

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
NATIONAL ENVIRONMENT TRUST  
FUND

PARLIAMENT  
OF KENYA  
LIBRARY

FOR THE YEAR ENDED

30 JUNE 2018

THE NATIONAL ASSEMBLY  
PAPERS LAID

DATE: 12 NOV 2019

DAY.

TUESDAY

TABLED  
BY:

MAJORITY LEADER

CLERK-AT  
THE-TABLE:



**NATIONAL ENVIRONMENT TRUST FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2018**

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

# NATIONAL ENVIRONMENT TRUST FUND

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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 allowed 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 2018 and who had direct fiduciary responsibility were:

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

**(e) Entity Headquarters**

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

**(f) Entity Contacts**

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

## NATIONAL ENVIRONMENT TRUST FUND

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### **(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  
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

# NATIONAL ENVIRONMENT TRUST FUND

## II. THE BOARD OF TRUSTEES

Board of Trustee	Profile
 <p><b>MS.NAUMY JEPTANUI</b></p>	<p>Ms. Jeptanui is a result driven individual with more than 28 years of progressive experience in Kenya's education sector.</p> <p>Currently, Ms. Jeptanui is a part time lecturer in the Department of Education Management, Policy &amp; Curriculum Studies at Kenyatta University.</p> <p>She holds a M. Ed in Planning &amp; Economics of Education from Kenyatta University and currently pursuing a PhD in Planning &amp; Economics of Education in the same University.</p>
 <p><b>PROF. LOSENGE TUROOP</b></p>	<p>Professor Losenge is a renowned Phytopathologist in Kenya.</p> <p>Widely published, Prof. Losenge is currently the Chair to a successful resource mobilization committee at Jomo Kenyatta University of Agriculture and Technology (JKUAT). He is also the Associate Dean at JKUAT's Faculty of Agriculture.</p> <p>Prof. Losenge holds a PhD in Phytopathology from Jomo Kenyatta University of Agriculture and Technology, Kenya.</p>

## NATIONAL ENVIRONMENT TRUST FUND



**MNANGAT PTOTON**

**DR.**

Dr. Ptoton has a wealth of knowledge from a background in organic chemistry and the successful management of developmental funds through CDF.

As a member of the Jomo Kenyatta University Senate, Dr. Ptoton has experience in strategic planning and development as well as mediation of issues that are decided and passed for implementation.

Currently, Dr. Ptoton is a member of the faculty in the Department of Physical sciences at Murang'a University College (a constituent college of Jomo Kenyatta University of Agriculture and Technology).

Dr. Ptoton holds a PhD in Organic Chemistry from the University of Oxford (UK).



**MR. WILBERFORCE MURIUNGI**

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.

In the course of his career, Mr. Muriungi has built synergy between County Governments, Ministries and relevant stakeholders in promoting agricultural value chains.

Mr. Muriungi holds a Master of Science in Agricultural and Rural Development from Kenya Methodist University.

## III. MANAGEMENT TEAM



### **Catherine Ndegwa – Chief Executive Officer**

Catherine 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 is the founding CEO of NETFUND and has been instrumental in strategic planning and implementation of the organisation's growth trajectory. Catherine is an experienced fund raising professional having served in various capacities in the non-profit, academic and public sectors.



### **Samson Toniok – Head of Finance**

Samson Lekokoo Toniok, BCOM (Second Class Honors), CPAK, ISA serves as the Finance Director. 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. Has strong qualifications 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.



**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. Juma is a Programme management professional over 10-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



**George Mwaniki- Director Resource Mobilization**

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.

### IV. BOARD OF TRUSTEES' STATEMENT

#### a) Review of the economy

The Kenyan Economy faced significant headwinds in 2017 including a protracted electioneering period and contraction of credit to the private sector which is a critical vehicle for economic development in Kenya. Availability of credit has been on a downward spiral since the capping of Interest rates in the financial markets through the Banking (Amendment) in 2016. Other factors include a persistent drought which negatively impacted the Agricultural output. These constraints caused the World Bank Group to downgrade Kenya's GDP growth rate to 4.9% in 2017, which is the weakest in the last five years. The difficult economic situation has been exacerbated by the high external debt leverage which is estimated at Ksh. 5.4 billion which further put pressure on availability of funds for development projects.

However, despite all these internal pressures the Country managed to maintain fairly stable macroeconomic indicators supported by a stable macroeconomic environment, dissipation of political tensions later in the year, low oil prices, rebounding in tourism, strong remittance inflows, and an ambitious public investment drive. The world bank in a report titled: *Kenya Economic Update, December 2017 : Poised to Bounce Back?*<sup>1</sup> expresses optimism about the economic outlook for the Kenyan economy which continues to demonstrate resilience despite the aforementioned headwinds. Inflation rate has been maintained at a manageable rate of below 10% and growth is projected to recover to 5.5 percent in 2018 and steadily rise to 6.1 percent by 2020<sup>2</sup>. Growth of the economy is anchored in the "Big 4" agenda: delivery of affordable housing, roll-out of universal health coverage, increase the share of manufacturing in the economy and improvement in food security. The report is however categorical that policy adjustments need to be undertaken for the economic recovery.

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

There have been critical legislative changes within the Environment and Natural Resources Sector in Kenya such as the Climate Change Act 2016, the Forest Conservation and Management Act 2016, the Fisheries Management and Development Act 2016, the Water Act 2016 and the Mining Act 2016. These legislations were enacted to facilitate effective management of environment and natural resources. This therefore led to investment in the sector and this is expected to increase over time.

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<sup>1</sup> "World Bank Group. 2017. Kenya Economic Update, December 2017 : Poised to Bounce Back?. World Bank, Nairobi. © World Bank. <https://openknowledge.worldbank.org/handle/10986/29033> License: CC BY 3.0 IGO."

<sup>2</sup> "World Bank Group. 2017. Kenya Economic Update, December 2017 : Poised to Bounce Back?. World Bank, Nairobi. © World Bank. <https://openknowledge.worldbank.org/handle/10986/29033> License: CC BY 3.0 IGO."

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Other global commitments include the Paris Climate Agreement and the Sustainable Development Goals that will compel the country to increase investment in the sector thus having a direct impact of the sustainability organisations in the sector. The country also committed to implementing its Nationally Determined Contribution (NDC), which sets out a greenhouse gas (GHG) emissions reduction target of 30 per cent by 2030 compared to a Business-As-Usual (BAU) scenario of 143 megatons of carbon dioxide equivalent.

The NDC covers all sectors, with a focus on reducing emissions of carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O). This is also expected to increase investment in the sector.

In addition to fulfilling the terms of the Paris agreement, the above actions are also focused on attainment of the UN Sustainable Development Goals especially goals number; 1, 2,6,7,8,9,12 and 13.

The Ministry of Environment and Forestry launched the Green Economy Strategy and Implementation Plan (GESIP) 2016 – 2030 a blueprint for enhancing low-carbon, resource efficient, equitable and inclusive socio-economic transformation. Furthermore, it focuses on binding social economic constraints towards attaining Kenya Vision 2030 and is aligned with the outcomes of the United Nations Conference on Sustainable Development (Rio+20).

