011	9,382,153
		13,835,011	9,382,153
Total assets		45,689,356	71,668,490
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	21	15,768,047	14,642,160
Deferred income	22	-	29,033,150
		15,768,047	43,675,310
Non-current liabilities			
Non-current employee benefit obligation		-	-
Non-current provisions		-	-
		-	-
Total liabilities		15,768,047	43,675,310
Net assets		29,921,309	26,112,824
Capital Reserves		7,714,898	8,024,781
Accumulated surplus		22,206,411	19,968,399
Total net assets and liabilities		45,689,356	71,668,490

The Financial Statements set out on pages 1 to 19 were signed on behalf of the Board of Trustees by:


 Catherine Ndegwa
 Chief Executive Officer

Date: 30/9/15


 Naumy Jeptanui
 Board of Trustee

Date: 30.09.2015

XIII. STATEMENT OF CHANGES IN NET ASSETS
For the year ended 30 June 2015
Attributable to the owners of the controlling Fund

	Capital Reserve Kshs	Accumulated Surplus Kshs	Total Kshs
Balance as at 30 JUNE 2013	8,024,781	(7,944,872)	79,909
Prior Year Adjustment		331,555	331,555
Surplus/(deficit) for the period	-	27,581,716	27,581,716
Transfers to/from accumulated surplus	-	-	-
Balance as at 30 JUNE 2014	8,024,781	19,968,399	27,993,180
Prior year adjustment	(309,883)		(309,883)
Balance as at 1st July 2014	7,714,898	19,968,399	27,683,297
Surplus/(deficit) for the period	-	2,238,012	2,238,012
Transfers to/from accumulated surplus	-	-	-
Balance as at 30 JUNE 2014	7,714,898	22,206,411	29,921,309

The prior adjustment of Kshs 309,883 under Capital Reserves relates to spoilt/obsolete assets that were disposed of during the year

NATIONAL ENVIRONMENT TRUST FUND

XIV. STATEMENT OF CASH FLOWS

	2014-2015 Kshs	2013-2014 Kshs
Cash flows from operating activities		
Receipts		
GOK Grants	119,349,410	84,133,813
Public contributions and donations	6,085,700	800,000
Other Government grants and subsidies	10,687,286	62,905,158
Finance income	825,890	2,122,282
Other income	-	251,784
	136,948,286	150,213,037
Payments		
Compensation of employees	60,318,740	49,476,545
Goods and services	22,785,588	36,452,106
Finance cost	74,004	91,265
Rent paid	9,719,304	6,569,567
Other payments	1,508,347	207,200
Grants and subsidies paid	58,423,845	2,500,000
	152,829,827	95,296,683
Net cash flows from operating activities	26 (15,881,541)	54,916,354
Cash flows from investing activities		
Purchase of property, plant, equipment and intangible assets	(8,849,212)	(2,664,064)
Proceeds from sale of property, plant and Equipment	-	-
Net cash flows used in investing activities	(8,849,212)	(2,664,064)
Cash flows from financing activities		
Increase in deposits	-	-
Net cash flows used in financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	(24,730,753)	52,252,290
Cash and cash equivalents at 1 JULY	16 52,340,685	88,395
Cash and cash equivalents at 30 JUNE	16 27,609,932	52,340,685

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2014-2015	2014-2015	2014-2015	2014-2015	2014-2015
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
GOK Grants & Subsidies	110,324,000	-	110,324,000	110,324,000	-
Public contributions and donations	-	6,085,700	6,085,700	6,085,700	-
Other Government grants and subsidies	29,033,150	10,687,286	39,720,436	39,720,436	-
Finance Income	825,890	-	825,890	825,890	-
Total income	140,183,040	16,772,986	156,956,026	156,956,026	-
Expenses					
Compensation of employees	57,546,480	-	57,546,480	58,340,515	(794,035)
Goods and services	28,717,260	-	28,717,260	24,963,926	3,753,334
Finance cost	80,000	-	80,000	74,004	5,996
Rent paid	9,720,000	-	9,720,000	9,719,304	696
Other payments	1,804,900	-	1,804,900	1,508,347	296,553
Grants and subsidies paid	42,314,400	16,772,986	59,087,386	60,111,918	(1,024,532)
Total expenditure	140,183,040	16,772,986	156,956,026	154,718,014	2,238,012
Surplus for the period	-	-	-	2,238,012	2,238,012

NATIONAL ENVIRONMENT TRUST FUND

XVI. NOTES TO THE FINANCIAL STATEMENTS

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

The Fund's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the 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.

