REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

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FINANCING LOCALLY-LED CLIMATE ACTION (FLLoCA) PROGRAM

FOR THE YEAR ENDED 30 JUNE, 2026

COUNTY GOVERNMENT OF MARSABIT

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PROJECT NAME: FINANCING LOCALLY-LED CLIMATE ACTION (FLLoCA) PROGRAM

IMPLEMENTING ENTITY: NATIONAL TREASURY, PROGRAM IMPLEMENTATION UNIT (PIU) IN COLLABORATION WITH COUNTY GOVERNMENT OF MARSABIT

PROJECT GRANT/CREDIT NUMBER: P173065

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2026

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

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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
CT	County Treasury
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
WB	World Bank

Project Information and Overall Performance

2.1 Name and registered office

Name

The project's official name is Financing Locally-Led Climate Action Program (FLLoCA).

Objective

The key objective of the project is to deliver locally-led climate resilience actions and strengthen county and national governments' capacity to manage climate risk. Marsabit County Climate Change Fund/FLLoCA Project will provide county-level performance grants that will result in a portfolio of climate resilience actions/investments addressing communities' priorities. Implementation of such County Climate Action (CCA) Plans is the first targeted Program outcome. The second outcome at the county level is an increased capacity of County Governments to manage climate risk.

Marsabit County Climate Change Fund/ FLLoCA Program is expected to strengthen County Government capacity to plan, budget, implement and monitor climate mitigation and adaptation actions, with a focus on sub county (ward and community) levels. This will be operationalized through two grants; the County Climate Institutional Support (CCIS) Grant and the County Climate Resilience Investment (CCRI) grant combined with minimum access criteria and performance measures for areas where FLLoCA seeks to make a difference. Through the two performance-based grants, county governments are incentivized to:

- Enact relevant policies and legislations to enable climate finance flows
- Establish a dedicated County Climate Change Fund and a Climate Change Unit
- Establish mechanisms to engage communities in climate risk assessments and resilience planning
- Mainstream Climate action and resilience building in county planning and budgeting
- Increase County investment budgets that promote social resilience outcomes
- Prepare and implement, in a participatory manner, County Climate Action Plans

Address

The project headquarters offices are in Marsabit town, Marsabit County, Kenya. The address of its registered office is P.0 BOX 384 -60500 MARSABIT.

Contacts: The following are the project contacts

1) Peter Odhengo- Programme Co-ordinator
   Telephone: (254) 722984992
   E-mail: odhengo@gmail.com

2) Maurice Owino – Program Manager Finance and Strategy
   Telephone; (254) 721959013
   E-mail; nsoikan@worldbank.org

3) Nicholas Meitaki Soikan – World Bank, Task Team Leader
   Telephone; (254) 722946132
   E-mail pedoassociates@yahoo.com

Project information and overall performance (continued)

2.2 Project Information

Project Start Date:	01/07/2023
Project End Date:	30/06/2027
Project Coordinator:	Mrs. Janet Ahatho
Project Development Partner:	World Bank

2.3 Project Overview

County Department	Department of Environment & Climate Change
Project number	P173065
Strategic goals of the project	The strategic goals of the project are as follows: (i) To deliver locally-led climate resilience climate actions and strengthen county capacity to manage climate risk. (ii) To support community led local initiatives for enhanced community resilience and enhance sustainability.
Summary of Project Strategies for achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Measuring, tracking and reducing greenhouse gas emission (ii) Adopting climate adaptation measures
Other important background information of the project	The project is centred on capitalizing the National and County Climate Change Funds; building county level capacity for planning, budgeting reporting and implementation of local climate actions.
Areas that the project was formed to intervene	The project was formed to intervene in the following problems/gaps: (i) Institution strengthening for climate action (ii) Building resilience through climate resilience investment
Project duration	Three Years

Project Information and Overall Performance (Continued)

2.4 Bankers

The following are the bankers for the project:

i. Central Bank of Kenya (Special Purpose Account)

2.5 Independent Auditor

Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084-00100
Nairobi, Kenya.

2.6 Roles and Responsibilities of Key Project Officers

No	Names	Title designation	Key qualification	Responsibilities
1.	Guyo Guracha 	County Executive Committee Member for Water, Environment, Climate Change and Natural Resource Management	Msc. Project Planning and Management from University of Nairobi. Bsc. Information Science from Kenya Methodist University.	In charge of climate Change Matters in the county Provide policy direction on climate change.
2.	Abdullahi Sheikh 	Chief Officer Environment and Climate Change	Degree in Business Administration-Account and Finance Optional. Diploma in Procurement	Provide Technical Financial support Accounting officer of the Climate Change Fund.

3.	Janet Ahatho 	Director Environment and Climate	Degree in Environmental studies, Masters in Environmental Science.	Climate Change Actions Coordination and Provision of technical direction.

2.7 Funding summary

The Project is for a duration of 3 years from 2023 to 2027 with an approved budget of US$ CCRI USD 3,197,674 CCIS USD 255,814 equivalent to Kshs CCRI 412,500,000 CCIS Ksh 33,000,000 as highlighted in the table below:

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 – (30th June 2026)		Undrawn balance to dat	
	Development Partner currency	Kshs	Development Partner currency	Kshs	Development Partner currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A') - (B'
(i) Grant						
World Bank	3,453,488	445,500,000	3,180,984	410,346,981	272,504	35,153,01
(ii) Loan						
None	-	-	-	-	-	-
(iii) Counterpart funds						
Government of Kenya	2,355,706	303,886,048	3,069,873	396,013,635	0	0
Total	**5,809,194**	**749,386,048**	**6,250,857**	**806,360,616**	**272,504**	**35,153,01**

- Closing Exchange rates used for conversion was: 1USD=129 KES rounded to a whole number.
- Based on the county's total annual budget of KES 10,053,859,148, the contribution to the County Climate Change Fund, calculated at 2% amounts to KES 171,893,773.

