REPUBLIC OF KENYA

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

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REPORT

OF

THE AUDITOR-GENERAL

PARLIAMENT OF KENYA LIBRARY

ON

MASALANI MUNICIPALITY

FOR THE YEAR ENDED 30 JUNE, 2026

COUNTY GOVERNMENT OF GARISSA

OFFICE OF THE AUDITOR - GENERAL
GARISSA REGIONAL OFFICE
23 SEP 2026
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MUNICIPALITY OF MASALANI

County Government of Garissa

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2026

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

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1. Acronyms and Definition of Key Terms

A. Acronyms

PSASB	Public Sector Accounting Standards Board
FY	Financial Year
OSHA	Occupational Safety & Heath Act

B. Definition of Key Terms

Fiduciary Management - Members of Management directly entrusted with Municipality of Masalani's financial resources.

Comparative Year- Means the prior period.

2. Who We Are

a) Background information

Municipality of Masalani is established by and derives its authority and accountability from Urban Areas and Cities Act No. 13 of 2011(amended 2019) and Cities and Municipal Charter on 14 march 2023. The City/ Municipality is under the County Government of Garissa and is domiciled in Kenya.

Municipality of Masalani of Garissa County, Kenya, is a vibrant and bustling town known for its rich cultural heritage and historical significance. It is strategically situated as a major trading center, linking various regions within Garissa County and neighboring counties of Tana River and Lamu it also plays a significant role in cross-border trade and commerce with Somalia. The town is predominantly inhabited by pastoralist's communities that rear livestock, goats, and sheep. Masalani has been historically important as the headquarters of the former Ijara District and is administratively part of the Masalani division and Ijara Constituency. It also hosts Hirola, which is a world endangered species in its Ishaqbini Community Conservancy. The municipality lies on the eastern shores of the Tana River, between Hola and Garsen. The town's elevation to municipality status has been a significant development, anticipated to bring enhanced infrastructure, agriculture, drainage, education, and other social amenities. This upgrade is expected to attract national and international recognition, investment, and increase the town's ability to raise funds, including from foreign development partners.

Following the upgrading of the Masalani town to a Municipal status after the conferment of the charter, the board and the management quickly embarked on a number of activities as indicated below.

b) Principal Activities

The main function of the municipality is drawn from section 20 of urban areas and cities act, 2011 and municipal charter. The functions were officially transferred to the municipality vide Gazette notice no 6772.These include;

1. Promotion, Regulation, and Provision of refuse collection and Solid Waste Management Services including:

(a) Solid waste management.

(b) Dumpsite management.

(c) Maintain general cleanliness of the Municipality.

(d) Enforcement of laws related to waste management.

2. Promotion, Regulation, and provision of Sanitation service including:

(a) Sanitation of provision of facilities and services for safe disposal of liquid waste.

(b) Wastewater management.

(c) Supervision of Public County toilet construction.

(d) Protection of water supply.

(e) Protection of environment (Ecological sanitation).

(f) Recycling, composting.

(g) Transportation and disposal of waste.

(h) Waste handling.

3. Construction and maintenance of Municipal Administrative Offices and Yards:

(a) Construction and maintenance of administrative offices; and

(b) Ensure compliance for contracted building services

4. Design, Construction and Maintenance of Urban Roads and Associated Infrastructure including:

(a) Construction of Urban Roads within the Municipality including:

(i) Mapping of road reserves;

(ii) Opening of roads;

(iii) Survey works;

(iv) Installation of culverts; and

(v) Installation gabions, cut off drains;

(b) Maintenance of Urban Roads within the Municipality including:

(i) Re-carpeting of roads; and

(ii) Cleaning of drains.

(c) Improving of Urban and Rural Roads within the Municipality:

(i) Upgrading the roads.

5. Construction and Maintenance of Storm water drains and flood control infrastructure within the municipality including:

(a) Design of storm water drainage structures;

(b) Construction of storm water drains and scour checks;

(c) Installation of culverts;

(d) Opening/unblocking of the drains; and

(e) Installations and construction of gulley pots.

6. Construction and Maintenance of Walkways and other non-motorized Transport Infrastructure including:

(a) Demarcation of walkways and non-motorized transport areas;

(b) Design and construction of pavements/walkways;

(c) Signage; and

(d) Enforce proper use of walk-ways.

7. Design, Construction and maintenance of Street Lighting and Floodlights:

(a) Design and Installation of Street lighting including

(i) Identification of sites;

(ii) Design and preparation of BOQs;

(iii) Installation of streetlights;

(iv) Servicing and maintenance schedules;

(v) Contracting;

(vi) Construction;

(vii) Supervision;

(viii)A Completion; and

(ix) Commissioning.

(b) Maintenance of streetlights including:

(i) Routine checks during maintenance;

(ii) Management of Flood lights; and

(iii) Payment of bills – logistics.

8. Construction and Maintenance of Recreational Parks and Green Spaces:

(a) Design and Construction including;

(i) Landscaping and beautification work within the municipality;

(ii) Management of Recreational Parks and green spaces; and

(iii) Enforcement of Laws related to green spaces and parks.

(b) Maintenance of recreational parks and green spaces including;

(i) Landscaping and beautification work within the municipality.

(ii) Enforcement of Laws related to green spaces and Recreational parks.

9. Promotion, Regulation, and Provision of Fire-Fighting Services including:

(a) Construction and maintenance of fire stations

(b) Provision of fire-fighting services

(c) Promotion of emergency preparedness

(d) Disaster management

10. Development and Enforcement of Municipal Plans and Development Controls including:

(a) Development control;

(b) Zoning and management of public land;

(c) Collection of land rates;

(d) Urban planning;

(e) Survey;

(f) Ownership;

(g) Documentation; and road registration

11. Regulation of out-door advertising including:

(a) Wall branding;

(b) Sign boards;

(c) Billboards;

(d) Banners;

(e) Leaflets;

(f) Posters;

(g) Tent pitching;

(h) Vehicle branding;

(i) Road shows;

(j) Sandwich men (entertainers);

(k) Umbrella branding;

(l) Neon signs;

(m) Kiosk branding etc.

12. Promotion, regulation, and provision of animal control and welfare including:

(a) All aspects of animal well-being, including development of regulations, proper housing, management, nutrition, disease prevention and treatment, responsible care, humane handling, and, when necessary, humane euthanasia;

(b) Disposal of animal including removal of carcasses in public places;

Vision and mission Sstatement

Vision Sstatement

To lead in creating a smart, resilient and cultural vibrant municipality that embraces diversity, enhances quality of life and inspires future generations.

Mission

Our mission is to provide efficient governance, sustainable infrastructure and essential services that enhances the well-being and prosperity of every resident.

c) Audit and Assurance

Municipality of Masalani applies a combined assurance model to enhance the reliability of this report. Assurance is provided through:

- Management reviews
- Internal audit assessments overseen by the Board Audit, Risk, and Compliance Committee
- External audit of financial statements by the Office of the Auditor-General (OAG)

Legal, Compliance, and Corporate Governance Audits are conducted biannually to ensure adherence to applicable laws, regulations, and governance standards. The Board has applied its collective judgment to this report and confirms that it provides a balanced and accurate reflection of Municipality of Masalani performance, strategy, and value-creation approach.

d) Key Management

The Municipality's management is under the following key organs:

- County Department in charge of urban Planning and Municipalities
- Board of Management
- Municipal Manager
- Management

e) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2026 and who had direct fiduciary responsibility were:

Ref	Position	Name
1	Municipality Manager/CEO	Mr Yussuf Mohamed
2	Head of public works	Eng. Ndinya
3	Head of Finance	Abdullatif Abdi Shakul
4	Head of Sanitation and Environment	Abdalla Aden Mohamed
5	Accountant	Mohamed Abdi Matan
6	Administration	Ahmed Sheikh
7	Internal audit	Rashid Abdi Aden

f) Registered Offices

P.O. Box 26 - 70105
Masalani Sub-County office building
GARISSA, KENYA

g) Contacts

Telephone: (+254) 72464176
E-mail: masalani.municipality@gmail.com
Website: https://garissa.go.ke

h) Bankers

National Bank of Kenya
Garissa, Branch

i) Independent Auditor

Auditor General

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084 - GPO 00100

Nairobi, Kenya

j) Principal Legal Adviser

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112 - City Square 00200

3. Municipality Board Chairperson's Report

I am pleased to present the Financial Statements of Municipality of Masalani for the Financial Year ended 30 June 2026. These statements reflect the Municipality's financial performance, achievements, and commitment to delivering quality urban services in accordance with the Urban Areas and Cities Act, 2011, the Public Finance Management Act, 2012, and other applicable legal and policy frameworks.

During the year under review, the Municipal Board remained committed to providing strategic leadership and oversight aimed at improving service delivery, strengthening institutional governance, and enhancing the quality of life for the residents of Masalani Municipality. The Board continued to work closely with the County Government of Garissa, development partners, community groups, and other stakeholders to advance the Municipality's development agenda.

On behalf of the Municipal Board, I sincerely appreciate His Excellency the Governor of Garissa County, the County Executive Committee, the County Assembly, the Municipal Manager and staff, development partners, and the residents of Masalani for their continued support, commitment, and collaboration in the implementation of municipal programmes and activities.

During the Financial Year 2025/2026, the Board made significant progress in executing its mandate despite financial and institutional constraints. Among the key achievements realized during the year were:

- Conducted regular Board meetings that provided strategic policy direction and oversight for implementation of municipal programmes.
- Continued implementation and operationalization of the Integrated Development Plan (IDeP) to guide planning, budgeting, and resource mobilization.
- Strengthened urban cleanliness through routine town cleaning exercises and enhanced solid waste management activities.
- Undertook rehabilitation and maintenance of drainage systems to improve storm water management and reduce flooding risks.
- Continued improvement of market infrastructure through cleaning, organization of trading spaces, and enhancement of market security.

- Strengthened collaboration with the County Government, County Assembly, National Government agencies and development partners
- Conducted stakeholder engagement forums with community groups, business associations, youth, women, and other interest groups to promote inclusive urban governance.
- Strengthened partnerships with the Sub-County Security Committee to improve coordination on matters relating to public safety and urban management.
- Procured sanitation equipment and operational tools to improve environmental cleanliness within the Municipality.
- Enhanced stakeholder mapping and partnership development to improve collaboration in service delivery.

Financial Performance

The Municipality had an approved budget of KSh 6,000,000 during the Financial Year 2025/2026. During the year, the Municipality received KSh 2,500,000 as transfers from the County Government, representing approximately 42% of the approved budget. This shortfall affected the implementation of several planned development and operational activities.

The Board recognizes the need to diversify funding sources and will continue working with the County Government and development partners to mobilize additional resources for improved service delivery.

