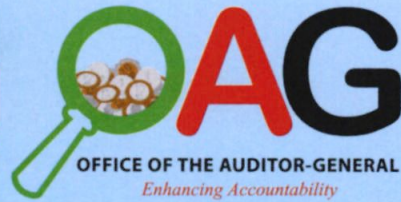
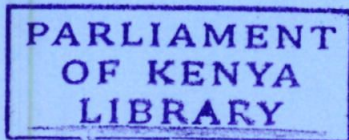


REPUBLIC OF KENYA



REPORT



OF

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THE AUDITOR-GENERAL

ON

**KENYA URBAN SUPPORT PROGRAM II
(KUSP II) URBAN INSTITUTIONAL GRANT
NUMBER E208-KE**

**FOR THE YEAR ENDED
30 JUNE, 2026**

COUNTY GOVERNMENT OF MAKUENI



**PROJECT NAME: KENYA URBAN SUPPORT PROGRAM II (KUSP II) URBAN
INSTITUTIONAL GRANT (UIG)**

IMPLEMENTING ENTITY: COUNTY GOVERNMENT OF MAKUENI

PROJECT GRANT NUMBER: E208-KE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2026

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

6805 1/2 1/2

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

Table Contents	Page
1. Acronyms, Abbreviations, and Definition of Terms	iii
2. Project Information and Overall Performance	iv
3. Statement of Performance against the Project's Predetermined Objectives	x
4. Environmental and Sustainability Reporting.....	xiii
5. Statement of Project Management Responsibilities	xv
6. Report of the Auditor General on Financial Statements for Kenya Urban Support Program II	xvi
7. Statement of Financial Performance for the Year Ended 30th June 2026.....	1
8. Statement of Financial Position as at 30 th June 2026.....	2
9. Statement of Changes in Net Assets	3
10. Statement of Cash flow for the year ended 30 th June 2026.....	4
11. Statement of Comparison of Budget and Actual Amounts for the Year ended 30 th June 2026.....	5
12. Notes to the Financial Statements.....	6
13. Annexes	23

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

List of Tables and Charts

List of Tables

Table 1: Project Information	iv
Table 2: Project overview.....	v
Table 3: Roles and responsibilities.....	vi
Table 4: Project funding summary.....	vi
Table 5: Progress on attainment of predetermined objectives	xii
Table 6: Depreciation rate	10

List of Charts

1. Acronyms, Abbreviations, and Definition of Terms

A. Acronyms and Abbreviations

CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
GIS	Geographic Information System
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
CT	County Treasury
KUSP	Kenya Urban Support Program
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
RTK	Real-time Kinematic
UIG	Urban Institutional Grant
WB	World Bank

2. Project Information and Overall Performance

2.1 Name and registered office

Name

The project's official name is Kenya Urban Support Program II (KUSP II) Urban Institutional Grant

Objective

The key objective of the project is to strengthen the capacities of urban institutions to improve the delivery and resilience of urban infrastructure and services, enhance the private sector engagement in urban planning, and support the transition of refugee camps into integrated host community and refugee settlements.

Address

The project headquarters offices are in Wote town, Makueni County, Kenya. The address of its registered office is P.O Box 78-90300, Makueni

Contacts: The following are the project contacts

P.O. Box: 78 - 90300

Telephone: (254) 724 745 594

E-mail: Lands@makueni.go.ke

Website: www.makueni.go.ke

2.2 Project Information

Table 1: Project Information

Project Start Date:	30 - 05 – 2024
Project End Date:	30 - 06 – 2028
Project Coordinator:	Mr Geoffrey Mutinda
Project Development Partner:	WORLD BANK

2.3 Project Overview

Table 2: Project overview

County Department	Lands, Urban Planning and Development
Project number	E208-KE
Strategic goals of the project	<p>The strategic goals of the project are as follows:</p> <p>To strengthen the capacities of urban institutions to improve the delivery and resilience of urban infrastructure and services, enhance the private sector engagement in urban planning, and support the transition of refugee camps into integrated host community and refugee settlements</p>
Summary of Project Strategies for achievement of strategic goals	<p>The project management aims to achieve the goals through the following means:</p> <ul style="list-style-type: none"> (i) Strengthening municipal institutional capacity, governance, planning and financial management (ii) developing inclusive, climate-resilient urban infrastructure and improving service delivery (iii) promoting integrated urban planning and meaningful community participation; (iv) enhancing private-sector engagement and urban economic development (v) strengthening project monitoring, accountability and compliance.
Other important background information of the project	<p>The project is a Government of Kenya programme supported by the World Bank, designed to build on the achievements and lessons learnt from the first Kenya Urban Support Programme (KUSP). The programme responds to the challenges associated with rapid urbanisation by strengthening urban institutions, improving urban infrastructure and service delivery, promoting integrated urban planning and enhancing climate resilience.</p>
Areas that the project was formed to intervene	<p>The project was formed to intervene in the following problems/gaps:</p> <ul style="list-style-type: none"> (i) Inadequate and deteriorating urban infrastructure and basic services. (ii) Weak institutional and technical capacity of urban institutions. (iii) Inadequate integrated and climate-resilient urban planning. (iv) Limited opportunities for inclusive urban economic development and private-sector participation. (v) Limited citizen participation and social inclusion in urban development.
Project duration	5 Years