Project information and overall performance (continued)

B. Application of Funds

Application of funds	Amount received to date – (30th June 2026)		Cumulative amount paid to date – (30th June 2026)		Unutilised balance to dat (30th June 2026)	
	Development Partner currency	*Kshs*	Development Partner currency	*Kshs*	Development Partner currency	*Kshs*
	(A)	*(A')*	*(B)*	(B')	*(A)-(B)*	*(A')-(B')*
(i) Grant						
World Bank	3,180,984	410,346,981	2,183,342	281,651,114	997,642	128,695,86
(i) Loan	-	-	-	-	-	-
(ii) Counterpart funds						
County Government of Marsabit	3,069,873	396,013,635	3,069,873	396,013,635	-	-
Total	**6,250,857**	**806,360,616**	**5,253,215**	**677,664,749**	**997,642**	**128,695,86**

Project information and overall performance (continued)

2.8 Summary of Overall Project Performance:

a) The budget performance for Climate Change Institutional Support (CCIS) grant was nil because there was no budget for CCIS for FY 2025/2026.

b) With the case of County Climate Resilience Investment Grant (CCRIG) the budget performance was approximately 73% where 27% were almost on-going as at the closure of the financial year.

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

Overall Project Progress: The projects undertaken in this financial year were about 80% complete but yet to be handed over to the community.

Indicate the absorption rate for each year since the commencement of the project.

- Due to untimely disbursement of CCRI grant and completion of procurement procedures the absorption rate **currently stands at 73% as at 30th June 2026**

iii) **List the implementation challenges and recommend the next steps.**

- Vastness of Marsabit County in compilation of FY 2025/26 CCRI project priorities and project Concept development.
- No other notable challenges encountered during the implementation period. The strong coordination mechanisms, timely disbursement of funds, active community participation and effective monitoring systems ensured smooth execution of all project activities.

2.9 Summary of Project Compliance:

1. Compliance with Applicable Laws and Regulations

All climate change grant projects were implemented in full compliance with applicable laws and regulations, including the Public Finance Management (PFM) Act, 2012, relevant National Treasury circulars on project investment management, and the objectives of Kenya Vision 2030 flagship projects. The projects also adhered to all conditions of external financing agreements and covenants.

2. Cases of non-compliance

No significant cases of non-compliance were identified during the implementation period.

3. Consequences of non-compliance

Since no non-compliance occurred, the projects did not suffer any financial, legal or reputational consequences.

4. Mitigation Measures

To maintain this high standard of compliance, the following measures continue to be enforced: Robust Monitoring and Reporting Frameworks to ensure adherence to regulations and financing covenants.

Capacity Building for Project Teams on compliance requirements under the PFM Act and Treasury guidelines. Continuous Stakeholder Engagement to sustain alignment with Vision 2030 and donor expectations. Training and Technical Support: Ongoing training for county officials on PFM, procurement processes, and environmental compliance can strengthen adherence to legal frameworks. This includes building capacity in budgeting, financial reporting, and M&E. Improved Financial Management Systems: Establishment of robust financial management systems to track and manage climate action funds effectively.

-Strengthening Procurement Processes: Enforcement of Competitive Bidding: project management teams must enforce open and transparent tendering processes, in line with the Public Procurement and Asset Disposal Act. Audit and Oversight: Regular audits and oversight by the Auditor General and the Ethics and Anti-Corruption Commission (EACC) can help detect and deter irregular procurement practices.

Community Engagement and Inclusivity: Enhanced Public Participation: Incorporating frameworks to ensure local communities, including vulnerable groups, are engaged in decision-making for project prioritization and implementation.

Stakeholder Consultations: Ensuring that project designs are aligned with community needs through frequent consultations and engagement.

Adherence to Environmental Regulations: Mandatory Environmental Assessments: Ensuring that all projects undergo thorough environmental impact assessments (EIAs) and comply with NEMA regulations before implementation

Incorporating Climate Resilience: Encouraging the integration of sustainability and climate adaptation measures into project designs, aligned with Vision 2030 goals.

Monitoring and Evaluation (M&E) Strengthening: Performance Tracking Systems: Developing effective M&E systems to track project performance, detect inefficiencies early, and make necessary adjustments

Regular Project Audits: Implementing regular internal and external audits of projects to ensure compliance with financial, environmental, and procurement laws.

