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OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR
ENDED 30 JUNE 2017**



NATIONAL ENVIRONMENT TRUST FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2017

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

NATIONAL ENVIRONMENT TRUST FUND

Table of Contents	Page
I. KEY ENTITY INFORMATION AND MANAGEMENT	<i>i</i>
II. THE BOARD OF TRUSTEES	<i>iii</i>
III. MANAGEMENT TEAM	<i>v</i>
IV. BOARD OF TRUSTEE'S STATEMENT	<i>vii</i>
V. REPORT OF THE CHIEF EXECUTIVE OFFICER	<i>x</i>
VI. MANAGEMENT DISCUSSION AND ANALYSIS	<i>xiv</i>
VII. CORPORATE GOVERNANCE STATEMENT	<i>xix</i>
VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT	<i>xxii</i>
IX. REPORT OF THE TRUSTEES	<i>xxiv</i>
X. STATEMENT OF TRUSTEES' RESPONSIBILITIES	<i>xxv</i>
XI. STATEMENT OF FINANCIAL PERFORMANCE	<i>1</i>
XII. STATEMENT OF FINANCIAL POSITION	<i>2</i>
XIII. STATEMENT OF CHANGES IN NET ASSETS	<i>3</i>
XIV. STATEMENT OF CASH FLOWS	<i>4</i>
XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS	<i>5</i>
XVI. NOTES TO THE FINANCIAL STATEMENTS	<i>6</i>

NATIONAL ENVIRONMENT TRUST FUND

I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

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

(b) Principal Activities

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

(c) Key Management

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

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

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2015 and who had direct fiduciary responsibility were:

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

(e) Entity Headquarters

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

(f) Entity Contacts

P.O. Box 19324-00200

Telephone: +254 (0) 202369563/4

E-mail: info@netfund.go.ke

Website: www.netfund.go.ke

(g) Entity Bankers

Kenya Commercial Bank Limited,

P.O. Box 69695-00400

City Square 00200

Nairobi, Kenya

(h) Independent Auditors

Auditor General

Kenya National Audit Office

Anniversary Towers, University Way

P.O. Box 30084, G.P.O 00100

Nairobi, Kenya

(i) Principal Legal Adviser

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112, City Square 00200

Nairobi, Kenya

NATIONAL ENVIRONMENT TRUST FUND

II. THE BOARD OF TRUSTEES

Board of Trustee	Profile
 MS. NAUMY JEPTANUI	Ms. Jeptanui is a result driven individual with more than 28 years of progressive experience in Kenya's education sector. Currently, Ms. Jeptanui is a part time lecturer in the Department of Education Management, Policy & Curriculum Studies at Kenyatta University. Ms. Jeptanui holds a M. Ed in Planning & Economics of Education from Kenyatta University and currently pursuing a PhD in Planning & Economics of Education in the same University.
 PROF. LOSENGE TUROOP	Professor Losenge is a renowned Phytopathologist in Kenya. 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. Prof. Losenge holds a PhD in Phytopathology from Jomo Kenyatta University of Agriculture and Technology, Kenya.

NATIONAL ENVIRONMENT TRUST FUND



DR. MNANGAT PTOTON

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



Samson Toniok – Head of Finance

Samson Lekokoo Toniok, BCOM (Second Class Honors), CPAK, ISA is the Director, Finance at the National Environment Trust Fund (NETFUND). Highly accomplished, result driven senior accounting and financial management executive with more than 10 years of progressive experience in finance and accounting within state corporations and financial institutions. Has strong qualifications in developing and implementing financial controls, financial reporting, IFRS, IPSAS, budgeting, Taxation, Project accounting and financial management. 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 Joy 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



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 TRUSTEE'S STATEMENT

a) Review of the economy

Consistent with its robust performance in recent years, once again economic growth in Kenya was solid in 2016, coming in at an estimated 5.9%—a five-year high. This has been supported by a stable macroeconomic environment, low oil prices, earlier favourable harvest, rebound in tourism, strong remittance inflows, and an ambitious public investment drive. Nonetheless, Kenya is currently facing headwinds that are likely to dampen GDP growth in 2017.

According to the latest Kenya National Bureau of Statistics (KNBS) annual report, the tourism and hotel industry, information and communications, and public administration are among the sectors that registered improved growth during the quarter. Inflation was contained within the Central Bank's target to average at 6.3% compared to an average of 6.14% in 2015. The slight increase in inflation was primarily due to increases in the prices of food and beverages during the period under review.

The capping of interest rates to a maximum of 4% above the Central Bank Rate (CBR) resulted in a significant decline in interest rates. The capping of interest rates also caused a decline in domestic credit from a growth of 20.8 % in 2015 to 6.4%.

The International Monetary Fund (IMF) has slashed Kenya's economic growth forecast for this year to 5.3 per cent amid fears that a persistent drought, sluggish private sector credit growth and rising prices of oil and heightened political activity will slow down the economy.

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.

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 of 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 INDC covers all sectors, with a focus on reducing emissions of carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O). 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).

c) Strategy

The Board has continued to implement the five-year strategic plan (2014–2018). Clear deliverables are set out in the corporate strategy and are incorporated in the Performance Contract. It is worth noting that the board has initiated the process of reviewing the strategic plan to address 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 KRB'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, 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 concerted 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).

NATIONAL ENVIRONMENT TRUST FUND

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 aims at consolidating the gains we have made in the last three years.

In this new strategic plan, we 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 Natural Resources and other stakeholders for their continued support. This has gone a long way towards building a solid institution that is responsive to its mandates 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.

I look forward to a promising financial year 2016/17. God Bless you all.

Thank you,

Prof. Lasenge Tunoi

Full Name

Member, Board of Trustees

[Signature]

Signature

29/09/2017

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 2016-2017. Focused execution and implementation of our 5-year strategic plan drove growth in amounts of funds raised for environment management.

Financial Performance

During the year under review Government Grants increased by 26.6 % from 109 million to 138 million. Grants from foreign Governments and public contributions increased by 9.6% from 86.95 million to 95.31 million. NETFUND increased its efforts of resource mobilisation and building partnerships further to enhance its chances of success in future. The fruits of these efforts will continue to be realised in the coming years.