2. Summary of significant accounting policies

a. Revenue recognition

i) 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 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.

ii) 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.

b) Budget information – IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the 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

NATIONAL ENVIRONMENT TRUST FUND

between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

c) Taxes – IAS 12

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the 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.

e) 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%

g) 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.

i) 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

NATIONAL ENVIRONMENT TRUST FUND

- 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.

h) 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)

ii) Financial liabilities

Initial recognition and measurement

NATIONAL ENVIRONMENT TRUST FUND

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.

i) 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 labor 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.

j) 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

NATIONAL ENVIRONMENT TRUST FUND

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.

k) Nature and purpose of reserves

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

l) 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.

m) Foreign currency transactions – IPSAS 4

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

p) 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.

q) 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.

r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

s) Comparative figures

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

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t) 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 were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 36.

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.

u) 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, 2014.

3. GOK Grants

	2015	2014
Actual	Shs	Shs
Taxable land and buildings		
Recurrent	67,700,000	56,700,000
Development	42,624,000	30,780,000
Total property taxes revenue	110,324,000	87,480,000

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4. Public contributions and donations

	2015	2014
	Shs	Shs
WWF	1,100,000	800,000
UNDP	1,965,700	-
Others	3,020,000	-
Total transfers and sponsorships	6,085,700	800,000
	2015	2014
	Shs	Shs
Reconciliation of public contributions and donations		
Balance unspent at beginning of year	-	-
Current year receipts	6,085,700	800,000
Conditions met - transferred to revenue	(6,085,700)	(800,000)
Conditions to be met - remain liabilities	-	-

5. Transfers from other governments – gifts and services-in-kind

	2015	2014
	Shs	Shs
Unconditional grants		
Operational grant	-	-
Other	-	-
	-	-
Conditional grants		
Embassy of Sweden Grant-GIA	29,033,150	33,872,008
Inter-Governmental Development on Authority	9,942,605	
Embassy of France	744,681	
Total grants from other governments	39,720,436	33,872,008
Reconciliation of conditional grants from other governments		
Balance unspent at the beginning	-	-
Current year receipts	10,687,286	62,905,158
Conditions met-Transferred to revenue	(29,033,150)	(33,872,008)
Conditions to be met-Liabilities(see note20)	-	29,033,150

6. Finance income - external investments

	2015	2014
	Shs	Shs
Cash investments and fixed deposits	825,890	2,122,282
Total finance income – external investments	825,890	2,122,282

7. Other income

	2015	2014
	Shs	Shs
Insurance recoveries	-	72,000
Other income	-	179,784
Total other income	-	251,784

NATIONAL ENVIRONMENT TRUST FUND

8. Employee costs

	2015 Shs	2014 Shs
Employee related costs – Personal Emoluments	53,422,580	36,897,557
Employee related costs - contributions to NSSF& Pensions schemes	368,280	152,080
Employee related costs – Leave allowance	333,230	580,781
Employee related costs - Gratuity	4,216,425	14,033,618
Recruitment costs	-	-
Expenditure recharged to capital projects	-	-
Employee costs	58,340,515	51,664,036

9. Board of Trustees Expense

	2015 Shs	2014 Shs
Chairman’s Honoraria	-	-
Sitting Allowances	258,000	167,000
Travel & Accommodation allowance	1,250,347	40,200
Total councillors’ remuneration	1,508,347	207,200

10. Depreciation and amortization expense

	2015 Shs	2014 Shs
Property, plant and equipment	4,086,471	3,661,997
Intangible assets	-	-
Total depreciation and amortization	4,086,471	3,661,997

11. Repairs and maintenance

	2015 Shs	2014 Shs
Property	480,555	383,387
Equipment	84,340	163,420
Vehicles	562,295	569,523
Other	15,875	41,676
Total repairs and maintenance	1,143,065	1,158,006

12. Contracted/Consultancy Services

	2015 Shs	2014 Shs
Strategy	1,955,470	416,295
Legal Fees	234,567	332,533
Human Resources	1,955,977	1,294,900
ICT Services	720,000	850,000
Other	829,962	741,800
Total contracted services	5,695,976	3,635,528