Project Information and Overall Performance (Continued)

2.4 Bankers

The bankers for the project is Kenya Commercial Bank

2.5 Independent Auditor

The project is audited by the Auditor-General, P.O. Box 30084-00100, Nairobi, Kenya

2.6 Roles and Responsibilities

Table 3: Roles and responsibilities

No	Names	Title designation	Key qualification	Responsibilities
1.	Paul Musila	CECM lands, Urban Planning and Development, Environment and Climate Change	Bachelor's degree in Medicine and Surgery (MBChB) Master's Degree in Pediatrics and Child Health. Certificate in strategic leadership and development	Work plan approval
2.	Jackson Daudi	Chief Officer - Lands, Urban Planning and Development	Physical planner	Accounting officer
3.	Geoffrey Mutinda	County Coordinator	BA Urban and Regional Planning	Project coordination
4.	Everlyn Mutua	Municipal Manager	MBA	Accounting Officer - Wote municipality
5.	Philip Ngila	Municipal manager	MBA	Accounting officer - Emali/ Sultan Hamud Municipality
6.	Pascalina Mulwa	Accountant	Bachelor of Economics CPA(K)	Accountant

2.7 Funding summary

The Project is for a duration of 5 years from 2023 to 2028 with an approved budget of US\$ 550,000 equivalent to Kshs 71,500,000 as highlighted in the table below:

Table 4: Project funding summary

PERIOD	AMOUNT USD	AMOUNT KES
Year 1	250,000	32,500,000
Year 2	200,000	26,000,000
Year 3	100,000	13,000,000

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

Project information and overall performance (continued)

Below is the funding summary:

A. Source of Funds

Source of funds	Development Partner Commitment		Amount received to date – (30 th June 2026)		Undrawn balance to date	
	USD	Kshs	USD	Kshs	USD	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A') - (B')
(i) Grant						
World Bank	450,000	58,500,000	250,000	32,309,300	200,000	26,000,000
Name of development partner						
(ii) Loan						
Name of development partner						
Name of development partner						
(iii) Counterpart funds						
Government of Kenya						
Total	450,000	58,500,000	250,000	32,309,300	200,000	26,000,000

B. Application of Funds

Application of funds	Amount received to date – (30 th June 2026)		Cumulative amount paid to date – (30 th June 2026)		Unutilised balance to date (30 th June 2026)	
	USD	Kshs	USD	Kshs	USD	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
Grant						
World Bank	250,000	32,309,300	248,490.04	32,303,705.70	43.03	5,594.30
Name of development partner						
Loan						
Name of development partner						
Name of development partner						
Counterpart funds						
Government of Kenya						
Total	250,000	32,309,300	248,490.04	32,303,705.70	43.03	5,594.30

Project information and overall performance (continued)

2.8 Summary of Overall Project Performance:

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

The Urban Institutional Grant (UIG) allocations in FY 2025/26 of Ksh. 32,309,300 were directed toward urban planning, development control, monitoring and evaluation, urban financing, resilience, asset management, private sector engagement, environmental and social safeguards, and capacity building. Actual expenditure closely aligned with the approved budget. Cumulatively, absorption of the budget was 99.98% at 30th June 2026, demonstrating strong fiscal discipline and effective utilization of funds.

(ii) Physical progress based on outputs and outcomes since project commencement

Significant physical progress has been achieved across multiple sectors. Urban planning outputs include the preparation of the Ngai Ndethya management plan and acquisition of two RTK surveying machines. Urban financing was strengthened through the enhancement of the land-based revenue database and sensitization on the Makueni Ardhi system. Climate change risk assessments were completed in Wote and Emali/Sultan Hamud municipalities, while asset management was reinforced through the establishment of a records office and GIS boardroom. Private sector engagement was advanced through plot owner consultations in Nunguni, and environmental and social safeguards were promoted through public sensitization on grievance redress mechanisms, GBV/SEA/SH risk management, and climate change adaptability. Capacity building and peer learning activities were conducted for municipal boards, staff, and the county executive committee, complemented by the purchase of office equipment and furniture to improve service delivery.

(iii) Absorption rate for each year since the commencement of the project.

Disbursement received in FY 2025/26 was the first allocation for the project and its absorption rate was 99.98%.

(iv) Implementation challenges and recommendations

Challenges encountered include:

- Limited financial resources to scale environmental and biodiversity management initiatives.
- Delays in stakeholder buy-in for land-based revenue reforms.
- Complexities in addressing climate change risks across municipalities.

Recommended next steps include:

- Strengthening stakeholder engagement to improve compliance with land-based revenue systems.
- Mobilizing additional resources and partnerships to expand environmental and resilience initiatives.
- Enhancing multi-sectoral collaboration to address climate change risks.

2.9 Summary of Project Compliance

i) Cases of Non-Compliance - The project has largely adhered to applicable laws and regulations, including the Public Finance Management Act, 2012, and Treasury circulars on project investment management.