Challenges

Despite the progress made, the Municipality continued to face several challenges, including:

1. Inadequate staffing, particularly the absence of key technical officers such as:
    - Registered Engineer;
    - Physical Planner;
    - Human Resource Officer;
    - Environmental Safeguards Officer;
    - Fire and Rescue personnel;

2. Inadequate and delayed budgetary allocations from the County Government, affecting implementation of approved programmes.
3. Limited funding for infrastructure development, including drainage, roads, markets, street lighting, and environmental management.
4. Need for completion and approval of key planning and policy documents, including the Spatial Plan, Strategic Plan, and other governance instruments.
5. Limited institutional capacity to fully implement urban development programmes and attract investment.

Looking ahead, the Board remains committed to strengthening governance, improving financial sustainability, enhancing service delivery, and promoting sustainable urban development. Priority will be given to strengthening institutional capacity, enhancing own-source revenue, mobilizing development partnerships, improving environmental management, and implementing strategic infrastructure projects that will improve the quality of life for the residents of Masalani Municipality.

On behalf of the Municipal Board, I wish to express my sincere appreciation to all stakeholders for their continued support and partnership. With continued collaboration and prudent management of available resources, we remain confident that Municipality of Masalani will continue progressing towards becoming a clean, resilient, inclusive, and economically vibrant municipality.

Mohamed Hajir Sheikh
Chairperson – Masalani Municipality

4. Report of the Municipality Manager

It is my pleasure to present the Report of the Municipal Manager for the Financial Year ended 30 June 2026. This report highlights the operational performance, key achievements, financial management, and strategic direction of Municipality of Masalani during the year under review.

Municipality of Masalani serves as an important urban Centre within Garissa County and continues to play a significant role in promoting socio-economic development, environmental sustainability, and improved urban service delivery. As the Municipality continues to grow in population and economic activities, the demand for quality infrastructure, sanitation services, urban planning, and institutional capacity continues to increase.

During the Financial Year 2025/2026, the Municipality remained committed to implementing its mandate as provided under the Urban Areas and Cities Act, 2011. Despite financial and operational constraints, Management continued to strengthen governance systems, improve financial accountability, and enhance service delivery through close collaboration with the Municipal Board, the County Government of Garissa, development partners, and the residents of Masalani.

The Municipality continued to implement activities aimed at improving urban management while strengthening institutional capacity under the Kenya Urban Support Programme II (KUSP II). The Municipality also enhanced compliance with public financial management requirements and continued to improve transparency and accountability in the utilization of public resources.

Key Achievements during the Year

During the Financial Year 2025/2026, the Municipality achieved the following:

- Continued implementation of the Integrated Development Plan (IDeP) to guide planning, budgeting, and prioritization of municipal development programmes.
- Conducted routine urban cleanliness and environmental sanitation activities, resulting in improved waste management and a cleaner urban environment.
- Undertook maintenance and rehabilitation of drainage systems to improve storm water management and reduce flooding.

- Enhanced management of public markets through cleaning, organization of trading spaces, and improved environmental hygiene.
- Procured sanitation equipment and operational tools to strengthen municipal cleaning services.
- Strengthened stakeholder engagement through consultations with community groups, business associations, youth, women, and other development partners.
- Improved collaboration with County Government departments, National Government agencies, and development partners to enhance coordinated service delivery.
- Strengthened financial management systems through timely preparation of financial reports, maintenance of accounting records, and compliance with applicable laws and regulations.

During the Financial Year 2025/2026, the Municipality had an approved budget of **KSh 6,000,000**. Actual transfers received from the County Government amounted to **KSh 2,500,000**, representing approximately **42%** of the approved budget.

The limited funding affected the implementation of several planned programmes and development projects. Nevertheless, Management prioritized essential operational activities and ensured prudent utilization of the available resources while maintaining compliance with the Public Finance Management Act, 2012, and other applicable financial regulations.

Challenges

The Municipality continued to experience several challenges that affected efficient service delivery, including:

- Inadequate budgetary allocations and delays in disbursement of funds from the County Government.
- Heavy reliance on County Government transfers as the primary source of funding.
- Shortage of technical and professional staff, particularly in engineering, physical planning, environmental management, internal audit, enforcement, fire and rescue services, and sanitation.
- Delayed transfer of devolved functions, staff, assets, and resources to the Municipality.
- Inadequate operational equipment, transport facilities, and office infrastructure.

- Limited funding for development projects and urban infrastructure.
- Need to finalize and operationalize key planning documents, including the Strategic Plan and Spatial Plan.
- Increasing demand for municipal services due to rapid urban growth and population expansion.

The Municipality will continue working closely with the County Government, development partners, private sector stakeholders, and the community to mobilize resources, strengthen service delivery, and promote sustainable urban development.

I wish to express my sincere appreciation to the Municipal Board, the County Government of Garissa, development partners, staff, and the residents of Municipality of Masalani for their continued support, commitment, and cooperation. Together, we shall continue building a well-managed, resilient, inclusive, and sustainable Municipality.

.....

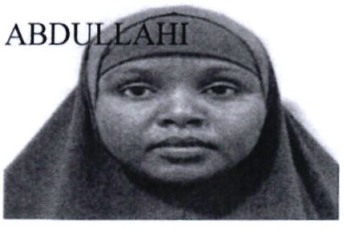
Name: Yussuf Mohamed

Municipality Manager

MANAGER/CEO
MASALANI MUNICIPALITY
P. O. BOX 26-70105,
MASALANI

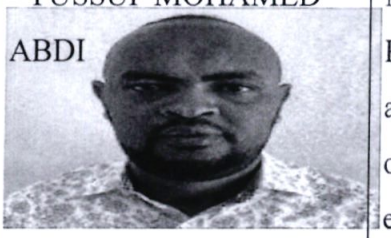
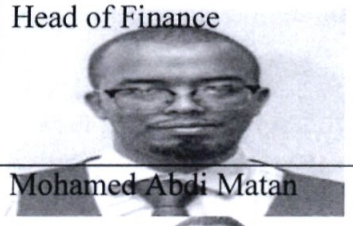
5. Corporate Governance Statement

Part A: Board of Directors Profiles

Serial No.	Name	Details of qualifications and experience
1	MOHAMED HAJIR SHEIKH 	Mr. Mohamed was born in 1950. Professionally he is an administrator who served the Government of Kenya in different capacities, he was a registration officer with Civil registrar department before moving to the Administration and served as a District Officer for 20years. Mr. Mohamed has over 40 years' experience working for the government of Kenya. He is a member of program committee.
2	LEILA AHMED ABDULLAHI 	Mrs. Leila born in **1996**, holds a Bachelor's degree in Business Management and has experience in programme implementation. She currently works with a local organization implementing projects in Masalani and is a member of the Programme Committee.
3	ISMAIL DUALE AHMED 	Mr. Ismail Duale, born in **1954**, is a retired government officer with over 40 years of public service experience. A Range Management Officer by profession, he served in various government institutions and boards and currently chairs the Programme Committee.
4	HUSSEIN ABDULLAHI 	Mr. Hussein was born in 1953. He is an accountant by professional who worked with the Government of Kenya for over 35years before retiring. He worked in different capacity including District Accountant, before joining Independent Electoral and Boundaries Commission as an accountant. He is a the chair of Finance and Human resource Committee

5	ADEN ALI 	Aden was born in 1953.He is a former retired Administrator who served as a senior Chief of Masalani town before retiring. He also worked a cashier in one of the local banks. He has over 30 years' experience. He chairs the Audit and Risk management committee
6	DAYIB YERE BASHIR 	Mr. Dayib was born in 1994. He is a trained teacher by professional who is currently serving as a teacher in one of the local primary schools within the Sub- County of Ijara. Dayib has a Diploma in Education and vast experience in teaching.Member of the Audit committee
7	MARYAN MOHAMUD 	Maryam mohamud was born in 1998. She is currently working for a local organization that deals with improving the nutritional status of under-five. She has 5 years in the field. A member of Finance and Human resource committee.
8	MOHAMED HUSSEIN 	Born in 1980, he holds a Bachelor of Commerce degree from Egerton University and has extensive experience in public administration and governance. He served in the Office of the Deputy Governor of Garissa County from 2014 to 2022 and currently serves as CECM for Lands, Housing and Urban Development and a member of the Garissa County Municipalities Board
9	FARHIYA ISMAIL 	Born in 1992, she holds a Bachelor's degree in Business Management and has over 10 years of experience in management. She currently serves as Chief Officer of Urban Planning and a member of the Municipal Board.

Part B: Management Profile

S/ No	Name	Details of qualifications and experience
1.	YUSSUF MOHAMED ABDI 	Mr. Yussuf, born in **1984**, holds a Master's degree in Project Planning and Management from Moi University and has over **20 years of experience** with international organizations across Africa and Asia. He has extensive experience in programme management, strategic planning, budgeting, evaluation, fundraising, and team leadership.
2	CPA ABDILATIF ABDISHAKUL Head of Finance 	Mr. Shakul is a CPAK and a member of ICPAK with over 10 years of experience in public financial management, accounting, budgeting, and financial reporting. He holds a Master of Business Administration (Finance) from Kenyatta University and a Bachelor of Commerce.
3.	Mohamed Abdi Matan Accountant 	Mr. Matan is a CPA with over 19 years of experience in public financial management, accounting, budgeting, and financial reporting. He holds a Master of Business Administration (Finance) from Garissa University and a Bachelor of Commerce from Mount Kenya University.
4	Ahmed sheikh Ali Administrator 	Mr Ahmed was born in 1986 and 15 years working as administrator for this county government
5	Rashid Abdi Aden Acting Internal Auditor 	Rashid is an experienced Internal Auditor with over **10 years of experience** in public sector auditing, financial management, and governance. He holds an MBA in Finance from Garissa University and currently serves as an Internal Auditor for the County Government of Garissa and Masalani Municipality.

Part C: Governance Arrangements

Process of Appointment and Removal of Board Members for a Municipality

Composition of the Board

The Board of a municipality shall consist of nine (9) members, appointed by the County Governor with the approval of the County Assembly. The composition is structured as follows:

1. The County Executive Member responsible for Lands, Housing, and Urban Development areas or their representative.
2. Three (3) members appointed by the County Governor, with the approval of the County Assembly.
3. Four (4) members nominated by relevant associations and appointed by the County Governor, subject to County Assembly approval:
    - An umbrella body representing professional associations within the area.
    - An association representing the private sector in the area.
    - A cluster representing registered associations of the informal sector in the area.
    - A cluster representing registered neighborhood associations in the area.
4. The Chief Officer responsible for urban development.
5. The Municipal Manager, appointed under Section 28, who serves as the Secretary and ex officio member of the Board.