The expenses grew by 19% from 195.9 million to 232.75 million driven by increased number of development projects implemented by NETFUND and funded by foreign governments and other development partners aimed improving adoption of green technologies and exploitation of natural resources and sustainable development.

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 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. The selected 26 business ventures are undergoing incubation which will cover business and financial modelling, marketing, business plan development, Business financing, product and technology refinement, business set up, linkages to networking and showcasing opportunities. Grants of about Ksh 32.6 million, was disbursed to 23 business ventures between January and August 2017. The businesses were continuously mentored and coached by business experts. Additionally, six (6) businesses were linked to local markets with potential for growth over the programme implementation period.
3. 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 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.
4. On promoting an enabling environment for green growth, a research report on “**Factors Influencing Adoption of Renewable Energy Technologies by Rural Households in Kenya**” was published. A stakeholder validation workshop was held in February where research findings were shared with key stakeholders for input. From the research findings two draft policy papers, one on the Role of Education on the Adoption Renewable Energy Technologies by Rural Households in Kenya and another on “The Laws and Regulation Governing the Adoption of Renewable Energy Technologies by Rural Household in Kenya” were developed and are currently under review before publishing. The policy papers are aimed towards influencing policy contributions such as the National Waste Management Bill 2016, Vision 2030 and the Green Economy Strategy and Implementation Plan 2017.
5. Since the online resource centre was launched, the portal has generated a lot of interest. During the period under review the resource centre attracted **79, 915 hits, 2,181 visits and 1058**

visitors. Over 300 publications and other learning material have been acquired for the for the physical resource centre

Performance Contracting

NETFUND signed the first performance contract with the Government of Kenya through the Ministry of Environment and Forestry. 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.

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.

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;

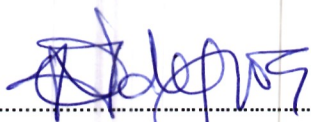
1. Increased funding for the implementation of the country's green economy strategy
2. Enhanced capacity to design and develop effective and efficient low carbon climate resilient projects and programmes in key environment sectors

NATIONAL ENVIRONMENT TRUST FUND

Appreciation

Of course, none of our success in 2016-17 would have been possible without the generous support from our partners. I extend my appreciation to the Government including the National Treasury, our parent ministry, the Ministry of Environment and Forestry for their continued support and insights. I am also grateful to our development partners and to all our stakeholders for their unwavering trust, support and partnership.

Above all, 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.



Catherine Ndegwa

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 are currently incubating 25 green innovations to be sustainable business enterprises.

The organisation has also developed a research programme that aims to promote evidence based programming and policy development for green growth. The organisation has been able to support 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 Kiambu Water Policy. 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 reviewed its three-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. The organisation's medium term goal is to support development of 160 green initiatives.

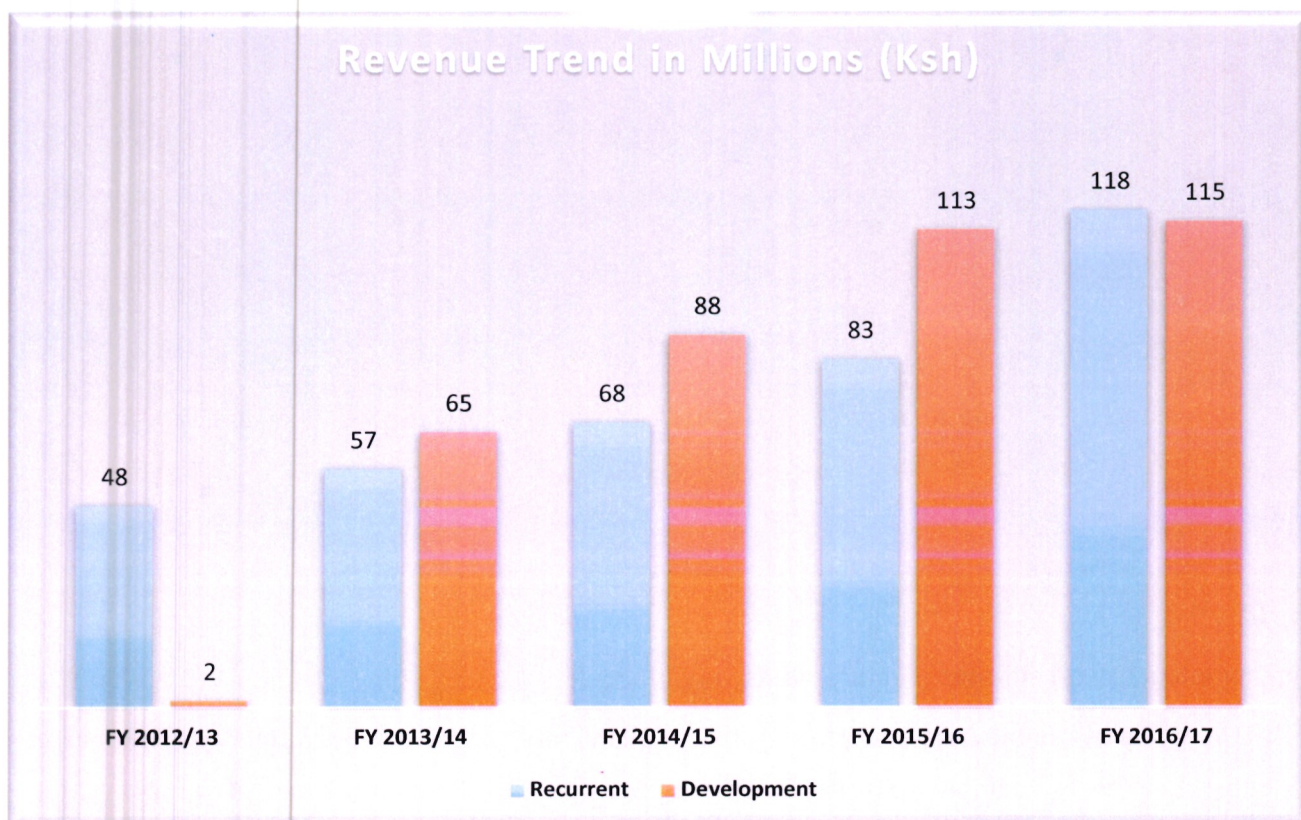
Financial Performance

During the year under review Government Grants increased by 26.6 % from 109 million to 138 million. Grants from foreign Governments and public contributions increased by 9.6% from 86.95 million to

