

REPUBLIC OF KENYA



REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

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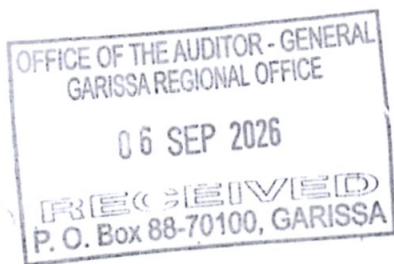
THE AUDITOR-GENERAL

ON

KENYA URBAN SUPPORT PROGRAMME
(KUSP II) – URBAN INSTITUTIONAL GRANT
(UIG) – IDA CREDIT NO. 7349-KE

FOR THE YEAR ENDED
30 JUNE, 2026

COUNTY GOVERNMENT OF MANDERA



**PROJECT NAME: SECOND KENYA URBAN SUPPORT PROGRAM (KUSP II) —
URBAN INSTITUTIONAL GRANT (UIG): COUNTY GOVERNMENT OF MANDERA**

IMPLEMENTING ENTITY: COUNTY GOVERNMENT OF MANDERA

PROJECT GRANT/CREDIT NUMBER: IDA-7349-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 the International Public Sector Accounting Standards (IPSAS)

Second Kenya Urban Support Program (KUSP II) — Urban Institutional Grant (UIG)
Annual Report and Financial Statements for the financial year ended June 30, 2026

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1. Acronyms, Abbreviations, and Definition of Terms

A. Acronyms and Abbreviations

- CPCT — County Programme Coordination Team
- CECM — County Executive Committee Member
- CUIDS — County Urban Institutional Development Strategy
- IDA — International Development Association
- IPSAS — International Public Sector Accounting Standards
- KUSP II — (Second) Kenya Urban Support Programme
- OAG — Office of the Auditor-General
- PforR — Programme-for-Results
- POM — Programme Operations Manual
- PPD — Public-Private Dialogue
- SDHUD — State Department for Housing and Urban Development
- SPA — Special Purpose Account
- UDG — Urban Development Grant
- UIG — Urban Institutional Grant
- WHR — World Bank IDA Window for Host Communities and Refugees
- WB — World Bank

2. Project Information and Overall Performance

2.1 Name and registered office

The project's official name is Second Kenya Urban Support Program (KUSP II) — Urban Institutional Grant (UIG), Mandera County.

Objective

The key objective of the projective to strengthen the capacities of urban institutions in Mandera County to improve the delivery and resilience of urban infrastructure and services, and enhance private sector engagement in urban planning, in line with the overall Programme Development Objective of KUSP II.

Address

The project headquarters offices are Mandera County Government Headquarters, Mandera Town, Mandera County. The address of its registered office is:

Mandera County Executive Headquarters
P.O. Box 13-70300
Roads and Public Works House
Jamia Mosque Road
Mandera, KENYA

The programme also covers activities implemented through:

- Mandera Municipality
- Elwak Municipality

Contacts:

P.O. Box: 13–70300, Mandera

Telephone: (254) 724439914/0725625547

E-mail: info@mandera.go.ke

Website: www.mandera.go.ke

Second Kenya Urban Support Program (KUSP II) — Urban Institutional Grant (UIG)
Annual Report and Financial Statements for the financial year ended June 30, 2026

Project information and overall performance (continued)

2.2 Project Information

Project Start Date:	1 st July 2024
Project End Date:	30th June 2028
Reporting Period Covered:	1 July 2025 to 30 June 2026 (FY 2025/2026)
Project Coordinator:	Mr. Issa Khalif Ali

