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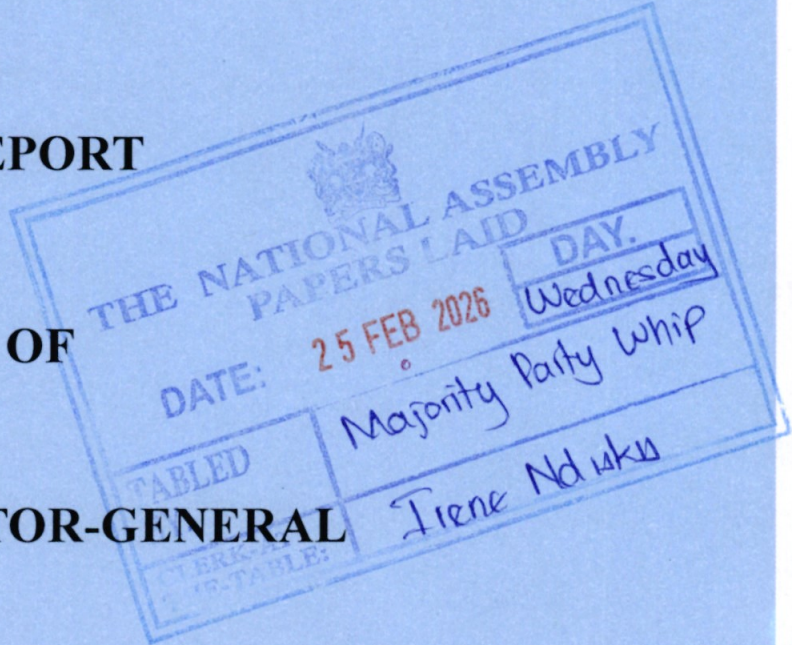
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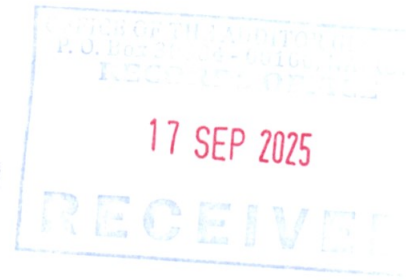
ON

**STRENGTHENING DROUGHT RESILIENCE
FOR SMALL HOLDER FARMERS AND
PASTORALISTS IN THE IGAD REGION
PROJECT NO. 03/DRESS-EA/07/OSS-KE/20**

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

**STATE DEPARTMENT FOR ENVIRONMENT
AND CLIMATE CHANGE**





**PROJECT NAME: STRENGTHENING DROUGHT RESILIENCE FOR SMALL
HOLDER FARMERS AND PASTORALISTS IN THE IGAD REGION**

**IMPLEMENTING ENTITY: STATE DEPARTMENT OF ENVIRONMENT AND
CLIMATE CHANGE**

PROJECT GRANT/CREDIT NUMBER: 03/DRESS-EA/07/OSS-KE/20

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2025

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



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Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region
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1. Acronyms and Definition of Terms

| | |
|----------------|---|
| CBK | Central Bank of Kenya |
| ICPAK | Institute of Certified Public Accountants of Kenya |
| IMF | International Monetary Fund |
| IPSAS | International Public Sector Accounting Standards |
| NT | National Treasury |
| PFM | Public Finance Management. |
| PSASB | Public Sector Accounting Standards Board |
| WB | World Bank |
| DRESSEA | Strengthening Drought Resilience for small holder farmers and Pastoralist |
| COMPARATIVE FY | Financial year preceding the current financial year. |
| PS | Principal Secretary |
| OSS | Sahara Sahel Observatory |
| NPMU | National Project Management Unit. |
| MOU | Memorandum of Understanding |
| NO | No Objection |
| KMD | Kenya Meteorological Department. |
| EWS | Early Warning System |
| MAM | March, April and May rainfall season |

2. Project Information and Overall Performance

2.1 Name and registered office

Name

The project's official name is: **Strengthening Drought Resilience for Small holder Farmers and Pastoralists in IGAD Region.**

Objective

The key objective of the project is to increase the **resilience** of smallholder **farmers** and **pastoralists** to **climate change** risks, mainly those related to drought, through the establishment of appropriate **early warning systems** and implementation of **drought adaptation actions** in the IGAD region

Address

Project unit
Ministry of Environment and Forestry
NHIF Building, Upper Hill,
P.O. Box 30126 - 00100
Nairobi.

Contacts:

The following are the project contacts:

Telephone: 254-20-2730808/9, Ext. 1258,

E-mail: psoffice@environment.go.ke

Website: www.environment.go.ke

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Project information and overall performance (continued)

2.2 Project Information

| | |
|------------------------------|--|
| Project Start Date: | The project start date is October 2020. |
| Project End Date: | The project end date is September 2024 but a No cost extension granted from 9 th October, 2024 to 9 th April, 2026 |
| Project Coordinator: | Mr. Samuel Muchiri. |
| Project Development Partner: | Sahara Sahel Observatory (OSS). |

2.3 Project Overview

| | |
|--|--|
| Line Ministry and State/ County Department | The project is under supervision of State department Of Environment and Climate Change |
| Project number | 03/DRESS-EA/07/OSS-KE/20 |
| Strategic goals of the project | <p>The strategic goals of the project are as follows:</p> <p>Component 1: Development and enhancement of a regional drought early warning system</p> <p>Increased use of effective Early Warning Systems by stakeholders through Efficient and effective drought early warning (DEWS) in place/developed, Institutional linkages for Early Warning (EW) information established, Feedback mechanism for EW information developed and Emergency plan for drought management is put in place.</p> <p>Activities and projects being developed by project includes assess the status of early warning system (EWS) in the country and the update options of traditional EWS with modern EW technologies. Develop an EWS prototype to be used at the regional and national levels. Develop/Review EW information sharing frameworks at regional. National and sub-national levels. Develop an implementation action plan to operationalize the frameworks among others</p> |

Component 2: Strengthening the capacity of stakeholders to manage drought risks due to climate change effects;

This is through strengthening and improving the adaptive capacity of various stakeholders including women and youth that are affected by climate change induced drought and contribute to drought adaptation and resilience in various ways. Such stakeholders include extension agents, artisans, local government or sub-national and national as well as regional leaders including technical and non-technical plus the smallholder farmers and pastoralists in the four selected countries/areas.

This project seeks to, first of all, understand the stakeholders' needs in drought adaptation and contribute to developing their capacity to plan and manage droughts if their resilience is to be enhanced. Based on such needs, capacity building plans including developing the appropriate tools and materials will be supported

Component 3: Drought and climate change adaptation actions;

This is through increasing resilience of smallholder farmers and pastoralists by supporting them to undertake concrete innovative and appropriate sustainable land, water, crops and livestock management measures or technologies.

This is by seeking to understand the current status of water security by focusing on surface and groundwater resources, soil and water conservation, crop and livestock production and sources of incomes.

This will be achieved through: developing soil and water conservation, water harvesting and storage structures e.g. simplified water jars, rock water harvesting, construction of sunken sand dams and water ponds. Mini-irrigation systems to support crops during water stress will be constructed. Underground water sources e.g. construction of boreholes and water wells will be constructed. Drought resistant pastures and crops will be promoted to enhance the resilience of pastoralists and farmers.