In 2017 there was a renewed commitment towards increasing the tree cover in Kenya from 6 % to 10%. This was spearheaded by the Ministry of Environment and Forestry with achievement of the target being brought forward to 2022 instead of 2030. Kenya also took a bold step of banning use of plastic bags in August 2017 which has created an opportunity for entrepreneurs involved in the fabrication of environmentally friendly bags. The Green Economy Implementation Plan (GESIP) and the National Climate Change Action Plan were also finalised and rolled out in the year under review.

### **c) Strategy**

The management put in place a new strategic plan for 5 years from 2018-2022. 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.

### **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 recognizance of its long term sustainability while delivering on its mandates as highlighted in the Sustainability Statement.

### **e) Future outlook FY 2017/18**

Today, policy makers and the community of practice in the environmental sector are faced by multifaceted challenges that span from climate change, species extinction, pollution and ecosystems degradation among others. These challenges are occurring at a time when the demand for ecosystems services is on the rise,

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driven by the ever expanding population and improved economic wellbeing and associated changes in consumption patterns.

Although these challenges can be viewed as environmental in nature they are driven by other economic sectors that are part of the human development enterprise. Therefore, it is almost impossible for environmentalist to solve these challenges in Isolation, and this demands for a consultative effort from various players that can facilitate a transition from conventional economic development — where profit is the main consideration in decision making, to an economic development pathway that puts people and planet at the centre of its agenda. In many ways the global community has realized the need for such through the adoption of Sustainable Development Goals (SDGs).

NETFUND's strategic plan for the next five years appreciates these challenges and aims at putting sustainable development at the core of its initiatives. The strategic plan (2018-2022) aims at consolidating the gains we have made in the past.

In this new strategic plan, NETFUND will continue being a key driver of environmental sustainability in the country. In line with this, we recognize the enormous funding gap experience in the sector, and we hope address this by improving our fundraising efforts to finance some of the pressing issues in the sector. We aim to build synergies with like-minded institutions and also to develop mechanisms to ensure financial sustainability for the sector. Our efforts will focus on developing bankable Programme proposals that can attract funding from the government of Kenya, development partners and other sector funding mechanisms. In addition, we aim to build a sustainable funding mechanism for environmental sustainability in Kenya while building the capacity of sector implementing agencies to deliver high impact projects.

### **Acknowledgement**

On behalf of NETFUND Board of Trustees and staff, I express my sincere gratitude to the Government of Kenya, Ministry of Environment and Forestry, and other stakeholders for their continued support. This support has gone a long way towards building a solid institution that is responsive to its mandate and stakeholders' expectations.

I also wish to thank my fellow trustees for dedicating their time and effort to steer the Board. Their advice and guidance has played a key role in the attainment of the impressive results. 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.

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I look forward to a promising financial year 2018/19. God Bless you all.

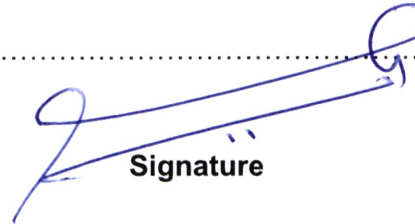
Thank you,

H.E. MOSES AKARANGA

26/06/2019

**Full Name**

**Member, Board of Trustees**



**Signature**

**Date**

**Nairobi**

### V. REPORT OF THE CHIEF EXECUTIVE OFFICER

I am pleased to present to you the report on the performance of NETFUND for the financial year 2017-2018. Focused execution and implementation of our 5-year strategic plan were the key driving factors in realizing growth in amounts of funds raised for environment management.

#### Financial Performance

During the year under review Government recurrent grant increased by 9.35% from Ksh. 118 million to Ksh. 129 million however the overall Government grant decreased by 45 % from a total figure of Ksh. 233 million to Ksh. 129 million due to non- receipt of development funds in the year under review mainly due to administrative challenges. There was also a decline in grant inflows from foreign Governments and public contributions by 67% mainly due to increased uncertainty caused by the prolonged electioneering in year under review. However, NETFUND intensified efforts towards resource mobilisation by engaging current donors to increase their giving and widening the donor base to enhance its chances of success in future. The fruits of these efforts will continue to be realised in the coming years.

The total expenses decreased by 24% from Ksh. 233 million to Ksh. 177 million mainly due to decrease in project costs from Ksh. 88 million to Ksh. 35 million. This was due to the finalisation of a number of projects in the NETFUND Green Innovations Award. A new phase of the programme is due to be launched.

#### Review of performance

##### Programme achievements

NETFUND GIA programme 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: -

1. Eleven projects have been up scaling their initiatives in various parts of the country with over 80% completion level against planned activities. There has been improved products and services that benefit the community and enhance environmental sustainability. **A beneficiary upscaling satisfaction survey conducted in July 2017 showed improved customer satisfaction from 73% to 75.2% against a set target of 80% by project completion.** During an evaluation of the initiatives under the up scaling component, it was noted that the projects required additional technical and business support to successfully scale up and grow their initiatives.
2. NETFUND shortlisted 38 projects for pre-incubation admission. During the pre-incubation phase the projects were supported to establish technical and market viability. However, only **26** business ventures were selected for full incubation.

## NATIONAL ENVIRONMENT TRUST FUND

The selected **26** business successfully completed the incubation programme which covered business and financial modelling, marketing, business plan development, Business financing, product and technology refinement, business set up, linkages to networking and showcasing opportunities. As at 30<sup>th</sup> June 2018,

Grants totalling of about Ksh 39.3 million, were disbursed to **23** business ventures.



Photo 1: Installation of new machinery in one of the NETFUND supported Incubation businesses

The businesses were continuously mentored and coached by business experts engaged by NETFUND. Additionally, 21 businesses were linked to local markets with potential for growth over the programme implementation period. A total of Ksh. 89.9 Million was raised by the businesses as follow on capital which is attributable to leverage on NETFUND's support.

## NATIONAL ENVIRONMENT TRUST FUND

- NETFUND has initiated development of the **Green Enterprise Programme (NETGEP)** which aims to enhance access to financial resources by Micro, Small & Medium Enterprises (MSMEs) through affordable credit facilities. The programme will be operationalized as a Loan revolving fund, having a future potential of



Photo 2: Participants during the launch of the ACCF Programme

creating an endowment fund. During this project period, NETFUND continued to engage different financial institutions that could potentially act as fund managers. Additionally, NETFUND has had parallel discussions with target stakeholders and the internal legal firm to understand the impact investment ecosystem and to define what kind of structures would be most suitable for the establishment of the fund. It is important to note that, AfDB continues to express interest in supporting the institutionalization of the fund, and that a revised concept note was shared with them for review.