2.3 Project Overview

Line Ministry or State departments/ County Department	County Government of Mandera — Ministry of Lands, Physical Planning, Housing and Urban Development, Department of Housing and Urban Development
Project number	World Bank Project ID: P177048; IDA Credit No. 7349-KE; IDA Credit No. 7350-KE; IDA Grant No. E208-KE
Strategic goals of the project	The strategic goals of the UIG window are to: (i) Strengthen urban institutions (Municipal Boards, Managers and technical staff) for effective urban management; (ii) Enhance private sector engagement and own-source revenue through business databases and PPD platforms; (iii) Improve resilience of urban areas to climate and disaster risk; (iv) Strengthen inter-governmental urban financing arrangements; and (v) Improve citizen participation and development control.
Summary of Project Strategies for achievement of strategic goals	(i) Annual, results-based UIG work plans and budgets prepared jointly by the Department of Housing and Urban Development, and the two Municipal Boards; (ii) Implementation through competitively procured service providers and direct capacity-building engagements; and (iii) Monitoring against the KUSP II POM, APA guidelines and quarterly/half-yearly UIG reporting templates.
Other important background information of the project	The UIG is implemented alongside the Urban Development Grant (UDG), which finances municipal infrastructure investments. Following guidance from the Office of the Auditor-General, UIG and UDG resources are now reported and accounted for separately; this report covers the UIG window only. Municipalities prepare separate UDG financial statements.
Areas that the project was formed to intervene	(i) Weak institutional and technical capacity of newly established Municipal Boards; (ii) Limited private-sector data and engagement platforms at municipal level; (iii) Inadequate climate and disaster risk preparedness in urban areas; and (iv) Absence of a clear formula/framework for county financing of urban areas.
Project duration	KUSP II: 4 years (FY 2024/25 – FY 2027/28); this report covers FY 2025/2026.

Project Information and Overall Performance (Continued)

2.4 Bankers

UIG funds are held and disbursed through a dedicated UIG Special Purpose Account (SPA), opened at a commercial bank (Equity Bank of Kenya) in accordance with the KUSP II Programme Operations Manual and the directive of the State Department for Housing and Urban Development (Ref: MLPWHUD/HUD/UD/KUSP/5/14/1 Vol. VII (105)). Signatories to the account were updated and comprise the County Chief Officer for Housing and Urban Development, the CPCT Coordinator, and the Chief Officer, Finance (or designated Accountant).

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
	Zeitun bdishakur Abdikarim	County Chief Officer, Housing and Urban Development	Bachelor Degree	Authorizing officer for the UIG Special Purpose Account (SPA); oversight of Department activities
	Issa Khalif Ali	County Coordinator	Bachelor Degree	Overall UIG programme coordination; requisitioning officer for the UIG budget; compilation of UIG progress and financial reports
	Hon. Salah Maalim Alio	County Executive Committee Member (CECM), Lands, Physical Planning, Housing & Urban Development	Bachelor Degree	Policy oversight and approval of the UIG annual work plan and budget
	Matker Mohamed Nur	Mandera Municipal Manager	Bachelor Degree	Implementation of municipal-level UIG activities within their respective Boards
	Abdi Hussein Kahiye	Elwak Municipal Manager	Bachelor Degree	Implementation of municipal-level UIG activities within their respective Boards
	Abdullahi Abdi Abdirahman	Project Accountant	Bachelor Degree	Accounting
	Maimuna Mohamed	Project procurement officer	Bachelor Degree	Procurement

Second Kenya Urban Support Program (KUSP II) — Urban Institutional Grant (UIG)

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

Project information and overall performance (continued)

2.7 Funding summary:

A. Source of Funds

Source of funds	Development Partner Commitment		Amount received to date – (30 th 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-UIG	0	0	0	32,309,300	0	0
(ii) Loan						
Insert name of development partner	0	0	0	0	0	0
Total	-	0	0	32,309,300	0	0

The cumulative amount received from the Development partner to date excludes the 32,309,932 amount that is held in the Designated account.