Statement of Performance against Project's Predetermined Objectives

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

i Program Plan and Objectives: The FLLoCA (Financing Locally-Led Climate Action) Project is designed to advance climate action and resilience at the county and community levels. The primary objectives of the program include:

ii Capacity Building: Strengthen the capacity of county-level institutions and stakeholders, particularly Ward Climate Change Planning Committees (WCCPCs), to drive climate action. This will involve training, resource allocation, and equipping local institutions to implement climate-responsive policies.

iii Community-Led Initiatives: Support and finance community-driven initiatives that aim to enhance resilience to climate change and promote sustainable practices. These initiatives will empower communities to implement locally-appropriate solutions for climate adaptation and mitigation.

iv Work Plan and Budget for CCRIG (County Climate Resilience Investments Grant) and CCIS (County Climate Institutional Support):

Challenges:

a) Institutional Capacity Gaps: Lack of technical expertise or experience at the county level, particularly among newly-formed WCCPCs, which could hinder effective project implementation.

b) Resource Allocation: Ensuring that funding and resources are distributed equitably and reach the most vulnerable communities could be a challenge in project execution.

c) Community Engagement: Mobilizing community support and ensuring consistent participation in climate initiatives was difficult, particularly in regions which mostly had low awareness of climate change or competing socioeconomic issues.

Opportunities:

a) Grassroots Empowerment: The project presents an opportunity to empower communities to lead climate action through locally-driven initiatives, fostering ownership and long-term sustainability.

b) Innovative Solutions: Leveraging local knowledge and climate information systems can encourage innovative, context-specific solutions to climate-related challenges, leading to more effective resilience measures.

c) Strengthened Networks: By fostering collaboration between local governments, stakeholders, and communities, the FLLoCA project can build stronger, more cohesive networks to tackle climate change on multiple fronts.

Progress on the attainment of strategic development objectives

To implement and cascade the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic, and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified to track progress and performance measurement.

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

Project	Objective	Outcome	Indicator	Performance
Financing Locally Led Climate Action Program (FLLoCA)	Financing Locally Led Climate Resilience Interventions.	Improved community resilience to climate shocks such as droughts and floods.	➢ Construction of Water supply system from Mansile borehole to Heilu village. ➢ Promote apiculture through provision of modern beehives and essential apiculture equipment for beekeepers in Mt. Kulal to enhance climate resilience, diversify livelihoods, and strengthen adaptive capacity for vulnerable communities. ➢ Drilling of Koob Dertu Borehole. ➢ Construction of modern cattle Boma and Hay store ➢ Equiping of Salmate borehole ➢ Rehabilitation of Burgabo borehole	In FY 2025/2026, All initiated projects completed across all the clusters where some have been handed over to the community while majority of projects are due for payment and subsequent handing over to community.

Environmental and Sustainability Reporting

The project embraces locally-led climate actions to build community resilience. It aims to put communities at the heart of climate actions. This is achieved by forming a locally led structure (WCCPC) trained and leading climate actions at the ward. This enables communities to identify climate risk at the ward and provide possible climate action to build their resilience. This increases participation and ownership of the project.

(I) **Sustainability strategy and profile**

The project is ensuring sustainability by employing strategies that encourage local climate actions. This is achieved where the ward climate change planning committee drives the agenda of locally led by identifying climate risk, and vulnerability and designing the best climate action to address climate risk hence building community resilience

(II) **Environmental performance**

The project has a dedicated environmental safeguard officer who is trained and ensures environmental issues are addressed during project identification, implementation and decommissioning. All projects are subject to environmental screening to identify the magnitude of effect hence subjecting the project to environmental and social impact assessment.

Each project has a comprehensive environmental management plan that ensures project activities are environmentally friendly.

(III) **Employee welfare**

The FLLoCA program does not hire new employees but rather capacity build county staff to implement the project. The project has a clear capacity-building plan where staff are taken to on-job training to enable them implement the project effectively.

Marketplace practices

a) Responsible Supply chain and supplier relations

The Marsabit County Climate Change Fund/FLLoCA (Financing Locally-Led Climate Action) Project is an initiative designed to support climate resilience and sustainability efforts, particularly in developing countries. It focuses on fostering local leadership in climate action by empowering communities with the necessary resources and tools. It ensures good business practices; it offer opportunities to the local business for purchase and supplies in accordance with the public procurement and disposal act

Responsible ethical practices outline efforts to maintain ethical and anti-corruption practices and responsible political involvement.

The Marsabit County Climate Change Fund/ FLLoCA program maintains Ethical and Anti-Corruption Practices through: -

a. Strong Governance Framework: The project operates with a clear governance structure that promotes transparency and accountability. There are well-defined roles and responsibilities to ensure decisions are made in the best interest of the community and stakeholders. Regular audits and compliance reviews are conducted to identify and address any unethical or corrupt practices.

b. Zero Tolerance Policy for Corruption: The project implements strict anti-corruption policies aligned with international standards, such as those set by the United Nations Convention Against Corruption (UNCAC). Measures include robust procurement practices and regular reporting to ensure funds are used appropriately and efficiently.

c. Political Neutrality: The FLLoCA Project avoids direct involvement in political activities or affiliations to ensure impartiality. Clear policies are in place to avoid undue political influence in decision-making and fund allocation. The project ensures it remains focused on its climate action goals rather than political agendas

b) Regulatory impact assessment

1.Safeguard citizen and stakeholder's rights

In regulating and safeguarding stakeholders right, the program promotes:

Community-Cantered Approach: FLLoCA emphasizes local leadership and participatory decision-making, ensuring that community voices are heard, especially those of marginalized or vulnerable groups. It engages stakeholders at all levels, from local governments to civil society, ensuring decisions reflect the needs and priorities of the people.

Transparency and Open Communication: Stakeholders have access to clear information regarding project goals, funding, timelines, and outcomes. Regular consultations and feedback mechanisms through grievances mechanism are established to address concerns, adjust policies, and maintain trust between citizens and the project team.