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| | |
|---|--|
| | <p>The competitive small grants scheme will focus on encouraging and rewarding the efforts of the most vulnerable among smallholder farmers and pastoralists such as the women, youth and elderly. Such efforts sought for evaluation will be on drought adaptation actions or IGAs. The innovativeness of the competitive grant scheme will include interventions on alternatives energy sources (solar, improved energy stoves, etc.), energy saving innovations, interlocking blocks and charcoal briquettes manufactured from household waste such as briquettes from crop residues will be promoted</p> <p>Component 4: Knowledge management and awareness creation;</p> <p>There is limited awareness on drought risks and adaptation actions amongst stakeholders leading to poor planning and responses to drought risks and disasters with low crop and livestock yields hence food insecurity and low incomes. This component seeks to support knowledge generation, packaging, and dissemination between and across stakeholders in various institutions within the targeted countries in the region.</p> <p>This will facilitate institutions to generate knowledge on drought risk management, undertaking study tours and exchange visits, documenting lessons learned or best practices and generally facilitating knowledge exchange. The information, lessons learned, best practices and innovative technologies will be documented and shared for the use by various stakeholders.</p> |
| <p>Summary of Project Strategies for achievement of strategic goals</p> | <p>The project management aims to achieve the goals through the following means:</p> <p>Component 1: Promoting investment in Early Warning Systems (EWS) and improve the existing ones (Budget USD 438,500)</p> <ul style="list-style-type: none"> (i) By enabling establishment of institutional linkages to generate, share and disseminate as well as develop feedback mechanism to early warning information (ii) Identifying investment in EWS |

| | |
|--|--|
| | <ul style="list-style-type: none"> (iii) Reviewing existing drought management plan (iv) Awareness creation and capacity building <p>Component 2: Strengthening capacities of key stakeholders at regional, national and local levels (Budget USD 293,500)</p> <ul style="list-style-type: none"> i. Undertaking capacity building programs in drought risk management – capacity gaps and priorities will be identified and supported ii. Identifying key capacity building tools at national and regional levels iii. Ensuring inclusivity in capacity development on the application of drought risk management and local community trainings <p>Component 3: Supporting innovative drought adaptation actions (Budget USD 1,577,480)</p> <ul style="list-style-type: none"> i. Supporting concrete and innovative drought adaptation actions that would be taken up by stakeholders i.e. rain water harvesting structures and water storage systems. Innovation are such as in groundwater management structures e.g. construction of boreholes & wells ii. Scale-up strategy will be developed to enhance replication of the best innovations <p>Component 4: Knowledge management and information sharing (Budget USD 87,000)</p> <ul style="list-style-type: none"> i. Awareness raising ii. Communication and capacity building iii. Knowledge generation and dissemination iv. Documentation, compiling and packaging good practices v. Communication and awareness raising action plan to serve as a decision-support tool. |
| <p>Other important background information of the project</p> | <p>The project is implemented by Sahara and Sahel Observatory (OSS), as a regional accredited entity for the Adaptation Fund, in charge of receiving and channeling the fund. OSS is also responsible for financial management, monitoring project performance and reporting according to the fund guidelines. The Global Water Partner East Africa (GWPEA) hosted by the Nile Basin Initiative (NBI) is the project Regional Execution Entity whose role is to manage the project and coordinate execution with the four project national executing entities. In Kenya the project is</p> |

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| | |
|--|---|
| | executed by Ministry of Environment, Climate Change and Forestry. |
| Areas that the project was formed to intervene | Kenya like many other developing countries are highly vulnerable to climate change, the country in its main climate change planning document that is National Climate Change Action Plan 2018-2022 indicated that the country needs 1.8 Trillion to implement the 5year document. Subsequently the National Determined Contribution updated by Kenya in December 2020 requires a total of USD 62B up to 2025 to implement. Raising this amount internally is quite a challenge and hence the development of projects and programs to resource mobilize to help the country implement these planning documents so as to attain the desired low carbon climate resilient development. The project is being implemented in Samburu and Kitui counties |
| Project duration | The project started on October 2020 and was expected to run initially run to September 2024 but has received a No cost extension to run upto April 2026 |

Project Information and Overall Performance (Continued)

2.4 Bankers

The following are the bankers for the project:

Central Bank of Kenya- 1000737662 - Project Operating Account

2.5 Independent Auditor

The project is audited by the office of the auditor General

2.6 Roles and Responsibilities

| Names | Title designation | Key qualification | Responsibilities |
|--------------------------------|------------------------------|--|-------------------------|
| Dr. Eng. Festus K. Nge'no MIEK | Principal secretary | PhD Environment and Biosystems Engineering | Accounting Officer |
| Samuel Muchiri | National Project Coordinator | MSc Environmental Management | Project Coordinator |
| Leah Kanunka | Project Assistant | Bachelor of Economics and Mathematics | Project assistant |
| Anne Nderitu | Project Accountant | Master's in Business Administration | Project Accountant |

2.7 Funding summary

The Project was for duration of 4 years from October 2020 to September 2024, however the project was granted a No cost extension from 9TH October 2024 to 9TH April 2026 with an approved budget of US\$ 2,491,480 equivalent to Kshs 286,520,200 using a dollar rate of 115 as highlighted in the table below:

Project information and overall performance (continued)

Below is the funding summary:

A. Source of Funds

| Source of funds | Donor Commitment | | Amount received to date (30 th June, 2025) | | Undrawn balance to date | |
|--------------------------------|------------------------------------|-------------|--|------------|------------------------------------|-------------|
| | Development Partner currency | Kshs | Development Partner currency | Kshs | Development Partner currency | Kshs |
| | (A) | (A') | (B) | (B') | (A)-(B) | (A') - (B') |
| (i) Grant | | | | | | |
| Adaptation Fund | 2,491,480 | 286,520,200 | 597,424 | 68,703,761 | 1,894,056 | 217,816,439 |
| | | | | | | |
| | | | | | | |
| (ii) Loan | | | | | | |
| Adaptation Fund | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| | | | | | | |
| (iii) Counterpart funds | | | | | | |
| Government of Kenya | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 2,491,480 | 286,520,200 | 597,424 | 68,703,761 | 1,894,056 | 217,816,439 |

Project information and overall performance (continued)

B. Application of Funds

| Application of funds | Amount received to date (30 th June, 2025) | | Cumulative amount paid to date – (30 th June, 2025) | | Unutilized balance to date (30 th June, 2025) | |
|-----------------------------------|--|-------------|---|-------------|---|-------------|
| | Development Partner currency | <i>Kshs</i> | Development Partner currency | <i>Kshs</i> | Development Partner currency | <i>Kshs</i> |
| | (A) | (A') | (B) | (B') | (A)-(B) | (A')-(B') |
| (i) Grant | | | | | | |
| Adaptation Fund | 597,424 | 68,703,761 | 482,134 | 55,445,425 | 115,290 | 13,258,336 |
| | | | | | | |
| (i) Loan | | | | | | |
| Adaptation Fund | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| (ii) Counterpart funds | | | | | | |
| Government of Kenya | 0 | 0 | | | | |
| Total | 597,424 | 68,703,761 | 482,134 | 55,445,425 | 115,290 | 13,258,336 |

Project information and overall performance (continued)

2.8 Summary of Overall Project Performance:

(i) Budget performance against actual amounts for current year and for cumulative to-date,

| Budgeted Amounts for current year | Actual amounts for current year | Cumulative to date |
|-----------------------------------|---------------------------------|--------------------|
| 82,000,000 | 25,217,120.70 | 55,445,424.70 |