Second Kenya Urban Support Program (KUSP II) — Urban Institutional Grant (UIG)
Annual Report and Financial Statements for the financial year ended June 30, 2026

Project information and overall performance (continued)

B. Application of Funds

Application of funds	Amount received to date – (30 th June 2026)		Cumulative amount paid to date – (30 th June 2026)		Unutilised balance to date (30 th June 2026)	
	Development Partner currency	Kshs	Development Partner currency	Kshs	Development Partner currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
Grant						
Urban Institutional Grant-UIG	0	0	0	32,309,300	0	0
Insert name of development partner	0	0	0	0	0	0
Counterpart funds						
Government of Kenya	0	0	0	0	0	0
Total	0	0	0	32,309,300	0	0

Project information and overall performance (continued)

2.8 Summary of Overall Project Performance:

- Budget performance: 100.0% of the approved FY 2025/2026 UIG annual budget (Kshs 32,309,300) was received, and 100% (Kshs 32,309,300) was utilized, leaving a closing cash balance of Kshs 0 (Zero) as at 30th June 2026.
- Physical progress: All planned UIG activities across the Department of Housing and Urban Development, Mandera Municipality and Elwak Municipality were completed during the year — an overall completion rate of 100%.
- Absorption rate: 100% for FY 2025/2026 (first year for which the UIG has been reported and accounted for separately from the UDG).
- Implementation challenges: Minor procurement-related delays were experienced in the first half of the year, for Elwak Municipality (linked to a change in municipal management) which was resolved and completed within the second half of the year through improved coordination between the CPCT, user departments and procurement units. No major fiduciary bottlenecks were encountered.
- Next steps: Operationalize completed plans and data systems (business databases, climate risk and disaster response plans), continue staff capacity strengthening, and enhance monitoring to sustain institutional gains into FY 2026/2027.

2.9 Summary of Project Compliance:

- No significant instances of non-compliance with applicable laws, regulations, Treasury circulars, the PFM Act 2012, or the KUSP II financing agreements/covenants were identified in respect of the UIG window during the year.
- No adverse consequences arising from non-compliance were suffered or are anticipated.
- The County will continue to strengthen procurement planning and coordination between the CPCT, user departments and the Procurement Unit to minimize the timing delays experienced in the first half of the year.

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

Section 164(2)(f) of the Public Finance Management Act, 2012 requires the Accounting Officer to report on performance against predetermined objectives. The key development objectives of the UIG window, cascaded from the KUSP II Programme Development Objective and the County Urban Institutional Development Strategy (CUIDS), are set out below together with FY 2025/2026 performance:

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

Project	Objective	Outcome	Indicator	Performance
Institutional strengthening & urban governance	Strengthen the capacity of Mandera and Elwak Municipal Boards and technical staff	Improved municipal governance and staff technical capacity	Number of Board/staff capacity-building activities completed	Both Municipal Boards and technical staff trained; SMC/SLDP/Enterprise Risk Management and urban governance courses completed for county and municipal staff — 100%
Private sector engagement	Strengthen private sector engagement in urban planning	Functional business databases and PPD platforms	Business databases developed; PPD sessions held	Business databases and Private-Sector Needs Diagnostic/PPD completed for Mandera and Elwak Municipalities — 100%
Urban resilience	Improve preparedness for climate and disaster risk	Municipalities with climate/disaster risk plans	Climate Risk Profile and Disaster & Risk Response Plan finalised	Climate Risk Profile (Mandera & Elwak) and Elwak Disaster & Risk Response Plan completed — 100%
Urban finance	Strengthen own-source revenue and inter-governmental urban financing	Formula for county allocation of funds to municipalities in place	Formula/bill developed and adopted	Formula for County allocation of funds to municipalities (Urban Areas Financing Bill) developed — 100%
Citizen participation & development control	Strengthen citizen engagement and development control	Increased public awareness; functional citizen fora	Number of citizen fora / sensitization events	Public sensitization on development control and citizen fora conducted in Mandera and Elwak — 100%

4. Environmental and Sustainability Reporting

1. Sustainability strategy, risk management and profile

The UIG programme is designed to build durable institutional capacity — rather than physical infrastructure — within Mandera and Elwak Municipalities, so that governance structures, technical skills, data systems and financing mechanisms established under KUSP II continue to function beyond the life of the grant. Key risks managed during the year included procurement timing delays and change of municipal management at Elwak, both mitigated through close CPCT coordination.