Safeguards for Environmental and Social Impact: The project follows established environmental and social safeguards to minimize any adverse effects of climate action initiatives. Citizens and stakeholders have a right to redress mechanisms, allowing them to voice concerns or seek compensation for any unintended negative impacts.

Respect for Human Rights: The project adheres to international human rights standards, ensuring that the rights of all citizens, including the most vulnerable, are protected. FLLoCA promotes inclusivity, ensuring no one is excluded based on race, gender, religion, or socio-economic status.

Legal and Ethical Compliance: The project complies with national and international legal frameworks that govern environmental sustainability, human rights, and corporate responsibility. It works in close partnership with the National and County government, ensuring alignment with local laws while advocating for the rights of stakeholders.

In summary, the FLLoCA Project works to maintain high ethical standards by upholding anti-corruption measures, political neutrality, and prioritizing the rights and interests of citizens and stakeholders through transparency, accountability, and inclusivity.

Community Engagements

FLLoCA embraces locally-led climate actions where ward communities take the lead. The spirit of locally-led ensures that structure is formed and actions are happening at the lowest level of administration which is Ward. The Ward Climate Change Planning committees from twenty has undertaken several capacity-building trainings to effectively lead climate actions.

Statement of Project Management Responsibilities

The Chief Officer Environment and Climate Change and the Director 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 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 **(vi)** Making accounting estimates that are reasonable in the circumstances.

The Chief Officer for Environment and Climate Change and the Director 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 Chief Officer for Environment Climate and Change and the director 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 Environment &Climate Change and the Director 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 Environment &Climate Change in the County Department of Water Environment & Climate Change and the Director 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 Environment and climate Change and the Project Coordinator on ……30/06/……2026 and signed by:

……	Janet Ahatho ……
Chief Officer	**Project Coordinator**

REPUBLIC OF KENYA

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Email: info@oagkenya.go.ke
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HEADQUARTERS
Anniversary Towers
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON FINANCING LOCALLY-LED CLIMATE ACTION (FLLoCA) PROGRAM FOR THE YEAR ENDED 30 JUNE, 2026 - COUNTY GOVERNMENT OF MARSABIT

PREAMBLE

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

A. Report on the 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 Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on the 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 financial statements of Financing Locally-Led Climate Action (FLLoCA) – County Government of Marsabit Program set out on pages 1 to 29, 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 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 Financing Locally-Led Climate Action (FLLoCA) – County Government of Marsabit as at 30 June, 2026, and of its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Inter-Governmental Agreement (IGA) between The National Treasury and Planning, The Financing Locally-Led Climate Action Program (G-FLLoCA) and County Government of Marsabit dated 14 March, 2023 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 Financing Locally-Led Climate Action (FLLoCA) – County Government of Marsabit Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAIs and 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 actual receipts and actual payments of Kshs.474,931,240 and Kshs.346,235,372, respectively resulting in an under-utilization of Kshs.128,695,868 or 27% of the receipts.

The under-utilization affected the planned activities and may have impacted negatively on service delivery to the residents of Marsabit County.

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 iii to xvii which comprises the Project Information and Overall Performance, Statement of Performance Against the 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 of 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 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. Unsupplied Project Signage, Hardwood Stakes and Plastic-Coated ties at Maikona Health Centre

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects supply of goods and services amounting to Kshs.165,334,245. Included in the amount is expenditure of Kshs.153,000 for the supply of project signboard, supply and installation of hardwood stakes and plastic-coated ties as per the Bill of Quantities. However, physical verification carried out in the month of August, 2026 revealed the items had not been supplied and installed.,

In the circumstances, value for money from expenditure project signboard, supply and installation of hardwood stakes and plastic-coated ties could not be confirmed.

2. Incomplete and Non-Operational Kon Gos Borehole

The statement of financial performance reflects certified works expenditure amount of Kshs.175,830,331. Included in the amount is the cost of drilling of the Kon Gos Borehole of Kshs.4,989,900. Physical verification carried out on in the month of August, 2026 confirmed that the borehole had been drilled. However, well sanitary protection works valued at Kshs.175,000 included in the Bills of Quantities had not been undertaken. Further, although the drilling works were reported as completed on 10 June, 2026, the borehole had not been equipped and was not operational as at the date of verification.

In the circumstances, value for money from the expenditure of Kshs.4,989,900 on the borehole has not been fully realized.

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, Cap. 412B, based on the audit procedures performed, I confirm that nothing else 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 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 are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for assessing 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 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 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, 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 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, 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

25 September, 2026

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

	Notes	2025-2026	2024-2025
		Kshs	Kshs
Revenue			
World Bank	6	214,320,565	68,070,160
Matching Fund	6	171,893,773	224,119,862
Total revenue		**386,214,338**	**292,190,022**
Expenses			
Administration costs	7	25,522,227	24,117,157
Supply of Goods and Services	8	165,334,245	160,941,538
Depreciation and Amortization expense	9	1,673,075	548,951
Certified Works	11	175,830,331	204,019,308
Total expenses		**368,359,878**	**389,626,954**
Surplus/ (deficit)		**17,854,460**	**-97,436,932**

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

.....	.....	.....
Chief Officer	**Project Coordinator**	**Project Accountant**
		ICPAK Member No: 33856