Eligibility for Appointment

To be eligible for appointment as a member of the Municipal Board, candidates must meet the following qualifications:

- Hold at least a diploma from a recognized institution in Kenya.
- Have a distinguished career in a medium-level management position in the private or public sector.
- Possess a minimum of five years of post-qualification professional experience.
- Meet the requirements of Chapter Six of the Kenyan Constitution, which deals with leadership and integrity.

- Be an ordinary resident or have a permanent dwelling within the municipality.
- Conduct business or have resided in the municipality for at least five years.

Additionally, during appointments, the County Governor must ensure gender equity and representation of persons with disabilities, youth, and marginalized groups.

Term of Office

The members of the Municipal Board shall serve on a part-time basis for a five-year term.

Removal of Members of the Municipal Board

A member of the Municipal Board may cease to hold office under specific circumstances outlined in the regulations governing municipalities. These conditions are as follows:

a. **Incapacity**: If a member is unable to perform their duties due to mental or physical incapacity.
b. **Bankruptcy**: If a member is declared or becomes bankrupt or insolvent.
c. **Criminal Conviction**: If a member is convicted of a criminal offence and sentenced to a term of imprisonment of six months or more.
d. **Resignation**: If the member submits a written resignation to the County Governor.
e. **Absenteeism**: If, without reasonable cause, the member is absent from three consecutive Board or committee meetings within a single financial year.
f. **Professional Misconduct**: If the member is found guilty of professional misconduct by their relevant professional body.
g. **Constitutional Disqualification**: If the member is disqualified from holding public office under the Kenyan Constitution.
h. **Conflict of Interest**: If the member fails to declare an interest in any matter being considered by the Board or its committees.
i. **Gross Misconduct**: If the member engages in gross misconduct.
j. **Death**: If the member passes away.

Removal Procedures

A member of the Municipal Board may be removed from office through the following methods:

1. **County Governor**: The County Governor may initiate the removal of a member.
2. **Board Resolution**: A resolution passed by at least two-thirds of the Municipal Board members can remove a member from office.
3. **Resident Petition**: The residents of the municipality may submit a petition for the removal of a Board member.

Procedure for Removal

The procedure for the removal or petition for removal of a Board member is to be provided by regulations under the Urban Areas and Cities Act.

Filling Vacancies

Any vacancy arising due to the removal of a Board member shall be filled according to the appointment procedure outlined in Section 3.3, ensuring the required qualifications and procedures are followed.

Functions of the Municipal Board of the Municipality

The Board of The Municipality shall perform the following functions:

a) oversee the affairs of the Municipality;
b) develop or adopt policies, plans, strategies and programmes and set targets for service delivery;
c) formulate and implement an integrated development plan;
d) control land, land sub-division, land development and zoning by public and private sectors for any purpose, including industry, commerce, markets, shopping and other employment centers, residential areas, recreational areas, parks. Entertainment, passenger transport, agriculture, and freight and transit stations. Within the framework of the spatial and master plans for the Municipality as delegated by the County Government of Garissa;
e) promoting and undertaking infrastructural development and services within the Municipality as delegated by the County Government of Garissa;

f) developing and managing schemes, including site development in collaboration with the relevant national and county agencies;
g) maintaining a comprehensive database and information system of the administration;
h) administering and regulating its internal affairs;
i) implementing applicable national and county legislation;
j) entering into contracts, partnerships or joint ventures as it may consider necessary for the discharge of its functions;
k) monitoring and, where appropriate, regulating Municipal services where those services are provided by service providers other than the Board of the Municipality;
l) preparing and submitting its annual budget estimates to the relevant County Treasury, by relevant county government department for consideration and submission to the county assembly for approval as part of the annual County Appropriation Bill;
m) collecting rates, taxes levies, duties, fees and surcharges on fees as delegated by the County Government of Garissa
n) settling and implementing tariff, rates and tax and debt collection policies as delegated by the County Government of Garissa
o) monitoring the impact and effectiveness of any services, policies, programs or plans;
p) establishing, implementing and monitoring performance management systems;
q) promoting a safe and healthy environment;
r) facilitating and regulating public transport

Committees of the Board of the Municipality

The Board of the Municipality may:

a) establish such committees for any general or special purpose which, in its opinion, would regulate or manage its affairs more efficiently and as may be necessary for the performance of its functions under the urban areas and cities act;
b) delegate to such committee such functions as are necessary for the efficient performance of its duties in respect to the whole or any part of the area under the jurisdiction of the Board of the Municipality; and
c) Include persons who are not members of the Municipal Board in any committee.

The committees of the Board of the Municipality to which members of the Municipality delegate any of their powers and functions must follow procedures which are based as a far as they are applicable on those provision of this Charter which govern the taking of decisions of performance of functions by the Municipal Board of the Municipality.

Remuneration of the Members of the Board of the Municipality

The Board of the Municipality shall not be entitled to a salary. However, members of the Municipal Board of the Municipality shall be paid such allowances as the County Executive committee shall, with the approval of the County Assembly, and on the advice of the Salaries and Remuneration Commission, determine.

Meetings of the Municipal Board

The Municipal Board of the Municipality is required to hold meetings to transact its business according to the following provisions:

1. **Regular Meetings**:
   The Board shall convene once every three months for regular meetings to conduct its business.
2. **Special Meetings**:
   In addition to the regular meetings, the Chairperson of the Board may call a special meeting at any time. A special meeting must also be convened if at least one-third of the members of the Board submit a written request for an urgent matter to be addressed.
3. **Public Accessibility**:
   All regular meetings of the Board, which are held to transact public business, must be open to the public when a majority of the Board members are present. This ensures transparency in the Board's decision-making process.
4. **Executive Sessions**:
   The Board is allowed to hold private executive sessions where the public is excluded. However, during these sessions, the Board is not permitted to finally adopt any by-laws, resolutions, rules, or regulations. Such decisions must be made during open, public meetings to ensure accountability and public participation.

6. Financial Performance Overview

1. Revenue

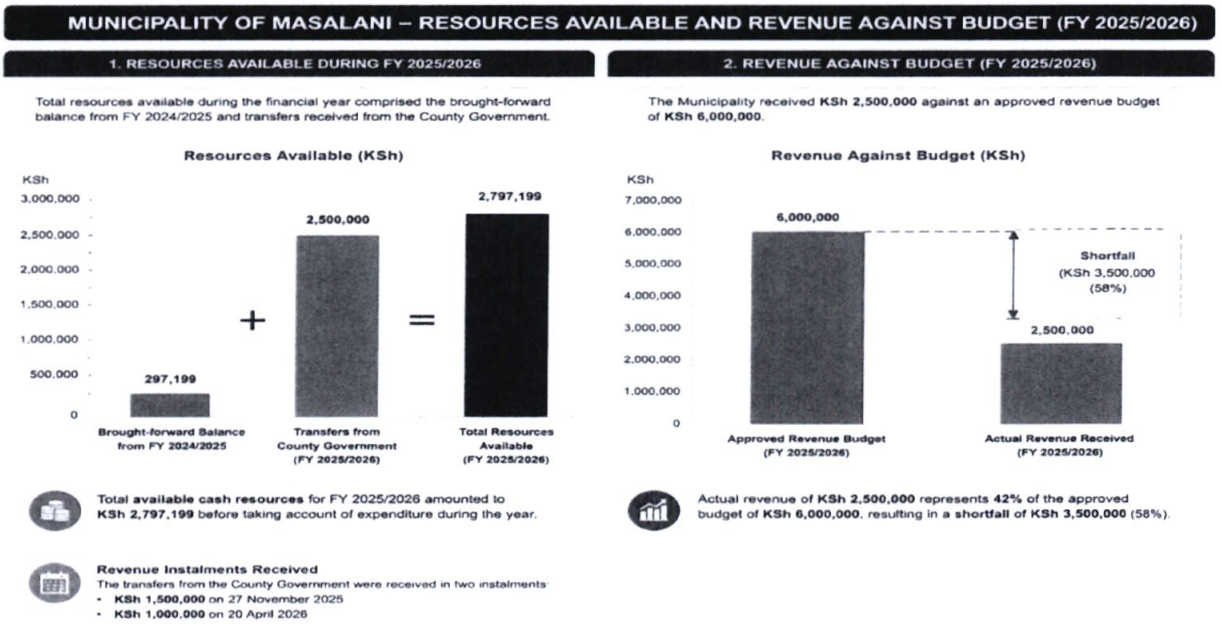
During the financial year ended 30 June 2026, the Municipality of Masalani received KSh 2,500,000 in transfers from the County Government of Garissa. In addition, the Municipality had an unutilized balance of KSh 297,199 carried forward from the financial year 2024/2025. The brought-forward balance formed part of the resources available to the Municipality during FY 2025/2026.

The total resources available at the beginning of and during the financial year therefore included the KSh 297,199 brought-forward balance together with the KSh 2,500,000 received from the County Government, giving total available cash resources of KSh 2,797,199 before taking account of expenditure during the year.

The KSh 297,199 brought forward from FY 2024/2025 represents funds that had remained unutilized at the end of the previous financial year and were available for use in FY 2025/2026 in accordance with the applicable budgetary and financial management requirements.

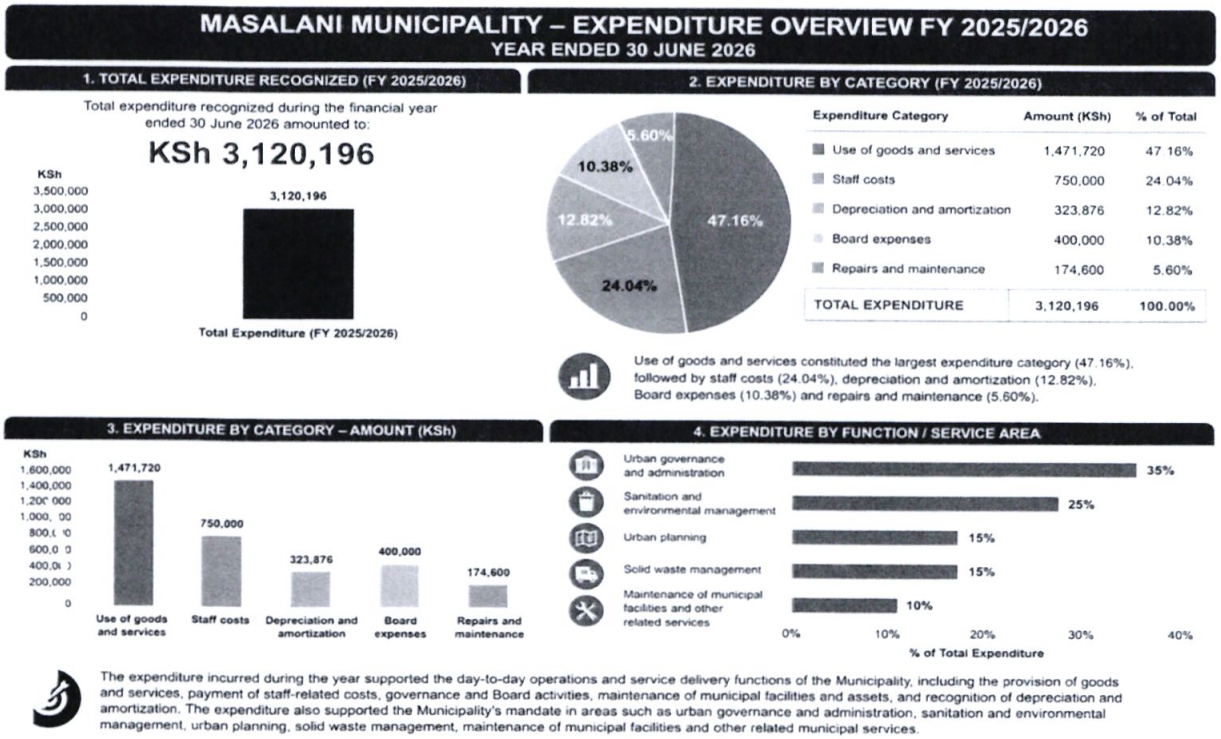
The Municipality's revenue during the year was entirely dependent on transfers from the County Government. The transfers amounted to KSh 2,500,000 compared with an approved budget of KSh 6,000,000. The shortfall in funding affected the implementation of several planned operational and development activities. Management recognizes the need to improve funding predictability and diversify available sources of financing in order to strengthen the Municipality's financial sustainability.