(ii) Summary of physical progress based on outcomes, outputs and impacts since project commencement

- Hiring of project assistant that is already done
- Development of the EW sharing framework that is done
- Status of Early warning at the two counties that is done in February 2023
- Development of the EW sharing framework that is done in October 2023
- Procurement of Two automatic weather stations that is procured and installation completed on January 2024
- Assessment on surface water utilization/potential/availability and develop water management Plans in progress through consultancies - October 2024
- Assessment on ground water utilization/potential/availability and develop groundwater management Plans completed
- Development of drought Management plans had been completed consultancies- October 2024 pending final payment
- Development of emergency response plan for Drought disasters at the regional and national levels done progress through consultancies had been completed -October 2024
- Procurement of project vehicle has been done and vehicle delivered
- Support of Kitui government in development of climate change bill done in June 2024
- The project has initiated the support of Samburu County in development of the Rangeland Management Plans in Kalama conservancy and the plan is pending validation

- The project had been supporting county Directors Metrological department in downscaling of weather forecast. The project had also supported MAM participatory planning scenario in the two counties
- Support formation/facilitate existing groups/cooperatives at community level. Ongoing
- Support review/development of MOUs, protocols and stock route agreements for drought management. Ongoing
- Promotion of fast growing and drought resistant crop varieties for Kitui and Samburu counties the first phase had been done for MAM
- Drought risk assessments on the agriculture value chain consultancies is ongoing
- Construction/renovation and equipping EW information centers is completed, furniture, ICT equipment had been procured for KMD stations in Kitui and in Samburu county in this regard.

(iii) Implementation challenges and recommended next steps.

Challenges

- COVID 19- It delayed the implementation by 2 years
- Delay in opening of project account in 2021
- Delay on response for No Objection from Sahara Sahel Observatory {OSS}. For each activity to be implemented it is a requirement for National Project Management Unit (NPMU) to develop a concept note and No Objection to be approved by OSS despite approved work and procurement plans, this has been a major challenge noting OSS delays in approving.
- Small tranche of disbursement of funds (USD 300,000) from OSS with a requirement to utilize 70% of funds before requesting another. (Noting consultancies are required to finalize work to be paid, this has been major challenge where money is committed but not paid)
- Lengthy procurement processes especially for the consultancies
- Too much paper work and back and forth on No Objections with no standard format to guide
- Lack of capacity to develop the concept notes as we have just one dedicated staff for the project.
- Harmonization between project reporting cycle and government cycle.

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Recommended next steps.

To fast track the implementation of the activity's NPMU intends to;

- Convene regular planning meeting with the project focal points of the two counties to map, plan and prioritize activities.
- Plan to combine activities that can be implemented concurrently
- Capacity Build the focal points so that they can assist in concept note development
- Regularly have planning meeting with the focal points and other stakeholders to agree on activities
- Liaise with OSS and other countries to get information on concepts notes and TORs to lessen time for their development and approval
- Develop and request as many No as possible to ensure seamless flow of activities
- Commit the funds with activities even when the liquidity is not available as activity approval are pegged to financial year budget and not on liquidity.

2.9 Summary of Project Compliance:

There were no cases of non-compliance with the applicable laws and regulations during the financial year.

3. Statement of Performance against Project's Predetermined Objectives

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The key development objectives of the *project's 2021-2026* are to:

1. Developing and promoting regional investments in drought early warning systems (EWS) and improving the existing ones
2. Strengthening and improving the capacity of key stakeholders in drought risk management at regional, national and local levels
3. Facilitating smallholder farmers and pastoralists inputs to undertake innovative adaptation actions that reinforce their resilience to drought
4. Enhancing knowledge management and information sharing on drought resilience at the considered levels.

Progress on attainment of Strategic development objectives

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bund (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement.

Below we provide the progress on attaining the stated objectives:

| Project | Objective | Outcome | Indicator | Performance |
|---|--|---|--|---|
| Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region | The overall objective of the project is to increase the resilience of smallholder farmers and pastoralists to climate change risks mainly those related to | Improve the gross income through promoting the growth of drought-resistant crops and drought tolerant | Number of communities supported by the project Number of approved projects and fund disbursed to communities. | <ul style="list-style-type: none">• The project Donors had given a NO for the recruitment of the project Assistant. Through a competitive process, Ministry of Environment Climate Change and Forestry had hired project assistant to help in day to day running of project activities• Ministry of Environment Climate Change and Forestry through National Project |

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| | | | | |
|--|---|---|--|--|
| | <p>drought, through the establishment of appropriate early warning systems and implementation of drought adaptation actions in the IGAD region.</p> | <p>breeds of livestock, soil and water conservation measures and climate-smart agriculture.</p> <ul style="list-style-type: none"> ▪ Develop specific activities on value chain associated to adaptation needs. ▪ Reduce expenditure through bringing together the economic sectors and stakeholders. ▪ Develop new careers. | <p>Documents developed and reports from the project.</p> | <p>Management Unit (NPMU), had carried out assessment on the Status of Early warning in both Kitui and Samburu counties with the ultimate goal of forming a basis for establishing relevant Early Warning threats and appropriate means of dissemination to stakeholders on time.</p> <ul style="list-style-type: none"> • NPMU through the Ministry of Environment climate Change and Forestry had procured two automatic weather stations for both Kitui and Samburu Counties, Installation of the automatic weather station had been done, one in Wamba Catholic Diocese Samburu county and one in Wakithuki Primary School Kitui County • NPMU in conjunction with key stakeholders from Samburu and Kitui counties had successfully developed the EW sharing framework, this is to ensure efficient, timely sharing of EW information within the two counties for farmers and Pastoralists • Ministry of Environment climate Change and Forestry had procured consultancies on assessment on surface and ground water utilization/potential/availability and for development of water Management Plans in process in both Kitui and Samburu counties. The assessments are meant to set a basis in execution of other project |
|--|---|---|--|--|

| | | | | |
|--|--|--|--|---|
| | | | | <p>activities related to drought adaptation interventions</p> <ul style="list-style-type: none">• Ministry of Environment climate Change and Forestry had procured consultancies for development of drought Management plans and emergency response plans for Drought disasters at the regional and national levels. The assessments are meant to set a basis for capacity building of the relevant stakeholders on drought management interventions• The project through the Ministry of Environment climate Change and Forestry had procured a project vehicle this is meant for efficient operations of project activities• NPMU had developed a work plan and procurement plan for the third financial year and it had been approved by OSS• As the project's mandate, NPMU had organized the Second National Project Steering Committee (NPSC) meeting which was successfully conducted on 27th October 2023• The Project had successfully supported Kitui county government for public participation process for Kitui county government zero climate change Bill |
|--|--|--|--|---|

4. Environmental and Sustainability reporting

Strengthening Drought Resilience for Small Holder Farmers and Pastoralists. Project exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on the adaptation pillars: putting the customer/Citizen first, delivering relevant goods and services, and improving operational excellence. Below is a brief highlight of our achievements in each pillar

1. Sustainability strategy and profile -

The implementation of Strengthening Drought Resilience for Small Holder Farmers and Pastoralists contributes to building the community resilience and adaptive capacity bearing in mind the impact of climate change in Kenya ASAL regions.

The project will be implemented in close collaboration with the county governments of Kitui and Samburu, the project will be implementing in the respective county's county integrated development plan (CIDP's). The project will also be based at the respective county climate change units that are created by the Climate Change Act 2016 under the County Ministry's responsible for Climate Change. This will ensure that the project activities will be continue beyond the lifespan of the project.

