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OFFICE OF THE AUDITOR-GENERAL
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REPORT

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ON

SECOND KENYA URBAN SUPPORT PROGRAM (KUSP II) – URBAN INSTITUTIONAL GRANT (UIG) – IDA CREDIT NO. 7349-KE AND GRANT NO. E208-KE – WAJIR MUNICIPALITY

FOR THE YEAR ENDED 30 JUNE, 2026

COUNTY GOVERNMENT OF WAJIR

OFFICE OF THE AUDITOR - GENERAL
GARISSA REGIONAL OFFICE
16 SEP 2026
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PROJECT NAME: SECOND KENYA URBAN SUPPORT PROGRAM (KUSP II) - URBAN INSTITUTIONAL GRANT (UIG)

IMPLEMENTING ENTITY: COUNTY GOVERNMENT OF WAJIR

PROJECT CREDIT/GRANT NUMBER: IDA-7349-KE / E208 - KE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2026

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

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1. Acronyms, Abbreviations, and Definition of Terms

A. Acronyms and Abbreviations

CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
CT	County Treasury
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
WB	World Bank
KUSP II	Second Kenya Urban Support Program (KUSP II)
UIG	Urban Development Grant
KSHS	Kenya Shillings

Fiduciary Management - Key Management personnel who have financial responsibility in the entity

B. Definition of Key Terms

Fiduciary Management - Members of Management directly entrusted with the entity's financial resources.

2. Project Information and Overall Performance

2.1 Name and registered office

Urban Institutional Grant
County Government of Wajir
P.O. Box 9-7200
County Headquarters.
Wajir,
KENYA

Objective

To provide direct financial support to county government. This funding builds and strengthen urban institution to: improve the delivery and resilience of urban infrastructure and services and enhance the private sector engagement in urban planning.

Address

The project headquarters offices are in Wajir Municipality, Wajir County, Kenya. The address of its registered office is Chief Officer, Lands, Spatial Planning, Urban Areas and Municipality Development, P.O Box 9-70200, Wajir.

The project also has offices/branches as follows:

- County Chief Officer, Lands, Spatial Planning, Urban Areas and Municipality Development
- County Project Coordinator, Second Kenya Urban Support Program, Wajir County

Contacts:

Department of Lands, Public Works, Housing and Urban Development
P.O. Box: 9-70200, Wajir, Kenya
Website: wajir.go.ke

Project Information and overall performance (continued)

2.2 Project Information

Project Start Date:	30th May, 2024
Project End Date:	30th June, 2027
Project Coordinator:	Mr. Abdullahi Hassan Adan
Project Development Partner:	World Bank and State Department of Housing and Urban Development

2.3 Project Overview

Line Ministry or State departments/ County Department	Department of Lands, Public Works, Housing and Urban Development
Project number/Grant No.	E208-KE
Strategic goals of the project	The strategic goals of the project are as follows: (i) Improve the delivery and resilience of urban infrastructure and services (ii) Enhance the private sector engagement in urban planning.
Summary of Project Strategies for achievement of strategic goals	The project management aims to achieve the goals through the following means: (i) Capacity strengthening of urban institutions in the county (ii) Enhance citizen engagement through quarterly citizen participation forums
Other important background information of the project	The project Urban Institutional Grants (UIG), under component 2 (support at subnational level), will support county governments to build core capacities required by urban institutions. UIG is designed to incentivize counties and urban boards to undertake core institutional reforms and to finance a range of institutional and capacity building activities, some of which will strengthen their ability to access larger UDGs. County governments shall use at least 50% of the allocated UIG to support the participating urban boards through; a) Capacity building interventions related to the domestication and operationalization of policies, regulatory instruments and guidelines related to FM and HRM, urban planning and development control, technical standards,

	norms, environmental and social risk and impact management for resilient urban infrastructure and services and, engagement with the private sector and urban residents (as specified in the UIG investment menu). b) Procurement of office, ICT and specialized equipment
Areas that the project was formed to intervene	The project was formed to intervene in the following problems/gaps: (i) Strengthening weak urban governance institution in the County (ii) Formulation of relevant policies and plans for municipal operations.
Project duration	4 Years

Project Information and Overall Performance (Continued)

2.4 Bankers

The following are the bankers for the project:
Kenya Commercial Bank
P.O. Box 201-70200
Tel: +254-46421536/0711087000
Email: Contactcentre@kcb.co.ke
Wajir, Kenya.

2.5 Independent Auditor

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

2.6 Roles and Responsibilities

No	Names	Title designation	Key qualification	Responsibilities
1.	Ahmed Mohamed Wardere	CECM Urban Development	Bachelor of Education	Oversee the implementation municipal programs and projects, present municipal plans, policies and other relevant document to the executive for deliberations. Submit reports to the County Assembly on matters related to municipality.
2.	Abdullahi Mohamed Issack	Chief Officer Lands, Spatial Planning, Urban Areas & Municipality Development	Bachelor of commerce (BCOM) finance option	Oversee, process and approve request for budgets for municipal operations and projects.
3.	Abdullahi Hassan Adan	County Project Coordinator	Bachelor of Arts (Urban and Regional planning) Registered planner	Coordinates all projects and program activities, oversee program activities, coordinate reporting of all projects, submission of projects at county level, linkage with NCPT. Ensure preparation of work plans, capacity building of staffs at county and urban board level.

