

REPORT OF THE AUDITOR-GENERAL ON NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Environment Management Authority set out on pages 1 to 22, 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 statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 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 Management Authority 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 the 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 of my report, 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. Accuracy of the Financial Statements

The statement in net assets reflects a negative balance of Kshs.56,237,000 as at 30 June 2017. However, in arriving at the balance a prior year adjustment of Kshs.19,153,000 has been added back without supporting details/analysis. Further, Note 25 on prior year adjustments only indicates that the amount is in respect of previous adjustment provisions and transfer of buildings to capital work in progress (CWIP) previously expensed. In the absence of the prior year adjustment, the accumulated revenue reserve would have increased to negative Kshs.75,390,000 as at 30 June 2017.

Consequently, it has not been possible to confirm the accuracy and completeness of the financial statements for the year ended 30 June 2017.

2. Financial Performance

During the period under audit, the Authority made a deficit of Kshs.174,554,000 (2016: Kshs.162,360,000). This reduced the revenue reserve to (Kshs.56,237,000) (2016: Kshs.99,164,000). Further, the Authority's current liabilities of Kshs.748,480,000 as at 30 June 2017 exceeded the current assets of Kshs.728,894,000 as at the same date leading to a negative working capital of Kshs.19,586,000.

In the circumstance, the Authority's service sustainability capability is threatened.

3. Depreciation on Revalued Assets

The depreciation charge of Kshs.47,135,000 charged to the statement of financial performance include depreciation of revalued assets contrary to IPSAS 17 paragraph 54 which requires depreciation on revalued assets to be charged to the revaluation reserve. This treatment leaves the revaluation reserve of Kshs.137,640,000 without adequate supporting assets contrary to the provisions of IPSAS 17.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Environment Management Authority 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.

Emphasis of Matter

1. Under Funding

The Authority had an approved grant of Kshs. 855,337,000 (Kshs.822,000,000 recurrent and Kshs.33,337,000 for development). During the period, it received Kshs.633,328,000 or 74%. There was underfunding of Kshs.222,009,000 or 26%. Further, it budgeted to receive Kshs.572,100,000 as donor grants of which it received Kshs.195,426,000 or 34%. With such huge revenue shortfall, the Authority may not be able to discharge its mandate as described in Environment Coordination Act 1999.

2. Slow Implementation of the Adaptation Fund

The Authority had a brought forward cash balance of Kshs.441,155,000 for implementation of the Adaptation Fund Project. However, only Kshs.216,000,000 was utilized during the year under review. The absorption rate of 49% is low considering the Authority had the funds available from the beginning of the year. At this rate, the Authority may not absorb the project funding within the agreed project duration.

Key Audit Matters

Key audit matters, are those matters that, in our professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the

Basis for Qualified Opinion and Emphasis of Matter sections of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

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

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

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Authority's 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 Authority'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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- 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 Authority'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 Corporation's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority 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 management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

28 September 2018