3. Statement of Performance against the Project's Predetermined Objectives

Introduction

Section 81(2)(f) and Section 164(2)(f) of the Public Finance Management Act, 2012, require that the Accounting Officer include a statement of the government entity's performance against predetermined objectives at the end of each financial year.

The key development objectives of the project's agreement/plan are to:

- a) Strengthen urban planning and development control.
- b) Enhance monitoring and evaluation of urban programs.
- c) Improve urban financing and revenue generation systems.
- d) Build resilience against climate change risks in municipalities.
- e) Strengthen asset management and institutional capacity.
- f) Promote private sector engagement in urban development.
- g) Enhance environmental and social safeguards in urban areas.
- h) Build capacity of municipal boards, staff, and county executive committee.
- i) Provide adequate office infrastructure and equipment for municipalities.

Progress on the attainment of strategic development objectives

To implement and cascade the above development objectives, the county converted them into specific, measurable, achievable, realistic, and time-bound (SMART) outcomes with attendant indicators to track progress.

During the reporting period, Makueni County made notable strides in implementing the Kenya Urban Support Program II under the Urban Institutional Grant. In the area of urban planning and development control, the county successfully carried out planning activities and strengthened regulatory mechanisms. This was supported by the acquisition of two Real-Time Kinetic (RTK) surveying machines, which have greatly improved the accuracy of land surveys, and the preparation of the Ngai Ndethya management plan, which provides a structured framework for monitoring and evaluation.

Urban financing also recorded progress, with the enhancement of the land-based revenue database and sensitization of the public on the Makueni Ardhi system. These initiatives are expected to improve compliance and expand the county's revenue base. In terms of resilience, climate change risk assessments and profiling were conducted in Wote and Emali/Sultan Hamud municipalities, laying the groundwork for adaptive strategies to safeguard communities against climate-related vulnerabilities.

Asset management was strengthened through the establishment of a records office and a GIS boardroom, ensuring better data handling and institutional efficiency. Private sector engagement was advanced by holding consultations with plot owners in Nunguni, which facilitated the issuance of letters of allotment and formalized land tenure arrangements.

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

Environmental and social management activities were also prioritized. Stakeholder engagements were held to promote grievance redress mechanisms, while public sensitization campaigns addressed GBV/SEA/SH risk management in infrastructure investments. Additionally, awareness-building initiatives on gender issues and climate change adaptability were rolled out in Emali-Sultan Hamud municipality.

Capacity building remained a cornerstone of the program, with training and peer learning sessions conducted for municipal boards, staff, and the county executive committee. These efforts have strengthened institutional knowledge and governance capacity. Finally, the purchase of office equipment and furniture for municipal offices improved the working environment and enhanced service delivery.

Overall, these achievements demonstrate significant progress toward the program's objectives, even as challenges such as resource constraints and stakeholder buy-in continue to shape the pace of implementation. The county remains committed to leveraging opportunities created by improved technology, strengthened institutions, and enhanced collaboration to sustain momentum in urban development.

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

Below, we provide the progress on attaining the stated objectives:

Table 5: Progress on attainment of predetermined objectives

Project	Objective	Outcome	Indicator	Performance
Kenya Urban Support Program - Urban Institutional Grant	To strengthen the capacities of urban institutions to (i) improve the delivery and resilience of urban infrastructure and services, (ii) enhance the private sector engagement in urban planning, and (iii) support the transition of refugee camps into integrated host community and refugee settlements.	Strengthened urban institutions' capacities, Improved delivery and resilience of urban infrastructure and services, Enhanced Private sector engagement	a) Strengthened urban planning and development control. b) Enhanced monitoring and evaluation of urban programs. c) Improved urban financing and revenue generation systems. d) Resilience against climate change risks in municipalities. e) Strengthened asset management and institutional capacity. f) Private sector engagement in urban development. g) Enhanced environmental and social safeguards in urban areas. h) Developed capacity of municipal boards, staff, and county executive committee. i) Adequate office infrastructure and equipment for municipalities.	a) Preparation of Ngai Ndethya management plan, b) Purchase of 2 RealTime Kinetic (RTK) surveying machines, c) Enhancement of land based revenue database and public sensitization on Makueni Ardhi system), d) Climate change risk assessments and profiling in Wote and Emali/Sultan-Hamud municipalities, Establishment of records office and GIS boardroom, e) Private sector engagement (Undertake plot owners engagement in Nunguni on issuance of letters of allotments), Stakeholder Engagements, GRM, GBV/SEA/ f) SH risk management in infrastructure Investments-Public sensitization on GRM reporting procedures and Building capacity and awareness to public on gender matters and climate change adaptability in Emali-Sultan Hamud municipality, Capacity Building, training and peer learning (municipal boards, staff and county executive committee), and purchase of office equipment and furniture for municipalities offices.

4. Environmental and Sustainability Reporting

The Kenya Urban Support Program II, implemented by Makueni County Government through the Urban Institutional Grant (UIG), is mandated to strengthen urban governance, planning, and service delivery in municipalities. Its sustainability strategy is anchored on ensuring that urban services and infrastructure can be maintained over the long term, while balancing economic growth, environmental conservation, and social inclusion. The program integrates international best practices in sustainable urban development, aligning with Kenya's Vision 2030 and the Sustainable Development Goals (SDGs).