- On promoting an enabling environment for green growth, NETFUND published a research report on



Photo 3: Stakeholder consultative meeting on Clean Energy

**“Factors Influencing Adoption of Renewable Energy Technologies by Rural Households in Kenya”**. From

the research findings a policy brief has been published covering the following major topics; the “Role of Education on the Adoption Renewable Energy Technologies by Rural Households in Kenya” and another on “The Laws and Regulations Governing the Adoption of Renewable Energy Technologies by Rural Household in Kenya”. The policy

papers are aimed towards influencing policy contributions to seminal documents such as the National

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Waste Management Bill 2016, Vision 2030 and the Green Economy Strategy and Implementation Plan 2017.

### **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. Human Capital

At NETFUND, 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 at its launch to a current workforce of 34 (thirty-four) members of staff.

### **ISO Certification**

NETFUND has initiated the process of ISO 9001:2015 – Quality Management System (QMS) certification. This is aimed at enhancing service delivery and standardising processes. NETFUND endeavours to maintain and continually improve the effectiveness of its quality management systems that meet the stakeholders' expectations in accordance with ISO 9001:2015 requirements. During the year, the organisation identified ISO champions and auditors who were trained for the various upcoming assignments.

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### Future Outlook

In order to effectively promote green growth and address the impacts of climate change NETFUND will be focusing on efforts that contribute to a low carbon and climate resilient development pathway. NETFUND intends to implement various programmes which include; the NETFUND Green Enterprises Programme (NETGEP) which will initially run as a revolving fund in the short term but with the possibility of incorporating endowment and venture Fund components. Additionally, the organization intends to implement "Supporting the implementation of Kenya's National Green Economy Strategy through the development of low carbon and Climate Resilient Projects and Resource Mobilization supported by the (ACCF) whose object is *'to develop investment-ready programmes and projects that will advance the Country's transition towards a green economy.'*". The project has been conceptualized to achieve the following outcomes;

1. Increased funding for the implementation of the country's green economy strategy
2. Enhanced capacity to design and develop effective and efficient low carbon climate resilient projects and programmes in key environment sectors

### Appreciation

Of course, none of our successes in 2017-2018 would have been possible without the generous support from our partners. I extend my appreciation to the Government of Kenya including the National Treasury, our parent ministry, the Ministry of Environment and Forestry for their continued support and insight. I am also grateful to our development partners and to all 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

**Ag.Chief Executive Officer**

### VI. MANAGEMENT DISCUSSION AND ANALYSIS

#### SECTION A

##### **The Entity's operational performance**

NETFUND is established under the provisions on EMCA 1999 '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. The programme seeks to support development and commercialisation of innovative enterprises that contribute to a climate resilience and low carbon development pathway. Some of the key achievements under this programme include awarding and up scaling of 11 best practices and we completed incubation of 26 green innovations.

The organisation has also developed a research programme that aims to promote evidence based programming and policy development for green growth. NETFUND supported research on **"factors influencing household adoption renewable energy technologies"** and **"assessing the potential of biofuel from water hyacinth as a source of household cooking energy"**. Additionally, the organisation has supported policy forums for National Education for Sustainable Development Policy and is currently supporting the formulation of a water policy for Kiambu County. The organisation has also established a public resource centre to facilitate dissemination of knowledge on green growth.

NETFUND managed a grant for supporting the implementation of Kenya's National Green Economy Strategy through building the capacity of the resource mobilisation committee to develop low carbon and climate resilient projects for financing. This is in line with the country's green economy and climate change strategies and plans.

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.

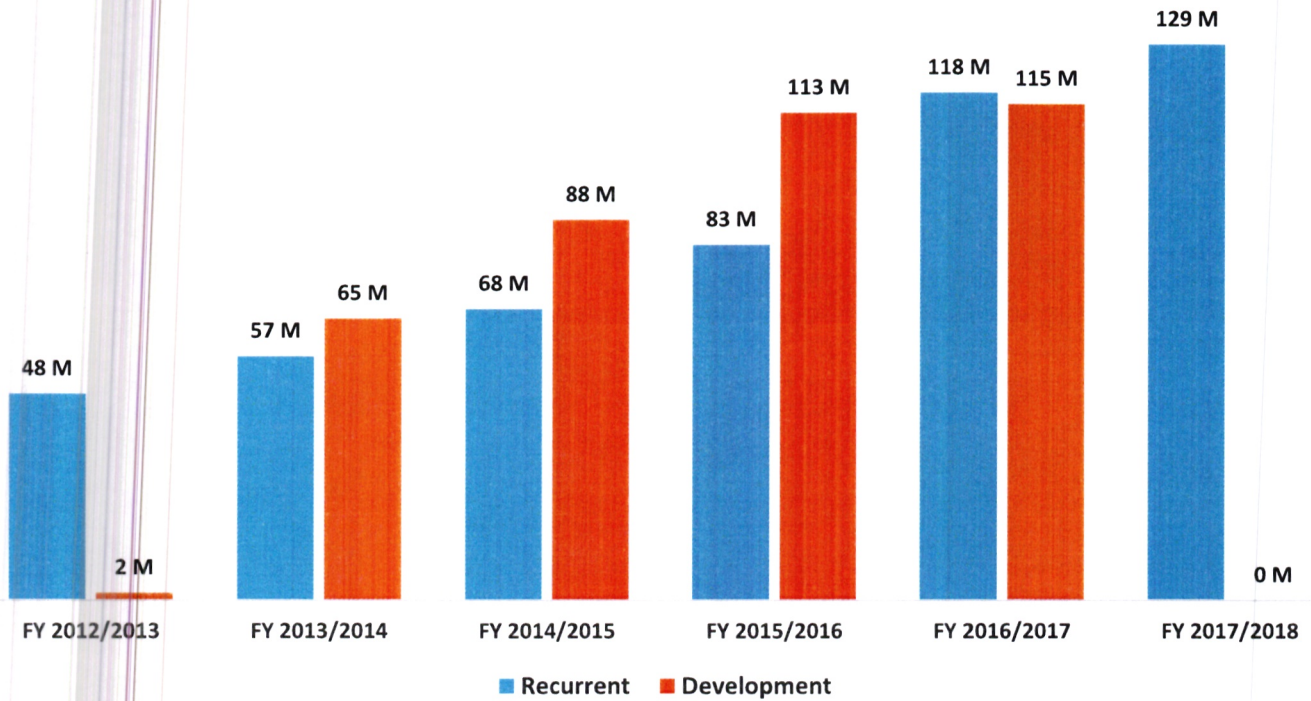
##### **Financial Performance**

During the year under review Government Grants decreased by 6.5% % from Ksh. 138 million to Ksh. 129 million. Grants from foreign Governments and public contributions contracted by 67% from Ksh. 95.3 million to Ksh. 31.7 million. This was mainly driven by a "wait and see" attitude by the development partners during the prolonged electioneering period during which most financial indicators were unfavourable. 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 in the coming years.

