

REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

**NATIONAL ENVIRONMENT
MANAGEMENT AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE, 2025**

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An Unmodified Opinion is issued when the Auditor-General concludes that the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management, and Governance.

The three parts of the report aim to address the Auditor-General's statutory roles and responsibilities as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Environment Management Authority set out on pages 1 to 43, which comprise of the statement of financial position as at 30 June, 2025, and the statement 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, the financial statements present fairly, in all material respects, the financial position of National Environment Management Authority as at 30 June, 2025, 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 Environmental Management and Co-ordination (Amendment) Act, 2015 and the Public Finance Management Act, 2012.

Basis for Opinion

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

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.2,390,325,000 and Kshs.1,576,024,000 respectively, resulting in an under-funding of Kshs.814,301,000 or 34% of the approved budget. Similarly, the Authority spent Kshs.5,732,818,000 against budget of Kshs.2,390,325,000 resulting to over expenditure of Kshs.3,342,493,000 or 58% of the budget. No authority for the over-expenditure was provided for audit

The under-funding may have negatively affected the planned activities and overall financial performance of the Authority.

2. Material Uncertainty Relating to Sustainability of Services

The statement of financial position reflects net assets amount of negative Kshs.3,776,546,000. Similarly, the statement of financial position reflects current liabilities balance of Kshs.5,068,462,000 which exceeds the current assets balance of Kshs.925,759,000 resulting in a negative working capital of Kshs.4,142,703,000 as at 30 June, 2025.

In the circumstances, the Authority is hence technically insolvent and it is dependent on continued support of the creditors and Government to settle payments as and when they fall due.

My opinion is not modified in respect of these matters.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Audit Matters

In the prior year's audit reports issues were raised under the Emphasis of Matter, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance.

Review of the status of the issues during audit of National Environment Management Authority in 2024/2025 revealed that the following matters remained unresolved.

S/No.	Financial Year	Audit Issue
1	2023/2024	Failure to Disclose all Contingent Liabilities
2	2023/2024	Violation of one-Third Rule on Basic Salary
3	2023/2024	Expenditure Beyond the Recommended Threshold
4	2023/2024	Failure to Fund Restoration Account
5	2023/2024	Anomalies in Construction of Fish Cooling Plant
6	2023/2024	Slow Implementation of Integrated Environment Information Management System and Enterprise Resource Planning System
7	2023/2024	Non-revaluation of Fully Depreciated Motor Vehicles
8	2023/2024	Non-utilization of Air Quality Motoring Equipment
9	2023/2024	Under-Staffing
10	2023/2024	Weak Controls on Revenue Collection
11	2023/2024	Irregular Board's Engagement in Management Functions

Other Information

The Management is responsible for the Other Information set out on page iv to xlv which comprise of Key Entity Information and Management, The Board of Directors, Key Management Team, Chairman's Statement, Report of the director general, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and the Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Authority's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is

materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Lack of Funding to National Environment Restoration Fund

Note 18 to the financial statements reflects cash and cash balances of Kshs.602,542,000. Included in the amount is Kshs.13,988,000 for National Environment Restoration Fund. However, review of the bank statement for the restoration account revealed that the Authority did not fund the restoration fund as envisioned by the Section 25(2) (a) and (b) of the Environmental Management and Co-ordination (Amendment) Act, 2015 on contribution towards the Restoration Fund.

In the circumstances, Management was in breach of the law.

2. Failure to Remit Public Procurement Regulatory Authority Levy

As required by the Circular No.01/2024 (Ref PPRA/6/5/VOL.II (224) dated 30 August, 2024, public entities are expected to collect Public Procurement Regulatory Authority levy at the rate of 0.03% of the contract sum from suppliers on all procurement contracts and remit to the Authority through the e-Citizen platform. However, during the year under review, the Authority did not deduct the levy as required contrary to the circular.

In the circumstances, the Authority was in breach of the law.

3. Failure to Operationalize Environmental Management and Co-ordination (Deposit Bonds) Regulations, 2014

Review of the Authority's compliance with the Environmental Management and Co-ordination Act, 1999 revealed that the Authority has not complied with the requirement of setting up Deposits Bonds Regulation, 2014. The Regulation would help the Authority to mitigate adverse effects caused to the environment by the depositor. In the absence of the Regulation, the Authority is exposed to committing and use of own resources to clean up pollution to the environment caused by third parties without holding them liable.

In the circumstances, Management was in breach of the law.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

Responsibilities of Management and Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

16 December, 2025