2. Environmental performance

A better understanding of the interaction between climate, environment and human factors which impact the sustainable use of natural resources. The outcome will contribute in lowering the excess demand for natural resources through fair and equitable sharing of natural resources. Among other benefits to environment are efficient use of water, reduce the pressure on the ecosystems and preserve biodiversity, improved land management/conservation infrastructure, leading to reduced soil loss and increased quantity of agricultural produce, improving water resources for human and livestock populations and improve the efficiency of projects. These actions will enhance ability of the communities to better cope with impacts of droughts which are increasing becoming more frequent and intense in the ASAL areas of Kenya. This will eventually build resilience of the local communities to better cope with impacts of climate change.

3. Employee welfare

The project staff management will be based on the public services human resource manual and other respective laws and procedures.

4. Market place practices

a) Responsible Supply chain and supplier relations-

The project in the procurement of goods and services will be done in compliance with Public Procurement and Asset Disposal Act 2015. This ensures that proper guidelines and processes are followed to enable smooth operations of the project, competitiveness and value for money is achieved and timely payment of suppliers.

b) Responsible ethical practices

Vulnerable groups of Youth, Women and Disables will be incorporated in the quotations and tendering processes of the project and the project will maintain ethical and anti-corruption practices and responsible political involvement.

c) Regulatory impact assessment

Safeguard citizen and stakeholder's rights.

5. Community Engagements

This project targets to work directly with the pastoralists and smallholder communities in Samburu and Kitui counties. The project design is such that it uses participatory community development approaches that ensures that the target communities are at the core of decision making as it regards to project activities implementation. The project has already engaged the communities through the respective county government where the project sites have been selected. It also conducted a public consultation across the communities and county governments.

5. Statement of Project Management Responsibilities

The ***Principal Secretary*** for the State Department of Environment and Climate Change and the ***Project Coordinator*** for Strengthening Drought Resilience for smallholder farmers and pastoralists in the IGAD Region ***project*** are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2025.

This responsibility includes (i) Maintaining adequate financial management arrangement 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 project, (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv) safeguarding the assets of the project, (v) Selecting and applying appropriate accounting policies and (v) Making accounting estimates that are reasonable in the circumstances.

The ***Principal Secretary*** for the State Department of Environment and Climate Change and the ***Project Coordinator*** for Strengthening Drought Resilience for smallholder farmers and pastoralists in the IGAD Region ***project*** accept responsibility for the Project's financial statements, which have been prepared on the Accrual Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

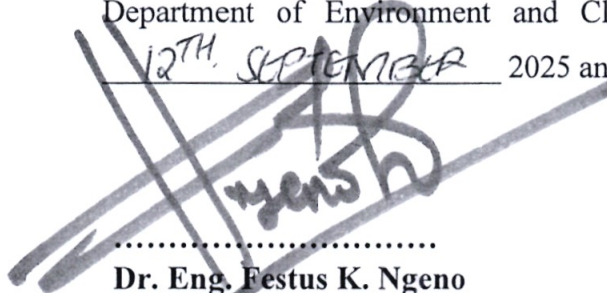
The ***Principal Secretary*** for the State Department of Environment and Climate Change and the ***Project Coordinator*** for Strengthening Drought Resilience for smallholder farmers and pastoralists in the IGAD Region ***project*** are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30, 2025, and of the Project's financial position as at that date. The ***Principal Secretary*** for State Department of Environment and Forestry and the ***Project Coordinator*** for Strengthening Drought Resilience for smallholder farmers and pastoralists in the IGAD Region ***project*** further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The ***Principal Secretary*** for the State Department of Environment and Climate Change and the ***Project Coordinator*** for Strengthening Drought Resilience for smallholder farmers and pastoralists in the IGAD Region ***project*** confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project Financial Statements

The Project financial statements were approved by the *Principal Secretary* for the State Department of Environment and Climate Change and the *Project Coordinator* on

12TH SEPTEMBER 2025 and signed by:



.....
Dr. Eng. Festus K. Ngeno
Principal Secretary



.....
Samuel Muchiri
Project Coordinator

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
Email: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON STRENGTHENING DROUGHT RESILIENCE FOR SMALL HOLDER FARMERS AND PASTORALISTS IN THE IGAD REGION PROJECT NO. 03/DRESS-EA/07/0SS-KE/20 FOR THE YEAR ENDED 30 JUNE, 2025 - STATE DEPARTMENT FOR ENVIRONMENT AND CLIMATE CHANGE

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; and,
- 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.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, 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 are aimed at addressing the statutory roles and responsibilities of the Auditor-General 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 of the Auditor-General on Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region Project No. 03/DRESS-EA/07/0SS-KE/20 for the year ended 30 June, 2025 - State Department for Environment and Climate Change

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying transitional IPSAS financial statements of Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region (Project no. 03/DRESS-EA/07/0SS-KE/20) set out on pages 1 to 28, which comprise of the statement of financial position as at 30 June, 2025, and the statement of financial performance, statement of net changes in 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 transitional IPSAS financial statements present fairly, in all material respects, the financial position of Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region (Project No. 03/DRESS-EA/07/0SS-KE/20) 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) including the transitional permitted under IPSAS 33 and comply with the Bilateral Finance Agreement between the Sahara and Sahel Observatory-OSS and the Government of the Republic of Kenya dated 21 January, 2021 and the Public Finance Management Act, 2012 and The National Treasury and Economic Planning Circular No. 3 of 14 April, 2025.

Basis for Qualified Opinion

1.0 Inaccuracies in Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.13,258,335. However, review of the bank reconciliation statement for the month of June, 2025 includes payments in the cash book not recorded in the bank statement, unrepresented cheques, of Kshs.132,499 which is at variance with the schedule of unrepresented cheques availed of Kshs.243,817. Further, the unrepresented cheques totalling Kshs.243,817 were stale and had not been cancelled or reversed in the cash book at the close of the financial year.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.13,258,335 could not be confirmed.

2.0 Non-Compliance with Public Sector Accounting Standards Board Reporting Requirements and Grant Disbursement Procedures

The financial statements did not include the special deposits accounts movement schedule as prescribed by the Public Sector Accounting Standards Board (PSASB) and as detailed under Article 4.02 (a) of the grant agreement on Project funds disbursement

flows, which states that the Project funds will be disbursed from the Adaptation Fund (the Donor) to the regional implementing entity, the Sahara and Sahel Observatory. The regional implementing entity will then disburse the funds to a special account opened at the Central Bank of Kenya. Further, the special deposit account statement was not provided for audit review.

In the circumstances, Management was in breach of the PSASB guidelines and the grant agreement and the accuracy of the financial statements could not be confirmed.

The audit was conducted in accordance with International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region 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 qualified opinion.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final receipts budget and actual amounts of Kshs.82,000,000 and Kshs.38,113,145 respectively resulting to an under-funding of Kshs.43,886,855 or 53% of the budget. However, the Project spent a total of Kshs.25,217,121 against the actual receipts of Kshs.38,113,145 resulting to under-utilization of Kshs.12,896,024 or 34% of actual receipts.

The under-funding and under-utilization affected the planned project activities and may have impacted negatively on service delivery.

My opinion is not modified in respect of this matter.