## NATIONAL ENVIRONMENT TRUST FUND

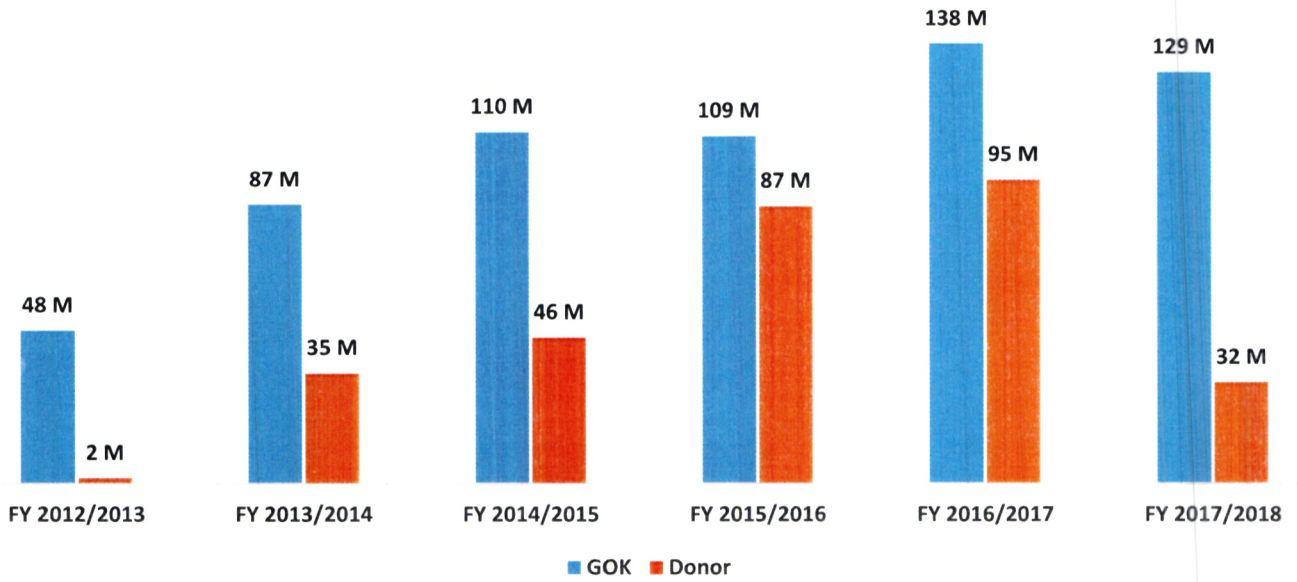
The expenses decreased by 24% from Ksh. 233 million to Ksh. 177 million due to completion of a number of projects under the NETFUND Green Innovations Programme. A new phase of the programme is yet to be launched. Discussions are ongoing with potential development partners.

**NETFUND Revenue Trends in Millions (Ksh.)**



# NATIONAL ENVIRONMENT TRUST FUND

## NETFUND Revenue by Source in Millions (Ksh.)



## 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 as 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. Neither are there ongoing or potential court cases and defaults that could expose the fund to adverse liability.

## 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; innovativeness in programming; strengthening strategic partnerships; organisational sustainability and operational excellence. The strategic areas are aimed at enabling the organisation to fulfil its mandate which is aligned to national priorities and plans such as the National Climate Change Action Plan (NCAAP), Green Economy Strategy and Implementation Plan (GESIP) and Medium Term Plan III. The organisation has developed specific projects and programs for investment in each of the strategic objectives. Some of the key projects that have been developed included;

- a) NETFUND Green Innovations Award which seeks to support development and commercialization of innovative enterprises that contribute to a climate resilience and low carbon development pathway. The project is mainly financed through grants from the Embassy of Sweden and United States Agency for International Development (USAID).
- b) The Organisation has also developed the research programme that aims to promote evidence based programming and policy development for green growth. The programme is partly funded by Embassy of Sweden, World Wide Fund (WWF) for nature and Japan International Cooperation Agency (JICA).
- c) NETFUND has also developed a project to support the implementation of Kenya's National Green Economy Strategy through building the capacity of the resource mobilisation committee to develop low carbon and climate resilient projects for financing. The project is funded by the African Development Bank under the African Climate Change Fund.

To ensure sustainable financing of its programs and projects, the organisation is in the process of setting up a Green Enterprise Fund (NETGEF). The fund seeks to provide access to affordable credit through appropriate financing instruments and customised business development services to Micro, Small and Medium green enterprises.

## 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 (2018-2022). 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 risk 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.

## 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 had a constituted Board of Trustees whose term expired in April 2017. A new Board is yet to be constituted and the Principal Secretary Ministry of Environment and Forestry has oversight authority in the absence of a substantive Board.

## 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, 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 four professionals selected in accordance to EMCA 1999 (and subsequent revisions) and the NETFUND Trust Deed 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.

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 2017/2018 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 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.

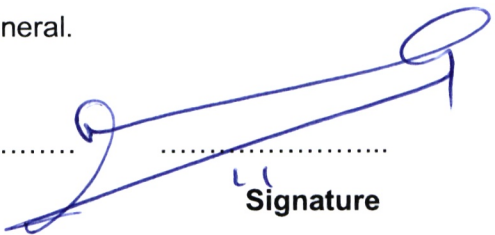
The Board considers significant control matters raised by management and both the internal and external auditors. Where weaknesses are identified, the Board ensures that management takes appropriate action. No significant failings or weaknesses were identified during 2017/2018

**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.

<u>H.E MOSES AKARANGA</u>		<u>26/06/2019</u>
<b>Full Name</b>	<b>Signature</b>	<b>Date</b>
<b>Member, Board of Trustees</b>		<b>Nairobi</b>

## VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

As a responsible Corporate Citizen, NETFUND contributes towards positive transformation of life in the areas of environmental, social and economic well-being of the society in which it operates.

NETFUND works with employees and other stakeholders to identify areas that need participation and attention. As part of our dedicated approach to create sustainable development in the communities.

NETFUND contributes its time, expertise and resources to help communities and locally relevant initiatives in order to enhance sustainable growth and development in Kenya demonstrating our commitment to economic, environmental and social issues.

### **2017- Highlights**

In 2017 NETFUND participated in the National Tree planting campaign which is targeting to plant at least 235 million trees by 2022 with a minimum of 1,000,000 seedlings per county each year for the next 5 years.

The following are specific areas where NETFUND undertook the tree planting campaign:

- 1,500 trees planted in Ngong Road Forest
- 1,000 trees planted in Nyamira county
- 5,000 trees planted in Chepalungu forest Bomet County
- 7,000 trees planted in Kamatira forest West Pokot

**IX. REPORT OF THE TRUSTEES**

The Board of Trustees submit their report together with the audited financial statements for the year ended June 30, 2018 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, 2018 are set out from page 1

**Trustees**

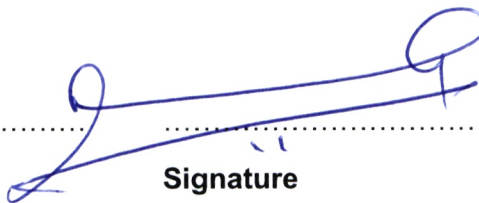
The trustees who held office during the year and to the date of this report are set out on in earlier sections of the report.