1. Sustainability strategy, risk management and profile

The county's sustainability strategy emphasizes resilience, inclusivity, and accountability. The department, led by the County Executive Committee member and the Chief Officer, has prioritized risk management by embedding climate change profiling, land-based revenue reforms, and institutional capacity building into project implementation. Political and macroeconomic factors, such as fiscal decentralization and climate variability, have influenced sustainability priorities. Key achievements include the acquisition of modern RTK surveying equipment to improve land management, the establishment of GIS facilities for asset management, and the strengthening of revenue systems through the Makueni Ardhi platform. Challenges remain in stakeholder buy-in for land-based revenue reforms and resource constraints, but opportunities exist in leveraging technology and peer learning to sustain progress.

2. Environmental performance

The program is guided by an environmental policy that promotes biodiversity conservation, climate resilience, and responsible waste management. Successes include the preparation of the Ngai Ndethya management plan, which integrates ecological considerations into urban planning, and climate risk assessments in Wote and Emali/Sultan Hamud municipalities. Public sensitization campaigns have raised awareness on grievance redress mechanisms (GRM), gender-based violence (GBV), and climate change adaptability. Shortcomings include limited financial resources to scale biodiversity management and waste reduction initiatives. Nonetheless, the county continues to integrate environmental safeguards into infrastructure investments to minimize ecological impact.

3. Employee welfare

Makueni County Government has adopted policies that promote fair hiring practices, gender balance, and inclusivity in staffing. Stakeholder engagements are regularly conducted to refine these policies. Employee welfare is enhanced through training, peer learning, and career development programs for municipal boards, staff, and the county executive committee. Appraisal and reward systems are being strengthened to motivate performance. The county also complies with the Occupational Safety and Health Act (OSHA) 2007, ensuring safe working environments in municipal offices, particularly with the establishment of new records offices and boardrooms.

4. Marketplace practices-

a) Responsible Supply chain and supplier relations-

The project maintains responsible supplier relations by honouring contracts, ensuring timely payments, and promoting transparency in procurement.

b) Responsible ethical practices

Ethical standards are upheld through anti-corruption measures, adherence to procurement laws, and responsible political involvement. Public sensitization on grievance redress mechanisms further reinforces accountability.

c) Regulatory impact assessment

The program safeguards citizen and stakeholder rights by embedding regulatory compliance in urban planning, land management, and infrastructure development. This ensures that urban growth remains lawful, equitable, and sustainable.

5. Community Engagements

Community engagement has been central to the program's implementation. Plot owners in Nunguni were engaged in the issuance of letters of allotment, resolving land tenure disputes and fostering trust. Public sensitization campaigns addressed grievance redress procedures, gender equality, and climate change adaptability. The program has also invested in social development by promoting awareness on GBV/SEA/SH risks, supporting education through training sessions, and enhancing institutional capacity. Charitable and social investments include the provision of office infrastructure and equipment for municipalities, which directly improves service delivery to communities. These engagements have strengthened social cohesion, improved transparency, and enhanced citizen participation in urban governance.

5. Statement of Project Management Responsibilities

The Chief Officer for the County department of Lands, Urban Planning and Development and the County Project Coordinator 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 the financial year ended on June 30, 2026.

This responsibility includes (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period, (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the 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 Chief officer for the County Department of Lands, Urban Planning and Development and the County Project Coordinator accept responsibility for the Project's financial statements, which have been prepared on the IPSAS Accrual Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

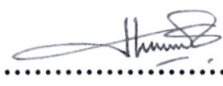
The Chief officer for the County Department of Lands, Urban Planning and Development and the County Project Coordinator are of the opinion that the Project's financial statements give a true and fair view of the state of the Project's transactions during the financial year ended June 30, 2026, and of the Project's financial position as at that date. The Chief officer for the County Department of Lands, Urban Planning and Development and the County Project Coordinator 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 and the adequacy of the systems of internal financial control.

The Chief officer for the County Department of Lands, Urban Planning and Development and the County Project Coordinator 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 Chief Officer for the County Department of Lands, Urban Planning and Development and the County Project Coordinator on 25th August 2026 and signed by:


.....
Jackson Daudi
Chief Officer


.....
Geoffrey Mutinda
Project Coordinator

REPUBLIC OF KENYA

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

REPORT OF THE AUDITOR-GENERAL ON KENYA URBAN SUPPORT PROGRAM II (KUSP II) URBAN INSTITUTIONAL GRANT NUMBER E208-KE FOR THE YEAR ENDED 30 JUNE, 2026 - COUNTY GOVERNMENT OF MAKUENI

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.