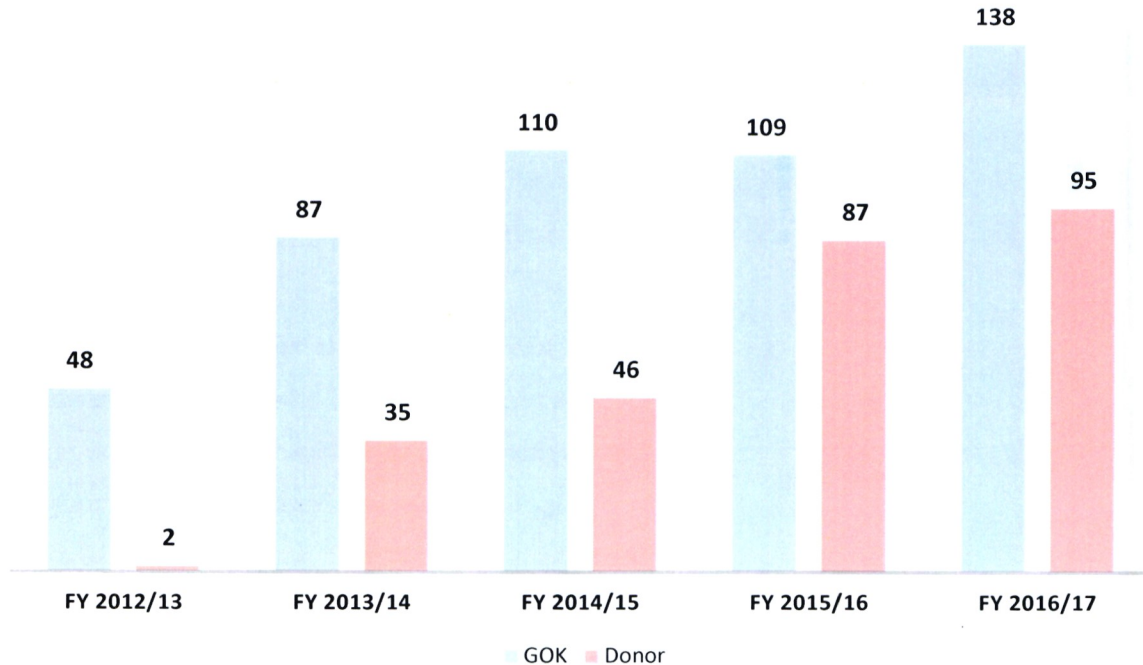
NATIONAL ENVIRONMENT TRUST FUND

95.31 million. NETFUND increased its efforts of resource mobilisation and building partnerships further to enhance its chances of success in future. The fruits of these efforts will continue to be realised in the coming years.

The expenses grew by 19% from 195.9 million to 232.75 million driven by increased number of development projects implemented by NETFUND and funded by foreign governments and other development partners aimed improving adoption of green technologies and exploitation of natural Resources and sustainable development.



Revenue Trend 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 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 three-year strategy; the organisation has outlined three major strategic areas for investment. They include; green business development, knowledge management and fund development. The strategic areas are in line with national priorities and plans such as the National Climate Change Action Plan (NCAAP), Green Economy Strategy and Implementation Plan (GESIP) and Medium Term Plan II. 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.

NATIONAL ENVIRONMENT TRUST FUND

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, documented and operationalised its strategic plan, and continually monitors its implementation. 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 but not limited to obtaining authorizations for all transactions and ensuring compliance with laws and regulations as well as agreements with our stakeholders.

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 improbity reported by the internal audit/Board audit committee, external auditors, or other oversight bodies. NETFUND has a constituted Board of Trustees that is supported by Board Committees. However, the Board does not have a substantive Chair.

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”.

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.

MANAGEMENT AND GOVERNANCE OF THE FUND

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

THE ROLE OF THE BOARD

As guided by EMCA, the State Corporations Act, Cap 446 and other relevant laws of Kenya, the Board’s role is to provide effective leadership and control, in terms of approving 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.

NATIONAL ENVIRONMENT TRUST FUND

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

Statement of Compliance

The Board of Trustees confirms that National Environment Trust Fund has throughout the 2016/2017 financial year complied with all Statutory and Regulatory requirement and that NETFUND has been managed in accordance with the requisite principles of Corporate Governance.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

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

Standing Instructions

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

Organization Structure

A clear organizational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements. Training plans are prepared

NATIONAL ENVIRONMENT TRUST FUND

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.

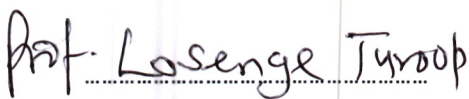
The Board considers significant control matters raised by management and both the internal and external auditors. Where weaknesses are identified, the Board ensures that management takes appropriate action. No significant failings or weaknesses were identified during 2015/16

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.

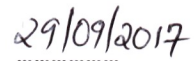


Full Name

Member, Board of Trustees



Signature



Date

Nairobi

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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

1. Mutual Beneficial Partnerships

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

2. Fund Ethics and Transparency

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

3. Corporate Governance

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

4. Environment Health & Safety

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

5. Human Rights

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

6. Equality and Diversity

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

7. Workforce

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

8. Community

NETFUND endeavors to contribute to the wellbeing of the community we work with in different ways including “giving back to the community”. This is through direct donations to charities and/or causes or in kind where the staff of NETFUND volunteer their services in activities to do with the environment that directly affect the lives of the community members for the better.