2. Environmental performance

UIG activities in FY 2025/2026 were largely non-physical (institutional capacity building, database development, planning and policy work) and minor office renovations; no significant adverse environmental impacts were identified. Renovation works followed standard County procurement and works-supervision procedures.

3. Employee welfare

Training and capacity-building activities under the UIG (Board training, SMC/SLDP courses, urban governance and enterprise risk management training) were extended to both county and municipal staff, including women officers, in line with the County's human resource and gender policies. The County observes the Occupational Safety and Health Act, 2007 in its office renovation and operational activities.

4. Marketplace practices-

a) Responsible Supply chain and supplier relations-

All UIG contracts (consultancy, catering, renovation, ICT supply) were procured competitively and paid promptly on certification of works/services, as reflected in the expenditure register.

b) Responsible ethical practices

Procurement and payment processes followed the Public Procurement and Asset Disposal Act and County financial regulations, with segregation of requisitioning (County Coordinator) and authorization (Chief Officer, Housing and Urban Development) functions.

c) Regulatory impact assessment

Development of the Municipal Business Databases and the Public-Private Dialogue meetings, Citizen fora, and Climate risk profile development involved stakeholder and citizen engagement to safeguard resident and private-sector interests.

5. Community Engagements

Citizen fora and public sensitization were held in both Mandera and Elwak Municipalities during the year, alongside Private-Sector Needs Diagnostic and PPD sessions, to promote transparency and community participation in urban planning decisions.

5. Statement of Project Management Responsibilities

The County Chief Officer for Housing and Urban Development and the County Coordinator are responsible for the preparation and presentation of the UIG financial statements, which give a true and fair view of the state of affairs of the UIG window of the Second Kenya Urban Support Program (KUSP II) for the financial year ended 30th June 2026.

This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring these remain effective throughout the reporting period; (ii) maintaining proper accounting records which disclose with reasonable accuracy the financial position of the UIG at any time; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, free from material misstatement whether due to error or fraud; (iv) safeguarding UIG assets; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

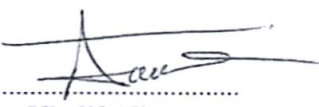
The County Chief Officer for Housing and Urban Development and the County Coordinator accept responsibility for the UIG financial statements, which have been prepared on the IPSAS Accrual Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

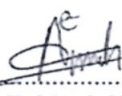
They are of the opinion that the UIG financial statements give a true and fair view of the state of the UIG's transactions during the financial year ended 30th June 2026, and of its financial position as at that date, and confirm the completeness of the accounting records maintained and the adequacy of internal financial controls, and that funds received during the year were used for the eligible purposes for which they were intended and were properly accounted for.

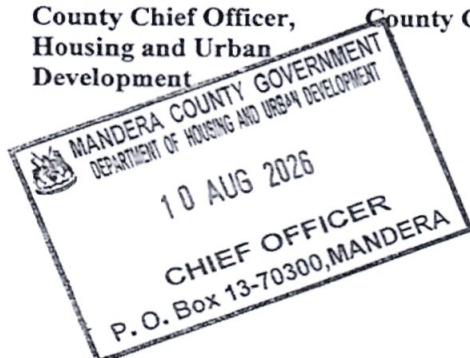
Approval of the Project Financial Statements

The UIG financial statements were approved by the County Chief Officer for Housing and Urban Development and the County Coordinator on _____ 2026 and signed by:


Zeiton Abdishakur
Abdikarim
County Chief Officer,
Housing and Urban
Development


Issa Khalif Ali
County Coordinator


Abdullahi Abdi Abdirahman
Project Accountant



REPUBLIC OF KENYA

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Email: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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

REPORT OF THE AUDITOR-GENERAL ON KENYA URBAN SUPPORT PROGRAMME (KUSP II) – URBAN INSTITUTIONAL GRANT (UIG) – IDA CREDIT NO. 7349-KE FOR THE YEAR ENDED 30 JUNE, 2026 - COUNTY GOVERNMENT OF MANDERA