4.	Omar Ibrahim Hussein	Municipal Manager, Wajir	Bachelor of Education	Acts as the secretary to the municipal board and oversee the operation
5.	Abdikadir Mohamed Noor	Project Accountant	-Degree in finance -Masters in finance -ICPAK member	Prepare financial statement, cashbook, bank reconciliation, statement of expenditure and keep all revelant document
6.	Sahara Mohamed Gabow	Procurement Officer	Master in Business Administration Bachelor in Business Administration	Preparing of all procurement documents
7.	Abdirahman Bashir Somo	Senior Engineer	Bachelor science (in civil engineering)	Doing all engineering related activites
8.	Shukri Maalim Billow	Senior Environmental Officer	Bachelor in environmental studies -EIA associate expert	Advising in all environmental issue
9.	Edward Ngari Mucheru	Assistant Physical Planner	Bachelor of Arts (Urban and Regional planning) Registered planner and a member of KIP	Advising all activities related to planning.

2.7 Funding summary

The Project is for a duration of 4 years from 2024 to 2028 with an approved budget of $ 350 million equivalent to Kshs 46.5 billion, as highlighted in the table below:

Project information and overall performance (continued)

Below is the funding summary:

A. Source of Funds

Source of funds	Development Partner Commitment		Amount received to date – (30th June 2026)		Undrawn balance to date	
	Development Partner currency	Kshs	Development Partner currency	Kshs	Development Partner currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A') - (B')
(i) Grant						
Urban Institutional Grant	-	-	-	-	-	-
International Development Association (IDA)	$ 249,589	32,309,300	$ 249,589	32,309,300	$19,253	2,491,651
(ii) Loan						
Urban Institutional Grant	-	-	-	-	-	-
International Development Association (IDA)	-	-	-	-	-	-
Total	$ 249,589	32,309,300	$ 249,589	32,309,300	$19,253	2,491,651

ject information and overall performance (continued)

Application of Funds

Application of funds	Amount received to date – (30th June 2026)		Cumulative amount paid to date – (30th June 2026)		Unutilised balance to date (30th June 2026)	
	Development Partner currency	*Kshs*	Development Partner currency	*Kshs*	Development Partner currency	*Kshs*
	(A)	*(A')*	*(B)*	(B')	*(A)-(B)*	*(A')-(B')*
Grant						
ban Institutional Grant						
ternational Development Association(IDA)	$ 249,589	32,309,300	$230,305	29,817,649	$19,253	2,491,651
Loan						
ban Institutional Grant						
ternational Development ssociation(IDA)	-	-	-	-	-	-
				-	-	-
otal	$249,589	32,309,300	$230,305	29,817,649	$19,253	2,491,651

Project Information and overall performance (continued)

2.8 Summary of Overall Project Performance:

i) Budget performance against actual Expenditure

The Second Kenya Urban Support Program (KUSP II) is a Government of Kenya programme supported by the World Bank with the objective of strengthening urban institutions and improving the delivery and resilience of urban infrastructure and services. The programme also seeks to enhance private sector engagement in urban planning and strengthen integrated development in urban areas hosting refugee and host communities.

Wajir County, received the Urban Institutional Grant (UIG) which was intended to strengthen the institutional and technical capacity required for effective management and delivery of urban functions. Under KUSP II, the UIG supports county governments to build core capacities of urban institutions, subject to compliance with the applicable Minimum Conditions (MCs).

In Wajir County, UIG resources have been directed towards institutional strengthening activities supporting the Wajir Municipality, including urban governance, planning, financial management, procurement, monitoring and evaluation, citizen participation, environmental and social management, municipal systems strengthening and capacity development.

Budget performance presented based on approved UIG allocations, actual expenditure and eligible commitments as reflected in the County financial records, KUSP II records and supporting documentation.

Financial Year	Approved Budget (Kshs.)	Actual Expenditure (Kshs.)	Absorption Rate (%)
2025/2026	32,309,300	29,817,649	92%

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

Since commencement of KUSP II, the UIG has contributed to strengthening the institutional foundation for urban development and service delivery in Wajir County. The support is particularly important given the growing urbanisation of Wajir and the need for the County and Wajir Municipality to effectively exercise urban management functions.