IX. REPORT OF THE TRUSTEES

The Board of Trustees submit their report together with the audited financial statements for the year ended June 30, 2017 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, 2017 are set out from page 1

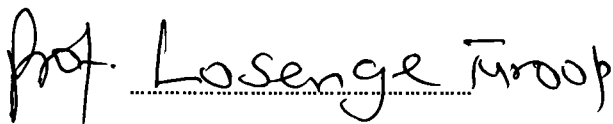
Trustees

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

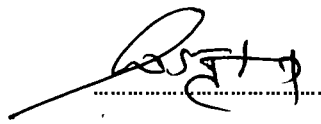
The Auditor General is responsible for the statutory audit of the Fund in accordance with the Public Finance Management (PFM) Act, 2012. The Auditor General continues in office in accordance with the Public Finance Management (PFM) Act, 2012.

FOR AND ON BEHALF OF THE BOARD OF TRUSTEES.

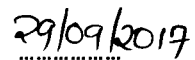


Full Name

Member, Board of Trustees



Signature



Date

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, which give a true and fair view of the state of affairs of the Fund at the end of the financial year/period and the operating results of the Fund for that year/period. The Trustees are also required to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Fund. The Trustees are also responsible for safeguarding the assets of the Fund.

The Trustees are responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year (period) ended on June 30, 2017. 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, 2017, 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.

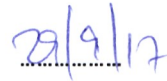
NATIONAL ENVIRONMENT TRUST FUND

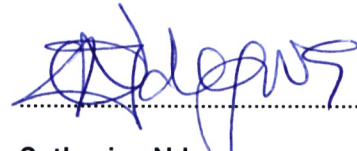
Approval of the financial statements

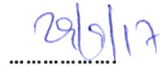
Approved by the Board of Trustees on *30 September* 2017 and signed on its behalf by


.....
Samson Toniok

Director, Finance


.....
Date
Nairobi


.....
Catherine Ndegwa
Chief Executive Officer


.....

Date
Nairobi

REPUBLIC OF KENYA

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Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
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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 2017

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 30, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparative budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Environment Trust Fund as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Environment Management Coordination Act, 1999.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections, based on the procedures performed, I confirm that, nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Property Plant and Equipment (PPE)

The statement of financial position reflects property, plant and equipment (PPE) balance of Kshs.10,101,122 as at 30 June 2017. In addition, Note 21 to financial statements reflects Property, Plant and Equipment additions during the year amounting to Kshs.475,380 which relate to additional furniture, fittings and equipment. However, IPAD tablets worth Kshs.388,600 procured during the year under review were not recognized in the fixed asset register as additions, hence understating the netbook value at year end. Further, the IPADS were in the custody of the outgoing board members.

Report of the Auditor-General on the Financial Statements of National Environment Trust Fund for the Year Ended 30 June 2017

Further, note 21 includes disclosure of two motor vehicles that are fully depreciated, still in use and in good condition thus the Fund has not dealt with review of economic useful lives of assets that are still in use though fully depreciated and write-offs of assets no longer in use.

Consequently, it has not been possible to confirm the accuracy and completeness of property, plant and equipment balance of Kshs.10,101,122 as at 30 June 2017.

2. Unsupported Employees Costs

The statement of financial performance reflects employee costs of Kshs.92,746,565 for the year ended 30 June 2017. Included in this amount is Kshs.18,404,524 relating to gratuity payments to employees. However, no provision for gratuity was provided as short term liability that is due to be settled within 12 months after the reporting date contrary to the requirements of IPSAS 1.

In addition, the amount also includes Kshs.761,840 relating to commutation of leave days' by employees for the year under consideration. However, the amount was not supported by a summary of accrued leave days, leave days paid during the year and long outstanding leave days.

Further, the employee costs of Kshs.92,746,565 in statement of financial performance differ with the figure of Kshs.93,909,960 in cash flow statement resulting to an unexplained and unreconciled variance of Kshs.1,163,395.

Consequently, it has not been possible to confirm the accuracy and completeness of the employees' costs of Kshs.92,746,565 as at 30 June 2017.

3. Long Outstanding Trade and Other Payables from Exchange Transactions

The statement of financial position reflects trade and Other payables balance of Kshs.13,977,966 as at 30 June 2017 whereas note 23 to the financial statements reflects trade payables balance of Kshs.8,809,507 as at 30 June 2017. The balance increased from Kshs.5,715,082 in the previous year representing an increase of Kshs.3,094,515 or 54%. No explanation was provided on the cause of the increase. In addition, analysis of the trade payables indicated long outstanding trade payables from year 2012 amounting to Kshs.3,261,135.

Further, the note also reflects other payables relating to PAYE, gratuity and other deductions from the salary amounting to Kshs.5,125,871 as at 30 June 2017. Included in this figure is a PAYE amount of Kshs.2,145,159 which had been outstanding for one year. The Fund is therefore in breach of the Income Tax Act, Cap 470 and is likely to incur penalties and interest as a result of non-payment of the tax.

In view of the foregoing, it has not been possible to confirm the accuracy, validity and completeness of trade and other payables from exchange transactions of Kshs.13,977,966 as at 30 June 2017.

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 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. These matters were addressed in the context of the audit of the financial statements, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of the report, including in relation to these matters. Accordingly, the audit included the performance of procedures designed to respond to the assessment of the risks of material misstatement of the financial statements. The results of the audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

No.	Key Audit Matter	How the Audit Addressed the Key Audit Matter
1	Project Costs	
	The statement of financial performance indicates that during the year ended 30 June 2017, the Fund expended Kshs.87,509,578 as project costs to support: • Eleven projects that been up scaling their initiatives in various parts of the country; • 36 projects under the pre-incubation phase to establish technical and market viability. • 3 projects under the Green Growth initiative • Micro, Small & Medium Enterprises (MSMEs) under the Green Enterprise Programme (NETGEP) to enhance access to financial resources through affordable credit facilities. The fund transfers money directly to the projects located in different parts of the country to implement their activities.	• Inspected the transaction-level detail of ledger accounts for each expense account sampled. • Reviewed the ledger detail to assist identifying transactions that may not belong or were posted incorrectly to project costs. • Vouched a sample of projects related expenses by requesting documentation which includes invoices, journal entries, cancelled checks, payment vouchers and procurement documents among others. • Where possible, carried a site visit to a sample of projects. • Audit marked netfund project costs as a keep in view (KIV) item in 2017/2018 audit.