**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.**

H-E MOSES AKARANGA



26/06/2019

**Full Name**

**Signature**

**Date**

**Member, Board of Trustees**

**Nairobi**

**X. 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.

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, 2018. This responsibility includes:

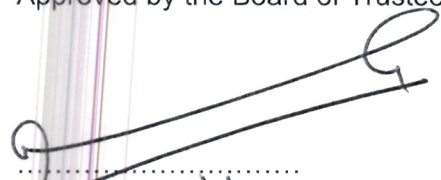
- (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund;
- (iii) designing, implementing 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.

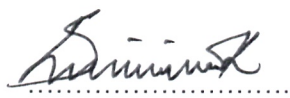
The Trustees accept responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required 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, 2018, 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 **30<sup>th</sup> September** 2018 and signed on its behalf by

  
 \_\_\_\_\_  
 M.E Moses Akaranga

  
 \_\_\_\_\_  
 Samson Toniok

  
 \_\_\_\_\_  
 Evans Kiprotich

**Chairperson, Board of Trustees**

**Ag. Chief Executive Officer**

**Finance Manager**

Date... 26/6/19

Date.....

Date... 26/6/19

# REPUBLIC OF KENYA



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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON NATIONAL ENVIRONMENT TRUST FUND FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

##### Qualified Opinion

I have audited the accompanying financial statements of National Environment Trust Fund set out on pages 1 to 28, which comprise the statement of financial position as at 30 June 2018 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amount for the year then ended, 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, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Environment Trust Fund as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS Accrual) and the Environment Management Coordination Act, 1999.

##### Basis for Qualified Opinion

##### Long Outstanding Tax Payables

Note 24 to the financial statements on trade and other payables from exchange transactions reflect a balance of Kshs.8,991,198 on Pay As You Earn for the year ended 30 June 2018 which includes Kshs.2,145,159 being taxes on Chief Executive Officer's arrears for the period. Pending bills from a previous period should make a first charge in the preceding financial year. Continuous carryover of the pending tax liability exposes the entity to the risk of attracting penalties for late tax payments.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Environment Trust Fund in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements

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*Report of the Auditor-General on the Financial Statements of National Environment Trust Fund for the year ended 30 June 2018*

applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified opinion section, I have determined that there are no other key matters to communicate in my report.

### **Other Matter**

#### **Under-Staffing**

It was observed that the entity was significantly understaffed. While its approved staff establishment provided for 100 employees, the entity had in place 31 employees equivalent to 31%, therefore understaffed by 69%. Given the strategic nature of the entity as a facilitator of research intended to further the requirements of environmental management, environmental awards, capacity building, environmental publication, scholarships and mobilization of donor grants, the deficit ought to have been addressed

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

### **Conclusion**

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

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

## **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going-concern and using the applicable basis of accounting unless the management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015. In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's 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 service professional judgement and maintain professional skepticism throughout the audit. I also:

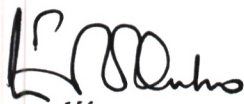
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 as a going concern. If I conclude that a material uncertainty exists, I am

required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the 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 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.



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

**Nairobi**

**26 August 2019**

## NATIONAL ENVIRONMENT TRUST FUND

### II. STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2018

	Note	2017-2018 Ksh.	2016-2017 Ksh.
Revenue from non-exchange transactions			
GOK Grants	7	129,011,806	137,977,596
Public contributions and donations	8	14,852,222	1,558,290
Transfers from other governments – gifts and services-in-kind	9	13,602,698	93,749,770
		<b>157,466,726</b>	<b>233,285,656</b>
Revenue from exchange transactions			
Finance income - external investments	10	-	154,863
Other income		-	-
<b>Total revenue</b>		<b>157,466,726</b>	<b>233,440,519</b>
<b>Expenses</b>			
Employee costs	11	79,970,401	92,746,565
Board of Trustees Expense	12	7,913,896	6,095,187
Depreciation and amortization expense	13	3,955,346	3,792,900
Repairs and maintenance	14	1,077,267	161,400
Contracted services	15	10,295,178	6,028,915
Project Costs	16	34,539,320	87,509,578
General expenses	17	42,386,519	36,410,977
<b>Total expenses</b>		<b>180,137,928</b>	<b>232,745,522</b>
Other gains/(losses)		-	-
<b>Surplus before tax</b>		<b>(22,671,202)</b>	<b>694,997</b>
Taxation		-	-
<b>Surplus for the period</b>		<b>(22,671,202)</b>	<b>694,997</b>

The notes set out from pages 1 to 28 form an integral part of this report.

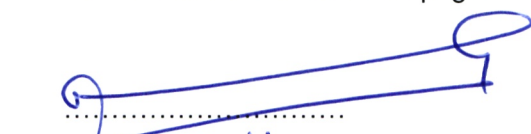
**NATIONAL ENVIRONMENT TRUST FUND**

**XII. STATEMENT OF FINANCIAL POSITION**

**As at 30 June 2018**

	Note	2017-2018 Ksh.	2016-2017 Ksh.
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	18	20,881,083	48,104,649
Receivables from Exchange Transactions	19	3,341,985	1,761,532
Receivables from non-exchange Transactions	20	12,000,000	-
Inventory	21	1,410,651	1,083,580
		<b>37,633,719</b>	<b>50,949,761</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	22	8,372,185.00	10,101,122
Intangibles	23	3,131,966.00	2,908,326
		<b>11,504,151</b>	<b>13,009,448</b>
<b>Total Assets</b>		<b>49,137,870</b>	<b>63,959,209</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and Other payables from exchange transactions	24	32,171,355	13,977,966
Deferred Income	25	3,259,169	13,602,698
<b>Total Current Liabilities</b>		<b>35,430,524</b>	<b>27,580,664</b>
Non-Current Liabilities		-	-
Non-Current provisions		-	-
<b>Total Liabilities</b>		<b>35,430,524</b>	<b>27,580,664</b>
<b>Net Assets</b>			
Capital Reserves		7,714,898	7,714,898
Accumulated surplus		5,992,448	28,663,647
		<b>13,707,346</b>	<b>36,378,545</b>
<b>Total net assets and liabilities</b>		<b>49,137,870</b>	<b>63,959,209</b>

The Financial Statements on pages 1 to 28 were submitted by management and signed on its behalf by:

  
 .....  
 H.E Moses Akaranga  
**Chairperson, Board of Trustees**

  
 .....  
 Samson Toniok

  
 .....  
 Evans Kiprotich

**Ag. Chief Executive Officer**

**Finance Manager**

Date..... 26/6/19

Date..... 26/6/19

Date..... 26/6/19

## NATIONAL ENVIRONMENT TRUST FUND

### XIII. STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30 June 2018

Attributable to the owners of the controlling Fund

	Capital Reserve	Accumulated Surplus	Total
	Ksh.	Ksh.	Ksh.
<b>Balance as at 1st July 2016</b>	7,714,898	27,968,653	35,683,551
Prior year adjustment	-	-	-
Surplus/(deficit) for the period	-	694,997	694,997
Transfers to/from accumulated surplus	-	-	-
<b>Balance as at 30 June 2017</b>	<b>7,714,898</b>	<b>28,663,650</b>	<b>36,378,548</b>
Prior year adjustment	-	-	-
<b>Balance as at 1st July 2017</b>	7,714,898	28,663,650	36,378,548
Surplus/(deficit) for the period	-	(22,671,202)	(22,671,202)
Transfers to/from accumulated surplus	-	-	-
<b>Balance as at 30 June 2018</b>	<b>7,714,898</b>	<b>5,992,448</b>	<b>13,707,346</b>