The principal areas of physical and institutional progress include:

a) Strengthening of Wajir Municipality-UIG support has contributed to strengthening the operational capacity of Wajir Municipality, including support to municipal governance structures, planning, coordination, monitoring and implementation of municipal programmes.

b) Urban Planning and Development Control-Progress has been made towards strengthening urban planning and development management, including preparation and implementation of urban planning instruments such as the Wajir Municipality Urban Integrated Development Plan (Urban Idep) and related Local Physical and Land Use Development Plans. These planning instruments are important for guiding orderly urban expansion, development control, infrastructure investment, land-use management and provision of municipal services.

c) Institutional Capacity Development-UIG interventions have supported capacity building for County and municipal officers in areas including: Urban planning and development control; Public financial management; Procurement and contract management; Project management; Monitoring and evaluation; Environmental and social safeguards; Climate resilience; Public participation; Gender and social inclusion; and Urban governance and institutional strengthening.

d) Public Participation and Stakeholder Engagement-The Municipality has continued to strengthen citizen participation through public consultations, stakeholder engagement forums and community involvement in urban planning and development priorities. Engagement with the private sector is also being strengthened through development of the Wajir County Private Sector Engagement Framework, which is consistent with KUSP II's objective of enhancing private sector engagement in urban planning. KUSP II expressly identifies improved private sector engagement as one of its results areas.

e) Environmental and Climate Resilience-UIG-supported institutional strengthening has also contributed to mainstreaming environmental sustainability and climate resilience into urban planning and investment preparation. This is particularly relevant to Wajir County because the urban environment is exposed to drought, flash floods, high temperatures, environmental degradation and other climate-related risks. KUSP II requires participating urban institutions to strengthen climate resilience and mainstream climate considerations into urban planning and infrastructure development.

f) Monitoring, Evaluation and Reporting-The Municipality has strengthened monitoring and reporting of urban programmes through preparation of work plans, progress reports, implementation monitoring, site inspections and performance tracking. The continued strengthening of these systems will enable Wajir County to demonstrate achievement of KUSP II institutional performance requirements and improve evidence-based decision making.

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

Key Implementation Challenges in Wajir County

The implementation of KUSP II UIG activities in Wajir County has faced, or may face, the following challenges:

- Procurement delays, particularly where activities require detailed specifications, consultancy services or competitive procurement processes.
- Limited technical capacity in specialised municipal functions such as urban planning, GIS, infrastructure asset management, climate resilience and project management.
- Staffing constraints affecting the ability of Wajir Municipality to undertake all assigned urban functions effectively.
- Climate and environmental challenges, including drought, flash floods, high temperatures and environmental degradation.
- Limited municipal revenue base, affecting long-term sustainability of urban services.
- Capacity gaps in project monitoring and documentation, particularly in maintaining complete evidence for performance assessment.
- Limited private sector participation in urban planning and investment processes.
- Rapid urban growth, which continues to place pressure on infrastructure, land management and municipal services.

Recommended Next Steps

Wajir County should:

- Accelerate procurement of approved UIG activities;
- Strengthen staffing and technical capacity within Wajir Municipality;
- Complete and operationalise the Urban Idep and relevant LPLUDPs;
- Strengthen municipal revenue mobilisation and financial management;
- Develop and maintain a comprehensive municipal asset register;
- Institutionalise regular public and private sector engagement;
- Strengthen climate-risk screening of urban plans and investments;
- Strengthen monitoring, evaluation and reporting;
- Prepare the Municipality for subsequent performance assessments by ensuring that evidence for each Minimum Condition and Performance Standard is properly documented and readily accessible.

2.9 *Summary of Project Compliance:*

I. Compliance

Implementation of KUSP II UIG activities in Wajir County is subject to applicable Kenyan laws and regulations, County legislation, Treasury requirements, KUSP II programme requirements, approved work plans and the applicable World Bank financing and implementation arrangements. KUSP II uses performance-based mechanisms to incentivise improved institutional performance. The UIG is specifically linked to compliance with Minimum Conditions, with annual assessment of compliance incorporated into the overall Annual Performance Assessment (APA).
The county managed to meet all the minimum conditions as per the KUSP II requirements and the annual performance assessment (APA2) conducted on 23rd and 24th March, 2026.

ii) Consequences of Non-Compliance
Non-compliance with applicable laws, regulations, Treasury requirements and KUSP II financing conditions may result in financial, operational, legal and reputational consequences for the Municipality and the County Government of Wajir, the grant has not experience or encounter any non-compliance issues during the reporting period.

iii) Mitigation Measures Taken or Planned
Wajir County seeks to implement the following measures to address actual and potential compliance gaps:

- Strengthen UIG Compliance Monitoring-Establish a dedicated UIG compliance checklist covering all applicable Minimum Conditions, Performance Standards, financial management, procurement, safeguards and reporting requirements.
- Strengthen Risk Management-Maintain an updated KUSP II/UIG Risk Register identifying institutional, financial, procurement, environmental, social, operational and implementation risks. Each risk should have a responsible officer, mitigation measure, target date and status.