	We considered this to be a key audit matter since these are transfer payments and accountability for the funds was not possible due to lack of documents to support implementation of the projects activities. There is a risk therefore of fraudulent transfers being made to projects, non-implementation of projects and poor monitoring of the projects activities.	
2	Deferred Income	
	The statement of financial position reflects deferred income for the current year of Kshs.13,602,698 which reduced by Kshs.93,000,000 from Kshs.106,602,698 in the previous year. We considered this to be a key audit matter since there is a risk that the revenue is inappropriately reported to achieve desired budgetary performance. We assessed that the opportunity to misrepresent revenue creates a heightened risk where the receipts from development partners are recorded in the improper period by not observing the matching principle and the requirements of IPSAS 23.	The following audit procedures were performed in response to this matter: • Reviewed the financing agreement and annual work plans. • Comparing current year grants with prior period at lowest level of detail. • Inquiring about grants near year-end versus appropriate revenue cutoff procedures • Analyzing deferred revenue versus agreements terms that might affect the grants.
3	Assets Management and Control	
	National Environment Trust Fund has acquired assets totaling Kshs 35,087,843 over the years. Management control of these assets presents a great challenge and risk to National Environment Trust Fund management. Judgements and controls needs to be effective to appropriately recognize the revenue costs from these significant acquisitions including: • Assessment of the economic useful lives of assets which are still in use and those that have been fully depreciated. • Whether to recognize impairments and write-offs for assets which are no longer in	The following audit procedures were performed in response to this matter: • Evaluated management's judgements and assumptions used in determining the future benefits expected from the assets and ensured they are appropriate. • Reviewed the assets register for selected assets to ensure existence and completeness of balance sheet figures. • Reviewed whether or not capitalization of costs is appropriate. • Considered whether at any stage

	use.	assets need to be impaired or written off to the change in useful lives. • Considered whether there were any assets which were still in use but their useful lives had expired. • Performed detailed testing on a sample of expenditure incurred to source documents.
4	Information Technology Systems and Controls	
	In line with the National Environment Trust Fund's, Charter on creativity and innovation the Fund had been using the Responsive Ledger software for managing financial operations. However, the Fund migrated to Sage 300 ERP. The Sage system currently has the Finance and the Human Resource modules that are integrated. The sage also has components for adding the Customer Relationship Management System (CRM), Procurement and Project Management Modules to enable effective and efficient delivery of services. We considered this to be a key audit matter since there is an inherent risk of loss of integrity of key financial data being imported manually from the Responsive Ledger software into SAGE 300. There is also breakdown in operation or monitoring of IT dependent controls within critical business processes such as payroll, financial management and recording of transactions, which could lead to financial errors or misstatements and inaccurate financial reporting. The Fund's financial reporting process is heavily dependent on these systems and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively. There is also a risk that the systems may not meet management intentions. In addition, there is a risk that the IT systems governance has not been	Our planned audit approach assumed reliance on the IT Control environment and therefore our audit procedures to address the matter included: • Examining the framework of governance over IT controls, access to programs and data and IT operations, where required; • Assessing and testing the design and operating effectiveness of the controls over the continued integrity of the systems that were relevant to financial accounting and reporting during the year; • Assessment and testing of the general IT control environment, including IT access and segregation of duties, as well as IT dependent controls within critical business processes; • Carrying out direct tests of certain aspects of the security of the IT systems including access management and segregation of duties; • Re-performing selected automated computations and compared our results with those from the systems and the general ledger and trial balance; and

	addressed to reap the full benefits of the IT Investment.	• Testing the significant system interfaces to ensure accuracy and completeness of the data transfer.
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Other Matter

1. Public Participation in National Environment Trust Fund Budget Implementation

Article 201(a) of The Constitution of Kenya requires that there should be openness and accountability, including public participation in financial matters. Further, Section 36 (3) (d) of the Public Finance Management Act, 2012 provides for public participation in the budget process. There is no evidence of public participation during budget formulation.

2. Internal Controls Not Implemented

The following observations were made during a review of the internal control systems of the National Environment Trust Fund:

- a) No risk assessment was carried out to identify and address key areas of concern for operations of NETFUND and document specific controls in response to identified risks.
- b) National Environment Trust Fund has no formal, documented and tested disaster recovery plan/emergency procedure in place and therefore in case of an emergency. The personnel involved might not be aware of what is expected of them.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to terminate 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.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment and maintain professional scepticism 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 our 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's 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 going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Fund to cease to continue 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 business activities of the Fund to 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 the 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.

From the matters communicated with the management, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the Key Audit Matters. These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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

Nairobi

01 August 2018

NATIONAL ENVIRONMENT TRUST FUND

XI. STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2017

	Note	2016-2017 Kshs	2015-2016 Kshs
Revenue from non-exchange transactions			
GOK Grants	6	137,977,596	109,021,419
Public contributions and donations	7	1,558,290	2,789,240
Transfers from other governments – gifts and services-in-kind	8	93,749,770	84,158,660
		233,285,656	195,969,319
Revenue from exchange transactions			
Finance income – external investments	9	154,863	5,672,877
Other income		-	-
		154,863	5,672,877
Total revenue		233,440,519	201,642,196
Expenses			
Employee costs	10	92,746,565	68,607,322
Board of Trustees Expense	11	6,095,187	3,877,800
Depreciation and amortization expense	12	3,792,900	3,712,639
Repairs and maintenance	13	161,400	1,220,566
Contracted services	14	6,028,915	6,724,897
Project Costs	15	87,509,578	82,673,328
General expenses	16	36,410,977	29,063,405
Total expenses		232,745,522	195,879,957
Other gains/(losses)		-	-
Surplus before tax		694,997	5,762,239
Taxation		-	-
Surplus for the period		694,997	5,762,239

The notes set out on pages 6 to 30 form an integral part of the Financial Statements