**NATIONAL ENVIRONMENT TRUST FUND**

**XIV. STATEMENT OF CASH FLOWS**

	Note	2017-2018 Ksh.	2016-2017 Ksh.
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
GOK Grants		117,011,806	154,861,809
Public contributions and donations		-	904,633
Other Government grants and subsidies		18,111,391	1,558,290
Finance Income		-	-
		<b>135,123,197</b>	<b>157,324,732</b>
<b>Payments</b>			
Compensation of Employees		80,955,878	93,909,960
Goods and Services		19,893,627	24,289,369
Finance Cost		98,060	44,646
Rent paid		12,434,158	17,477,215
Other payments		9,494,349	6,160,813
Project Costs		37,020,642	85,028,256
		<b>159,896,714</b>	<b>226,910,259</b>
<b>Net cash flows from operating activities</b>	28	<b>(24,773,517)</b>	<b>(69,585,527)</b>
<b>Cash flow from Investing activities</b>			
Purchase of property, plant, equipment and Intangible assets		(2,450,049)	(2,021,053)
Proceeds from sale of property, plant and Equipment		-	-
<b>Net Cash flows used in Investing activities</b>		<b>(2,450,049)</b>	<b>(2,021,053)</b>
<b>Cash flows from financing activities</b>			
<b>Increase in deposits</b>		-	-
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		<b>(27,223,566)</b>	<b>(71,606,580)</b>
Cash and cash equivalents as at 1st July 2017	18	48,104,649	119,711,229
<b>Cash and cash equivalents as at 30 June 2018</b>	18	<b>20,881,083</b>	<b>48,104,649</b>

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2017-2018 Ksh.	2017-2018 Ksh.	2017-2018 Ksh.	2017-2018 Ksh.	2017-2018 Ksh.
<b>Revenue</b>					
GOK Grants & Subsidies	177,500,000	(20,500,000)	157,000,000	129,011,806	(27,988,194)
Public contributions and donations	69,852,222	(55,000,000)	14,852,222	14,852,222	-
Other Government grants and subsidies	45,000,000	(31,397,302)	13,602,698	13,602,698	-
Finance Income	-	-	-	-	-
<b>Total income</b>	<b>292,352,222</b>	<b>(106,897,302)</b>	<b>185,454,920</b>	<b>157,466,726</b>	<b>(27,988,194)</b>
<b>Expenses</b>					
Compensation of employees	93,200,000	(13,200,000)	80,000,000	79,970,401	(29,599)
Goods and services	49,540,000	(5,093,125)	44,446,875	41,324,806	(3,122,069)
Rent paid	13,000,000	-	13,000,000	12,434,158	(565,842)
Other payments	9,960,000	(510,000)	9,450,000	7,913,896	(1,536,104)
Project Cost	25,402,698	9,200,000	34,602,698	34,539,320	(63,378)
<b>Total expenditure</b>	<b>191,102,698</b>	<b>(9,603,125)</b>	<b>181,499,573</b>	<b>176,182,581</b>	<b>(5,316,992)</b>
<b>Surplus for the period</b>	<b>101,249,524</b>	<b>-</b>	<b>3,955,347</b>	<b>(18,715,855)</b>	<b>(22,671,202)</b>

The big variances in the performances and surplus for the period were due to budget cuts and non-disbursement of exchequer on appropriated fund by the National Treasury. NETFUND was to receive Ksh. **147M** for recurrent and Ksh. **10M** Development but instead received Ksh. **129M** for recurrent and nothing on Development This affected activities that had been budgeted during the year. This explains the adverse variances.

## NATIONAL ENVIRONMENT TRUST FUND

### XVI. NOTES TO THE FINANCIAL STATEMENTS

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

Standard	Impact
<p><b>IPSAS 33:</b> First time adoption of Accrual Basis IPSAS</p>	<p><b>(Effective for annual periods beginning on or January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.</p> <p>NETFUND adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the entity.</p>
<p><b>IPSAS 34:</b> Separate Financial Statements</p>	<p><b>(Effective for annual periods beginning on or January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.</p> <p>NEFUND does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</p>
<p><b>IPSAS 35:</b> Consolidated Financial Statements</p>	<p><b>Effective for annual periods beginning on or January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following:</p> <ul style="list-style-type: none"> <li>- Its power over the other entity</li> <li>- Its exposure or rights to variable benefits from involvement with the other entity</li> <li>- Its ability to control the nature, timing and amount of benefits from the other entity.</li> </ul>

## NATIONAL ENVIRONMENT TRUST FUND

Standard	Impact
	<p>Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35.</p> <p>NETFUND does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply</p>
<p><b>IPSAS 36:</b> Investments in Associates and Joint Ventures</p>	<p><b>(Effective for annual periods beginning on or January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.</p> <p>NETFUND does not have investments in associates or joint ventures and therefore the standard does not apply</p>
<p><b>IPSAS 37:</b> Joint Arrangements</p>	<p><b>(Effective for annual periods beginning on or January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.</p> <p>NETFUND does not have an interest in a joint arrangement and therefore the standard does not apply</p>
<p><b>IPSAS 38:</b> Disclosure of Interests in Other Entities</p>	<p><b>(Effective for annual periods beginning on or January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows.</p> <p>The entity does not have an interests in other entities and therefore the standard does not apply</p>

## NATIONAL ENVIRONMENT TRUST FUND

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

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 39:</b> Employee Benefits	<b>Applicable: 1<sup>st</sup> January 2018</b>  The objective of issuing IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.
<b>IPSAS 40:</b> Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019:</b>  The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

**iii. Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2017

# NATIONAL ENVIRONMENT TRUST FUND

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## SIGNIFICANT ACCOUNTING POLICIES

### 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 2018 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 contained in note 5.

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-

## NATIONAL ENVIRONMENT TRUST FUND

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'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 (Ksh.), 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

##### 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 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.

## NATIONAL ENVIRONMENT TRUST FUND

### 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.

### **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.

## NATIONAL ENVIRONMENT TRUST FUND

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### 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.

#### **iii) 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)

### iv) 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.

### v) 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.

## NATIONAL ENVIRONMENT TRUST FUND

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### ***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, 2017.