NATIONAL ENVIRONMENT TRUST FUND

13. Grants and subsidies

	2015 Shs	2014 Shs
IGAD Project. Climate Change Resilience	6,716,454	-
NETFUND GIA Project	38,249,724	16,126,653
International Forums	3,423,405	-
Other Project Costs	11,722,335	400,000
Total grants and subsidies	60,111,918	19,479,653

14. General expenses

The following are included in general expenses:

	2015 Shs	2014 Shs
Advertising	943,610	558,120
Local Travel	1,165,934	1,223,125
Foreign Travel	534,320	-
Computer Expenses	1,547,163	502,343
Rent and Rates	9,719,304	6,569,567
Consumables	2,599,208	1,095,593
Corporate Expenses	568,902	398,964
Fuel and oil	595,727	530,621
Insurance	3,123,266	3,991,257
Internet charges	608,852	302,185
Telephone and Postage	1,108,675	861,102
Printing and stationery	1,242,757	1,013,796
Total general expenses	23,757,717	17,046,673

15. Finance costs

	2015 Shs	2014 Shs
Bank charges	74,004	91,265
Finance leases (amortized cost)	-	-
Total finance costs	74,004	91,265

16. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months.

	2015 Shs	2014 Shs
Bank	27,609,930	11,683,186
Cash-on-hand and in transit	-	(35)
Short-term deposits	-	40,657,534
Total cash and cash equivalents	27,609,930	52,340,685

NATIONAL ENVIRONMENT TRUST FUND

15. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months.

	2015 Shs	2014 Shs
Bank	27,609,932	11,683,186
Cash-on-hand and in transit	-	(35)
Short-term deposits	-	40,657,534
Total cash and cash equivalents	27,609,932	52,340,685

16. Receivables from exchange transactions

	2015 Shs	2014 Shs
Current receivables		
Staff Debtors	533,209	174,796
Other exchange debtors	2,454,603	1,151,670
Less: impairment allowance	-	-
Total current receivables	2,987,812	1,326,466

2015

	0-3 Months	3 – 12 Months	Over 12 Months	Total
Staff Debtors	268,129	198,283	66,797	533,209
Other Exchange Debtors	-	1,302,933	1,151,670	2,454,603
	268,129	1,501,216	1,218,467	2,987,812

2014

	0-3 Months	3 – 12 Months	Over 12 Months	Total
Staff Debtors	44,000	130,796	-	174,796
Other Exchange Debtors	-	-	1,151,670	1,151,670
	44,000	130,796	1,151,670	1,326,466

17. Receivables from Non Exchange Transactions

	2014-2015 Shs	2013-2014 Shs
Other debtors (non-exchange transactions)-NEMA	-	7,396,363
Less: impairment allowance	-	-
Total current receivables	-	7,396,363

18. Inventories

	2015 Shs	2014 Shs
Consumable stores	1,256,601	1,222,822
Catering	-	-
Total inventories at the lower of cost and net realizable value	1,256,601	1,222,822

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10. Property, plant and equipment

Cost	Motor Vehicle	Furniture & Fittings	Computers & Printers	Equipments	Total
	KShs	KShs	KShs	KShs	KShs
At 1 July 2013	7,704,720	5,484,754	3,810,910	5,422,537	22,422,921
Additions	-	220,694	2,121,920	321,450	2,664,064
Disposals	-	-	-	-	-
At 30 June 2014	7,704,720	5,705,448	5,932,830	5,743,987	25,086,985
Additions	-	5,407,852	2,173,498	1,267,864	8,849,214
Disposals	-	-	-	-	-
Transfers/adjustments	-	(181,034)	(120,000)	(366,950)	(667,984)
At 30 June 2015	7,704,720	10,932,266	7,986,328	6,644,901	33,268,215
Depreciation and impairment					
At 1 July 2013	5,583,115	2,329,301	2,496,798	1,633,621	12,042,835
Depreciation impairment	1,303,680	690,196	980,796	687,325	3,661,997
At 30 June 2014	6,886,795	3,019,497	3,477,594	2,320,946	15,704,832
Depreciation	817,925	1,273,642	1,219,702	775,202	4,086,471
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Transfer/adjustment	-	(70,310)	(100,110)	(187,681)	(358,101)
At 30 June 2015	7,704,720	4,222,830	4,597,187	2,908,467	19,433,202
Net book values					
At 30 June 2015	-	6,709,437	3,389,141	3,736,434	13,835,011
At 30 June 2014	817,925	2,685,951	2,455,236	3,423,041	9,382,153

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21. Trade and other payables from exchange transactions

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

	2015 Shs	2014 Shs
Trade payables	6,642,555	6,642,555
Payments received in advance	-	-
Employee advances	197,184	197,184
Other payables (PAYE Taxes)	7,802,420	7,802,420
Total trade and other payables	14,642,160	14,642,160

22. Deferred income

	2015 Shs	2014 Shs
GOK Grant	-	-
International funders-SIDA Grant	-	29,033,150
Public contributions and donations	-	-
Total deferred income	-	29,033,150

23. Financial instruments - Financial Risk Management

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.