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

The three parts of the report 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, Cap. 412A and the Public Audit Act, Cap. 412B. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Urban Support Program II (KUSP II) Urban Institutional Grant Number E208-KE set out on pages 1 to 23, which comprise of the statement of financial position as at 30 June, 2026 and the statement of

financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information for the year then ended in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, Cap. 412B. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Urban Support Program II (KUSP II) Urban Institutional Grant Number E208-KE as at 30 June, 2026 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Inter-Governmental Participation Agreement for KUSP II between the National Government of the Republic of Kenya and the County Government of Makueni and the Public Finance Management Act, Cap. 412A.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Urban Support Program II (KUSP II) Urban Institutional Grant Number E208-KE Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.37,690,700 and Kshs.32,309,400 respectively resulting to an under-funding of Kshs.5,381,300 or 14% of the budget.

The under-funding affected the planned activities and may have impacted negatively on service delivery to the residents of Makueni.

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. There were no key audit matters to report in the year under review.

Other Information

Management is responsible for the Other Information set out on pages iv to xv which comprise of Project Information and Overall Performance, Statement of Performance Against Project's Predetermined Objectives, Environmental and Sustainability Reporting

and Statement of Project's Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Program'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 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, I confirm that nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 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 opinion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, Cap. 412B, based on the audit procedures performed, I confirm that nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

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

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

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, Cap. 412B .

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 Program'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, Cap. 412B 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, Cap. 412B . 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, Cap. 412B .

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

23 September, 2026



Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

7. Statement of Financial Performance for the Year Ended 30th June 2026.

	Notes	Insert Current FY	Comparative FY
		Kshs	Kshs
Revenue			
Revenue Transfers	6	58,309,300	
Miscellaneous Revenue	7	100	
Total revenue		58,309,400	0
Expenses			
Use of goods and services	8	25,505,961	
Depreciation and amortization expense	9	1,517,264	
Total expenses		27,023,224	0
Other gains/(losses)			
Gain/Loss on sale of assets			
Surplus/ (deficit)		31,286,176	0

The financial statements were approved on 28th August 2026 and signed by:



Jackson Daudi
Chief Officer

28th August 2026



Geoffrey Mutinda
Project Coordinator

28th August 2026



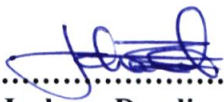
Pascalia Mulwa
Project Accountant
ICPAK Member No:
28th August 2026

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

8. Statement of Financial Position as at 30th June 2026

	Note	FY 2025/2026	FY 2024/25
		Kshs	Kshs
Assets			
Current Assets			
Cash and Cash equivalents	10	5,694	-
Receivables	11	26,000,000	-
Total Current Assets		26,005,694	-
Non-Current Assets			
Property, Plant and Equipment	12	5,280,482	-
Total Non- Current Assets		5,280,482	-
Total Assets (a)		31,286,176	-
Liabilities			
Current Liabilities			
Trade and Other Payables		-	-
Total Current Liabilities		-	-
Non-Current Liabilities			
Non-current lease liability			
Total Non-Current Liabilities		-	-
Total Liabilities (b)		-	-
Net Assets (a-b)		31,286,176	-
Represented By:			
Accumulated Surplus		31,286,176	-
Revaluation Reserve		-	-
Total Net Assets		31,286,176	-

The financial statements were approved on 28th August 2026 and signed by:



Jackson Daudi
Chief Officer

28th August 2026



Geoffrey Mutinda
Project Coordinator

28th August 2026



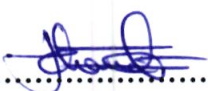
Pascalia Mulwa
Project Accountant
ICPAK Member No:
28th August 2026

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

9. Statement of Changes in Net Assets

	Accumulated Surplus	Revaluation Reserve	Total
As At 1 st July 2024	-	-	-
Surplus/Deficit for the year	-	-	-
Revaluation Gain	-	-	-
As at 30 th June 2025	-	-	-
As At 1 st July 2025	-	-	-
Surplus/ deficit for the year	31,286,176	-	31,286,176
Revaluation Gain	-	-	-
As at June 30, 2026	31,286,176	-	31,286,176

The financial statements were approved on 28th August, 2026 and signed by:


.....
Jackson Daudi
Chief Officer

28th August 2026


.....
Geoffrey Mutinda
Project Coordinator

28th August 2026


.....
Pascalia Mulwa
Project Accountant
ICPAK Member No:
28th August 2026

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

10. Statement of Cash flow for the year ended 30th June 2026

Description	Note	FY 2025/2026	FY 2024/25
		Kshs	Kshs
Cash flow from operating activities			
Receipts			
Revenue Transfers	6	32,309,300	-
Miscellaneous Revenue	7	100	
Total receipts		32,309,400	-
Payments			
Use of goods and services	8	25,505,961	-
Total payments		25,505,961	-
Net cash flow from operating activities	13	6,803,439	
Cash flow from investing activities			
Acquisition of non-financial assets		(6,797,745)	-
Net cash flows from investing activities		(6,797,745)	-
Cash flow from financing activities			
Repayment of Lease Principal		-	-
Net cash flow from financing activities		-	-
Net increase/Decrease in cash and cash equivalents		5,694	-
Cash and cash equivalent at 1st July		-	-
Cash and cash equivalent at end June	10	5,694	-