Statement of Financial Position as at 30th June 2026

	Note	2025-2026	2024-2025
		Kshs	Kshs
Assets			
Current Assets			
Cash and Cash equivalents	12	128,695,867	6,569,646
Receivables	13	31,552,744	113,700,000
Total Current Assets		**160,248,611**	**120,269,646**
Non-Current Assets			
Property, Plant and Equipment	9	4,467,255	2,383,089
Total Non- Current Assets		**4,467,255**	**2,383,089**
Total Assets (a)		**164,715,866**	**122,652,735**
Liabilities			
Current Liabilities			
Trade and Other Payables	10	116,576,667	92,367,996
Total Current Liabilities		**116,576,667**	**92,367,996**
Total Liabilities (b)		**116,576,667**	**92,367,996**
Net Assets (a-b)		**48,139,199**	**30,284,739**
Represented By:			
Accumulated Surplus		48,139,199	30,284,740
Total Net Assets		**48,139,199**	**30,284,740**

The financial statements were approved on 30/06/ 2026 and signed by:

.....	.....	.....
Chief Officer	**Project Coordinator**	**Project Accountant**
		ICPAK Member No: 33856

Statement of Changes in Net Assets

Description	Accumulated Surplus	Total
	Kshs	Kshs
As at 30th June 2024	**127,721,671**	127,721,671
As at 1st July 2024	**127,721,671**	**127,721,671**
Surplus/(Deficit) for the year	**-97,436,932**	**-97,436,932**
As at 30th June 2025	**30,284,739**	**30,284,739**
As at 1st July 2025	**30,284,739**	**30,284,739**
Surplus/(Deficit) for the year	17,854,460	17,854,460
As at 30th June 2026	**48,139,199**	**48,139,199**

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

The financial statements were approved on 30/06/ 2026 and signed by:

.....	.....	.....
Chief Officer	**Project Coordinator**	**Project Accountant**
		ICPAK Member No: 33856

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

Description	Note	2025-2026	2024-2025
		Kshs	Kshs
Cashflow from operating activities			
Receipts			
World Bank Grant		182,767,821	68,070,160
Matching Fund		285,593,773	110,419,862
Total receipts		**468,361,594**	**178,490,022**
Payments			
Administration costs		25,522,227	24,085,657
Supply of goods and services		208,293,347	88,751,839
Certified Works		108,662,558	183,872,511
Total payments		**342,478,132**	**296,710,007**
Net cash flow from operating activities		**125,883,462**	**(118,219,985)**
Cashflow from investing activities			
Acquisition of non-financial assets		-3,757,240	-2,932,040
Net cash flows from investing activities		**-3,757,240**	**-2,932,040**
Cash flow from financing activities			
Specify the activity		-	0
Net cash flow from financing activities			
Net increase/Decrease in cash and cash equivalents		122,126,222	(121,152,025)
Cash and cash equivalent at 1st July 2025	**11**	**6,569,646**	127,721,671
Cash and cash equivalent at end June 2026	**11**	**128,695,868**	**6,569,646**

Previous Year: 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	**127,721,671**	**0**	**127,721,671**	**127,721,671**	**0**	**100%**
Receipts						
World Bank Grant	66,857,489	0	66,857,489	68,070,160	-1,212,671	102%
Matching Fund	114,000,000	113,700,000	227,700,000	110,419,862	117,280,138	48%
Total Revenue	**308,579,160**	**113,700,000**	**422,279,160**	**306,211,693**	**116,067,467**	**73%**
Payments						
Administration costs	25,709,310	13,000,000	38,709,310	24,085,657	14,623,653	62%
Use of goods and services	93,369,850	50,200,000	143,569,850	91,683,879	51,885,971	64%
Certified Works	189,500,000	50,500,000	240,000,000	183,872,511	56,127,489	77%
Total Payments	**308,579,160**	**113,700,000**	**422,279,160**	**299,642,047**	**122,637,113**	**71%**
Surplus	**-**	**-**	**-**	**6,569,646**	**-6,569,646**	**2%**

Budget notes

- The difference between the total original budget and the final budget revenue amounting to **Kshs. 113,700,000** was due to additional Matching Fund allocations from the County Government through a supplementary budget.
- The receipt difference of **Kshs. 1,212,671** in World Bank Grant was due to additional funding exceeding expectations by 2%.
- The difference of **Kshs. 117,280,138** between Actual receipt and Final budget receipt in Matching Fund was due to delay in disbursement of **Kshs. 113,700,000** and unrealized receipt of **Kshs. 3,580,138** from original budget of **Kshs. 114,000,000.**

Budget Reconciliation

	Description of Particulars	Amount in Kshs
	Actual Surplus Amounts as per the statement of Budget	6,569,646
	Closing Cash and Cash Equivalent as per the statement of Cash flows	6,569,646

Current Year: 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 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	6,569,646	0	6,569,646	6,569,646	0	100%
Receipts						
World Bank Grant	183,034,860		183,034,860	182,767,821	267,039	100%
Matching Fund	285,593,773	0	285,593,773	285,593,773	0	100%
Total Revenue	**475,198,279**	**0**	**475,198,279**	**474,931,240**	**267,039**	**100%**
Payments						
Administration costs	27,034,860	0	27,034,860	25,522,227	1,512,633	94%
Supply of goods and services	212,000,000		212,000,000	212,050,587	-50,587	100%
Certified Works	236,163,419	0	236,163,419	108,662,558	127,500,861	46%
Total Payments	**475,198,279**	**0**	**475,198,279**	**346,235,372**	**128,962,907**	**73%**
Surplus	-	-	-	**128,695,868**	**-128,695,868**	**27%**

Explanation of Significant Budget Variances

The overall budget utilization during the year was **73%** with an under-utilization of **27%** that translates to **Kshs.128,695,868**. The significant variance was mainly attributable to the delayed disbursement of donor funds which affected the timely implementation of

planned activities and projects. The delay in receipt of funds constrained the programme's ability to undertake and complete some of the budgeted activities within the financial year.