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. Except for the effect of the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under Emphasis of Matter and Report on Lawfulness and Effectiveness in Use of Public Resources. Review of the status during audit of the Project in 2024/2025 revealed that the following matters remained unresolved.

| | Financial Year | Audit Issue |
|---|-----------------------|---------------------------------------|
| 1 | 2023/2024 | Budgetary Control and Performance |
| 2 | 2023/2024 | Low Absorption of Donor Funds |
| 3 | 2023/2024 | Failure to Maintain an Asset Register |

Other Information

The Management is responsible for the other information set out on page iii to xxi which comprise of Project Information and Overall Performance, Statement of Performance Against Project’s Predetermined Objectives, Environmental and Sustainability Reporting and Statement of Project Management Responsibilities. The other information does not include the financial statements and my audit report thereon.

In connection with my audit on the Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region Project’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

1.0 Under-Absorption of Donor Grants and Slow Implementation of the Project

The Project started in October 2020 for a period of six years with an end date of 09 April, 2026. However, as at 30 June, 2025, out of the total Donor commitment of Kshs.286,520,200, the Project had only received Kshs.68,703,761. The balance of Kshs.217,816,439 (USD 1,894,056) being 76% is not likely to be utilized during the remaining period of ten months. Further, component 3 which involves technical and civil works have not been done.

In the circumstances, the fulfilment of objectives for which the project was set up and value for money on funds spent so far could not be confirmed.

2.0 Non-Compliance with the Reporting Template

The financial statements presented for audit did not comply with the reporting template in the following areas;

- i) The cover page did not specifically indicate that these are transitional financial statements.
- ii) Note 2 to the financial statements did not indicate that these are transitional financial statements.
- iii) The statement of management responsibilities did not indicate that these are transitional financial statements.

In the circumstances, the financial statements did not comply with the reporting template as prescribed by the Public Sector Accounting Standards Board.

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, 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Financing Agreement between the Government of Kenya and Sahara and Sahel Observatory-OSS, I report, based on my audit, that:

- i. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of those records of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from examination of those records; and
- iii. The Project's financial statements are in agreement with the accounting records and returns.

Responsibilities of the Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for 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 Project'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 Management is aware of the intention to terminate the Project or 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.

Those charged with governance are responsible for overseeing the Project'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

25 November, 2025

7. Statement of Financial Performance for the Year ended 30th June, 2025.

| | Notes | 30 th June 2025 |
|---------------------------------------|-------|----------------------------|
| | | Kshs |
| Revenue | | |
| Revenue Transfers | 6 | 38,113,145 |
| | | |
| Total revenue | | 38,113,145 |
| | | |
| Expenses | | |
| Employee costs | 7 | 720,000 |
| Use of goods and services | 8 | 31,270,062 |
| Depreciation and amortization expense | 9 | 929,500 |
| | | |
| Total expenses | | 32,919,562 |
| Other gains/(losses) | | |
| | | |
| Surplus/ (deficit) | | 5,193,583 |

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.


.....
Dr. Eng. Festus K. Ngeno
Principal Secretary


.....
Samuel Muchiri
Project Coordinator


.....
Anne Nderitu
Project Accountant
ICPAK Member No: 20372

Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region
Annual Report and Financial Statements for the financial year ended June 30, 2025

8. Statement of Financial Position as at 30th June 2025

| | Note | June 30, 2025 | Opening Statement as at 1 st July 2024 |
|----------------------------------|------|-------------------|--|
| | | Kshs | Kshs |
| Assets | | | |
| Current Assets | | | |
| Cash and Cash equivalents | 10 | 13,258,335 | 362,312 |
| Total Current Assets | | 13,258,335 | 362,312 |
| Non-Current Assets | | | |
| Property, Plant and Equipment | 11 | 3,146,500 | 0 |
| Total Non- Current Assets | | 3,146,500 | 0 |
| Total Assets (a) | | 16,404,835 | 362,312 |
| Liabilities | | | |
| Current Liabilities | | | |
| Trade and Other Payables | 12 | 10,848,941 | 0 |
| Total Current Liabilities | | 10,848,941 | 0 |
| Total Liabilities (b) | | 10,848,941 | 0 |
| Net Assets (a-b) | | 5,555,894 | 362,312 |
| Represented By: | | | |
| Accumulated Surplus | | 5,555,894 | 362,312 |
| Total Net Assets | | 5,555,894 | 362,312 |

The financial statements were approved on 12TH SEPTEMBER 2025 and signed by;



Dr. Eng. Festus K. Ngeno
 Principal Secretary



Samuel Muchiri
 Project Coordinator



Anne Nderitu
 Project Accountant
 ICPAK Member No: 20372

Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region

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9. Statement of Changes in Net Assets


| Description | Accumulated Surplus |
|---|---------------------|
| | Kshs |
| As at 30th June 2024 (Cash Basis) | 362,312 |
| Adjustments: | |
| Asset Recognition | 0 |
| Liabilities recognition | 0 |
| As at 1st July 2024 | 362,312 |
| Surplus/(Deficit) for the year | 5,193,583 |
| As at June 30th June 2025 | 5,555,894 |

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements.

The financial statements were approved on 12TH SEPTEMBER 2025 and signed by:


.....
Dr. Eng. Festus K. Ngeno
Principal Secretary


.....
Samuel Muchiri
Project Coordinator


.....
Anne Nderitu
Project Accountant
ICPAK Member No: 20372

Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region
Annual Report and Financial Statements for the financial year ended June 30, 2025

10. Statement of Cashflow for the year ended 30th June 2025

| Description | Note | 30 th June 2025 |
|---|-----------|----------------------------|
| | | Kshs |
| Cashflow from operating activities | | |
| Receipts | | |
| Revenue Transfers | | 38,113,145 |
| Miscellaneous Revenue | | 0 |
| Total receipts | | 38,113,145 |
| Payments | | |
| Employee costs | | 660,000 |
| Use of goods and services | | 22,157,121 |
| Transfer to other Government Entities | | 0 |
| Other Transfers/Subsidies/Grants | | 0 |
| Certified Works | | 0 |
| Total payments | | 22,817,121 |
| Net cash flow from operating activities | 13 | 15,296,024 |
| Cashflow from investing activities | | |
| Acquisition of non-financial assets | | 2,400,000. |
| Proceeds from sale of Assets | | 0 |
| Acquisition of Intangible assets | | 0 |
| Net cash flows from investing activities | | 2,400,000 |
| Cash flow from financing activities | | 0 |
| Net cash flow from financing activities | | 0 |
| Net increase/Decrease in cash and cash equivalents | | 12,896,024 |
| Cash and cash equivalent at 1st July 2024 | 10 | 362,312 |
| Cash and cash equivalent at end of 30th June 2025 | 10 | 13,258,336 |

11. Statement of Comparison of Budget and Actual Amounts for the Year ended 30th June 2025

| Receipts/Payments Item | Original Budget | Adjustments | Final Budget | Actual on Comparable Basis | Budget Utilization Difference | % of Utilization |
|---|------------------------|--------------------|---------------------|-----------------------------------|--------------------------------------|-------------------------|
| | a | b | c=a+b | d | e=c-d | f=d/c % |
| | Kshs | Kshs | Kshs | Kshs | Kshs | |
| Budget Carry Overs from previous periods | | | | | | |
| Receipts | | | | | | |
| Revenue Transfers | 132,000,000 | (50,000,000) | 82,000,000 | 38,113,145 | 43,886,855 | 47% |
| Miscellaneous Revenue | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Revenue | 132,000,000 | (50,000,000) | 82,000,000 | 38,113,145 | 43,886,855 | 47% |
| | | | | | | |
| Payments | | | | | | |
| Employee costs | 720,000 | 0 | 720,000 | 660,000 | 60,000 | 92% |
| Use of goods and services | 128,880,000 | (50,000,000) | 78,880,000 | 22,157,121 | 56,722,879 | 28% |
| Non-financial assets | 2,400,000 | 0 | 2,400,000 | 2,400,000 | 0 | |
| Transfer to other Government Entities | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Transfers/Subsidies/Grants | 0 | 0 | 0 | 0 | 0 | 0 |
| Certified Works | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Payments | 132,000,000 | (50,000,000) | 82,000,000 | 25,217,121 | 56,782,879 | 30% |
| Surplus or Deficit | | | - | 12,896,024 | | |

Budget notes:

1. The underutilization was due to low uptake of project activities due to delays in getting the NO objections'
2. The changes between the original and final budget is due to budget cuts by the National Treasury.