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

11. Statement of Comparison of Budget and Actual Amounts for the Year ended 30th June 2026

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable (cash) 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		2,690,700	2,690,700	-	2,690,700	0%
Receipts						
Revenue Transfers	35,000,000		35,000,000	32,309,300	2,690,700	92%
Miscellaneous Revenue	-	-	-	100	(100)	
Total Revenue	35,000,000	2,690,700	37,690,700	32,309,400	5,381,300	86%
Payments	-	-	-	-	-	
Use of goods and services	35,000,000	2,690,700	37,690,700	32,303,706	5,386,994	86%
Total Payments	35,000,000	2,690,700	37,690,700	32,303,706	5,386,994	86%
Surplus	-	-	-	5,694		

Budget notes

- 1. The difference in original and final budget arises from carryovers reallocated through a supplementary budget*
- 2. the unrealized revenue and budget underutilization arises from an under disbursement of the budgeted funds*

Budget Reconciliation

Description of Particulars	Amount in Kshs
Actual Surplus Amounts as per the statement of Budget	5,694
Closing Cash and Cash Equivalent as per the statement of Cash flows	5,694

12. Notes to the Financial Statements

1. General Information

KUSP II Urban Institutional Grant (UIG) is implemented by the County Government of Makueni under the framework of the Kenya Urban Support Programme Phase II (KUSP II), a Government of Kenya programme supported by the World Bank (International Development Association). The Project derives its authority and accountability from the applicable laws and regulations governing public finance, county governments and urban development in Kenya. The Project is domiciled in Makueni County, Kenya, and its principal activity is to strengthen urban institutional capacity and support improved, inclusive and climate-resilient urban planning, infrastructure and service delivery in the participating urban areas of the County.

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).

These financial statements were authorized for issue by the accounting officer on 28th August 2026.

3. Adoption of New and Revised Standards

i) New and amended standards and interpretations in issue effective in the year ended 30 June 2026.

Standard	Effective date and impact:
IPSAS 43 Leases	<i>Applicable 1st January 2025</i> 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 cash flows of an Entity. The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<i>Applicable 1st January 2025</i> 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.
IPSAS 45- Property Plant and Equipment	<i>Applicable 1st January 2025</i> 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 recognised 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.
IPSAS 46 Measurement	<i>Applicable 1st January 2025</i> The objective of this standard was to improve measurement guidance across IPSAS by: <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. The standard also introduces a public sector specific measurement bases called the current operational value.

Kenya Urban Support Program II (KUSP II) Project

Annual Report and Financial Statements for the financial year ended June 30, 2026

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2026

Standard	Effective date and impact:
IPSAS 47- Revenue	Applicable 1st January 2026 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 MDA 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	Applicable 1st January 2026 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	Applicable 1st January 2026 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	Applicable 1st January 2027 The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires: 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.
IPSAS 51: Tangible Natural Resources Held For Conservation	Applicable 1st January 2028 The objective of this standard is to establish the principles that an entity shall apply to report relevant information to users of financial statements about the nature, amounts, timing, and uncertainties arising from tangible natural resources held for conservation. A tangible natural resource held for conservation is a naturally occurring tangible asset that is managed to prevent its degradation.
IPSASB SRS 1: Climate Related Disclosures	Applicable 1st January 2028 This standard provides principles for an entity to address climate-related risks and opportunities arising from an entity's activities and operations. The standard provides disclosures on governance, strategy, risk management, and metrics and targets.

iii) Early adoption of standards

The Entity did not early – adopt any new or amended standards in the financial year

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 realised 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

Finance income

Finance 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 2025/2026 was approved by the County Assembly on 24th June 2025. 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. The entity's 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 cash flows has been presented on page 5 under section 11 of these financial statements.

c) Property, plant and equipment

Recognition and Measurement

The Entity's Property, Plant, and Equipment (PPE) are tangible items held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and are expected to be used for more than one reporting period.

An item of PPE is recognized as an asset if, and only if:

- It's **probable** that the future economic benefits or service potential associated with the item will flow to the ministry.
- The cost or fair value of the item can be measured **reliably**.

Items acquired through non-exchange transactions (e.g., donations) are measured at their **deemed cost**, which is the fair value at the date of acquisition. For all other acquisitions, initial measurement is at **cost**, which includes all expenses directly attributable to bringing the asset to

the location and condition necessary for it to be capable of operating in the manner intended by management.

The entity has adopted the **Historical cost model** for the subsequent measurement of its PPE. Under this model, after initial recognition, an asset is carried at its cost less any accumulated depreciation and accumulated impairment losses.

Depreciation and Impairment

The entity applies the **reducing balance method** of depreciation, as it best reflects the pattern of the asset's consumption of its future economic benefits or service potential. Depreciation begins when the asset is available for use and ceases at the earlier of the date the asset is classified as held for sale or the date of derecognition. The depreciable amount is the cost of the asset less its residual value. The residual value and the useful life of an asset are reviewed at least at each annual reporting date. The table below indicates the various classes of assets and the depreciation rates.

Table 6: Depreciation rate

PPE Item	Depreciation Rate
Furniture and fittings	12.5%
Computers & ICT Equipment	30%
Survey Equipment	20%

Impairment: The entity assesses at each reporting date whether there is any indication that an asset may be impaired. If an indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized immediately in the statement of financial performance.