## NATIONAL ENVIRONMENT TRUST FUND

### 7. GOK Grants

	2018	2017
Actual	Ksh	Ksh
Recurrent	129,011,806	117,977,596
Development	-	20,000,000
<b>Total revenue</b>	<b><u>129,011,806</u></b>	<b><u>137,977,596</u></b>

### 8. Public contributions and donations

	2018	2017
	Ksh	Ksh
WWF	1,000,000	1,000,000
UNDP	9,722,591	500,000
ACCF	4,129,631	58,290
<b>Total Transfers and Sponsorship</b>	<b><u>14,852,222</u></b>	<b><u>1,558,290</u></b>

#### Reconciliation of public contributions and donations

<b>Balance unspent at beginning of year</b>		-
Current year receipts	18,111,391	1,558,290
Conditions met- transferred to revenue	(14,852,222)	(1,558,290)
Conditions to be met- remain liabilities	<b><u>3,259,169</u></b>	<b><u>-</u></b>

## NATIONAL ENVIRONMENT TRUST FUND

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

	2018 Kshs	2017 Kshs
Conditional grants		
Embassy of Sweden Grant-GIA	13,602,698	93,000,000
Embassy of Slovakia Grants	-	749,770
Inter-Governmental Development on Authority	-	-
Embassy of France	-	-
<b>Total grants from other governments</b>	<b>13,602,698</b>	<b>93,749,770</b>
Reconciliation of conditional grants from other governments		
Balance unspent at the beginning	-	106,602,698
Current year receipts	7,388,800	749,770
Conditions met-Transferred to revenue	(4,129,631)	(93,749,770)
Conditions to be met-Liabilities(see note 24)	<b>3,259,169</b>	<b>13,602,698</b>

### 10. Finance Income –External Investments

	2018 Kshs	2017 Kshs
Cash investments and fixed deposits	-	154,863
<b>Total finance income – external investments</b>	<b>-</b>	<b>154,863</b>

### 11. Employee Costs

	2018 Kshs	2017 Kshs
Employee related costs – Basic Pay	50,116,500	50,100,526
Employee related costs - Allowances	27,326,206	23,308,907
Employee related costs – Pension contribution & NSSF Employer	103,800	150,268
Employee related costs - Leave allowances	972,100	761,840
Employee related costs - Gratuity	1,425,645	18,404,524
Employee related costs - NITA Employer expense	26,150	20,500
<b>Employee costs</b>	<b>79,970,401</b>	<b>92,746,565</b>
<b>Number of Staff</b>	<b>31</b>	<b>34</b>

## NATIONAL ENVIRONMENT TRUST FUND

### 12. Board of Trustees Expense

	2018	2017
	Kshs	Kshs
Chairman's Honoraria	-	-
Sitting Allowances	2,780,000	1,760,000
Travel & Accommodation allowance	5,133,896	4,335,187
<b>Total Board remuneration</b>	<b><u>7,913,896</u></b>	<b><u>6,095,187</u></b>

### 13. Depreciation and Amortization expense

	2018	2017
	Kshs	Kshs
Property, plant and equipment	3,445,787	3,501,803
Intangible assets	509,560	291,097
<b>Total depreciation and amortization</b>	<b><u>3,955,346</u></b>	<b><u>3,792,900</u></b>

### 14. Repairs and Maintenance

	2018	2017
	Kshs	Kshs
Property	-	-
Equipment	222,860	99,680
Vehicles	854,407	61,720
Other	-	-
<b>Total repairs and maintenance</b>	<b><u>1,077,267</u></b>	<b><u>161,400</u></b>

### 15. Contracted /Consultancy Services

	2018	2017
	Kshs	Kshs
Strategy	5,792,760	1,894,470
Legal Fees	591,600	100,000
Human Resources	-	3,374,445
ICT Services	1,107,758	660,000
Other	2,803,060	-
<b>Total contracted services</b>	<b><u>10,295,178</u></b>	<b><u>6,028,915</u></b>

### 16. Project Costs

	2018	2017
	Kshs	Kshs
IGAD Project. Climate Change Resilience	-	320,000
NETFUND GIA Project	21,219,042	82,175,516
International Forums	2,811,085	-
ACCF Project	4,129,631	-
Other Project Costs	6,379,562	5,014,062
<b>Total grants and subsidies</b>	<b><u>34,539,320</u></b>	<b><u>87,509,578</u></b>

## NATIONAL ENVIRONMENT TRUST FUND

### 17. General Expenses

The following are included in the General Expenses:

	2018 Kshs	2017 Kshs
Advertising	645,611	-
Local Travel	1,992,705	2,195,315
Foreign Travel	942,625	964,736
Computer Expenses	1,089,045	1,824,212
Rent and Rates	12,524,158	17,477,215
Consumables	1,707,141	3,655,168
Fuel and oil	748,595	1,470,578
Insurance	5,895,103	6,052,496
Internet charges	699,722	661,200
Telephone and Postage	1,272,162	1,479,056
Publishing & printing	364,154	586,355
Stationery	327,688	-
Bank charges	98,060	44,646
Corporate Events & CSR	2,279,860	-
Staff Welfare Costs	3,804,120	-
Training Expenses	7,995,770	-
<b>Total general expenses</b>	<b>42,386,519</b>	<b>36,410,977</b>

### 18. 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.

	2018 Kshs	2017 Kshs
Bank	20,881,083	48,104,649
Cash-on-hand and in transit	-	-
Short-term deposits	-	-
<b>Total cash and cash equivalents</b>	<b>20,881,083</b>	<b>48,104,649</b>

#### Cash & cash equivalent analysis

	2018 Kshs	2017 Kshs
KCB Recurrent A/C	54,6789	8,577,140
SIDA GIA Project A/C	15,098,966	38,949,428
IGAD Project A/C	(4,730)	2,740
Development A/C	2,326,581	575,340
ACCF Project A/C	3,405,587	-
<b>Total cash and cash equivalents</b>	<b>20,881,083</b>	<b>48,104,649</b>

**NATIONAL ENVIRONMENT TRUST FUND**

**19. Receivables from Exchange Transactions**

	<b>2,018</b>	<b>2,017</b>
	<b>Kshs</b>	<b>Kshs</b>
Current receivables		
Staff Debtors	2,040,413	394,333
Other exchange debtors	1,301,572	1,301,572
Less: impairment allowance	-	-
<b>Total current receivables</b>	<b><u>3,341,985</u></b>	<b><u>1,695,905</u></b>

	<b>0-3</b>	<b>3-12</b>	<b>Over 12</b>	<b>Total</b>
	<b>Months</b>	<b>Months</b>	<b>Months</b>	
<b>2018</b>				
Staff Debtors	-	2,040,413	-	2,040,413
Other Exchange Debtors	-	-	1,301,572	1,301,572
	<u>-</u>	<u>2,040,413</u>	<u>1,301,572</u>	<u>3,341,985</u>
<b>2017</b>				
Staff Debtors	-	459,960	-	459,960
Other Exchange Debtors	-	-	1,301,572	1,301,572
	<u>-</u>	<u>459,960</u>	<u>1,301,572</u>	<u>1,761,532</u>

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

	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Other debtors (non-exchange transactions)-GOK	12,000,000	-
Less: impairment allowance	-	-
<b>Total current receivables</b>	<b><u>12,000,000</u></b>	<b><u>-</u></b>

**21. Inventories**

	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Consumable stores	210,166	230,327
Other general office supplies	99,332	89,805
Computer Accessories	1,101,153	763,448
<b>Total inventories</b>	<b><u>1,410,651</u></b>	<b><u>1,083,580</u></b>