PREAMBLE

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

- A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;
- B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Urban Support Programme (KUSP II) – Urban Institutional Grant (UIG) – IDA Credit no.7349-KE set out

Report of the Auditor-General on Kenya Urban Support Programme (KUSP II) – Urban Institutional Grant (UIG) – IDA CREDIT NO.7349-KE for the year ended 30 June, 2026 - County Government of Mandera

on pages 1 to 25, 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 Kenya Urban Support Programme (KUSP II) – Urban Institutional Grant (UIG) – IDA Credit No.7349-KE as at 30 June, 2026 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis), and comply with the the Financing Agreement Credit No.IDA-7349-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 Kenya Urban Support Programme (KUSP II) – Urban Institutional Grant (UIG) – IDA Credit No.7349-KE Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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 iii to xii 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, except for the effects of the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Non-Preparation and Submission of Quarterly Reports

Management did not prepare and submit a report for each quarter of the financial year in respect of the KUSP II – Urban Institutional Grant (UIG). This was contrary to Section 166(1) of the Public Finance Management Act, Cap. 412A, which requires the accounting officer for a County Government entity to prepare a report for each quarter of the financial year in respect of the entity.

In the circumstances, Management was in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

As required by Financing Agreement Credit No.IDA-7349-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 returns.

Basis for Conclusion

The financing agreement 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 Transitional 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

21 September, 2026

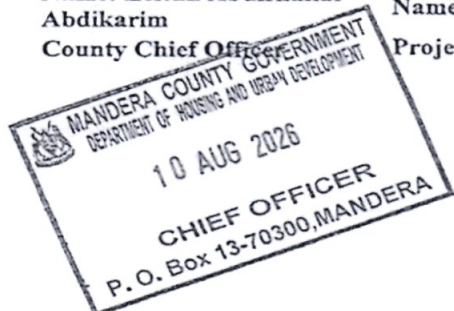
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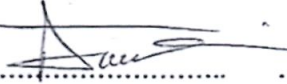
7. Statement of Financial Performance for the Year Ended 30th June 2026.

	Notes	2025/2026	2024/2025
		Kshs	Kshs
Revenue			
Revenue Transfers	6	32,309,300	0
Total revenue		32,309,300	0
Expenses			
Use of goods and services	7	30,211,664	0
Depreciation and amortization expense	8	699,275	0
Total expenses		30,910,938	0
Surplus/ (deficit)		1,398,361	0

The financial statements were approved on _____ 2026 and signed by:


 Name: Zeitun Abdishakur Abdikarim
 County Chief Officer




 Name: Issa Khalif Ali
 Project Coordinator


 Name: Abdullahi Abdi
 Project Accountant
 ICPAK Member No:



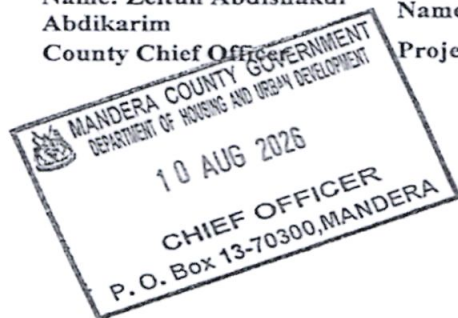
Second Kenya Urban Support Program (KUSP II) — Urban Institutional Grant (UIG)
Annual Report and Financial Statements for the financial year ended June 30, 2026

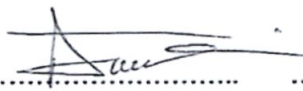
8. Statement of Financial Position as at 30th June 2026

	Note	2025/2026	2024/2025
		Kshs	Kshs
Assets			
Current Assets			
Cash and Cash equivalents	9	235	-
Receivables		-	-
Total Current Assets		235	-
Non-Current Assets			
Property, Plant and Equipment	10	1,398,759	-
Total Non- Current Assets		1,398,759	-
Total Assets (a)		1,398,994	-
Liabilities			
Current Liabilities			
Trade and Other Payables		-	-
Net Assets (a-b)		1,398,994	-
Represented By:			
Accumulated Surplus		1,398,994	-
Total Net Assets		1,398,994	-