- Strengthen Financial Controls-Ensure that all UIG expenditure is: Budgeted and approved; Eligible under KUSP II requirements; Properly procured where applicable; Supported by appropriate documentation; Properly recorded and reconciled; and Regularly reviewed by management and internal audit.
- Strengthen Procurement Compliance-The Municipality and County procurement units should ensure timely procurement planning, complete procurement documentation, appropriate approvals, contract monitoring and timely resolution of procurement issues.
- Improve Documentation and Evidence Management- Wajir Municipality should maintain a central KUSP II/UIG evidence file containing: Approved work plans; Budgets; Procurement plans; Contracts and purchase orders; Payment documents; Activity reports; Training records; Attendance registers; Monitoring reports; Minutes of stakeholder meetings; Public participation records; Audit reports; Risk registers; Asset records; and Evidence supporting compliance with Minimum Conditions and Performance Standards.
- Strengthen Institutional Capacity-Continuous capacity building will be undertaken for municipal and County officers responsible for finance, procurement, urban planning, engineering, environment, safeguards, monitoring and evaluation, revenue management and project management.
- Enhanced Citizen and Private Sector Engagement-Wajir Municipality should institutionalise regular citizen engagement and Public-Private Dialogue Forums to ensure that urban plans and investments respond to local priorities and economic opportunities.
- Strengthen Climate Resilience-All relevant urban plans, programmes and investments should incorporate climate-risk considerations, particularly in relation to drought, flooding, drainage, water scarcity, extreme temperatures and environmental degradation.
- Strengthen Management Oversight-The Wajir Municipal Board, County Executive, KUSP II coordination structures and relevant technical departments should regularly review UIG implementation, expenditure, compliance, risks, performance and audit issues.

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

Introduction

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's agreement/ plan are to:

The project management aims to achieve the goals through the following means:

a) Capacity strengthening of urban institutions in the county
b) Enhance citizen engagement through quarterly citizen participation forums
c) Provision of financial and technical support in formulation of municipal plans and policies.

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
Preparation of Wajir Municipality Urban Integrated Development plan	To strengthen urban planning	Improved municipal planning for efficient services delivery	Evidence of approved Municipal Urban Idep	In FY 2024-2025 the municipal administration prepared and approved the 2nd Urban Idep
Purchase of specialized Equipment's	To equip the municipality with required equipment for service delivery	Enhanced the capacity of the municipal administration to deliver services	Number of equipment's purchased	In the FY 2025-2026 the County purchased surveying and GIS Equipment's and working tools for municipal cleaning services
Preparation of Wajir Municipality Urban Climate Risk Profile	To mitigate, adapt and mainstream climate risks within municipal plans, programs, and projects	To build climate resilience municipality	Evidence of approved Climate Risk Profile	In the FY 2025-2026 the county supported the municipality in preparation of Wajir municipality urban climate risk profile
Preparation of Wajir County Private Sector Engagement (PSEF)	To enhance private sector engagement in urban planning in the county	To ensure organized private sector in the county	Evidence of private sector engagement framework	In the FY 2025-2026 the county prepared Wajir County Private Sector Engagement Framework
Review of Gender Inclusion and Participation Framework	To mainstream gender inclusion and participation at the municipal management and the board	Ensure gender parity in all municipal plans, program, projects and human resource at the municipal level	Evidence of revised municipality gender inclusion and participation framework	In the FY 2025-2026 the county enhanced the Wajir municipality gender inclusion and participation framework

4. Environmental and Sustainability Reporting

Wajir Municipality exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy: putting the residents/Citizen first, delivering relevant goods and services, and improving operational excellence.

1. Sustainability strategy and profile

Sustainable development has been fully incorporated by the Wajir Municipality. Our corporate sustainability contains three pillars: economic, ecological and social. For a comprehensive corporate sustainability strategy, the county understands it is necessary to consider all dimensions, their impacts and their interrelations. External influences also affect the corporate orientation on sustainability. Moreover, corporate sustainability also has positive effects on society in the long term. Wajir Municipality follows an introverted – risk mitigation strategy focusing on legal and other external standards concerning environmental and social aspects in order to avoid risks for the entity.

2. Environmental performance

As part of Wajir Municipality's contribution to Wajir County's development agenda and our intent towards improving the wellbeing of our communities, in the financial year, Wajir Municipality rolled out plastic processing plant whereby all plastic within the town will be collected and later processed blocks for building of the house, also planning tree planting and greening programmes in Wajir town.

3. Employee welfare

Wajir Municipality's success is largely dependent on our human capital (people). Therefore, at Wajir Municipality, we seek to recruit, retain, reward and develop the best talent in the Country. We also 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 especially for vulnerable mothers who water trees and engage in town cleaning programmes.

4. Market place practices-

The organisation should outline its efforts to:

a) **Responsible Supply chain and supplier relations-** Wajir Municipality 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.

b) **Responsible ethical practices-**
Wajir Municipality is a corruption free organization with a reputable corruption free environment.