NATIONAL ENVIRONMENT TRUST FUND

XII. STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	2016-2017 Kshs	2015-2016 Kshs
Assets			
Current assets			
Cash and cash equivalents	17	48,104,649	119,711,229
Receivables from exchange transactions	18	1,761,532	1,695,905
Receivables from non-exchange transactions	19	-	16,884,213
Inventory	20	1,083,580	1,260,517
		50,949,761	139,551,864
Non-current assets			
Property, plant and equipment	21	10,101,122	13,127,545
Intangibles	22	2,908,326	1,653,750
		13,009,448	14,781,295
Total assets		63,959,209	154,333,159
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	23	13,977,966	12,046,913
Deferred income	24	13,602,698	106,602,698
		27,580,664	118,649,611
Non-current liabilities			
Non-current provisions		-	-
Total liabilities		27,580,664	118,649,611
Net assets			
Capital Reserves		7,714,898	7,714,898
Accumulated surplus		28,663,647	27,968,650
		36,378,545	35,683,548
Total net assets and liabilities		63,959,209	154,333,159

The Financial Statements on pages 1 to 30 were submitted by management and signed on its behalf by:

.....
Samson Toniok

Director Finance

.....
Catherine Ndegwa

Chief Executive Officer

.....
Date

Nairobi

.....
Date

Nairobi

NATIONAL ENVIRONMENT TRUST FUND

XIII. STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30 June 2017

Attributable to the owners of the controlling Fund

	Capital Reserve	Accumulated Surplus	Total
	Kshs	Kshs	Kshs
Balance as at 1 st July 2015	7,714,898	22,206,411	29,921,309
Prior year adjustment	-	-	-
Surplus/(deficit) for the period	-	5,762,239	5,762,239
Transfers to/from accumulated surplus	-	-	-
Balance as at 30 JUNE 2016	7,714,898	27,968,650	35,683,548
Prior year adjustment	-	-	-
Balance as at 1 st July 2016	7,714,898	27,968,650	35,683,548
Surplus/(deficit) for the period	-	694,997	694,997
Transfers to/from accumulated surplus	-	-	-
Balance as at 30 JUNE 2017	7,714,898	28,663,647	36,378,545

NATIONAL ENVIRONMENT TRUST FUND

XIV. STATEMENT OF CASH FLOWS

		2016-2017 Kshs	2015-2016 Kshs
Cash flows from operating activities			
Receipts			
GOK Grants		154,861,809	92,137,206
Public contributions and donations		904,633	2,789,240
Other Government grants and subsidies		1,558,290	190,761,358
Finance income		-	5,672,877
		157,324,732	291,360,681
Payments			
Compensation of employees		93,909,960	68,157,997
Goods and services		24,289,369	24,221,898
Finance cost		44,646	80,756
Rent paid		17,477,215	11,924,341
Other payments		6,160,813	3,877,800
Project Costs		85,028,256	86,166,729
		226,910,259	194,429,521
Net cash flows from operating activities	27	(69,585,527)	96,931,160
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		(2,021,053)	(4,829,863)
Proceeds from sale of property, plant and Equipment		-	-
Net cash flows used in investing activities		(2,021,053)	(4,829,863)
Cash flows from financing activities			
Increase in deposits		-	-
Net cash flows used in financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		(71,606,580)	92,101,297
Cash and cash equivalents at 1 JULY	25	119,711,229	27,609,932
Cash and cash equivalents at 30 JUNE	25	48,104,649	119,711,229

xv. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
GOK Grants & Subsidies	137,989,592	(11,996)	137,977,596	137,977,596	-
Public contributions and donations	-	1,558,290	1,558,290	1,558,290	-
Other Government grants and subsidies	93,000,000	749,770	93,749,770	93,749,770	-
Finance Income	-	155,000	155,000	154,863	(137)
Total income	230,989,592	2,451,064	233,440,656	233,440,519	(137)
Expenses					
Compensation of employees	91,809,600	1,190,400	93,000,000	92,746,565	(253,435)
Goods and services	36,410,000	(7,410,000)	29,000,000	28,916,977	(83,023)
Rent paid	17,600,000	(62,000)	17,538,000	17,477,215	(60,785)
Other payments	4,820,000	1,280,000	6,100,000	6,095,187	(4,813)
Project Cost paid	5,500,000	82,175,516	87,675,516	87,509,578	(165,938)
Total expenditure	156,139,600	77,173,916	233,313,516	232,745,522	567,994
Surplus for the period	-	-	127,140	694,997	567,994

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 2017

Standard	Impact
IPSAS 33: First time adoption of Accrual Basis IPSAS	(Effective for annual periods beginning on or January 1, 2017) 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. 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.
IPSAS 34: Separate Financial Statements	(Effective for annual periods beginning on or January 1, 2017) 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. NEFUND does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.
IPSAS 35: Consolidated Financial Statements	Effective for annual periods beginning on or January 1, 2017) 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: - Its power over the other entity - Its exposure or rights to variable benefits from involvement with the other entity - Its ability to control the nature, timing and amount of benefits from the other entity.

NATIONAL ENVIRONMENT TRUST FUND

Standard		Impact
		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. NETFUND does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply
IPSAS 36: Investments in Associates and Joint Ventures	Joint	(Effective for annual periods beginning on or January 1, 2017) 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. NETFUND does not have investments in associates or joint ventures and therefore the standard does not apply
IPSAS 37: Arrangements	Joint	(Effective for annual periods beginning on or January 1, 2017) 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. NETFUND does not have an interest in a joint arrangement and therefore the standard does not apply
IPSAS 38: Disclosure of Interests in Other Entities		(Effective for annual periods beginning on or January 1, 2017) 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. The entity does not have an interests in other entities and therefore the standard does not apply

NATIONAL ENVIRONMENT TRUST FUND

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 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.
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

iii. Early adoption of standards

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

NATIONAL ENVIRONMENT TRUST FUND

SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance

The Financial statements for the year ended 30th June 2017 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.

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."

2. 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.

3. 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- 'Presentation of Financial Statements' which states that the scope of application is for 'all public sector entities other than Government Business Enterprises'.