The transfers from the County Government were received in two instalments: KSh 1,500,000 on 27 November 2025 and KSh 1,000,000 on 20 April 2026.



2. Expenditure

Total expenditure recognized during the financial year ended 30 June 2026 amounted to KSh 3,120,196. The expenditure comprised use of goods and services amounting to KSh 1,471,720, staff costs of KSh 750,000, Board expenses of KSh 400,000, Depreciation and amortization KSh 323,876 and repairs and maintenance of KSh 174,600. The resulting deficit for the year amounted to KSh 663,887. Use of goods and services constituted the largest expenditure category, accounting for approximately 47.16% of total expenses, followed by staff costs at 24.04%, depreciation and amortization at 12.82%, Board expenses at 10.38%, and repairs and maintenance at 5.60%. The expenditure incurred during the year supported the day-to-day operations and service delivery functions of the Municipality, including the provision of goods and services, payment of staff-related costs, governance and Board activities, maintenance of municipal facilities and assets, and recognition of depreciation and amortization. The expenditure also supported the Municipality's mandate in areas such as urban governance and administration, sanitation and environmental management, urban planning, solid waste management, maintenance of municipal facilities and other related municipal services.



3. Revenue and Expenditure per Budget Estimates

The approved budget for FY 2025/2026 amounted to KSh 6,000,000 for both receipts and expenditure. The Municipality received KSh 2,500,000, representing 42% of the approved revenue budget and resulting in a shortfall of KSh 3,500,000. Total actual payments amounted to KSh 2,796,320, representing 47% of the approved expenditure budget, leaving an unutilized budget of KSh 3,203,680. Staff costs recorded the highest budget utilization at 94%, followed by Board expenses at 57%, use of goods and services at 45%, maintenance of assets at 25%, while no expenditure was incurred on purchase of assets. The low overall budget utilization was mainly attributable to the shortfall and delayed receipt of County Government funding, which constrained implementation of planned

4. Assets of Municipality of Masalani

The Municipality's assets comprise property, plant and equipment and other financial and operational assets used in the delivery of municipal services. The financial statements recognize depreciation and amortization of KSh 323,876 during the year. The Municipality also received assets donated by the County Government which had previously not been recognized and subsequently recognized them in the current year.

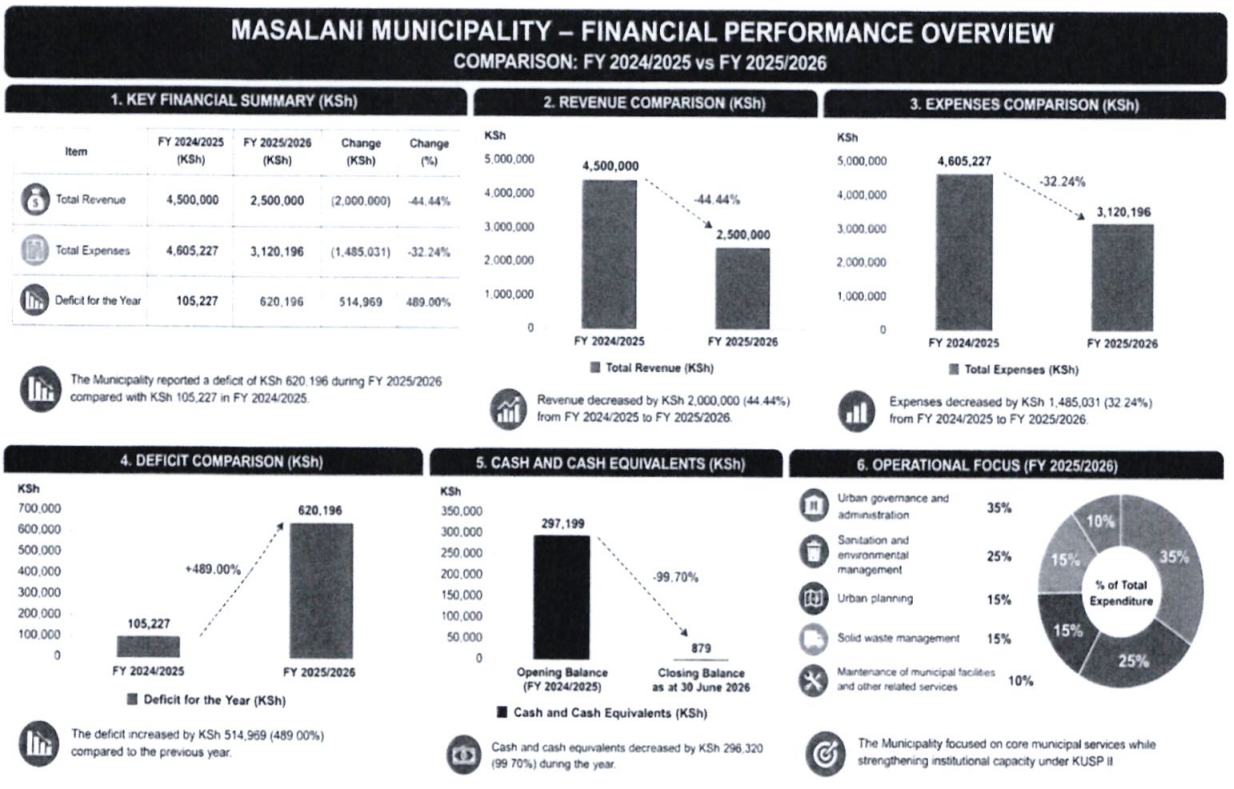
The Municipality continues to strengthen the management and safeguarding of its assets and recognizes the importance of maintaining complete and accurate asset records.

5. Liabilities of Municipality of Masalani

The financial statements did not report material outstanding receivables or payables at the reporting date. Management continues to monitor financial obligations and ensure that commitments are managed within the resources available to the Municipality.

6. Multi-Year Operational and Financial Performance (3–5 Years)

The Municipality's financial statements provide comparative information for FY 2024/2025 and FY 2025/2026. During FY 2025/2026, revenue amounted to KSh 2,500,000, compared with KSh 4,500,000 in the previous year, while total expenses decreased from KSh 4,605,227 to KSh 3,120,196. The Municipality reported a deficit of KSh 620.196 during the year compared with KSh 105,227 in FY 2024/2025. Operationally, the Municipality continued to focus on urban planning, urban governance and administration, sanitation, environmental management and physical infrastructure, while also strengthening institutional capacity under the Kenya Urban Support Programme II (KUSP II). The Municipality remains largely dependent on County Government transfers and continues to pursue improved funding predictability and resource mobilization through engagement with the County Government and development partners. At 30 June 2026, the Municipality had cash and cash equivalents of KSh 879, compared with an opening balance of KSh 297,199 brought forward from FY 2024/2025. Overall, the financial performance reflects the effect of constrained funding on the implementation of planned municipal programmes and activities.



7. Key Projects and Investment Decisions

During the year, the Municipality continued implementing activities aimed at improving urban management and service delivery. Priority areas included urban planning, sanitation, environmental management, road and parking infrastructure, and institutional strengthening.

The Municipality's strategic objectives included providing quality physical infrastructure, improving urban planning and strengthening urban governance and administration. The Municipality also commenced activities relating to improvement of parking facilities and road networks.

8. Risk Analysis and Statutory Compliance

The major risks facing the Municipality include inadequate and delayed funding, inadequate staffing, limited infrastructure financing, inadequate operational equipment and transport facilities, and delays in completion and approval of key planning and governance documents.

The Municipality is also exposed to risks arising from dependence on County Government transfers. Management has continued engaging the County Government to enhance funding predictability and explore additional sources of revenue.

The Municipality operates within the requirements of the Public Finance Management Act, 2012, the Urban Areas and Cities Act, 2011, applicable IPSAS requirements and other relevant laws and regulations. The Municipality's financial statements have been prepared using the accrual basis of accounting in accordance with IPSAS and applicable public financial management requirements.

With regard to arrears and other financial obligations, the financial statements do not disclose material outstanding payables at the reporting date. Management continues to monitor and manage obligations to ensure compliance with statutory and financial requirements.

9. Economic and Sector Outlook

The Municipality of Masalani continues to experience increasing demand for urban services arising from population growth and increased economic activities. As an important urban Centre in Garissa County, the Municipality has an important role in promoting socio-economic development, environmental sustainability and improved urban service delivery. Demand for quality infrastructure, sanitation services, urban planning and institutional capacity is expected to continue increasing.

The urban development sector remains dependent on adequate and timely financing, effective planning, institutional capacity and collaboration among the County Government, development partners, private sector and local communities.

Looking ahead, the Municipality will prioritize strengthening institutional capacity, enhancing own-source revenue mobilization, improving environmental management, developing strategic infrastructure, strengthening governance and improving the quality and efficiency of municipal services. Management will also continue working with the County Government, development partners, private sector stakeholders and the community to mobilize resources and promote sustainable urban development.

The Municipality remains committed to prudent utilization of public resources, transparency and accountability, improved financial management and delivery of services that contribute to a clean, resilient, inclusive and economically vibrant Masalani Municipality.