5. **Community Engagements**
Wajir municipality recognizes the importance of community engagement in its undertakings. The Municipality engages different stakeholders through quarterly citizen forums and public participation during the budget formulation. The municipality also do private sector engagement forums.
The municipality engages youth and women in celebration of world environmental days and also takes part in the celebration of women day and youth week.

5. Statement of Project Management Responsibilities

Chief Officer for the County department of Land, Spatial Planning, Urban Areas and Municipality Development and the County Project Coordinator are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for the financial year ended on June 30, 2026.

This responsibility includes

(i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period,

(ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the project,

(iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud,

(iv) Safeguarding the assets of the project,

(v) Selecting and applying appropriate accounting policies and

(vi) Making accounting estimates that are reasonable in the circumstances.

The Chief Officer for the County Department of Lands, Spatial Planning, Urban Areas and Municipality Development and the County Project Coordinator accept responsibility for the Project's financial statements, which have been prepared on the IPSAS Accrual Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Chief Officer for the County Department of Lands, Spatial Planning, Urban Areas and Municipality Development and the County Project Coordinator are of the opinion that the Project's financial statements give a true and fair view of the state of the Project's transactions during the financial year ended June 30, 2026, and of the Project's financial position as at that date. The Chief Officer for Lands, Spatial Planning, Urban Areas, and Municipality Development and the County Project Coordinator further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements and the adequacy of the systems of internal financial control.

The Chief officer for the County Department of Lands, Spatial Planning, Urban Areas and Municipality Development and the County Project Coordinator confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project Financial Statements

The Project financial statements were approved by the Chief Officer for the County Department of Lands, Spatial Planning, Urban Areas and Municipality Development and the County Project Coordinator on 30th June 2026 and signed by:

.....

Abdullahi Issack Mohamed
Chief Officer
Lands, Spatial Planning, Urban Areas & Municipality Development

.....

Abdullahi Hassan Adan
County Project Coordinator

REPUBLIC OF KENYA

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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 SECOND KENYA URBAN SUPPORT PROGRAM (KUSP II) – URBAN INSTITUTIONAL GRANT (UIG) – IDA CREDIT NO. 7349-KE AND GRANT NO. E208-KE – WAJIR MUNICIPALITY FOR THE YEAR ENDED 30 JUNE, 2026 – COUNTY GOVERNMENT OF WAJIR

PREAMBLE

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

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

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

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

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

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, Cap. 412A, and the Public Audit Act, Cap. 412B. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Second Kenya Urban Support Program (KUSP II) – Urban Institutional Grant (UIG) – Wajir Municipality set out on pages

1 to 26, which comprise of the statement of financial position as at 30 June, 2026, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, Cap.412B. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Second Kenya Urban Support Program (KUSP II) – Urban Institutional Grant (UIG) – Wajir Municipality as at 30 June, 2026 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards Accrual Basis and comply with the with the Financing Agreement Credit No.E208-KE dated 31 December, 2023 and the Public Finance Management Act, Cap.412A and The National Treasury and Economic Planning Circular No.3 of 14 April, 2025.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Second Kenya Urban Support Program (KUSP II) – Urban Institutional Grant (UIG) – Wajir 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 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.32,309,300. Similarly, the Project spent Kshs.29,817,649 against actual receipts of Kshs.32,309,300 resulting in an under-utilization of Kshs.2,491,651 or 8% of the actual receipts.

The under-utilization may have affected the planned activities of the project and may have impacted negatively on the achievement of the objectives of the project.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Information

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

In connection with my audit on the Project's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

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

Ineffective Assets and Liabilities Management Standing Committee and Asset Management Unit

During the audit, Management provided evidence of the establishment of an Asset Management Unit and an Assets and Liabilities Management Standing Committee through departmental appointment. However, no appointment letters, minutes of deliberations or reports were availed to confirm the existence and operationalization of these structures as required by Section 3.9(e) of The National Treasury Asset and Liability Management Policy, 2020 which requires public sector entities to establish an Assets and Liabilities Management Standing Committee and an Asset Management Unit to oversee and coordinate asset and liability management functions.

In the circumstances, the oversight on effectiveness of internal controls, risk management and overall governance could not be confirmed.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

As required by Financing Agreement Credit No.E208-KE dated 31 December, 2023 between World Bank and Republic of Kenya, I report, based on my audit, that:

i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

ii. Adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,

iii. The Project's financial statements are in agreement with the accounting records and returns.

Basis for Conclusion

The Financing Agreement Credit No.E208-KE dated 31 December, 2023 requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Project's compliance with

laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal controls as Management determines 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, Cap. 412B and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, Cap. 412B. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error

and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, Cap. 412B.