An item of property, plant, and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of financial performance.

d) Lease Liability

A right-of-use asset represents the entity's right to use an underlying leased asset over the lease term. At the commencement date of a lease, the entity recognizes a right-of-use asset and a lease liability, except for short-term leases and leases of low-value assets as allowed under IPSAS 43.

Recognition

The entity recognizes a right-of-use asset at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises:

- The amount of the initial lease liability.
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs incurred; and
- An estimate of the costs to be incurred in dismantling and removing the underlying asset or restoring the site.

Measurement

Right-of-use assets are initially measured at cost. After initial recognition, right-of-use assets are measured using the cost model, where the asset is carried at: Cost less accumulated depreciation, and any accumulated impairment losses. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Depreciation of right-of-use assets is charged to expenditure in accordance with the entity's depreciation policy applicable to owned assets of the same class. Right-of-use assets are assessed for impairment in accordance with IPSAS 21 – Impairment of Non-Cash-Generating Assets or IPSAS 26 – Impairment of Cash-Generating Assets, as applicable.

Notes to the financial statements

e) Lease Liability

The lease liability is measured at the present value of lease payments that are not paid at that date. The lease payments have been discounted using the interest rate implicit in the lease, and the rate can be readily determined. If the rate cannot be readily determined, the entity uses the incremental borrowing rate.

Subsequently, the lease liability is measured at amortized cost using the effective interest method and reduced by lease payments. Interest expense is recognized in the statement of financial performance.

f) 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.

g) 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.

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.

h) Financial instruments

The entity 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.

Notes to the financial statements

Financial assets

Classification

The entity classifies its financial assets as subsequently measured at amortised 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 dates 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 entity 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.

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.

Notes to the financial statements

Impairment

The entity 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) .

Financial liabilities

Classification

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

i) 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.

Inventories (Continued)

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 Entity.

j) Provisions

Provisions are recognized when the Entity 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 Entity 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 Entity 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 *Entity* 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 *Entity* 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.

k) Nature and purpose of reserves

The *Entity* creates and maintains reserves in terms of specific requirements.

l) Changes in accounting policies and estimates

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

m) Employee benefits

Retirement benefit plans

The *Entity* provides 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

n) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. At each reporting date, foreign currency monetary items are translated using the closing rate. Non-monetary items measured in historical cost are translated using the exchange rate at the date of the transaction, and those measured at fair value are translated using the exchange rates at the date when the fair value was determined. Exchange differences arising from the settlement of monetary items or translation of monetary/non-monetary items at rates different from those at which they were initially reported are recognized in surplus or deficit in the period.

o) 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.

Notes to the financial statements

p) Related parties

The *Entity* 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.

q) Service concession arrangements

The *Entity* 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 *Entity* 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 *Entity* also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

r) 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 financial year.

s) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2026.

Notes to the financial statements

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the *Entity's* financial statements in conformity with IPSAS requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes requiring a material adjustment to the carrying amount of the affected asset or liability in future periods. State all judgments, estimates, and assumptions made:

Estimates and assumptions.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The 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 raised and management determined an estimate based on the information available.

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.

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

Notes to the financial statements

6. Revenue Transfers

Description	FY 2025/26	FY 2024/25
	KShs	Kshs
Unconditional Transfers		
GoK Counter Part funding	-	
Transfers from Development partners	58,309,300	-
Total Unconditional Transfers (a)	58,309,300	-
Conditional Transfers		
Transfers from Development partners 1		
Total Conditional Transfers (b)	-	-
Total Transfers for the Year (a + b)	58,309,300	-

The funding is to strengthen urban institutional capacity and enhance the planning, management and delivery of sustainable, inclusive and climate-resilient urban services and infrastructure.

a) Details to Revenue Transfers

Name of The Entity Transferring	Amount recognized to Statement of Financial performance	Amount deferred under deferred income.	Total transfers (2025/26 FY)	2024/25 FY
	Kshs	Kshs	Kshs	Kshs
GOK Funding			0	
Development Partner Year 1	32,309,300.00		32,309,300.00	
Development Partner Year 2	26,000,000.00		26,000,000.00	
Subtotal	58,309,300.00	-	58,309,300.00	-
Deferred Income realized				
Transfers in Kind				
Total	58,309,300.00	-	58,309,300.00	-

7. Miscellaneous revenue

Description	Insert Current FY	Comparative FY
	Kshs	Kshs
Account opening deposit	100	
Total	100	0

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

8. Use of Goods and Services

Description	FY 2025/2026	2024/25 FY
	Kshs	Kshs
Bank charges	4,557	-
Communication, supplies and services		-
Domestic travel and subsistence	15,064,220	-
Foreign travel and subsistence		-
Fuel and lubricants	100,000	-
General office supplies		-
Stationery, Printing, advertising, and information supplies	17,500	-
Office rent		-
Training payments	3,015,600	-
Hospitality supplies and services	510,050	-
Insurance costs		-
Specialized materials and services		-
Other operating payments Consultancy Services	2,000,000	-
Other operating payments- Public Engagements	2,812,200	-
Routine maintenance – vehicles and other transport equipment		-
Routine maintenance- other assets	1,981,834	-
Total	25,505,961	0