7. Statement of Performance against Predetermined Objectives for the FY

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

The key development objectives of the project plan are to:

a) Strengthen urban governance and institutional capacity in Garissa County municipalities.
b) Enhance municipal service delivery, planning and institutional systems.
c) Promote inclusive, resilient and climate-responsive urban development.
d) Strengthen financial management, procurement, accountability and transparency.
e) Improve stakeholder participation, public awareness and community engagement.
f) Strengthen risk management, internal controls and institutional capacity for sustainable implementation.

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
Urban Governance and Institutional Strengthening	Strengthen urban governance and institutional capacity	Improved institutional capacity and urban management	Institutional systems strengthened	Progress made through strengthening of financial management, risk management, reporting and institutional systems.
Municipal Service Delivery	Enhance municipal service delivery, planning and management systems	Improved efficiency and quality of municipal services	Municipal systems and services improved	Activities focused on strengthening systems supporting sustainable urban service delivery.
Urban Development and Resilience	Promote inclusive, resilient and climate-responsive urban development	More resilient and sustainable urban settlements	Urban planning and resilience measures implemented	Environmental, social and climate considerations continued to be incorporated into urban development planning.
Financial Management and Accountability	Strengthen financial management, procurement and accountability	Improved transparency and accountability in use of project resources	Financial reports, controls and records maintained	Financial reporting and controls were strengthened, including improvement of asset management and documentation.
Stakeholder Participation	Improve public participation and community engagement	Increased stakeholder ownership of urban development intervention	Stakeholder engagements undertaken	Stakeholder and community participation continued to be promoted in urban development activities.
Risk Management and Internal Controls	Strengthen risk management and internal controls	Reduced project implementation and financial risks	Risk management and control mechanisms strengthened	Risk management and internal control measures continued to be strengthened in response to identified audit and implementation issues.

8. Environmental and Sustainability Reporting

Introduction

Municipality of Masalani supports sustainable urban development through institutional strengthening, improved urban planning and management, and investments aimed at improving urban services and infrastructure. It promotes sustainable, inclusive and resilient urban development by strengthening municipal systems, accountability, environmental management and community participation.

1. Sustainability strategy and profile

Municipality of Masalani is committed to transforming lives by delivering sustainable environmental practices and operational excellence. Guided by national and county environmental laws and policies, the municipality strives to create a positive impact on the environment and improve the well-being of its residents. This report outlines the key environmental policies that guide the municipality, highlights achievements in biodiversity management, and provides insights into the Municipality's waste management efforts.

2. Environmental performance

As part of Municipality of Masalani's contribution to the nation's national development agenda and our intent towards improving the wellbeing of our communities, in the financial year 2025/2026 the Municipality rolled out the Forests Management and Extension Programme which is a campaign with a target to plant and sustain of trees all over Masalani. This activity has progressed well with trees planted and being sustained within the Municipality of Masalani. Our efforts aim to increase Kenya's forest cover to the desirable standards and protect the environment for present and future generations.

3. Employee welfare

Our success as a Municipality is largely dependent on our human capital (people).

- We seek to recruit, retain, reward and develop the best talent in the Country.
- We recognise the need to inculcate among our employees the culture of being sensitive to matters of safety, security, society and the environment. This ensures that employees act with integrity and responsibility with the people they deal with and the environment they interact with.

- We train employees to value each other, provide necessary support systems for people with different needs and have a system in place that encourages acceptance of cultural diversity.
- Further, we continually seek to improve the welfare and skills of our employees through structured programs for personal and professional development.
- We actively seek to ensure gender parity and where possible recruit persons with disability and from the minority groups of our society.

4. ***Market place practices***

The pricing is guided by the Cities and urban act 2019 and the by-laws of the Municipality in consultation with the citizens through the citizen's fora that are usually conducted twice a year.

a) Responsible competition practice.

Municipality of Masalani is a corruption free organization with a reputable corruption free environment

b) Responsible Supply chain and supplier relations

Municipality of Masalani recognizes that responsible Supply Chain Management has profound effect on any organization's reputation. Reputation influences the stakeholders' perceptions, their choices and investment intentions and financial performance. Thus, we practice responsible corporate behavior that we envisage builds trust and enhances our overall reputation, which in turn attracts investors, employees, suppliers and distributors, not to mention earning the public's goodwill. The Municipality's procurement department has developed stringent rules intended to drive business firms to proactively improve their responsible supply chain performance

c) Responsible marketing and advertisement or Responsible engagement with the citizens

The Municipality maintains ethical information dissemination practices by ensuring its outreach and sensitization practices are ethical and responsible through giving adequate information, and respecting diversity.

d) ***Product stewardship or Awareness creation***

Municipality of Masalani has made significant strides in managing biodiversity, which is essential for maintaining healthy ecosystems and providing critical services to its residents. Key successes include:

- **Increased Tree Cover**: The Municipality has successfully implemented tree-planting initiatives to increase green spaces and improve air quality.
- **Sustainable Solid Waste Management**: Through the implementation of waste management regulations, the Municipality has improved the management and disposal of solid waste, contributing to a cleaner and healthier environment.

5. ***Corporate Social Responsibility/Community Engagements***

As a responsible corporate citizen and as a way of reaching out to the less fortunate members of our society, the Municipality undertakes a number of initiatives aimed at improving the living standards of vulnerable members such as the needy, people living with disabilities, widows and the unskilled youth. These are undertaken through donations of basic amenities like food stuffs and beddings, gifts to Orphanage centres, specialized equipment to PLWDs and Iftar donations in the month of Ramadhan. These donations/support are meant to alleviate suffering for vulnerable groups during hard times.

9. Report of the Municipality Board Members

The Board Members submit their report together with the audited financial statements for the year ended June 30, 2026 which show the state of the Municipality affairs.

Principal activities

The principal activities of the Municipality of Masalani are waste management, transportation, traffic management, disposal of waste, sanitation, drainage management and street lights management,

Performance

The performance of the Municipality for the year ended June 30, 2026 are set out on page 1

Board Members

The members of the Board who served during the year are shown on page x.

Auditors

The Auditor General is responsible for the statutory audit of the Municipality in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

.....

MANAGER/CEO
MASALANI MUNICIPALITY
P. O. BOX 26-70105,
MASALANI

Name: Yussuf Mohamed Abdi

Secretary of the Board

10. Statement of Director's Responsibilities

Section 180 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer of the Municipality established by Urban Areas and Cities Act No. 13 of 2011 shall prepare financial statements in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Municipality manager is responsible for the preparation and presentation of the Municipality's financial statements, which give a true and fair view of the state of affairs of the Municipality for and as at the end of 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 Municipality, (iii)Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv)Safeguarding the assets of the Municipality, (v)Selecting and applying appropriate accounting policies, and (vi)Making accounting estimates that are reasonable in the circumstances.

The Municipality of Masalani Manager accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Urban Areas and Cities Act No. 13 of 2011. The Municipality Manager is of the opinion that the financial statements give a true and fair view of the state of Municipality's transactions during the financial year ended June 30, 2026, and the financial position as at that date.

The Municipality Manager further confirms the completeness of the accounting records which have been relied upon in the preparation of financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Municipality Manager to indicate that the Municipality will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The City/Municipal/City's financial statements were approved by the Board on 30th June, 2026 and signed on its behalf by:

.....	.....
Name: Mohamed Hajir Sheikh	**Name: Yussuf Mohamed Abdi**
Chairperson of the Board	**Accounting officer of the Board**
Date: 30/6/2026	**Date:** 30/6/2026

MANAGER/CEO
MASALANI MUNICIPALITY
P. O. BOX 26-70105,
MASALANI

REPUBLIC OF KENYA

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

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON MASALANI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE, 2026 – COUNTY GOVERNMENT OF GARISSA

PREAMBLE

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

A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;

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

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 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

Qualified Opinion

I have audited the accompanying financial statements of Masalani Municipality set out on pages 1 to 43, which comprise the statement of financial position as at

30 June, 2026 and the statement of financial performance, the statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 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, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Masalani Municipality 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 Urban Areas and Cities Act, Cap.275 and the Public Finance Management Act, Cap.412A.

Basis for Qualified Opinion

Lack of Motor Vehicle Ownership Documents

The statement of financial position as disclosed in Note 13 to the financial statements, reflects property, plant and equipment balance of Kshs.2,044,523. Included in this balance is a motor vehicle with a net book value of Kshs.1,378,125 whose ownership documents, including the logbook or other evidence of legal ownership, were not provided for audit verification.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.2,044,523 as reported in the statement of financial position could not be confirmed.

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

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects, final receipts budget and actual on comparable basis of Kshs.6,000,000 and Kshs.2,500,000 respectively, resulting in an under funding of Kshs.3,500,000 or 58% of the budget. Similarly, the

Municipality spent Kshs.2,796,320 against actual receipts of Kshs.2,500,000, resulting in an over expenditure of Kshs.296,320 or 12%.

The underfunding affected the planned activities and may have impacted negatively on service delivery to the Public.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effects of the matter described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Failure to transfer Functions to the Municipality

Review of the Municipality's operations indicates that several key functions that were transferred as per gazette notice vol. CXXV No.120 of 6773 and Section 2 (3) of the Municipal Charter are currently being managed by the County Executive of Garissa and not handed over to the Municipality.

These functions include:

i. Construction and maintenance of urban roads and associated infrastructure
ii. Construction and maintenance of storm drainage systems and flood control measures.
iii. Construction and management of municipal markets and abattoirs.
iv. Promotion, regulation, and provision of municipal sports and cultural activities
v. Development and enforcement of municipal plans and development control
vi. Construction and maintenance of fire stations, including provision of firefighting services, emergency preparedness and disaster management.
Construction and maintenance of street lighting, flood light and Infrastructure development within the municipality
vii. Development of spatial and master plans for the municipality
viii. Revenue collection

In the circumstances, the effectiveness and efficiency of the Municipality's performance of its functions could not be ascertained and therefore the justification for establishment of the Municipality could not be confirmed.

Unresolved Prior Year Audit Issues

In the prior year's audit report, four (4) issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and

Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the Municipality during this year's audit revealed that the same issues remained unresolved:

Issue No.	Year	Audit Issue
1	2025/2026	Budgetary Control and Performance
2	2025/2026	Over Reliance on Transfers from the County Government
3	2025/2026	Delayed Transfer of Functions
4	2025/2026	Failure to establish an Internal Audit Function

Other Information

Directors are responsible for the Other Information set out on page iv to xxxviii which comprise of Municipality Board Chairperson's report, Report of the Municipality manager, Corporate Governance Statement, Financial Performance Overview, Statement of Performance Against Predetermined Objectives, Environmental and Sustainability Reporting, Report of the Municipality Board members, and the Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Municipality'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, 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.

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, except for the effect of the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, 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

1. Expired Tenure of the Municipality Board

Review of Gazette Notice No. 14113 (Vol. CXXVI—No. 185) appointing the Members of Masalani Municipality Board revealed that the term of office of the Board of Directors expired on 31 May, 2026.