NATIONAL ENVIRONMENT TRUST FUND

4. Functional Currencies

(a) Functional and Presentation Currency

The financial statements are presented in the functional currency, Kenya Shillings (Kshs.), 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

5. 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

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

NATIONAL ENVIRONMENT TRUST FUND

will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities

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

Contingent assets

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

8. Nature and purpose of reserves

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

9. Changes in accounting policies and estimates – IPSAS 3

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

10. Related parties – IPSAS 20

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

11. 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.

12. 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.

13. Comparative figures

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

14. 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

NATIONAL ENVIRONMENT TRUST FUND

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.

15. 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.

6. GOK Grants

	2017	2016
Actual	Kshs	Kshs
Taxable land and buildings		
Recurrent	117,977,596	82,659,819
Development	20,000,000	26,361,600
Total property taxes revenue	137,977,596	109,021,419

7. Public contributions and donations

	2017	2016
	Kshs	Kshs
WWF	1,000,000	2,000,000
KCB Foundation	500,000	-
Pollination fund	58,290	789,240
Total transfers and sponsorships	1,558,290	2,789,240

	2017	2016
	Kshs	Kshs
Reconciliation of public contributions and donations		
Balance unspent at beginning of year	-	-
Current year receipts	1,558,290	2,789,240
Conditions met – transferred to revenue	(1,558,290)	(2,789,240)
Conditions to be met – remain liabilities	-	-

NATIONAL ENVIRONMENT TRUST FUND

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

	2017	2016
	Kshs	Kshs
Conditional grants		
Embassy of Sweden Grant-GIA	93,000,000	67,837,669
Embassy of Slovakia Grants	749,770	8,000,000
Inter-Governmental Development on Authority	-	8,320,991
Embassy of France	-	-
Total grants from other governments	93,749,770	84,158,660

Reconciliation of conditional grants from other governments

Balance unspent at the beginning	106,602,698	-
Current year receipts	749,770	190,761,358
Conditions met-Transferred to revenue	(93,749,770)	(84,158,660)
Conditions to be met-Liabilities(see note 24)	13,602,698	106,602,698

9. Finance income – external investments

	2017	2016
	Kshs	Kshs
Cash investments and fixed deposits	154,863	5,672,877
Total finance income – external investments	154,863	5,672,877

10. Employee costs

	2017	2016
	Kshs	Kshs
Employee related costs – Personal Emoluments	73,429,933	62,591,744
Employee related costs – contributions to NSSF& Pensions schemes	150,268	849,792
Employee related costs – Leave allowance	761,840	633,998
Employee related costs – Gratuity	18,404,524	4,531,788
Employee costs	92,746,565	68,607,322
Number of Staff	34	34

NATIONAL ENVIRONMENT TRUST FUND

11. Board of Trustees Expense

	2017	2016
	Kshs	Kshs
Chairman's Honoraria	-	-
Sitting Allowances	1,760,000	1,160,000
Travel & Accommodation allowance	4,335,187	2,717,800
Total Board remuneration	6,095,187	3,877,800

12. Depreciation and amortization expense

	2017	2016
	Kshs	Kshs
Property, plant and equipment	3,501,803	3,476,389
Intangible assets	291,097	236,250
Total depreciation and amortization	3,792,900	3,712,639

13. Repairs and maintenance

	2017	2016
	Kshs	Kshs
Property	-	53,193
Equipment	99,680	-
Vehicles	61,720	1,125,883
Other	-	41,490
Total repairs and maintenance	161,400	1,220,566

NATIONAL ENVIRONMENT TRUST FUND

14. Contracted/Consultancy Services

	2017	2016
	Kshs	Kshs
Strategy	1,894,470	1,833,960
Legal Fees	100,000	1,581,017
Human Resources	3,374,445	1,208,920
ICT Services	660,000	600,000
Other	-	1,501,000
Total contracted services	6,028,915	6,724,897

15. Project Costs

	2017	2016
	Ksh	Kshs
IGAD Project. Climate Change Resilience	320,000	11,228,673
NETFUND GIA Project	82,175,516	64,367,200
International Forums	-	1,999,982
Other Project Costs	5,014,062	5,077,473
Total grants and subsidies	87,509,578	82,673,328

16. General expenses

The following are included in general expenses:

	2017	2016
	Kshs	Kshs
Advertising	-	446,600
Local Travel	2,195,315	1,704,064
Foreign Travel	964,736	1,121,345
Computer Expenses	1,824,212	1,770,422
Rent and Rates	17,477,215	11,924,341
Consumables	3,655,168	3,185,669
Fuel and oil	1,470,578	613,448
Insurance	6,052,496	4,123,881
Internet charges	661,200	753,450

NATIONAL ENVIRONMENT TRUST FUND

Telephone and Postage	1,479,056	1,247,425
Printing and stationery	586,355	1,921,064
Bank charges	44,646	80,756
Loss on Disposal of Assets	-	170,940
Total general expenses	36,410,977	29,063,405

17. 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.

	2017	2016
	Kshs	Kshs
Bank	48,104,649	17,852,873
Cash-on-hand and in transit	-	-
Short-term deposits	-	101,858,356
Total cash and cash equivalents	48,104,649	119,711,229

18. Receivables from exchange transactions

	2017	2016
	Kshs	Kshs
Current receivables		
Staff Debtors	459,960	394,333
Other exchange debtors	1,301,572	1,301,572
Less: impairment allowance	-	-
Total current receivables	1,761,532	1,695,905

NATIONAL ENVIRONMENT TRUST FUND

2017

	0-3 Months	3 – 12 Months	Over 12 Months	Total
Staff Debtors	-	459,960	-	459,960
Other Exchange Debtors	-	-	1,301,572	1,301,572
	-	459,960	1,301,572	1,761,532

2016

	0-3 Months	3 – 12 Months	Over 12 Months	Total
Staff Debtors	224,703	169,630	-	394,333
Other Exchange Debtors	-	-	1,301,572	1,301,572
	224,703	169,630	1,301,572	1,695,905

19. Receivables from Non Exchange Transactions

	2016-2017	2015-2016
	Kshs	Kshs
Other debtors (non-exchange transactions)-GOK	-	16,884,213
Less: impairment allowance	-	-
Total current receivables	-	16,884,213