The under-utilization was particularly significant in the Certified Works budget, which recorded utilization of **46%**. This was primarily due to delays in the procurement and commencement of planned works, slow progress of ongoing works and certification of works at lower values than initially budgeted. Some planned works had not reached the requisite stages for certification and payment by the end of the financial year and were consequently carried forward for implementation in the subsequent financial year.

Budget Reconciliation

	Description of Particulars	Amount in Kshs
	Actual Surplus Amounts as per the statement of Budget	128,695,868
	Closing Cash and Cash Equivalent as per the statement of Cash flows	**128,695,868**

Notes to the Financial Statements

1. General Information

The Marsabit Climate Change Fund is established by an Act of County Assembly of Marsabit and derives its authority and accountability from **The Marsabit Climate Change Fund Act, 2020 (Act No. 2 of 2020).** The Fund is wholly owned by the Government of Kenya and is domiciled in Kenya. Its principal activity is to provide a legal framework to create and manage a dedicated Climate Change Fund at the county level, enabling localized action on climate adaptation and mitigation.

2. Statement of Compliance and Basis of Preparation

The Financing Locally-Led Climate Action (FLLoCA) Project's Financial Statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity. The financial statements are prepared on accrual basis.

The entity has, however, taken advantage of the transitional provisions under IPSAS 33. Consequently, these are the entity's second year transitional financial statements.

In line with IPSAS 33, certain elements of the financial statements have not yet been fully recognized, measured, or presented. Specifically, the entity has elected transitional reliefs in respect of: Provisions and contingent liabilities for either recognition or disclosure if there will be such going forward.

Steps Towards Full Compliance:

The entity is progressively implementing measures to achieve full compliance with accrual IPSAS within the allowed transitional period, including:

1. Capacity Building: Ongoing training of finance staff on accrual IPSAS requirements.
2. Systems Strengthening: Upgrading financial management systems to capture and report accrual-based information.
3. Asset Management: Conducting asset verification, valuation and registration exercises to ensure complete recognition of assets.
4. Progressive Recognition: Gradually incorporating previously unrecognized elements into the financial statements in accordance with IPSAS 33 transitional provisions.

3. 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.

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 2025-2026 was approved by the County Assembly of Marsabit. There were no subsequent revisions or additional appropriations made to the approved 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 financial performance has been presented on page six (6) of these financial statements.

c) Property, plant and equipment

Depreciation is calculated on a straight-line basis annually regardless of the date of purchase and carrying amount written-off. After the useful life of the assets.

The annual depreciation rates are as follows-:

Furniture, Fixtures and fittings	12.5%
Computer and ICT Equipment	33.3%

All property, plant and equipment are stated at NBV since they were acquired during the year under review and delivered in the same period. Hence, depreciation was provided for. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the 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.

Notes to the financial statements

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.

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 entity does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Fund'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

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.

Notes to the financial statements

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 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) are set out in *Note xx.*

Financial liabilities

Classification

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

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.

Notes to the financial statements

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 Marsabit County Climate Change Fund/Financing Locally-Led Climate Action Project.

i) Provisions

Provisions are recognized when the Marsabit County Climate Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential 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 Fund does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

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

j) Nature and purpose of reserves

The Fund creates and maintains reserves in terms of specific requirements. The reserves are generally available for any future needs or contingencies.

k) Changes in accounting policies and estimates

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

l) Employee benefits

Retirement benefit plans
The Fund does not provide retirement benefits for its employees and directors as all engaged staff of the project are employees of County Government of Marsabit.

m) 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.

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 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.

Notes to the financial statements

p) 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.

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 financial year.

r) 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

4. Significant Judgments and Sources of Estimation Uncertainty

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

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. Additional disclosure of these estimates of provisions is included in Note 14.

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	2025-2026 KShs
Conditional Transfers	
Transfers from World Bank	214,320,565
Matching Fund	171,893,773
Total Conditional Transfers (b)	**386,214,338**
Total Transfers for the Year (a + b)	**386,214,338**

CCRI (Climate Change Resilience Investment) Funding Purpose:

i. *To support counties and local communities in building resilience to climate change.*
ii. *Finances projects that reduce vulnerability of communities to droughts, floods and other climate-related risks.*
iii. *Aims at strengthening adaptive capacity, safeguarding livelihoods, and promoting sustainable natural resource management.*
iv. *Ensures integration of climate change measures into county planning and development.*

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 (2025-2026)
	Kshs	**Kshs**	**Kshs**	**Kshs**
Matching Fund	171,893,773	-	-	171,893,773
World Bank	214,320,565	-	-	214,320,565
Subtotal	**386,214,338**	**0**	**0**	**386,214,338**
Deferred Income realized	-	-	-	-
Transfers in Kind	-	-	-	-
Total	**386,214,338**	**0**	**0**	**386,214,338**

Notes to the financial statements

7. Administration Costs

Description	2025-2026
	KShs
Support to Climate Change Unit	25,522,227
Total	**25,522,227**

8. Supply of Goods and Services

Description	2025-2026
	KShs
Supplies and services	165,334,245
Total	**165,334,245**