Although Management provided a request made to the Governor for re-appointment of the Members of the Municipal Board, at the time of audit new Board had not been constituted, nor had the existing members' terms been legally extended in accordance with statutory guidelines.

In the circumstances, the Municipality is exposed to significant governance and operational risks such that any resolutions, policy approvals, or financial authorizations passed by the Board may be legally null and void.

2. Inability to Collect Own source Revenue

The Municipality of Masalani is financed solely through budgetary allocations from the County Government of Garissa to a tune of Kshs.2,500,000 and therefore has not been able to raise its own revenue as provided under Section 172(a) of Public Finance Management Act, Cap.412A which provides inclusion that an urban area or city may also be funded through revenue arising from rates, fees, levies, charges and other revenue raising measures which is retained by the urban area.

In the circumstances, the Municipality is facing financial constraints because of over reliance on County equitable share, which is not adequate.

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 Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Municipality'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.

The Board of Directors are responsible for overseeing the Municipality'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

28 September, 2026

12. Statement of Financial Performance for The Year Ended 30 June 2026.

Description	Note	Insert Current FY	2024-2025
		Kshs.	Kshs.
Revenue from non-exchange transactions			
Transfers from the County Government	6	2,500,000	4,500,000
Total revenue		**2,500,000**	**4,500,000**
Expenditure			
Use of goods and services	7	1,471,720	3,278,385
Staff costs	8	750,000	310,000
Board expenses	9	400,,000	468,000
Depreciation and amortization	10	323,876	401,600
Repairs and maintenance	11	174,600	147,242
Total expenses		**(3,120,196)**	**(4,605,227)**
Surplus/(deficit) for the period		**(620,196)**	**(105,227)**

The notes set out on pages 29 to 32 form an integral part of these Financial Statements. Municipality of Masalani financial statements were approved on 30th June, 2026 and signed by:

.....

Name:Yussuf Mohamed Abdi
Municipal Manager
Date:30-06-2026

.....

Name:Abdullatif Abdi Shakul
Head of Finance
ICPAK M/No:36610
Date:30-06-2026

13. Statement of Financial Position as At 30 June 2026

Description	Note	2025-2026	2024-2025
		Kshs.	Kshs.
Assets			
Current assets			
Cash and Cash Equivalents	12	879	297,199
Total current assets		**879**	**297,199**
Non-current assets			
Property, plant, and equipment	13	2,044,523	2,368,340
Total Non-current Assets		2,044,523	2,368,340
Total assets (A)		**2,045,402**	**2,665,539**
Liabilities			
Current liabilities		00	00
Total current liabilities		**00**	**00**
Non-current liabilities		00	00
Total liabilities (B)		**00**	**00**
Net Assets (A-B)		**2,045,402**	**2,665,539**
Represented by:			
Capital/Development Grants/Fund		00	1,890,000
Reserves		00	00
Accumulated surplus		2,045,402	775,598
Net Assets/Equity		**2,045,402**	**2,665,598**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. Municipality of Masalani financial statements were approved on 30th June, 2026 and signed by:

.....

Name: Yussuf M Abdi

Municipal Manager

Date:30-06-2026

MANAGER/CEO
MASALANI MUNICIPALITY
P. O. BOX 26-70105,
MASALANI

.....

Name: Abdullatif A. Shakul

Head of Finance

ICPAK M/No 36610

Date:30-06-2026

14. Statement of Changes in Net Assets for the Year Ended 30 June 2026

Description	Capital/ Development Grants/Fund	Revaluation Reserve	Accumulated surplus	Total
		Kshs.	Kshs.	Kshs.
Bal as at 1 July 2024	00	00	5,880,825	5,880,825
Surplus/(deficit) for the year	00	-	(105,227)	(105,227)
Prior year adjustment	1,890,000	-	(5,000,000)	(3,110,000)
Revaluation gain/loss	-	00	-	00
Bal as at 30 Jun 2025	**1,890,000**	**00**	775,598	2,665,598
Bal as at 1 July 2025	1,890,000	00	775,598	2,665,598
Surplus/(deficit) for the year	00	-	(620,196)	(620,196)
Funds received during the year	00	-	-	00
Revaluation gain/loss	-	00	-	00
Balance as at 30 June 2026	**1,890,000**	**00**	**155,402**	**2,045,402**

.....

Name: Yussuf M Abdi

Municipal Manager

Date: 30/6/2026

MANAGER/CEO
MASALANI MUNICIPALITY
P. O. BOX 26-70105,
MASALANI

.....

Name: Abdullatif A. Shakul

Head of Finance

ICPAK M/No 36610

Date: 30/6/2026

15. Statement of Cash Flows for the Year Ended 30 June 2026

Description	Note	2025-2026	2024-2025
		Kshs.	Kshs.
Cash flows from operating activities			
Receipts			
Transfers from the County Government		2,500,000	4,500,000
Total Receipts		**2,500,000**	**4,500,000**
Payments			
Use of goods and services		1,471,720	3,278,385
Staff costs		750,000	310,000
Board expenses		400,,000	468,000
Maintenance costs		174,600	147,242
Total Payments		**(2,796,320)**	**(4,203,626)**
cash flows from operating activities		00	00
Net cash flows from operating activities		**00**	**00**
cash flows used in investing activities		00	00
Net cash flows used in investing activities		**00**	**00**
cash flows used in financing activities		00	00
Net cash flows used in financing activities		**00**	**00**
Net increase/(decrease) in cash & cash equivalents		**(296,320)**	296,374
Cash And Cash Equivalents At 1 July	12	297,199	825
Cash And Cash Equivalents At 30 June	12	**879**	**297,199**

.....

Name: Yussuf M Abdi
Municipal Manager
Date: 30/6/2026

MANAGER/CEO
MASALANI MUNICIPALITY
P.O. BOX 26-70105,
MASALANI

.....

Name: Abdullatif A. Shakul
Head of Finance
ICPAK M/No 36610
Date: 30/6/2026

16. Statement of Comparison of Budget & Actual Amounts for the Year ended 30 June 2026

Description	Original budget	Adjustments	Final budget	Actual on comparable (cash) basis	Performance difference	% of utilization
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
	a	b	c=(a+b)	d	e=(c-d)	f=d/c
Budget carryovers from the previous year*	-	0	**0**		0	0
Receipts						
Transfers from the County Government	6,000,000	0	6,000,000	2,500,000	3,500,000	**42 %**
Total Receipts	6,000,000	0	6,000,000	2,500,000	3,500,000	**42 %**
Payments						
Use of goods and services	3,300,000	0	3,300,000	1,471,720	1,828,280	**45 %**
Board expenses	700,000	0	700,000	400,000	300,000	**57 %**
Staff Costs	800,000	0	800,000	750,,000	50,000	**94 %**
Maintenance of Asset	700,000	0	700,000	174,600	525,400	**25 %**
Purchase of Assets	500,000	0	500,000	0	500,000	**0 %**
Total expenditure Payments	6,000,000	**0**	**6,000,000**	**2,796,320**	**3,203,680**	**%**
Capital Expenditure Payments	**0**	**0**	**0**	**(296,320)**	**0**	
Surplus for the period				**0**		

Budget Reconciliation

	Description of Particulars	Amount in Kshs
	Actual Surplus Amounts as per the statement of Budget	(296.320)
	Previous surplus	297,199
	Closing Cash and Cash Equivalent as per the statement of Cash flows	**879**

17. Notes to the Financial Statements

1. General Information

Municipality of Masalani is established by and derives its authority and accountability from Urban Areas and Cities Act, 2011 Act. The Municipality is under the Garissa County Government and is domiciled in Kenya.

The principal activities of the Municipality is to provide a high standard of social services in a cost effective manner to the inhabitants of the Municipality.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The financial statements have been prepared and presented in Kenya Shillings, Municipality of Masalani's functional and reporting currency. *The* financial statements have been prepared in accordance with the PFM Act, the State Corporations Act *(include any other applicable legislation),* and International Public Sector Accounting Standards (IPSAS). The adopted accounting policies have been consistently applied to all years presented.

a) Basis of measurement

Under the historical cost basis, assets are recorded at the amount of cash or cash equivalents paid, or the fair value of the consideration given to acquire them at the time of acquisition, plus directly attributable transaction costs. Liabilities are recorded at the amount of consideration received to assume the obligation, less transaction costs incurred when the liability was assumed.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability,

Municipality of Masalani uses market-to-observable data to the extent possible. If the fair value of an asset or a liability is not directly observable, it is estimated by Municipality of Masalani using valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs (e.g., by use of the market comparable approach that reflects recent transaction prices for similar items, or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset or liability that market participants would take into account.

Fair values are categorized into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- **Level 1** fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that Municipality of Masalani can access at the measurement date.
- **Level 2** fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- **Level 3** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).
- Municipality of Masalani accounting policy is to recognize transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. This policy is consistently applied to transfers into and out of each level.

b) Use of Estimates

The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying Municipality of Masalani accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements.

3. Application of New and revised standards (IPSAS)

Standards effective on 1 January 2026 are applied in Kenya in accordance with the reporting requirements prescribed by the Public Sector Accounting Standards Board.

- ***New and amended standards and interpretations in issue effective in the year ended 30 June 2026.***

Standard	Effective date and impact:
IPSAS 43: Leases	***Applicable 1st January 2025*** 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	***Applicable 1st January 2025*** 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	***Applicable 1st January 2025*** 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	***Applicable 1st January 2025*** The objective of this standard was to improve measurement guidance across IPSAS by: 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.

i. 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 entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.
IPSAS 48: Transfer Expenses	***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 Municipality of Masalani 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.

ii. Early adoption of standards

Municipality of Masalani did not early adopt any new or amended standards in the financial

4. 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 Municipality of Masalani 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

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 for each period.

b) Budget information

The original budget for FY 2025/2026 was approved by the County Assembly. 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 Municipality of Masalani upon receiving the respective approvals in order to conclude the final budget.

The City/Municipality'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 a 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. 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 under section of these financial statements.

c) Property, plant and equipment

Recognition and Measurement

Municipality of Masalani 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 Municipality of Masalani
- 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.

Municipality of Masalani 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

Municipality of Masalani applies the straight-line 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.

PPE Item	**Depreciation Rate**
Buildings	2-10%
Motor vehicles	10-16.67%
Infrastructure assets	2-20%
Furniture and fittings	12.5%
Computers & ICT Equipment	33.3%
Heritage Assets	x%

Impairment Municipality of Masalani 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) Right of Use (ROU) Assets

A right-of-use asset represents Municipality of Masalani right to use an underlying leased asset over the lease term. At the commencement date of a lease, Municipality of Masalani 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

Municipality of Masalani 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 Municipality of Masalani 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.