Notes to the financial statements

9. Depreciation and Amortization expense

Description	FY 2025/2026	FY 2024/25
	Kshs	Kshs
Property, Plant and Equipment	1,517,264	-
Intangible Assets	-	-
Right of Use Assets	-	-
Others specify	-	-
Total	1,517,264	-

10. Cash and Cash Equivalents

Description	FY 2025/2026	FY 2024/25
	Kshs	Kshs
Cash in Bank	5,694	-
Cash on hand	0	-
Total Cash and Cash Equivalents	5,694	-

Project Bank Accounts

Details	FY 2025/2026	FY 2024/25
	Kshs	Kshs
Foreign Currency Accounts		
Total Foreign Currency balances	-	-
Local Currency Accounts		
Kenya Commercial Bank [A/c No 133****113]	5,694.3	
Total local currency balances	5,694.3	-
Total bank account balances	5,694.3	-

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

11. Receivables

Description	FY 2025/2026	FY 2024/25
	Kshs	Kshs
Grant	26,000,000	-
Contractor's Advance payments		
Total Receivables	26,000,000	-

This amount relates to grant relating to the reporting period but not disbursed as at 30th June 2026

Aging analysis for Receivables

Description	FY 2025/2026		FY 2024/25	
	Kshs		Kshs	
	Current FY	% of the total	Comparative FY	% of the total
Less than 1 year	26,000,000	100%	-	%
Between 1- 2 years	-	%	-	%
Between 2-3 years	-	%	-	%
Over 3 years	-	%	-	%
Total (a+b)	26,000,000	%	-	%

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

Notes to the financial statements

12. Property, Plant and Equipment

Current FY

Cost/Value	Land	Buildings	Motor vehicles	Furniture and fittings	Computers	Infrastructure Assets	Service Concession Assets	Machinery & Surveying Equipment	Capital Work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As At 1 July 2025	-	-	-	-	-	-	-	-	-	-
Additions	-	-	-	1,298,160	2,550,765	-	-	2,948,820	-	6,797,745
Disposals	-	-	-	-	-	-	-	-	-	-
Transfers/Adjustments	-	-	-	-	-	-	-	-	-	-
Revaluation Adjustments	-	-	-	-	-	-	-	-	-	-
As at 30th June 2026	-	-	-	1,298,160	2,550,765	-	-	2,948,820	-	6,797,745
Depreciation & Impairment										
At 1 July 2025	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	162,270	765,230	-	-	589,764	-	1,517,264
Impairment	-	-	-	-	-	-	-	-	-	-
Transfers/ Adjustments	-	-	-	-	-	-	-	-	-	-
As at 30th June 2026	-	-	-	162,270	765,230	-	-	589,764	-	1,517,264
Net Book Value as at 30th June 2026	-	-	-	1,135,890	1,785,536	-	-	2,359,056	-	5,280,482

Previous FY

There were no PPE reported in the previous periods.

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

Notes to the financial statements

13. Cash Generated from Operations

Description	FY 2025/26	FY 2024/25
	Kshs	Kshs
Surplus/Deficit for the year	31,286,176	-
Adjusted for:		
Depreciation	1,517,264	-
Non-cash grants received		
Impairment		
Gains and losses on disposal of assets		
Working capital adjustments	32,803,439	-
Increase/Decrease in inventory		
Increase/Decrease in receivables	(26,000,000)	-
Increase/Decrease in deferred income		
Increase /Decrease in payables		
Increase in payments received in advance		
Net cash flow from operating activities	6,803,439	-

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

Notes to the financial statements

14. Related Party Disclosures

Nature of related party relationships

Entities and other parties related to the Kenya Urban Support Program II (KUSP II) Project 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 Kenya Urban Support Program II (KUSP II) Project, holding 100% of the Kenya Urban Support Program II (KUSP II) Project 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) Ministry of Lands Public Works Housing and Urban Development
- ii) County Government of Makueni
- iii) Key management.

15. Events after the Reporting Period

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

16. Ultimate And Holding Entity

The Entity is a program under the Ministry Lands Public Works Housing and Urban Development. Its ultimate parent is the Government of Kenya.

17. Currency

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

Kenya Urban Support Program II (KUSP II) Project
Annual Report and Financial Statements for the financial year ended June 30, 2026

13. Annexes

Annex 3: Fixed Asset Register

Asset class	Historical Cost b/f (Kshs) 2024/25	Additions during the year (Kshs)	Disposals during the year (Kshs)	Transfers in/(out) during the year	Historical Cost c/f (Kshs) 2025/26
Land		-			-
Buildings and structures		-			-
Transport equipment		-			-
Office equipment, furniture and fittings		1,298,160			1,298,160
ICT Equipment		2,550,765			2,550,765
Machinery and Equipment		2,948,820			2,948,820
Biological assets					-
Infrastructure Assets- Roads, Rails					-
Heritage and cultural assets					-
Intangible assets					-
Work in Progress					-
Total	-	6,797,745	-	-	6,797,745