Budget Reconciliation

| | Description of Particulars | Amount in Kshs |
|---|---|-------------------|
| | Actual Surplus Amounts as per the statement of Budget | 12,896,024 |
| 1 | Opening Cash and Cash Equivalent | 362,312 |
| 2 | Reason for differences | 00 |
| 3 | Reason for differences | 00 |
| 4 | Reason for differences | 00 |
| | Closing Cash and Cash Equivalent as per the statement of Cash flows | 13,258,336 |

12. Notes to the Financial Statements

1. General Information

- State department for environment and climate change is established by and derives its authority and accountability from Public Finance Management Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is enhancing environmental, climate change and forestry governance.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared in accordance with the Public Finance Management Act, 2012 and with the International Public Sector Accounting Standards (IPSAS).

Guiding note during the transition period:

The financial statements have been prepared in accordance with the PFM Act, and International Public Sector Accounting Standards (IPSAS), or the entity has taken advantage of the transitional provisions under IPSAS 33 and therefore these 1st/ 2nd/ 3rd/ years financial statements are transitional financial statements and the following elements of the financial statements have not been recognized as the entity has taken advantage of the transition provisions outlined in IPSAS 33. (entity to state the transitional provisions it has applied and the steps being towards full compliance with IPSAS Accrual).

These financial statements were authorized for issue by the accounting officer on 30th June 2025.

3. Adoption of New and Revised Standards

- New and amended standards and interpretations in issue effective in the year ended 30 June 2025.*

| Standard | Effective date and impact: |
|-----------------|---|
| IPSAS 43 | <p><i>Applicable 1st January 2025</i></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Entity.</p> <p>The new standard requires entities to recognize, measure and present information on right of use assets and lease liabilities.</p> |

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| Standard | Effective date and impact: |
|--|--|
| <p>IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations</p> | <p><i>Applicable 1st January 2025</i></p> <p>The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p> |
| <p>IPSAS 45- Property Plant and Equipment</p> | <p><i>Applicable 1st January 2025</i></p> <p>The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognized as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g. valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.</p> |
| <p>IPSAS 46 Measurement</p> | <p><i>Applicable 1st January 2025</i></p> <p>The objective of this standard was to improve measurement guidance across IPSAS by:</p> <ul style="list-style-type: none"> i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used. ii. Clarifying transaction costs guidance to enhance consistency across IPSAS; iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures. <p>The standard also introduces a public sector specific measurement bases called the current operational value.</p> |

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ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2025

| Standard | Effective date and impact: |
|--|--|
| IPSAS 47- Revenue | <i>Applicable 1st January 2026</i> This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non- exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions. |
| IPSAS 48- Transfer Expenses | <i>Applicable 1st January 2026</i> The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers. |
| IPSAS 49- Retirement Benefit Plans | <i>Applicable 1st January 2026</i> The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan. |
| IPSAS 50: Exploration For & Evaluation of Mineral Resources | <i>Applicable 1st January 2027</i> The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires: <ul style="list-style-type: none"> i. Limited improvements to existing accounting practices for exploration and evaluation expenditures. ii. Entities that recognize exploration and evaluation assets to assess such assets for impairment in accordance with this Standard and measure any impairment in accordance with IPSAS 26. iii. Disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized. |

Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region
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iii) Early adoption of standards

The Entity did not early – adopt any new or amended standards in the financial year or *the entity adopted the following standards early (state the standards, reason for early adoption and impact on entity's financial statements.)*

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, the amount is recorded in the statement of financial position and realized in the statement of financial performance over the useful life of the assets that have been acquired using such funds.

ii) Revenue from exchange transactions

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information

The original budget for FY 2024/2025 was approved on 30TH June 2024. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals to conclude the final budget. Accordingly, the entity recorded additional appropriations of nil on the FY 2024/2025 budget following the Council/ Board's approval. The Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on page 5 under section 7 of these financial statements.

c) Property, plant, and equipment

All property, plant, and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the acquisition or construction of the item of property plant and equipment. When significant parts of property, plant, and equipment are

required to be replaced at intervals, the entity 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.

d) Leases

Finance leases are leases that transfer substantially the entire risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit. An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

e) Intangible assets

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. Intangible assets with an indefinite useful life are assessed for impairment at each reporting date.

f) Research and development costs

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity 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.

Notes to the financial statements

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.

g) Financial instruments

IPSAS 41 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Company's financial statements. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, the entity measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial assets

Classification

Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project classifies its financial assets as subsequently measured at amortized cost, fair value through net assets/ equity, or fair value through surplus and deficit on the basis of both the entity's management model for financial assets and the contractual cash flow characteristics of the financial asset. A financial asset is measured at amortized cost when the financial asset is held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. A financial asset is measured at fair value through net assets/ equity if it is held within the management model whose objective is achieved by both collecting contractual cashflows and selling financial assets and the contractual terms of the financial asset give rise on specified to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset shall be measured at fair value through surplus or deficit unless it is measured at amortized cost or fair value through net assets/ equity unless an entity has made an irrevocable election at initial recognition for particular investments in equity instruments.

Subsequent measurement

Based on the business model and the cash flow characteristics, the Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project classifies its financial assets into amortized cost or fair value categories for financial instruments. Movements in fair value are presented in either surplus or deficit or through net assets/ equity subject to certain criteria being met.

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Amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at fair value through surplus or deficit, are measured at amortized cost. A gain or loss on an instrument that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through net assets/ equity

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through net assets/ equity. Movements in the carrying amount are taken through net assets, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in surplus/deficit. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through surplus or deficit

Financial assets that do not meet the criteria for amortized cost or fair value through net assets/ equity are measured at fair value through surplus or deficit. A business model where the entity manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in a fair value through surplus or deficit model.

Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. Trade and other receivables are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year-end.

Impairment

The Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its financial assets carried at amortized cost and fair value through net assets/equity. The entity recognizes a loss allowance for such losses at each reporting date. Critical estimates and significant judgments made by management in determining the expected credit loss (ECL) are set out.

Financial liabilities

Classification

The entity classifies its liabilities as subsequently measured at amortized cost except for financial liabilities measured through surplus or deficit.

Notes to the financial statements

h) Inventories

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 conditions 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 Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project.

i) Provisions

Provisions are recognized when the Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project 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.