20. Inventories

	2017	2016
	Kshs	Kshs
Consumable stores	230,327	1,260,517
Other general office supplies	89,805	-
Computer Accessories	763,448	-
Total inventories	1,083,580	1,260,517

Lower of cost and net realizable value

NATIONAL ENVIRONMENT TRUST FUND

21. Property, plant and equipment

Cost	Motor Vehicle	Furniture & Fittings	Computers & Printers	Equipment	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
At 1 July 2015	7,704,720	10,932,266	7,986,328	6,644,901	33,268,215
Additions	-	699,003	853,450	1,387,410	2,939,863
Disposals	-	(327,090)	(994,990)	(273,535)	(1,595,615)
At 30 June 2016	7,704,720	11,304,179	7,844,788	7,758,776	34,612,463
Additions	-	364,880	-	110,500	475,380
At 30 June 2017	7,704,720	11,669,059	7,844,788	7,869,276	35,087,843
Depreciation and impairment					
At 30 June 2015	6,886,795	4,222,830	4,597,187	2,908,467	18,615,279
Depreciation	817,925	1,333,816	1,242,635	899,939	4,294,315
Disposals	-	(252,338)	(994,990)	(177,347)	(1,424,675)
Impairment	-	-	-	-	-
At 30 June 2016	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
At 30 June 2017	7,704,720	6,590,692	6,128,114	4,563,195	24,986,721
Net book values					
At 30 June 2017	-	5,078,366	1,716,674	3,306,081	10,101,122
At 30 June 2016	-	5,999,871	2,999,956	4,127,718	13,127,545

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

NATIONAL ENVIRONMENT TRUST FUND

22. Intangible Assets - Software

Cost

At 1 July 2015	1,890,000
Additions	-
At 30 June 2016	1,890,000
Additions	1,545,674
At 30 June 2017	<u>3,435,674</u>
Amortisation & Impairment	
At 1 July 2016	236,250
Amortisation	291,098
At 30 June 2017	-
Amortisation	527,348
Impairment Loss	-
At 30 June 2017	527,348
Net Book Values	
At 30 June 2017	<u>2,908,326</u>
At 30 June 2016	1,653,750

23. 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.

	2017	2016
	Kshs	Kshs
Trade payables	8,809,507	5,715,082
Payments received in advance	-	-
Employee advances	42,588	42,588
Other payables (PAYE Taxes)	5,125,871	6,289,243
Total trade and other payables	<u><u>13,977,966</u></u>	<u><u>12,046,913</u></u>

NATIONAL ENVIRONMENT TRUST FUND

24. Deferred income

	2017	2016
	Kshs	Kshs
GOK Grant	-	-
International funders-SIDA Grant	13,602,698	106,602,698
Public contributions and donations	-	-
Total deferred income	13,602,698	106,602,698

25. 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

2017

	Carrying Amount	Carrying Amount
Receivable from exchange transactions	1,761,532	1,761,532
Receivables From Non Exchange Trans.	-	-
Cash and cash equivalents	48,104,649	48,104,649
Total Financial Assets	49,866,181	49,866,161

2016

Receivable from exchange transactions	1,695,905	1,695,905
Receivables From Non Exchange Transactions	16,884,213	16,884,213
Cash and cash equivalents	119,711,229	119,711,229
Total Financial Assets	138,291,347	138,291,347

NATIONAL ENVIRONMENT TRUST FUND

Financial Liabilities

2017

	Carrying Amount	Fair Value
Trade and other payables from exchange transactions	13,977,965	13,977,965
Deferred Income	13,602,698	13,602,698
Total trade and other payables	27,580,663	27,580,663

2016

Trade and other payables from exchange transactions	12,046,913	12,046,913
Deferred Income	106,602,698	106,602,698
Total trade and other payables	118,649,611	118,649,611

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.

(a) 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.

(b) 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.

(c) 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

NATIONAL ENVIRONMENT TRUST FUND

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.

(d) 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.

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.

26. Related party disclosures

2017

Designation	Basic Pay	Allowances	Total
Chief Executive Officer	4,607,120	2,510,000	7,117,120
Director Resource Mobilisation	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
Total	<u>11,726,556</u>	<u>8,028,440</u>	<u>19,754,996</u>

NATIONAL ENVIRONMENT TRUST FUND

2016

Designation	Basic Pay	Allowances	Total
Chief Executive Officer	3,366,720	2,460,000	5,826,720
Director Resource Mobilisation	3,233,520	1,920,000	5,153,520
Director Technical Services	2,427,120	1,920,000	4,347,120
Head of Finance	2,206,800	1,920,000	4,126,800
Total	<u>11,234,160</u>	<u>8,220,000</u>	<u>19,454,160</u>

27. Cash generated from operations

	2017	2016
	Kshs	Kshs
Surplus for the year before tax	694,997	5,762,239
Adjusted for:	-	-
Depreciation	3,792,900	3,712,639
Loss on Disposal	-	170,940
Working capital adjustments:		
Decrease in inventory	176,937	(3,916)
Decrease in receivables	16,818,587	(15,592,306)
Decrease in deferred income	(93,000,000)	106,602,698
Decrease in payables	1,931,052	(3,721,134)
Increase in payments received in advance	-	-
Net cash flows from operating activities	<u>69,585,527</u>	<u>96,931,160</u>

28. Contingent Assets & Liabilities

2017	2016
Kshs	Kshs
<u>1,302,933</u>	<u>1,302,933</u>

Guarantee

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 31st 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

NATIONAL ENVIRONMENT TRUST FUND

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.

29. Commitments; Operating Lease Rentals

Non-cancellable operating lease rentals are payable as follows:

	2017	2016
	Ksh	Ksh
Not later than One year	4,417,984	6,248,824
Later than One year	13,253,952	12,386,642
Total	<u>17,671,936</u>	<u>18,635,466</u>

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.

30. 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.

31. Capital Commitments

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

32. 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.

33. Comparatives

NATIONAL ENVIRONMENT TRUST FUND

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.

34. Currency

The financial statements are presented in Kenya Shillings.