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

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

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

24 September, 2026

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

	Notes	2025/2026
		Kshs
Revenue		
Revenue Transfers	6	32,309,300
Total revenue		32,309,300
Expenses		
Employee costs	7	-
Use of goods and services	8	21,130,877
Total expenses		21,130,877
Other gains/(losses)		
Gain/Loss on sale of assets	10	-
Gain/Loss on foreign exchange transactions	11	-
Impairment loss	12	-
Surplus/ (deficit)		11,178,423

The financial statements were approved on 30TH June 2026 and signed by:

.....	.....	.....
Abdullahi Issack Mohamed	**Abdullahi Hassan Adan**	**Abdikadir Noor Mohamed**
Chief Officer	**County Project Coordinator**	**Project Accountant**
Urban Areas and		
Municipality Development		**ICPAK Member No: 28529**
Date 30/6/2026	**Date** 30-6-2026	**Date** 30/6/2026

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

	Note	2025/2026
		Kshs
Assets		
Current Assets		
Cash and Cash equivalents	13	2,491,651
Total Current Assets		2,491,651
Non-Current Assets		
Property, Plant and Equipment	14	8,686,772
Total Non- Current Assets		8,686,772
Total Assets (a)		11,178,423
Liabilities		
Current Liabilities		
Total Current Liabilities		-
		-
Non-Current Liabilities		-
Non-current lease liability	15	-
Total Non-Current Liabilities		-
Total Liabilities (b)		-
Net Assets (a-b)		
Represented By:		
Accumulated Surplus		11,178,423
Revaluation Reserve		-
Total Net Assets		11,178,423

The financial statements were approved on 30th June 2026 and signed by:

.....	.....	.....
Abdullahi Issack Mohamed	**Abdullahi Hassan Adan**	**Abdikadir Noor Mohamed**
Chief Officer	**County Project Coordinator**	
Urban Areas and		**Project Accountant**
Municipality Development		
		ICPAK Member No: 28529
Date 30/6/2026	**Date** 30-6-2026	**Date** 30/6/2026

9. Statement of Changes in Net Assets

	Accumulated Surplus	Revaluation Reserve	Total
As At 1st July 2024	-	-	-
Return to Exchequer	(-)	-	(-)
Surplus/Deficit for the year	(-)	-	-
Revaluation Gain	-	-	-
Transfer of excess depreciation on revaluation	-	(-)	
Other Changes *(specify)*	-	-	-
As at 30th June 2025	-	-	-
		-	-
As At 1st July 2025	-	-	-
Return to Exchequer	(-)	-	(-)
Surplus/ deficit for the year	11,178,423	-	11,178,423
Revaluation Gain	-	-	-
Transfer of excess depreciation on revaluation	-	(-)	
Add: Recognition of Assets	-	-	-
Other Changes *(specify)*	-	-	-
As at June 30, 2026	11,178,423	-	11,178,423

The financial statements were approved on 30TH June 2026 and signed by:

.....	.....	.....
Abdullahi Issack Mohamed	**Abdullahi Hassan Adan**	**Abdikadir Noor Mohamed**
Chief Officer	**County Project Coordinator**	
Urban Areas and		**Project Accountant**
Municipality Development		
		ICPAK Member No: 28529
Date 30/6/2026	**Date** 30-6-2026	**Date** 30/6/2026

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

Description	Note	2025/2026
		Kshs
Cashflow from operating activities		
Receipts		
Revenue Transfers		32,309,300
Miscellaneous Revenue		-
Total receipts		32,309,300
Payments		
Employee costs		-
Use of goods and services		21,130,877
Transfer to other Government Entities		-
Other Transfers/Subsidies/Grants		-
Certified Works		-
Total payments		11,178,423
Net cash flow from operating activities	16	11,178,423
Cashflow from investing activities		
Acquisition of non-financial assets		(8,886,772)
Proceeds from sale of Assets		-
Acquisition of Intangible assets		(-)
Net cash flows from investing activities		(8,886,772)
Cash flow from financing activities		
Repayment of Lease Principal		(-)
Specify the activity		-
Net cash flow from financing activities		-
Net increase/Decrease in cash and cash equivalents		2,491,651
Cash and cash equivalent at 1st July	17	-
Cash and cash equivalent at end June	17	2,491,651

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

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable (cash) Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
	Kshs	Kshs	Kshs	Kshs	Kshs	
Budget Carry Overs from previous periods		-	-	-	-	-
Receipts						
Revenue Transfers	32,309,300	-	32,309,300	32,309,300	0	100%
Miscellaneous Revenue	-	-	-	-	-	-
Total Revenue	32,309,300	-	32,309,300	32,309,300	0	100%
Payments	-	-	-	-	-	-
Employee costs	-	-	-	-	-	-
Use of goods and services	22,000,000	-	22,000,000	21,130,877	869,123	96%
Transfer to other Government Entities	-	-	-	-	-	-
Other Transfers/Subsidies/Grants	-	-	-	-	-	-
Certified Works	-	-	-	-	-	-
Acquisition of Assets	10,309,300		10,309,300	8,686,772	1,622,528	85%
Total Payments	32,309,300	-	32,309,300	29,817,649	2,491,651	92%
Surplus	-	-	-	2,491,651	-	-

12. Notes to the Financial Statements

1. General Information

Urban Institutional Grant entity is established by and derives its authority and accountability from Urban Areas and Cities Act No. 13 of 2011 Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya.