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, Municipality of Masalani 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) Tangible Natural Resources

Municipality of Masalani recognises a tangible natural resource if, and only if it is probable that service potential associated with the natural resource will flow to Municipality of Masalani; Municipality of Masalani controls the tangible natural resource as a result of past events; and the tangible natural resource can be measured reliably. Where these criteria are not met, Municipality of Masalani discloses the tangible natural resource in the notes to the financial statements. Where a tangible natural resource is recognized as an asset as the result of an event that is not a transaction in an orderly market, including non-exchange transactions, the asset shall be measured initially at its deemed cost. An entity shall apply IPSAS 46, Measurement when measuring the deemed cost of such a recognized tangible natural resource. A recognized tangible natural resource acquired through an exchange transaction shall be measured at its cost. The historical cost model is applied after initial recognition less any depreciation and impairment losses.

g) 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.

h) Non-Current Assets Held for Sale and Discontinued Operations

Non-current assets or disposal groups are classified as held for sale when their carrying amount is expected to be recovered through sale rather than continued use. They are measured at the lower of carrying amount and fair value less costs to sell and have been presented separately in the Statement of Financial Position. Depreciation has ceased for the assets classified as held for sale.

The assets classified as held for sale have met the following required criteria: management has made a commitment to sell, the asset is actively being marketed for sale at a reasonable price, the sale will be completed within one year of the classification date, an active program to find a buyer has been initiated, and there are no significant changes to the plan that might impact the sale.

Discontinued operations are the major components that have been disposed of or are held for sale. Their results have been presented separately in the Statement of Financial Performance. Presentation of the non-current assets and discontinued assets has been done separately in the financial statements. Any proceeds from sale of non-current assets held for sale has been presented separately.

i) Biological Assets

Municipality of Masalani recognizes biological assets when it controls the assets due to past events, it is probable that future economic benefits associated with the asset will flow to Municipality of Masalani, and when the fair value or cost of the asset can be measured reliably. Biological assets are initially and subsequently measured at fair value less costs to sell, except where fair value cannot be reliably determined. In such cases, the asset is measured at its cost less accumulated depreciation and any accumulated impairment losses. Changes in fair value less costs to sell are recognized in surplus/deficit in the period in which they occur.

j) Heritage Assets

Heritage assets are assets with cultural, environmental, historical, artistic, scientific, technological, geophysical, or natural significance that are intended to be held indefinitely for the benefit of present and future generations. Municipality of Masalani recognizes heritage assets in accordance with IPSAS 45 – Heritage Assets.

Heritage assets controlled by Municipality of Masalani include:

(i) Historical buildings, monuments, and structures;

(ii) Artifacts, museum collections, artworks, and archaeological finds; and

(iii) Heritage infrastructure such as historic bridges.

Heritage assets are measured using the cost model or, where fair value can be reliably determined, the current value model. Where historical cost information is unavailable or cannot be obtained at a cost commensurate with the benefits to users of the financial statements, heritage assets are measured at deemed cost (fair value at the date of initial recognition). Certain heritage assets that are difficult to value or whose value cannot be reliably determined are disclosed.

Heritage assets with indefinitely long useful lives, principally land and artifacts/collections, are not depreciated, as their value is not consumed over time and they are preserved in perpetuity. Heritage assets with finite useful lives, principally heritage buildings and heritage infrastructure are depreciated on a straight-line basis over their estimated useful lives as follows:

Useful lives and residual values are reviewed at each reporting date. All heritage assets are assessed at each reporting date for impairment in accordance with applicable IPSAS standards. Impairment losses are recognized in surplus or deficit, except to the extent that impairment reverses a revaluation surplus previously credited to net assets/equity.

The determination of whether an asset meets the definition of a heritage asset involves judgment. Management considers the cultural, historical, and environmental significance of assets, as well as whether they are subject to legal preservation orders or international conventions.

Impairment assessments require estimates of the recoverable service amount of heritage assets, which involve judgments about the condition, preservation plans, and future economic benefits or service potential of individual assets or groups of assets.

k) 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. Municipality of Masalani 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, Municipality of Masalani 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 of financial assets

Municipality of Masalani 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 Municipality of Masalani 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 cash flows 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 irrevocable election at initial recognition for particular investments in equity instruments.

Subsequent measurement

Based on the business model and the cash flow characteristics, Municipality of Masalani 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 Municipality of Masalani manages financial assets with the objective of realizing cash flows through solely the sale of the assets would result in a fair value through a 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

Municipality of Masalani 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. Municipality of Masalani 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

Municipality of Masalani classifies its liabilities as subsequently measured at amortized cost except for financial liabilities measured through profit or loss.

l) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

Raw materials: purchase cost using the weighted average cost method

Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the City/Municipality.

m) Provisions

Provisions are recognized when the Municipality of Masalani 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 Municipality of Masalani 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.

n) Social Benefits

Social benefits are cash transfers provided to i) specific individuals and/or households that meet the eligibility criteria, ii) mitigate the effects of social risks and iii) Address the needs of society as a whole. Municipality of Masalani recognises a social benefit as an expense for the social benefits scheme at the same time that it recognises a liability. The liability for the social benefit scheme is measured at the best estimate of the cost (the social benefit payments) that Municipality of Masalani will incur in fulfilling the present obligations represented by the liability.

o) Contingent liabilities

The Municipality of Masalani 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.

p) Contingent assets

The Municipality of Masalani 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 Municipality of Masalani 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

q) Nature and purpose of reserves

The Municipality of Masalani creates and maintains reserves in terms of specific requirements.

r) Changes in accounting policies and estimates

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

s) Employee benefits – Retirement benefit plans

The Municipality of Masalani provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which the Municipality of Masalani pays fixed contributions into a separate fund and will have no legal or constructive obligation to pay further contributions if the Municipality of Masalani does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to scheme 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 benefits 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.

t) 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.

u) 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.

v) Related parties

The Municipality of Masalani 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 Municipality, or vice versa. Members of key management are regarded as related parties and comprise the Board members, the Municipality of Masalani Managers and Municipality of Masalani Accountant.

w) 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 various commercial banks at the end of the financial year.

x) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

y) Events after the reporting period

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of events can be identified:

(a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

(b) Those that are indicative of conditions that arose after the reporting date.

z) Currency

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

5. Significant judgments and sources of estimation uncertainty

The preparation of the Municipality'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.

State all judgements, 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 Municipality of Masalani 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 City/Municipality. Such changes are reflected in the assumptions when they occur.

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:

i) The condition of the asset based on the assessment of experts employed by the City/Municipality.
ii) The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
iii) The nature of the processes in which the asset is deployed.
iv) Availability of funds to replace the asset.
v) Changes in the market in relation to the asset.

Notes to the Financial Statements

6. Transfers from the County Government

Description	2025-2026	2024-2025
	Kshs.	Kshs.
Transfers from Garissa County Treasury	2,500,000	4,500,000
Payments by County on behalf of Municipality of Masalani	00	00
Unconditional development grants	00	00
Total	**2,500,000**	**4,500,000**

7. Use of Goods and Services

Description	2025-2026	2024-2025
	Kshs.	Kshs.
Utilities, supplies and services	00	00
Communication, supplies and services	12,000	0
Domestic travel and subsistence	569,800	1,013,300
Foreign travel and subsistence	00	00
Printing, advertising, supplies & services	32,900	433,484
Conference cost	0	30,000
Training expenses	250,000	0
Hospitality supplies and services	172,350	212,898
Specialized materials and services	156,050	
Office and general supplies and services	131,000	19,800
Fuel, oil and lubricants	85,100	135,827
Other operating expenses (*Specify*)	0	34,100
Routine maintenance – vehicles and other equipment	90,000	116,750
Routine maintenance – other assets	00	00
Hire of Transport, equipment	24,000	1,278,900
Bank Charges	2520	3326
Total	**1,471,720**	**3,278,385**

8. Staff costs

Description	2025-2026	2024-2025
	Kshs.	Kshs.
Salaries and wages	750,000	310,000
Staff gratuity	00	00
Social security contribution	00	00
Other staff costs *(Specify)*	00	00
Total	**750,000**	**310,000**

9. Board expenses

Description	2025-2026	2024-2025
	Kshs.	Kshs.
Chairman/Members' Honoraria	00	00
Sitting allowances	312,000	468,000
Medical Insurance	00	00
Induction and Training	00	00
Travel and accommodation	00	00
Conference Costs	88,000	00
Other allowances (*Specify)*	00	00
Total	**400,000**	**468,000**

10. Depreciation and amortization

Description	2025-2026	2024-2025
	Kshs	Kshs
Property, plant and equipment	323,876	401,600
Intangible assets	00	00
Investment property carried at cost	00	00
Right of Use assets	00	00
Tangible Natural Resources	00	00
Heritage Assets	00	00
Total depreciation and amortization	323,876	**401,600**

11. Repairs and Maintenance

Description	2025-2026	2024-2025
	Kshs	Kshs
Property- Buildings	154,600	98,650
Office equipment	00	00
Furniture and fittings	10,000	48,592
Motor vehicle expenses	00	00
Maintenance of civil works	10,000	00
Total repairs and maintenance	**174,600**	**147,242**

12. Cash and cash equivalents

Description	2025-2026	2024-2025
	Kshs.	Kshs.
Fixed deposits account	00	00
On – call deposits	00	00
Current account	879	297,199
Total cash and cash equivalents	**879**	**297,199**

Detailed analysis of the cash and cash equivalents are as follows:

Financial institution	Account number	2025-2026	2024-2025
		Kshs.	Kshs.
a) Current account			
National Bank		879	297,199
Sub- total		**879**	**297,199**
b) Others(specify)		00	00
Cash in transit		00	00
Cash in hand		00	00
Mobile Money		00	00
Sub- total		00	00
Grand total		**879**	**297,199**

13. Property, Plant and Equipment

2025-2026

Cost/Value	Land	Building	Motor vehicles	Furniture and fittings	Computers & ICT Equipment	Infrastructure Assets	Other Assets (Specify)	Capital Work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs		Kshs	Kshs
As At 1July 2025	00	00	1,575,000	660,000	133,340	00	00	00	**2,368,340**
Additions	00	00	00	00	00	00	00	00	00
Disposals	00	00	00	00	00	00	00	00	00
Transfers/Adjustments	00	00	0	00	00	00	00	00	00
As at 30th June 2026	**00**	**00**	**1,575,000**	**660,000**	**133,340**	**00**	**00**	**00**	**2,368,340**
Depreciation & Impairment									
At 1 July 2025	00	00	225,000	110,000	66,660	00	00	00	401,600
Depreciation	00	00	196,934	82,500	44,442	00	00	00	(323,876)
Impairment	00	00	00	00	00	00	00	00	00
Transfers/ Adjustments	00	00	00	00	00	00	00	00	00
As at 30th June 2026	**00**	**00**	**421,875**	**192,500**	**111,102**	**00**	**00**	**00**	**725,477**
Net Book Value as at 30th June 2026	**00**	**00**	**1,378,125**	**577,500**	**88,898**	**00**	**00**	**00**	**2,044,523**