The financial statements were approved on _____ 2026 and signed by:


 Name: Zeitun Abdishakur
 Abdikarim
 County Chief Officer




 Name: Issa Khalif Ali
 Project Coordinator


 Name: Abdullahi Abdi
 Project Accountant
 ICPAK Member No:



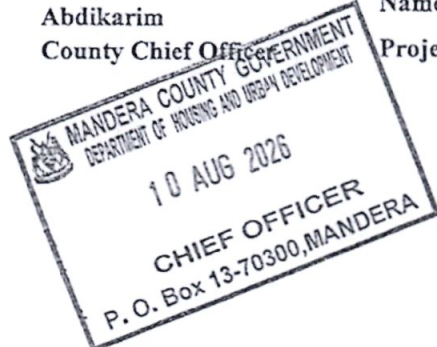
9. Statement of Changes in Net Assets

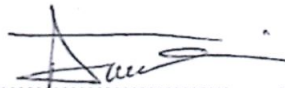
	Accumulated Surplus	Revaluation Reserve	Total
As At 1 st July 2024 (previous FY)	0	0	0
Surplus/Deficit for the year	632		632
Revaluation Gain	0		0
As at 30 th June 2025	632		632
As At 1 st July 2025 (current FY)	632		632
Surplus/ deficit for the year	1,398,361		1,398,361
Revaluation Gain	0		0
As at June 30, 2026	1,398,363		1,398,363

The financial statements were approved on _____ 2026 and signed by:



Name: Zeitun Abdishakur
Abdikarim
County Chief Officer





Name: Issa Khalif Ali
Project Coordinator



Name: Abdullahi Abdi
Project Accountant
ICPAK Member No:



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

Description	Note	2025/2026	2024/2025
		Kshs	Kshs
Cashflow from operating activities			
Receipts			
Revenue Transfers		32,309,300	0
Total receipts		32,309,300	0
Payments			
Use of goods and services		30,211,664	0
Total payments		30,211,664	0
Net cash flow from operating activities		2,097,637	0
Cashflow from investing activities			
Acquisition of non-financial assets		(2,098,034)	0
Net cash flows from investing activities		(2,098,034)	0
Cash flow from financing activities			
Repayment of Lease Principal		0	0
Net cash flow from financing activities		0	0
Net increase/Decrease in cash and cash equivalents		(398)	0
Cash and cash equivalent at 1st July	9	632	0
Cash and cash equivalent at end June	9	235	632

Second Kenya Urban Support Program (KUSP II) — Urban Institutional Grant (UIG)

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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		0	0	0	0	0
Receipts						
Revenue Transfers	32,309,300	0	32,309,300	32,309,300	32,309,300	100%
Total Revenue	32,309,300	0	32,309,300	32,309,300	32,309,300	100%
Payments	0	0	0	0	0	0
Use of goods and services	32,309,697.50	0	32,309,697.50	32,309,698	32,309,698	100%
Total Payments	32,309,697.50	0	32,309,698	32,309,698	32,309,698	100%
Surplus/Deficit	-	-	(398)	(398)	(398)	0

Budget notes

1. The Project recorded no material variance between the budgeted and actual amounts for implementation of Programme activities during the financial year.

Budget Reconciliation

	Description of Particulars	Amount in Kshs.
	Actual Surplus Amounts as per the statement of Budget	(398)
1	Less: Increase in receivables	(0)
2	Reason for differences	
3	Reason for differences	-
4	Add: Opening cash balance	632
	Closing Cash and Cash Equivalent as per the statement of Cash flows	235

12. Notes to the Financial Statements

1. General Information

Second Kenya Urban Support Program (KUSP II) — Urban Institutional Grant (UIG), Mandera County is established under the Financing Agreement between the Government of Kenya and the World bank.

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 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 the *entity's* 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 xx. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *entity*. The values are rounded off to the nearest shilling. The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, the TVET Act, *(include any other applicable legislation)*, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the 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, the Entity 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 the Entity 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 the Entity 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).
- The Entity's 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.