2. Statement of Compliance and Basis of Preparation

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

Guiding note during the transition period:
The financial statements have been prepared in accordance with the PFM Act, and International Public Sector Accounting Standards (IPSAS).

These financial statements were authorized for issue by the accounting officer on 30th June 2026.

3. Adoption of New and Revised Standards

New and amended standards and interpretations in issue effective in the year ended 30 June 2024.

Standard	Effective date and Impact:
IPSAS 41: Financial Instruments	Applicable: 1st January 2023: The objective of IPSAS 41 is to establish principles for the financial reporting of financia assets and liabilities that will present relevant and useful information to users of financia statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
IPSAS 42: Social Benefits	**Applicable: 1st January 2023** The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financia statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess: (a) The nature of such social benefits provided by the Entity. (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the Entity's financial performance financial position and cash flows.
Amendments to Other IPSAS resulting from IPSAS 41 Financial Instruments	**Applicable: 1st January 2023:** a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. d) Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.
Other improvements to IPSAS	*Applicable 1st January 2023* • *IPSAS 22 Disclosure of Financial Information about the General Government Sector.* Amendments to refer to the latest System of National Accounts (SNA 2008) • *IPSAS 39: Employee Benefits* Now deletes the term composite social security benefits as it is no longer defined in IPSAS.

	• *IPSAS 29: Financial instruments: Recognition and Measurement* Standard no longer included in the 2023 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.
IPSAS 43	***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 cashflows 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 41: Financial Instruments	**Applicable: 1st January 2023:** The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an Entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.

i) Early adoption of standards

The Wajir County – Urban Institutional Grant did not early – adopt any new or amended standards in the financial year .

4. Summary of Significant Accounting Policies

a) Revenue recognition

I) Revenue from non-exchange transactions

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

Ii) Revenue from exchange transactions

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

b) Budget Information

The original budget for FY 2025/2026 was approved by the Board. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals to conclude the final budget. The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of cash flows has been presented on page 6 under section budget of these financial statements.

c) Property, plant and equipment

Recognition and Measurement
The Entity's Property, Plant, and Equipment (PPE) are tangible items held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and are expected to be used for more than one reporting period.
An item of PPE is recognized as an asset if, and only if:

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

Items acquired through non-exchange transactions (e.g., donations) are measured at their deemed cost, which is the fair value at the date of acquisition. For all other acquisitions, initial measurement is at cost, which includes all expenses directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Depreciation and Impairment

The entity applies the 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	30%
Heritage Assets	x%
Others (Specify)	

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

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

d) Lease Liability

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

Recognition

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

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

Measurement

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

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

e) Lease Liability

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

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

f) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite. Intangible assets with an indefinite useful life are assessed for impairment at each reporting date.

g) Research and development costs

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

- The technical feasibility of completing the asset so that the asset will be available for use or sale.
- Its intention to complete and its ability to use or sell the asset.

- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

h) Financial Instruments

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

Financial assets

Classification

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

Subsequent measurement
Based on the business model and the cash flow characteristics, the entity classifies its financial assets into amortized cost or fair value categories for financial instruments. Movements in fair value are presented in either surplus or deficit or through net assets/ equity subject to certain criteria being met.

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

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

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

Trade and other receivables

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

Impairment

The entity assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its financial assets carried at amortized cost and fair value through net assets/equity. The e recognizes a loss allowance for such losses at each reporting date.

Financial liabilities

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

i) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method.
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement

Inventories (Continued)

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the *Entity*.

j) Provisions

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

Contingent liabilities

The *Entity* does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Contingent assets

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

k) Nature and purpose of reserves

The *Entity* creates and maintains reserves in terms of specific requirements. (*Entity to state the reserves maintained and appropriate policies adopted).*

l) Changes in accounting policies and estimates

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

m) Employee benefits

Retirement benefit plans

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

Foreign currency transactions

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

n) Borrowing costs

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

o) Related parties

The *Entity* regards a related party as a person or an entity with the ability to exert control individually or jointly or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the Principal and senior managers.

p) Service concession arrangements

The *Entity* analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the *Entity* recognizes that asset when, and only when, it controls or regulates the services. The operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the *Entity* also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

r) Subsequent events

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

5. Significant Judgments and Sources of Estimation Uncertainty

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

Estimates and assumptions.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note xxx.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Notes to the financial statements