2024-2025

Cost/Value	Land	Buildings	Motor vehicles	Furniture and fittings	Computer & ICT Equipment	Infrastructure Assets	Other Assets (Specify)	Capital Work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs		Kshs	**Kshs**
Depreciation Rate		**2%**	**12.5%**	**12.5%**	**33.33%**				
As at 1 July 2024	00	00	00	00	00	00	00	00	**00**
Additions	00	00	00	880,000	200,000	00	00	00	**00**
Disposals	00	00	00	00	00	00	00	00	**1,080,000**
Transfers/Adjustments	00	00	1,800,000	00	00	00	00	00	**1,800,000**
Revaluation Adjustments	00	00	00	00	00	00	00	00	**00**
As at 30th June 2025	**00**	**00**	**1,800,000**	**880,000**	**200,000**	**00**	**00**	**00**	**2,880,000**
Depreciation & Impairment									
At 1st July 2024	00	00	00	00	00	00	00	00	**00**
Depreciation	00	00	225,000	110,000	66,660	00	00	00	**(401,600)**
Impairment	00	00	00	00	00	00	00	00	**00**
Transfers/ Adjustments	00	00	00	00	00	00	00	00	**00**
As at 30th June 2025	**00**	**00**	**225,000**	**110,000**	**66,660**	**00**	**00**	**00**	**401,600**
Net book Value As at 30th June	**00**	**00**	**1,575,000**	**770,000**	**133,340**	**00**	**00**	**00**	**2,378,340**

a) Valuation

Land and buildings/ Equipment were not revalued by professional valuer.

b) Property, Plant and Equipment at Cost

If the revalued freehold land, buildings, and other assets were stated on the historical cost basis, the amounts would be as follows:

Description	Cost	Accumulated Depreciation	NBV
	Kshs	Kshs	Kshs
Land	00	00	00
Buildings	00	00	00
Plant And Machinery	00	00	00
Motor Vehicles, Including Motorcycles	1,800,000	421,875	**1,378,125**
Computers And Related Equipment	200,000	111,102	**88,898**
Office Equipment, Furniture, And Fittings	880,000	206,250	**673,750**
Total	**2,880,000**	**739,167**	**2,140,773**

c) Fully depreciated assets

Property, Plant and Equipment did not include any assets that were fully depreciated as at 30 June 2026. Accordingly, there were no fully depreciated assets requiring disclosure under this section.

Description	Cost or valuation	Normal annual depreciation charge
Plant and Machinery	00	00
Motor Vehicles, including Motorcycles	00	00
Computers and Related Equipment	00	00
Office Equipment, Furniture, and Fittings	00	00
Total	00	00

d) Infrastructure assets

The Municipality did not have any infrastructure assets recognized and reported in the financial statements as at 30 June 2026. Accordingly, there were no amounts attributable to the different subclasses of infrastructure assets such as roads, bridges, drainage systems, pipelines, power lines or other infrastructure assets

e) Disclosures on capital work in progress

The Municipality had no capital work in progress as at 30 June 2026. Accordingly, there were no ongoing capital projects requiring disclosure in respect of commencement dates, contracted completion dates, significant delays or the value of work in progress.

14. Related party balances

a) Nature of related party relationships

Entities and other parties related to the Municipality of Masalani 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. The City/Municipality/scheme is related to the following entities:

a) The County Government.

b) The Parent County Government Ministry.

c) County Assembly.

d) Key management.

e) Municipality of Masalani Board; etc.

b) Related party transactions

Description	2025-2026	2024-2025
	Kshs.	Kshs.
Transfers from related parties'	00	00
Transfers to related parties	00	00

c) Key management remuneration

Description	2025-2026	2024-2025
	Kshs.	Kshs.
Board Members	00	00
Key Management Compensation	00	00
Total	00	00

d) Due from related parties

Description	2025-2026	2024-2025
	Kshs.	Kshs.
Due from parent Ministry	00	00
Due from County Government	00	00
Due from County Assembly	00	00
Total	00	00

e) Due to related parties

Description	2025-2026	2024-2025
	Kshs.	Kshs.
Due to parent Ministry	00	00
Due to County Government	00	00
Due to Key management personnel	00	00
Due to County Assembly	00	00
Total	00	00

15. Financial risk management

The City/Municipality's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The City/Municipality's overall risk management programme focuses on the unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Municipality of Masalani does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The City/Municipality's financial risk management objectives and policies are detailed below:

I. Credit risk

The Municipality of Masalani has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience, and other factors. Individual risk limits are set based on internal or external assessments in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the City/Municipality's management based on prior experience and their assessment of the current economic environment. The carrying amount of financial assets recorded in the

financial statements representing the City/Municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

Description	**Total amount Kshs.**	**Fully performing Kshs.**	**Past due Kshs.**	**Impaired Kshs.**
At 30 June 2026				
Receivables from exchange transactions	00	00	00	00
Receivables from non-exchange transactions	00	00	00	00
Bank balances	00	00	00	00
Total	00	00	00	00
At 30 June 2025				
Receivables from exchange transactions	00	00	00	00
Receivables from non-exchange transactions	00	00	00	00
Bank balances	00	00	00	00
Total	00	00	00	00

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the Municipality of Masalani has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The Municipality of Masalani Board sets policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

II. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Municipality of Masalani Manager, who has built an appropriate liquidity risk management framework for the management of the City/Municipality's short, medium and long-term liquidity management requirements. The Municipality of Masalani manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Municipality of Masalani under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Description	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs.	Kshs.	Kshs.	Kshs.
At 30 Jun 2026				
Trade payables	00	00	00	00
Current portion of borrowings	00	00	00	00
Provisions	00	00	00	00
Employee benefit obligation	00	00	00	00
Total	00	00	00	00
At 30 Jun 2025				
Trade payables	00	00	00	00
Current portion of borrowings	00	00	00	00
Provisions	00	00	00	00
Employee benefit obligation	00	00	00	00
Total	00	00	00	00

III. Market risk

The Board has put in place an internal audit function to assist it in assessing the risk faced by the Municipality of Masalani on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the City/Municipality's income or the value of its holding of financial instruments. The objective of market risk management is to manage and

control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee. The City/Municipality's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies. There has been no change to the City/Municipality's exposure to market risks or the manner in which it manages and measures the risk.

IV. Foreign currency risk

The Municipality of Masalani has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The carrying amount of the City/Municipality's foreign currency-denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

Description		Other currencies	Total
	Kshs.	Kshs.	Kshs.
At 30 June 2026			
Financial assets	00	00	00
Investments	00	00	00
Cash	00	00	00
Debtors/ receivables	00	00	00
Liabilities			
Trade and other payables	00	00	00
Borrowings	00	00	00
Net foreign currency asset/(liability)	00	00	00

Foreign currency sensitivity analysis

The following table demonstrates the effect on the Fund's statement of financial performance on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

Description	Change in currency rate	Effect on surplus/ deficit	Effect on equity
	Kshs.	Kshs.	Kshs.
2026(current year)			
Euro	10%	00	00
USD	10%	00	00
2025 (previous year)			
Euro	10%	00	00
USD	10%	00	00

V. Interest rate risk

Interest rate risk is the risk that Municipality of Masalani financial condition may be adversely affected as a result of changes in interest rate levels. Municipality of Masalani interest rate risk arises from bank deposits. This exposes the Fund to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Fund's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

VI. Capital risk management.

The objective of the City/Municipality's capital risk management is to safeguard the City/Municipality's ability to continue as a going concern. The Municipality of Masalani capital structure comprises of the following City/Municipality:

Description	2025-2026	2024-2025
	Kshs.	**Kshs.**
Revaluation reserve	00	00
Capital/Development Grants/City/Municipality	00	00
Accumulated surplus	00	00
Total Funds	00	00
Total borrowings	00	00
Less: cash and bank balances	00	00
Net debt/(excess cash and cash equivalents)	00	00
Gearing	00	00

16. Program for Results (PforR) Disclosure

The Municipality did not have a separate PforR expenditure framework requiring disclosure under this note during the financial year.

Accordingly, no PforR expenditure has been reported in this disclosure.

18. Appendices

Appendix 1. Progress on Follow-Up of Prior Years' Auditor General's Recommendations

The following is a summary of the issues raised by the Auditor General and the management responses provided.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: *(Resolved / Not Resolved)*	Timeframe:
1	Unsupported prior year adjustment on capital fund balance	There are assets that were donated by the county government of Garissa to the municipality that were not recognize in the previous years like motor vehicle however the municipality recognize them in the current year.	Resolved	
2	Budget performance and control	The Municipality had engaged the County treasury to raise concern about the budget shortfall	Not Resolved	April 2026
3	Over reliance of transfer from county government	Management has initiated engagements with the County Government to enhance funding predictability and explore additional sources of revenue to reduce dependency on County Government transfers	Not Resolved	April 2026
4	Delayed Transfer of Functions to Municipality by the County Executive	The Municipality had engaged the County Executive on transfers of function and the same has been done	Resolved	

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YUSSUF MOHAMED ABDI

Appendix 2: Inter-Entity Transfers

	MUNICIPALITY OF MASALANINAME:			
	Breakdown of Transfers from the County Executive of Garissa County			
	FY 2025/2026			
a.	Recurrent Grants	Bank Statement Date	Amount (Kshs.)	Indicate the FY to which the amounts relate
		27/11/2025	1,500,000	2025-2026
		20/04/2026	1,000,000	2025-2026
		Total	**2,500,000**	
b.	Development Grants	Bank Statement Date	Amount (Kshs.)	Indicate the FY to which the amounts relate
			00	
		Total	**00**	
c.	Direct Payments	Bank Statement Date	Amount (Kshs.)	Indicate the FY to which the amounts relate
		Total	**00**	

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Head of Accounts

Municipality of Masalani

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Head of Treasury

Garissa County

Appendix 3: Reporting of Climate Relevant Expenditures

Name of the Organization

Telephone Number

Email Address

Name of CEO/MD/Head

Name and contact details of contact person (in case of any clarifications) .....

Project Name	Project Description	Project Objectives	Project Activities					Source Of Funds	Implementing Partners
				Q1	Q2	Q3	Q4		

Appendix 4: Disaster Expenditure Reporting Template

Date:

Entity

Column I	Column II	Column III	Column IV	Column V	Column VI	Column VII
Programme	Sub-programme	Disaster Type	Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness)	Expenditure item	Amount (Kshs.)	Comments