Notes to the financial statements

Contingent assets

The Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project 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 Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project 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.

j) Nature and purpose of reserves

The Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project does not create and maintains reserves in terms of specific requirements.

k) Changes in accounting policies and estimates

The Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

l) Employee benefits

Retirement benefit plans

The Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project does not provide retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable. Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

Notes to the financial statements

m) Foreign currency transactions

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

n) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance

o) Related parties

The 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 Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the principal and senior managers.

p) Service concession arrangements

The Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project 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 Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project 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 Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

q) 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 the Central Bank of Kenya and at various commercial banks at the end of the reporting period.

r) Subsequent events

There have been no events subsequent to the reporting period with a significant impact on the financial statements for the period ended, *June 30, 2025*.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region project 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.

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 reporting period, are described below. The Entity 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 Entity. 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:

- The condition of the asset based on the assessment of experts employed by the *Entity*.
- The nature of the asset, its susceptibility, and adaptability to changes in technology and processes.
- The nature of the processes in which the asset is deployed.
- Availability of funding to replace the asset.
- Changes in the market in relation to the asset.

Provisions

Provisions were not raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is not included.

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.

Notes to the financial statements

6. Revenue Transfers

| Description | 30 th June 2025 |
|--|----------------------------|
| | Kshs |
| Unconditional Transfers | |
| GoK Counter Part funding | 0 |
| Transfers from Development partners | 38,113,145 |
| <i>Other unconditional transfers</i> | 0 |
| Total Unconditional Transfers (a) | 38,113,145 |
| | |
| Conditional Transfers | |
| Transfers from Development partners 1 | 0 |
| Transfers from Development partner 2 | 0 |
| <i>Other conditional transfers (specify)</i> | 0 |
| Total Conditional Transfers (b) | 0 |
| Total Transfers for the Period (a +b) | 38,113,145 |

The purpose of funding is development and enhancement of a regional drought early warning system

a) Details to Revenue Transfers

| Name of The Entity Transferring | Amount recognized to Statement of Financial performance | Amount deferred under deferred income. | Amount moved to Capital fund | Total transfers (Current Period) |
|------------------------------------|---|--|------------------------------|----------------------------------|
| | Kshs | Kshs | | Kshs |
| GOK Funding | 0 | 0 | 0 | 0 |
| Objection Sahara Sahel Observatory | 38,113,145 | 0 | 0 | 38,113,145 |
| Development Partner 2 | 0 | 0 | 0 | 0 |
| Subtotal | 38,113,145 | 0 | 0 | 38,113,145 |
| Deferred Income realized | 0 | 0 | 0 | 0 |
| Transfers in Kind | 0 | 0 | 0 | 0 |
| Total | 38,113,145 | 0 | 0 | 38,113,145 |

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Notes to the financial statements

7. Employees Costs

| Description | 30 th June 2025 |
|---|----------------------------|
| | <u>Kshs</u> |
| Basic salaries of permanent employees | 720,000 |
| Basic wages of temporary employees | 0 |
| Personal allowances paid as part of salary | 0 |
| Personal allowances paid as reimbursements | 0 |
| Personal allowances provided in kind | 0 |
| Pension and other social security contributions | 0 |
| Compulsory national social security schemes | 0 |
| Compulsory national health insurance schemes | 0 |
| Others specify* | 0 |
| Total | 720,000 |

8. Use of Goods and Services

| Description | FY 2024/25 |
|--|-------------------|
| | <u>Kshs</u> |
| Utilities, supplies and services | 3,081,000 |
| Bank charges | 0 |
| Communication, supplies and services | 0 |
| Domestic travel and subsistence | 16,298,100 |
| Foreign travel and subsistence | 0 |
| Fuel and lubricants | 200,000 |
| General office supplies | 0 |
| Stationery, Printing, advertising, and information supplies | 0 |
| Office rent | 0 |
| Hospitality supplies and services | 3,932,000 |
| Insurance costs | 0 |
| Consultancy | 7,758,962 |
| Specialized materials and services | 0 |
| Routine maintenance – vehicles and other transport equipment | 0 |
| Routine maintenance- other assets | 0 |
| Total | 31,270,062 |

Notes to the financial statements

9. Depreciation and Amortization expense

| Description | 30 th June 2025 |
|-------------------------------|----------------------------|
| | Kshs |
| Property, Plant and Equipment | 929,500 |
| Intangible Assets | 0 |
| Total | <u>929,500</u> |

10. Cash and Cash Equivalentents

| Description | 30 th June 2025 | 1 st July 2024 |
|---|----------------------------|---------------------------|
| | Kshs | Kshs |
| Cash in Bank | 13,258,335 | 362,312 |
| Cash on hand | 0 | 0 |
| Others (Specify) | 0 | 0 |
| Total Cash and Cash Equivalentents | 13,258,335 | 362,312 |

Project Bank Accounts

| Details | 30 th June 2025 | 1 st July 2024 |
|--|----------------------------|---------------------------|
| | Kshs | Kshs |
| Foreign Currency Accounts | | |
| Central Bank of Kenya [A/c No:] | 0 | 0 |
| Kenya Commercial Bank [A/c No.....] | 0 | 0 |
| Co-operative Bank of Kenya [A/c No.....] | 0 | 0 |
| Others (<i>specify</i>) | 0 | 0 |
| Total Foreign Currency balances | <u>0</u> | <u>0</u> |
| Local Currency Accounts | | |
| Central Bank of Kenya [A/c No: 1000737662] | 13,258,335 | 362,312 |
| Kenya Commercial Bank [A/c No.....] | 0 | 0 |
| Co-operative Bank of Kenya [A/c No.....] | 0 | 0 |
| Others (<i>specify</i>) | 0 | 0 |
| Total local currency balances | <u>0</u> | <u>0</u> |
| Total bank account balances | <u>13,258,335</u> | <u>362,312</u> |

Notes to the financial statements

11. Property, Plant and Equipment

| Cost | Motor vehicles | Furniture and fittings | ICT Equipment | Other Assets (specify) | Capital Work in progress | Total |
|---|----------------|------------------------|------------------|------------------------|--------------------------|------------------|
| | Kshs | Kshs | Kshs | Kshs | Kshs | Kshs |
| Depreciation rate | 12.5 % | 12.5 % | 30 % | 12.5 % | | |
| As At 1 July 2024 (opening balances) | 0 | 0 | 0 | 0 | 0 | 0 |
| Additions | 0 | 1,676,000 | 2,400,000 | 0 | 0 | 4,076,000 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers/Adjustments | 0 | 0 | 0 | 0 | 0 | 0 |
| As at 30th June 2025 | 0 | 1,676,000 | 2,400,000 | 0 | 0 | 4,076,000 |
| | | | | | | |
| Depreciation and Impairment | | | | | | |
| At 1 July 2024 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation charge for the period | 0 | 209,500 | 720,000 | 0 | 0 | 929,500 |
| Impairment loss | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers/ Adjustments | 0 | 0 | 0 | 0 | 0 | 0 |
| As at 30th June 2025 | 0 | 209,500 | 720,000 | 0 | 0 | 929,500 |
| | | | | | | |
| Net Book Values | 0 | 0 | 0 | 0 | 0 | 0 |
| As at 1st July 2024 | 0 | 0 | 0 | 0 | 0 | 0 |
| As at 30th June 2025 | 0 | 1,466,500 | 1,680,000 | 0 | 0 | 3,146,500 |

Notes to the financial statements.