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

3. Adoption of New and Revised Standards

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

Standard	Effective date and impact:
IPSAS 43 Leases	<i>Applicable 1st January 2025</i> The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and 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	<i>Applicable 1st January 2025</i> The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.
IPSAS 45- Property Plant and Equipment	<i>Applicable 1st January 2025</i> The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognised as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.
IPSAS 46 Measurement	<i>Applicable 1st January 2025</i> The objective of this standard was to improve measurement guidance across IPSAS by: 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.

Urban Institutional Grant

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

Standard	Effective date and impact:
	The standard also introduces a public sector specific measurement bases called the current operational value.

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

Standard	Effective date and impact:
IPSAS 47- Revenue	<i>Applicable 1st January 2026</i> This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non- exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an MDA shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.
IPSAS 49- Retirement Benefit Plans	<i>Applicable 1st January 2026</i> The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan.
IPSAS 50: Exploration For & Evaluation of Mineral Resources	<i>Applicable 1st January 2027</i> The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires: i. Limited improvements to existing accounting practices for exploration and evaluation expenditures. ii. Entities that recognize exploration and evaluation assets to assess such assets for impairment in accordance with this Standard and measure any impairment in accordance with IPSAS 26. iii. Disclosures that identify and explain the amounts in the entity's financial statements arising from the exploration for and evaluation of mineral resources and help users of those financial statements understand the amount, timing and certainty of future cash flows from any exploration and evaluation assets recognized.
IPSAS 51: Tangible Natural Resources Held For Conservation	<i>Applicable 1st January 2028</i> 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	<i>Applicable 1st January 2028</i>

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

Standard	Effective date and impact:
1: Climate Related Disclosures	This standard provides principles for an entity to address climate-related risks and opportunities arising from an entity's activities and operations. The standard provides disclosures on governance, strategy, risk management, and metrics and targets.

iii) Early adoption of standards

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

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

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

ii) Revenue from exchange transactions

Finance income

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

b) Budget information

The original budget for FY 2025/2026 was approved by the County Assembly. 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.

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**,

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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	33.3%
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 recognises 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.

Notes to the financial statements

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. (amend as appropriate).* A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, the entity measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial assets

Classification

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

Subsequent measurement

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

Amortized cost

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

Notes to the financial statements

Fair value through net assets/ equity

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

Fair value through surplus or deficit

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

Trade and other receivables

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

Impairment

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

Financial liabilities

Classification

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

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.

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

Notes to the financial statements

Inventories (Continued)

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

j) Provisions

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

Contingent liabilities

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

Contingent assets

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

k) Nature and purpose of reserves

The project creates and maintains reserves in terms of specific requirements.

l) Changes in accounting policies and estimates

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

Notes to the financial statements

m) Employee benefits

Retirement benefit plans

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

n) Foreign currency transactions

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

o) Borrowing costs

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

p) Related parties

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

Notes to the financial statements

q) Service concession arrangements

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

r) Cash and cash equivalents

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

s) Subsequent events

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

Notes to the financial statements

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the projects 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:

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

Provisions

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

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

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Notes to the financial statements

6. Revenue Transfers

Description	2025-2026	2024/2025
	Kshs	Kshs
Unconditional Transfers		
Urban Institutional Grant-UIG	32,309,300	0
Total Unconditional Transfers (a)	32,309,300	0
Total Transfers for the Year	32,309,300	0

a) Details to Revenue Transfers

Name of The Entity Transferring	Amount recognized to Statement of Financial performance	Amount deferred under deferred income.	Total transfers (2025-2026)	2024/2025
	Kshs	Kshs	Kshs	Kshs
GOK Funding	32,309,300	0	32,309,300	0
Total	32,309,300	0	32,309,300	0