Notes to the financial statements

9. Depreciation and Amortization expense

Description	2025-2026
	KShs
Property, Plant and Equipment	1,673,075
Total	**1,673,075**

10. Certified Works

Description	2025-2026
	KShs
Water Works	159,092,943
Agriculture Works	9,786,804
Environmental Works	6,950,583
Total	**175,830,330**

Notes to the financial statements

11. Cash and Cash Equivalents

Description	2025-2026	1st July 2025
	KShs	Kshs
Cash in Bank	128,695,868	6,569,646
Cash on hand	-	-
Total Cash and Cash Equivalents	**128,695,868**	**6,569,646**

Notes to the financial statements
Project Bank Accounts

Details	2025-2026	1st July 2025
	KShs	Kshs
Foreign Currency Accounts		
Central Bank of Kenya A/c No:	-	-
Total Foreign Currency balances	**0**	**0**
Local Currency Accounts		
Central Bank of Kenya A/c No:1000506587	128,695,868	6,569,646
Total local currency balances	128,695,868	6,569,646
Total bank account balances	**128,695,868**	**6,569,646**

12. Receivables

Description	2025-2026	1st July 2025
	Kshs	Kshs
Counter Part Funding	-	113,700,000
IDA World Bank	31,552,744	-
Total Receivables	**31,552,744**	**113,700,000**

Ageing analysis for Receivables

Description	2025-2026		1st July 2025	
	KShs		Kshs	
	2025-2026	% of the total	Comparative FY	% of the total
Less than 1 year	31,552,744	100%	-	-
Between 1- 2 years	-	-	-	-
Between 2-3 years	-	-	-	-
Over 3 years	-	-	-	-
Total (a+b)	**31,552,744**	-	-	-

13. Inventories

Description	2025-2026	1st July 2025
	Kshs	Kshs
Consumable stores	-	-
Construction stores	-	-
Others consumables (specify)	-	-
Less: allowance for impairment	-	-
Total inventories	-	-

Notes to the financial statements

14. Property, Plant and Equipment

Cost	Furniture and fittings	Computers	Total
	Kshs	Kshs	Kshs
Depreciation rate	**12.5%**	**33.3%**	
As At 1 July 2025 (opening balances)	**1,786,803**	**596,287**	**2,383,090**
Additions	-	3,757,240	3,757,240
As at 30th June 2026	**1,786,803**	**4,353,527**	**6,140,330**
Depreciation And Impairment			
As at 1 July 2025	**255,258**	**293,693**	**548,951**
Depreciation charge for the year	223,350	1,449,724	**1,673,074**
As At 30th June 2026	**(478,608)**	**(1,743,417)**	**(2,222,025)**
Net Book Values			
As at 1st July 2025	**1,786,803**	**596,287**	**2,383,089**
As at 30th June 2026	**1,563,453**	**2,903,802**	**4,467,255**

Notes to the financial statements

15. Trade and Other Payables

Description	2025-2026		1st July 2025	
	Kshs		Kshs	
Trade payables	116,576,667		92,367,997	
Total trade and other payables	**116,576,667**		**92,367,997**	
Ageing analysis: (Trade and other payables)	**2025-2026**	**% of the Total**	**Comparative FY**	**% of the Total**
Under one year	116,576,667	100	-	-
1-2 years	-	-	-	-
2-3 years	-	-	-	-
Over 3 years	-	-	-	-
Total (tie to above total)	**116,576,667**	**100**	**0**	**0**

Notes to the financial statements

16. Third-Party Deposits

Description	2025-2026		1st July 2025	
	Kshs		Kshs	
Contractor's Retention	-		-	
Gratuity	-		-	
Other deposits (specify)	-		-	
Total deposits	-		-	
Ageing analysis: (Refundable deposits)	**2025-2026**	**% of the Total**	**Comparative FY**	**% of the Total**
Under one year	-	-	-	-
1-2 years	-	-	-	-
2-3 years	-	-	-	-
Over 3 years	-	-	-	-
Total	**0**	**0**	**0**	**0**

Deferred Income

Description	2025-2026	1st July 2025
	Kshs	Kshs
World Bank	-	-
County Government of Marsabit	-	-
Total Deferred Income	**0**	**0**

Deferred Income Movement Schedule

	Development Partner 1	Development Partner 2	Others specify	Total
	Kshs	Kshs	Kshs	Kshs
Balance as at 1st July 2025	-	-	-	-
Additions	-	-	-	-
Transfers To Performance Statement as Revenue	-	-	-	-
Balance as at 30th June 2026	**0**	**0**	**0**	**0**

Notes to the financial statements

17. Cash Generated from Operations

Description	2025-2026	2024-2025
	Kshs	Kshs
Surplus/Deficit for the year	**17,854,460**	**-97,436,932**
Adjusted for:		
Depreciation	1,673,075	548,951
Working capital adjustments		
Increase in payables	24,208,671	92,367,996
Decrease in Receivables	82,147,256	-113,700,000
Net cash flow from operating activities	**125,883,462**	**-118,219,985**

The total of this statement should tie to the cash flow section on net cash flows from/used in operations.

18. Special Deposit Accounts

Below is the Special Deposit Account (SDA) movement schedule, which shows the flow of funds voted in the year. These funds have been reported as grants received in the year under the Statement of Receipts and Payments.