12. Trade and Other Payables

| Description | 30 th June 2025 | | 1 st July 2024 | |
|--|----------------------------|-----------------------|---------------------------|-----------------------|
| | Kshs | | Kshs | |
| Trade payables | 10,788,941 | | 1,820,000 | |
| Employee payables | 60,000 | | 0 | |
| <i>Other payables</i> | 0 | | 0 | |
| Total trade and other payables | 10,848,941 | | 1,820,000 | |
| | | | | |
| Ageing analysis: (Trade and other payables) | Current Period | % of the Total | Comparative Period | % of the Total |
| Under one year | 10,848,941 | 100% | 0 | % |
| 1-2 years | 0 | % | 0 | % |
| 2-3 years | 0 | % | 0 | % |
| Over 3 years | 0 | % | 0 | % |
| Total (tie to above total) | 0 | | 0 | |

13. Cash Generated from Operations

| Description | 30 th June 2025 |
|--|----------------------------|
| | Kshs |
| Surplus/Deficit for the period | 5,193,583 |
| Adjusted for: | |
| Depreciation | 929,500 |
| Non-cash grants received | (0) |
| Impairment | 0 |
| Gains and losses on disposal of assets | 0 |
| Working capital adjustments | |
| Increase in inventory | (0) |
| Increase in receivables | (0) |
| Increase in deferred income | 0 |
| Increase in payables | 9,172,941 |
| Increase in payments received in advance | 0 |
| Net cash flow from operating activities | 15,296,024 |

14. Special Deposit Accounts.

The balances in the Project's Special Deposit Account(s) as at **30th June 2025** are not included in the Statement of Financial Assets since the line items are yet to be drawn into the Exchequer Account as a voted provision.

15. Related Party Disclosures

Nature of related party relationships

Entities and other parties related to the *Entity* include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Government of Kenya

The Government of Kenya is the principal shareholder of the *Entity*, holding 100% of the *Entity*'s equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the *Entity*, both domestic and external.

Other related parties include:

- i) The Parent Ministry.
- ii) County Governments
- iii) Other SCs and SAGAs
- iv) Key management.
- v) Board of Directors.

16. Events after the Reporting Period

There were no material adjusting and non-adjusting events after the reporting period.

17. Ultimate And Holding Entity

The Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region is a project under the State department of Environment and Climate change that is under the Ministry of Environment, Climate change and Forestry. Its ultimate parent is the Government of Kenya.

18. Currency

The financial statements are presented in Kenya Shillings (Kshs) rounded to the nearest Kshs

13. Annexes

Annex 1: Prior Year Auditor-General's Recommendations

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|--|--|-----------------------------------|--|
| 2078 | <p>Budgetary Control and Performance</p> <p>The statement of comparison of budget and actual amounts for the year ended 30 June, 2024 reflects final receipts budget and actual on a comparable basis of Kshs.500,000,000 and Nil respectively resulting in underfunding of Kshs.50,000,000. However, the project spent an amount of Kshs.27,485,604 against Nil actual receipts. The underfunding affected the planned project activities and may have impacted negatively on service delivery</p> | <p>It is true that there was underfunding and underperformance which resulted to delay in implementation of planned activities of the project. The under expenditure was as a result delay on response for No Objection (NO) from the Donor. For Each activity to be implemented it is a requirement that The National Project Management Unit (NPMU) develop a concept note and a No Objection to be approved by the donor. Despite approved work and procurement plans, there have been delays in approval from the donor. This is being addressed by developing and requesting for as many No Objections as possible to ensure seamless flow of activities.</p> | Not resolved | Awaiting to appear before PAC at a later date |
| 2079 | <p>Prior Year Audit Matters</p> <p>In the audit report of the previous year, several issues were raised under</p> | <p>The project appeared before the PAC and the matter was resolved.</p> | Resolved | |

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| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|---|--|-----------------------------------|--|
| | Other Matter and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management had not resolved the issued as at 30 June 2024. | | | |
| 2080 | <p>Low Absorption of Donor Funds</p> <p>Paragraph 2.7 of the financial statements on the funding summary budget reflects an amount of USD 2,491,480 equivalent to Kshs.286,520,200 as approved by the Adaptation Fund. However, the statement of receipts and payments reflects cumulative to-date receipts amount of Kshs.30,590,616 or 11% of the budget with Kshs.255,929,584 (USD 2,241,513) or 89% being undrawn balances reflect a low absorption rate of 11% against a 75% lapsed project period of four (4) Years out of the total project period of six (6) years. Management may</p> | <p>Small tranches of disbursement of funds (USD 300,000) from OSS with a requirement to utilize 70% of funds before requesting another (Noting consultancies are required to finalize work to be paid, this has been major challenge where money is committed but not paid).</p> <p>This is being addressed by committing the funds with activities even when the liquidity is not available as activity approval are pegged to financial year budget and not on liquidity</p> | Not resolved | Awaiting to appear before PAC at a later date |

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|---|---|--------------------------------------|---|
| | not be utilized all the Project funds by the date of closure of April, 2026. In the circumstances, the fulfilment of the objectives for which the Project was set up and value for money on the funds spent so far could not be confirmed. | | | |
| 2081 | <p>Failure to Maintain an Asset Register</p> <p>During the year under review, Management did not maintain an assets register to record and track the Project's assets as required by Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015 which requires an accounting officer to maintain an asset register for assets under his or her control or possession as prescribed by relevant laws. The effectiveness of asset management could not be confirmed.</p> | It is true that the project does not maintain asset register but a committee has been established to value and come up with an asset register for the state department. | Not resolved | Awaiting to appear before PAC at a later date |

*Strengthening Drought Resilience for Small Holder Farmers and Pastoralists in the IGAD Region
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| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--|--|---------------------|-----------------------------------|--|
| | In the circumstances, Management was in breach of the law. | | | |

.....
Dr. Eng. Festus K. Ngeno
Principal Secretary

.....
Samuel Muchiri
Project Coordinator

Annex 2: Reconciliation of inter-entity transfers

There were no inter entity transfers in the financial year under review.

Annex 3: Fixed Asset Register

| Asset class | Historical Cost b/f (Kshs) Previous Year | Additions during the year (Kshs) | Disposals during the year (Kshs) | Transfers in/(out) during the year | Historical Cost c/f (Kshs) Current Year |
|--|---|---|---|---|--|
| Land | 0 | 0 | 0 | 0 | 0 |
| Buildings and structures | 0 | 0 | 0 | 0 | 0 |
| Transport equipment | 0 | 0 | 0 | 0 | 0 |
| Office equipment, furniture and fittings | 0 | 1,676,000 | 0 | 0 | 1,676,000 |
| ICT Equipment | 0 | 2,400,000 | 0 | 0 | 2,400,000 |
| Machinery and Equipment | 0 | 0 | 0 | 0 | 0 |
| Biological assets | 0 | 0 | 0 | 0 | 0 |
| Infrastructure Assets- Roads, Rails | 0 | 0 | 0 | 0 | 0 |
| Heritage and cultural assets | 0 | 0 | 0 | 0 | 0 |
| Intangible assets | 0 | 0 | 0 | 0 | 0 |
| Work in Progress | 0 | 0 | 0 | 0 | 0 |
| Total | 0 | 4,076,000 | 0 | 0 | 4,076,000 |

Annex 4: Other Support Documents

- i. Signed confirmations from beneficiaries in Transfers to Other Government Entities
- ii. Bank Reconciliations statement as at 30th June 2025
- iii. Board of Survey Report
- iv. Special Deposit Account(s) reconciliation statement(s)