7. Use of Goods and Services

Description	2025/2026	2024/2025
C	Kshs	Kshs
Bank charges	11,987.50	0
Domestic travel and subsistence	1,834,600	0
General office supplies	2,598,017	0
Other operating payments	12,968,559	0
Training payments	3,690,520	0
Hospitality supplies and services	5,915,180	0
Routine maintenance- other assets	3,192,800	0
Total	30,211,664	0

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Depreciation and Amortization expense

Description	2025/2026	2024/2025
	Kshs	Kshs
Property, Plant and Equipment	699,275	0
Intangible Assets	0	0
Right of Use Assets	0	0
Others specify	0	0
Total	699,275	0

8. Cash and Cash Equivalents

Description	2025/2026	2024/2025
	Kshs	Kshs
Cash in Bank	235	632
Total Cash and Cash Equivalents	235	632

Project Bank Accounts

Details	2025/2026	2024/2025
	Kshs	Kshs
Local Currency Accounts		
Equity Bank [A/c No 1000279485195]	235	632
Total bank account balances	235	632

9. Property, Plant and Equipment

Description	Furniture, fittings, and office equipment	ICT Equipment	Total
	Kshs	Kshs.	Kshs
Cost	12.50%	33.33%	
At 1 July 2024 (previous year)			
Additions	-	-	-
Disposals	(0)	(0)	(0)
Transfers/adjustments	-	-	-
At 30th Jun 2025	(0)	(0)	(0)
At 1 July 2025 (current year)	(0)	(0)	(0)
Additions		2,098,034	2,098,034
Disposals	(0)	(0)	(0)
Transfer/adjustments	-	-	-
At 30th Jun 2026	(0)	2,098,034	2,098,034
Depreciation and impairment			
At 1 July 2024 (previous year)	-	-	-
Depreciation for the year	(0)	(0)	(0)
Disposals	(0)	(0)	(0)
Impairment	(0)	(0)	(0)
At 30 June 2025	(0)	(0)	(0)
At July 2025 (current year)	(0)	(0)	(0)
Depreciation for the year	-	699,275	699,275
Disposals	(0)	(0)	(0)
Impairment	(0)	(0)	(0)
Transfer/adjustment	-	-	-
At 30th June 2026	(0)	699,275	699,275
Net book values			
At 30 th Jun 2025 (previous)	0	0	0
At 30th Jun2026 (current)	0	1,398,759	1,398,759

10. Events after the Reporting Period

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

11. Ultimate And Holding Entity

The Entity is a State Corporation/ or a Semi-Autonomous Government Agency under the Ministry of xxx.
Its ultimate parent is the Government of Kenya.

12. Currency

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

Urban Institutional Grant

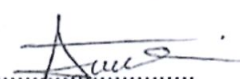
Annual Report and Financial Statements for the financial year ended June 30, 2026

13. Annexes

Annex 1: Prior Year Auditor-General's Recommendations

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
Financial Statements	None	N/A	N/A	N/A
Lawfulness & Effectiveness in the use of Public Resources	None	N/A	N/A	N/A
Effectiveness of Internal Controls, Risk Management & Governance	None	N/A	N/A	N/A


Name: Zaidi Abdishakur Abdikarim
Chief Officer
MARDERA COUNTY GOVERNMENT
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
10 AUG 2026
CHIEF OFFICER
MARDERA


Name: Issa Khalif Ali
Project Coordinator

Urban Institutional Grant

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Annex 2: Reconciliation of inter-entity transfers

Annex 2: Reconciliation of inter-entity transfers				
Project Name:				
Break down of transfers from the County Government				
B.	Direct payments			
		Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
	UIG Fund		32,309,300	2025-2026
		Total	32,309,300	

The above amounts have been communicated to and reconciled with the County Government

Project Coordinator

Sign -----

Head of Accounting Unit
Mandera County Treasury

Sign-----

Annex 3: Fixed Asset Register

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

Urban Institutional Grant

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Annex 4: Other Support Documents

- i. Signed confirmations from beneficiaries in Transfers to Other Government Entities
- ii. Bank Reconciliations statement as at 30th June 2026
- iii. Board of Survey Report
- iv. Special Deposit Account(s) reconciliation statement(s)