Notes to the financial statements

Special Deposit Accounts Movement Schedule

Description	2025-2026	1st July 2025
	Kshs	Kshs
(i) MARSABIT COUNTY CLIMATE CHANGE FUND A/c NO: 1000506587		
Opening balance	27,901,650	127,721,671
Total amount deposited in the account		292,190,022
Total amount withdrawn	354,661,594	299,642,047
Total amount withdrawn	253,867,376	392,010,043
Closing balance (*as per SDA bank account reconciliation attached*)	**128,695,868**	**27,901,650**

The Special Deposit Account reconciliation statement has been attached as an Appendix supporting this closing balance.

19. Related Party Disclosures

Nature of related party relationships

Entities and other parties related to the FLLoCA Program 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 Fund, holding 100% of the Fund's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the Entity, both domestic and external.

Notes to the financial statements

Other related parties include:

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

Description	2025-2026 Kshs
Transactions with related parties	
a) Sales to related parties	
Sales of electricity to govt agencies	-
Rent income from govt. Agencies	-
Others (specify) e.g. interest and bank charges	-
Total	-
B) purchases from related parties	
Purchases of electricity from KPLC	-
Purchase of water from govt service providers	-
Rent expenses paid to govt agencies	-
Others (specify)	-
Total	-
b) Grants /Transfers from the Government	
Grants from World Bank	214,320,565
Marsabit County Matching Fund	171,893,773
Total	**386,214,338**
c) Expenses incurred on behalf of related party	
Payments of salaries and wages for xxx employees	-
Payments for goods and services for xxx	-
Total	
d) Key management compensation	
Directors' emoluments	-
Compensation to key management	-
Total	-

Notes to the financial statements

20. Events after the Reporting Period

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

21. Ultimate And Holding Entity

The Fund is a Semi-Autonomous Government Agency under the National Treasury. Its ultimate parent is the Government of Kenya.

22. 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)*
OAG/IRO/FLLOCA M/2024/2025(14)	1. **Construction of Garba Water pan**	During the implementation of Phase I, the contractor undertook compaction of materials as per the project specifications. However, the works were adversely affected by heavy downpours and flooding originating from the Ethiopian highlands, which resulted in the washing away of the compacted soil. This unforeseen climatic event impacted the progress and integrity of the completed works. The additional works arising from both the unforeseen site conditions and weather-related impacts have been incorporated into Phase II of	Resolved	

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)*
		the project, which is scheduled for implementation in the FY 2025/2026 budget cycle.		
	2. Delays in Distribution and Installation of Energy Saving Jikos	Currently, all the beneficiary ECDE centres are fully utilizing the installed jikos, contributing to energy efficiency and reduced firewood consumption in school feeding programs.	Resolved	
	3. Undelivered works on Establishment of tree nurseries and building of Gabions.	Currently, all four nurseries are fully operational, stocked with approximately 30,000 seedlings and contributing to environmental conservation and afforestation under the climate change programme.	Resolved	

Guidance Notes:

1. Use the same reference numbers as contained in the external audit report;
2. Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
3. Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
4. Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

.....

Chief Officer

CHIEF OFFICER ENVIRONMENT
& CLIMATE CHANGE
COUNTY GOVERNMENT OF MARSABIT
P. O. Box 365-60500, MARSABIT

Janet Ahatho
.....

Project Coordinator

Annex 2: Reconciliation of inter-entity transfers

	Project Name: Financing Locally-led Climate Action (FLLoCA) Program			
	Break down of transfers from The Marsabit County Revenue Fund			
A	**Marsabit County Counterpart Funding**			
		Bank Statement Date	**Amount (Kshs)**	**2025-2026**
		01-07-2025	113,700,000	
		03-10-2025	30,000,000	
		09-04-2026	55,653,919	
		03-07-2026	86,239,854	
		Total	**285,593,773**	
B	**IDA World Bank**	03-10-2025	18,303,447	**2025-2026**
		26-02-2026	164,464,374	
		Total	**182,767,821**	
		Total (A+B)	**468,361,594**	

The above amounts have been communicated to and reconciled with the Parent Ministry/State Department

Janet Ahatho
Project Coordinator,

Financing Locally-Led Climate Action Project

Head of Accounting Unit

COUNTY GOVERNMENT OF MARSABIT
CHIEF OFFICER ENVIRONMENT & CLIMATE CHANGE
P. O. Box 384-60500, MARSABIT

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
Furniture and fittings	2,042,060	-	-	-	2,042,060
ICT Equipment	889,980	3,757,240	-	-	4,647,220
Total	**2,932,040**	**3,757,240**			**6,689,280**

Annex 4:

COUNTY GOVERNMENT OF MARSABIT				**F.O. 30**
FINANCING LOCALLY-LED CLIMATE ACTION PROJECT				
BANK RECONCILIATION REPORT AS AT 30th June 2026				
			KSH. CTS	**KSH. CTS**
BANK BALANCE AS PER BANK STATEMENT				130,565,768
LESS				
1	Payment in cashbook not in bank		(2,494,366.45)	
2	Receipts in bank not in cashbook			
	Sub-total			-2,494,366
	Add			
3	Payment in bank not in cashbook		624,466	
4	Receipts in cashbook not in bank			
	Sub-total			624,466
	BANK BALANCE AS PER CASHBOOK			**128,695,867**

"I certify that I have verified the Bank Balance in the cash book with the bank statement and that the above reconciliation is correct"

Signature: _____ **Designation:** Fund Accountant **Date:** 14/09/26