Financial Assets

2015

	Carrying Amount	Fair Value
Receivable from exchange transactions	2,987,812	2,987,812
Cash and cash equivalents	27,609,932	51,683,151
Total trade and other payables	30,597,744	30,597,744

2014

Receivable from exchange transactions	1,326,466	1,326,466
Cash and cash equivalents	51,683,151	51,683,151
Total trade and other payables	53,009,617	53,009,617

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24. Financial Liabilities

2015

	Carrying Amount	Fair Value
Trade and other payables from exchange transactions	15,768,047	15,768,047
Total trade and other payables	15,768,047	15,768,047

2014

Trade and other payables from exchange transactions	14,642,160	14,642,160
Total trade and other payables	14,642,160	14,642,160

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.

(b) 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 manual that guides the management of the risks affecting NETFUND.

(c) 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.

(d) 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.

(e) 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.

NATIONAL ENVIRONMENT TRUST FUND

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

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.

25. Related party disclosures

2015			
Designation	Basic Pay	Allowances	Total
Chief Executive Officer	2,986,320	2,460,000	5,446,320
Director Resource Mobilisation	2,873,520	2,280,000	5,153,520
Director Technical Services	2,427,120	1,920,000	4,347,120
Head of Finance	2,133,360	1,920,000	4,053,360
Total	10,420,320	8,580,000	19,000,320
2014			
Designation	Basic Pay	Allowances	Total
Chief Executive Officer	2,986,320	2,560,000	5,546,320
Director Resource Mobilisation	1,244,460	890,000	2,134,460
Director Communication	1,671,030	594,000	2,265,030
Director Technical Services	1,628,100	770,266	2,398,366
Head of Finance	1,953,720	716,000	2,669,720
Manager Resource Mobilisation	1,706,400	839,867	2,546,267
Manager Communication	1,706,400	834,733	2,541,133
Total	12,896,430	7,204,866	20,101,296

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26. Cash generated from operations

	2015	2014
	Shs	Shs
Surplus for the year before tax	2,238,012	27,581,716
Adjusted for:		
Depreciation	4,086,471	3,661,997
Working capital adjustments:		
Increase in inventory	(33,779)	(891,267)
Increase in receivables	5,735,018	(3,179,539)
Increase in deferred income	(29,033,150)	29,033,150
Decrease in payables	1,125,887	(1,289,703)
Increase in payments received in advance	-	-
Net cash flows from operating activities	(15,881,541)	54,916,354

27. Contingent Assets & Liabilities

	2015	2014
	Kshs	Kshs
Guarantee	2,454,603	1,151,670

a). Guarantees

Guarantees commit the Fund to make payments on behalf of the guaranteed in the event of a specific act and carry a certain risk.

The Fund has given a guarantee for rent to Tyson Valuers for KShs. 1,151,670 and Kshs 1,302,933 which shall expire on 1st March 2017 and 31st July 2020 respectively. 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 has entered into counter indemnity with the same bank. The guarantee was issued in the normal course of the business.

b). Legal Matters

The Fund is not involved in any legal proceedings. The directors believe, based on the information currently available, that the Fund does not have any contingent liabilities which are likely to have a material effect on the results of the Board's operations, financial position or liquidity. Therefore no provision has been made in the financial statements.

28. Commitments; Operating Lease Rentals

Non-cancellable operating lease rentals are payable as follows:

	2015	2014
Not later than One year	6,248,824	6,957,529
Later than One year	12,386,642	8,107,901
	18,635,466	15,065,430

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.

29. 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

NATIONAL ENVIRONMENT TRUST FUND

30. Capital Commitments

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

31. Events after the reporting period

The Board of Trustees s 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.

32. 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

33. Currency

The financial statements are presented in Kenya Shillings