**Inventory figures are lower of cost and net realizable value**

## NATIONAL ENVIRONMENT TRUST FUND

### 22. Property, plant and equipment

	Motor Vehicle	Furniture & Fittings	Computers & Printers	Equipment	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Cost					
At 1 July 2016	7,704,720	11,304,179	7,844,788	7,758,776	34,612,463
Additions	-	364,880	-	110,500	475,380
Disposals	-	-	-	-	-
<b>At 30 June 2017</b>	<b>7,704,720</b>	<b>11,669,059</b>	<b>7,844,788</b>	<b>7,869,276</b>	<b>35,087,843</b>
Additions	-	-	1,430,000	286,850	1,716,850
<b>At 30 June 2018</b>	<b>7,704,720</b>	<b>11,669,059</b>	<b>9,274,788</b>	<b>8,156,126</b>	<b>36,804,693</b>
Depreciation and impairment					
<b>At 30 June 2016</b>	7,704,720	5,304,308	4,844,832	3,631,059	21,484,919
Depreciation	-	1,286,384	1,283,282	932,136	3,501,802
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
<b>At 1st July 2017</b>	<b>7,704,720</b>	<b>6,590,692</b>	<b>6,128,114</b>	<b>4,563,195</b>	<b>24,986,721</b>
Depreciation	-	1,176,812	1,319,002	949,974	3,445,788
<b>At 30 June 2018</b>	<b>7,704,720</b>	<b>7,767,504</b>	<b>7,447,116</b>	<b>5,513,169</b>	<b>28,432,509</b>
<b>Net book values</b>					
<b>At 30 June 2018</b>	-	3,901,555	1,827,672	2,642,957	8,372,184
<b>At 30 June 2017</b>	-	5,078,366	1,716,674	3,306,081	10,101,121

NETFUND owns two motor vehicles that are fully depreciated and are still in use and good condition

## NATIONAL ENVIRONMENT TRUST FUND

### 23. Intangible Assets-Software

<b>Cost</b>	
At 1 July 2016	1,890,000
Additions	1,545,674
<b>At 30 June 2017</b>	<b>3,435,674</b>
Additions	733,199
<b>At 30 June 2018</b>	<b><u>4,168,873</u></b>
<b>Amortization &amp; Impairment</b>	
At 1 July 2017	
Amortization	527,348
<b>At 30 June 2018</b>	
Amortization	509,559
Impairment Loss	-
<b>At 30 June 2018</b>	<b>1,036,907</b>
Net Book Values	
<b>At 30 June 2018</b>	<b><u>3,131,966</u></b>
<b>At 30 June 2017</b>	<b><u>2,908,326</u></b>

### 24. 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.

	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Trade Payables	23,137,566	8,809,507
Payments received in Advance	-	-
Employee Advances	42,588	42,588
Other Payables (PAYE Taxes)	8,991,198	5,125,871
<b>Total Trade and other payables</b>	<b><u>32,171,352</u></b>	<b><u>13,977,966</u></b>

### 25. Deferred Income

	<b>2018</b>	<b>2017</b>
	<b>Ksh</b>	<b>Ksh</b>
GOK Grant		-
International Funders-SIDA Grant	-	13,602,698
International Funders-ACCF	3,259,169	-
<b>Total revenue</b>	<b><u>3,259,169</u></b>	<b><u>13,602,698</u></b>

## NATIONAL ENVIRONMENT TRUST FUND

### 26. 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

2018	Carrying Amount	Fair Value
Receivable from exchange Transactions	3,341,985	3,341,985
Receivable from Non-exchange Transactions	12,000,000	12,000,000
Cash and cash equivalents	20,881,083	20,881,083
<b>Total Financial Assets</b>	<b>36,223,068</b>	<b>36,223,068</b>
<b>2017</b>		
Receivable from exchange Transactions	1,761,532	1,761,532
Receivable from Non-exchange Transactions	-	-
Cash and cash equivalents	48,104,649	48,104,649
<b>Total Financial Assets</b>	<b>49,866,181</b>	<b>49,866,181</b>

#### Financial Liabilities

2018	Carrying Amount	Fair Value
Trade and other payables from Exchange Transactions	32,171,355	32,171,355
Deferred Income	3,259,169	3,259,169
<b>Total Financial Assets</b>	<b>35,430,524</b>	<b>35,430,524</b>
<b>2017</b>		
Trade and other payables from Exchange Transactions	13,977,966	13,977,966
Deferred Income	13,602,698	13,602,698
<b>Total Financial Assets</b>	<b>27,580,664</b>	<b>27,580,664</b>

## NATIONAL ENVIRONMENT TRUST FUND

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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.

## NATIONAL ENVIRONMENT TRUST FUND

### 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 disclosures

##### 2018

Designation	Basic Pay	Allowances	Total
Chief Executive Officer	4,707,120	2,463,120	7,170,240
Director Resource Mobilization	2,427,120	1,970,000	4,397,120
Director Technical Services	1,493,160	1,010,000	2,503,160
Head of Finance	2,531,520	1,970,000	4,501,520
<b>Total</b>	<b>11,158,920</b>	<b>7,413,120</b>	<b>18,572,040</b>

##### 2017

Designation	Basic Pay	Allowances	Total
Chief Executive Officer	4,607,120	2,510,000	7,117,120
Director Resource Mobilization	1,828,996	1,578,440	3,407,436
Director Technical Services	2,758,920	1,970,000	4,728,920
Head of Finance	2,531,520	1,970,000	4,501,520
<b>Total</b>	<b>11,726,556</b>	<b>8,028,440</b>	<b>19,754,996</b>

## NATIONAL ENVIRONMENT TRUST FUND

### 28. Cash Generated from Operations

	2018 Kshs	2017 Kshs
Surplus for the year before tax	(22,671,202)	694,997
Adjusted for:		-
Depreciation	3,955,346	3,792,900
Loss on Disposal	-	-
Working capital adjustments:		-
Decrease in inventory	(327,070)	176,937
Decrease in receivables	(13,580,453)	16,818,587
Decrease in deferred income	(10,343,529)	(93,000,000)
Decrease in payables	18,193,391	1,931,052
Increase in payments received in advance		-
<b>Net cash flows from operating activities</b>	<b>(24,773,517)</b>	<b>(69,585,527)</b>

### 29. Contingent Assets and Liabilities

	2018 Kshs	2017 Kshs
<b>Guarantee</b>		
<b>a) Guarantees</b>		
	<b>1,302,933</b>	<b>1,302,933</b>

#### 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 1,302,933 which shall expire 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 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 Trustees 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.

## NATIONAL ENVIRONMENT TRUST FUND

### 30. Commitments; Operating Lease Rentals

Non-Cancellable operating lease rentals are payable as follows:

	2018	2017
	Kshs	Kshs
Not later than One year	4,417,984	4,417,984
Later than One year	8,016,174	13,253,952
<b>Total</b>	<b><u>12,434,158</u></b>	<b><u>17,671,936</u></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.