6. Revenue Transfers

Description	2025/2026 KShs
Unconditional Transfers	
GoK Counter Part funding	-
Transfers from Development partners	-
Other unconditional transfers (Specify)	-
Total Unconditional Transfers (a)	-
Conditional Transfers	
Transfers from Development partners 1	32,309,300
Transfers from Development partner 2	-
Other conditional transfers (specify)	-
Total Conditional Transfers (b)	-
Total Transfers for the Year	32,309,300

7. Employees Costs

Description	2025/2026
	Kshs
Personal allowances provided in kind	-
Total	-

8. Use of Goods and Services

Description	2025/2026
	Kshs
Bank charges	12,491
Consultancy	3,927,284
Domestic travel and subsistence	8,992,832
Foreign travel and subsistence	-
Fuel and lubricants	187,237
General office supplies	-
Stationery, Printing, advertising, and information supplies	1,212,364
Tax payments	239,493
Training payments	893,600
Hospitality supplies and services	3,254,916
Insurance costs	-
Specialized materials and services	-
Other operating payments(specify)	1,421,000
Routine maintenance – vehicles and other transport equipment	989,660
Routine maintenance- other assets	-
Total	**21,130,877**

9. Depreciation and Amortization expense

Description	2025/2026
	Kshs
Property, Plant and Equipment	-
Intangible Assets	-
Right of Use Assets	-
Others specify	-
Total	-

10. Gain/Loss on Sale of Assets

Description	2025/2026
	Kshs
Property, plant and equipment	-
Intangible assets	-
Other assets not capitalised	-
Total gain/loss on sale of assets	-

11. Gain/Loss on foreign exchange transactions

Description	2025/2026
	Kshs
Gain on foreign exchange transactions	-
Loss on foreign exchange transactions	-
Total Gain/Loss	-

12. Impairment Loss

Description	2025/2026
	Kshs
Property, Plant and Equipment	-
Intangible Assets	-
Others specify	-
Total Impairment Loss	-

13. Cash and Cash Equivalents

Description	2025/2026
	Kshs
Cash in Bank	2,491,651
Total Cash and Cash Equivalents	2,491,651

Project Bank Accounts

Details	2025/2026
	Kshs
Local Currency Accounts	
Kenya Commercial Bank [A/c No 1330 xxxx 19]	2,491,651
Total bank account balances	2,491,651

14. Property, Plant and Equipment
Current FY

Cost/Value	Land	Buildings	Motor vehicles	Furniture and fittings	Computers	Infrastructure Assets	Service Concession Assets	Other Assets (Specify)	Capital Work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs		Kshs	Kshs
As At 1July 2025	-	-	-	-	-	-	-	-	-	-
Additions	-	-	-	7,489,772	1,197,000	-	-	-	-	8,686,772
Disposals	-	-	-	-	-	-	-	-	-	-
Transfers/Adjustments	-	-	-	-	-	-	-	-	-	-
Revaluation Adjustments	-	-	-	-	-	-	-	-	-	-
As at 30th June 2026	-	-	-	7,489,772	1,197,000	-	-	-	-	8,686,772
Depreciation & Impairment										
At 1 July 2025	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-)
Impairment	-	-	-	-	-	-	-	-	-	-
Transfers/ Adjustments	-	-	-	-	-	-	-	-	-	-
As at 30th June 2026	-	-	-	-	-	-	-	-	-	-
Net Book Value as at 30th June 2026	-	-	-	7,489,772	1,197,000	-	-	-	-	8,686,772

Notes to the financial statements

a) Valuation

Land and buildings/ Equipment were valued by professional valuers from the government.

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	-	-	-
Buildings	-	-	-
Plant And Machinery	-	-	-
Motor Vehicles, Including Motorcycles	-	-	-
Computers And Related Equipment	1,197,000	-	1,197,000
Office Equipment, Furniture, And Fittings	7,489,772	-	7,489,772
Total	8,668,772	-	8,668,772

15. Related Party Disclosures

Nature of related party relationships

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

Government of Kenya

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

Other related parties include:

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

Description	FY 25/26 Kshs
Transactions with related parties	
a) Grants /transfers from the government	
Grants from national the government	32,309,300
	-
Total	32,309,300

16. Events after the Reporting Period

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

17. Ultimate And Holding Entity

The project is a world bank sponsed project.

18. Currency

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

13. Annexes

Annex 1: Prior Year Auditor-General's Recommendations

Guidance Notes:

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
This is the first year of Audit. No prior year recommendations.				

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

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Abdullahi Issack Mohamed
Chief Officer
Lands, Spatial Planning, Urban Areas & Municipality Development

.....

Abdullahi Hassan Adan
County Project Coordinator

Annex 2: Reconciliation of inter-entity transfers

	Project Name: Urban Development Grant			
	Break down of transfers from the State Department of			
A.				
		Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
		7/7/25	32,309,300	FY2025/2026
			-	
		Total	**32,309,300**	

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

Project Coordinator
Urban Development Grant

Sign _____

Head of Accounting Unit
County Department

Sign _____