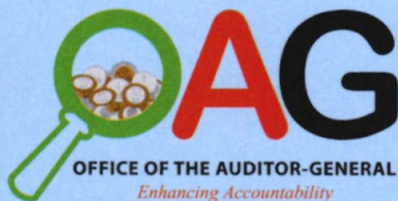


REPUBLIC OF KENYA



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REPORT

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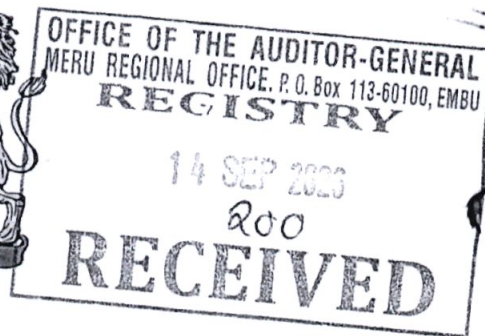
THE AUDITOR-GENERAL

ON

ISIOLO COUNTY GOVERNMENT
EQUALISATION FUND

FOR THE YEAR ENDED
30 JUNE, 2026

PAPERS LAID	
DATE	7/10/2026
TABLED BY	M.L
COMMITTEE	-
CLERK AT THE TABLE	Polycarp



Isiolo County Government

Equalisation Fund

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30TH JUNE 2026

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

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1. Acronyms

Acronyms

AGPO	Access to Government Procurement Opportunities
CA	County Assembly
CBK	Central Bank of Kenya
CDF	Constituency Development Fund
CEO	Chief Executive Officer
CECM	County Executive Committee Member
CIDP	County Integrated Development Plan
CRA	Commission on Revenue Allocation
CT	County Treasury
EF	Equalization Fund
EFAB	Equalization Fund Advisory Board
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
OCOB	Office of the Controller of Budget
OAG	Office of the Auditor General
NGO	Non-Governmental Organization
OSHA	Occupational Safety and Health Act of 2007
PFM	Public Finance Management
PIIC	Project Identification and Implementation Committee
PPE	Property, Plant & Equipment
PPPs	Public Private Partnerships
PSASB	Public Sector Accounting Standards Board
SAGAs	Semi-Autonomous Government Agencies
WB	World Bank

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2. Who We Are

(a) Background information

The Equalisation Fund was established under Article 204 (1) of the Constitution of Kenya (CoK), 2010, and operationalized by the Public Finance Management (Equalisation Fund Administration) Regulations, 2021. The Equalisation Fund (EF) is domiciled in Isiolo County, Kenya.

(b) Principal Activities

The EF shall be used to provide basic services, including water, roads, health facilities, and electricity, to marginalized areas to the extent necessary to bring the quality of those services to the level generally enjoyed by the rest of the nation.

(c) Assurance and Audit

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

- Management reviews
- Internal audit assessments
- External audit of financial statements by the Office of the Auditor-General (OAG)

(d) Entity Headquarters

P.O. Box 36-60300
County Headquarters Building
Treasury Road
Isiolo, KENYA

(e) Entity Contacts

Telephone: (254) 723738483
E-mail: info@isiolo.go.ke
Website: www.isiolo.go.ke

(f) Entity Bankers

Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
NAIROBI, KENYA

(g) Independent Auditor

Auditor-General

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

Nairobi, Kenya

(h) Principal Legal Adviser

1. The Attorney General

State Law Office and Department of Justice

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya

2. County Attorney

P.O. Box 36-60300

Isiolo

County

3. Report of the County Executive Committee Member for Finance

It is my pleasure to present the County Government of Isiolo Equalization fund, Reports and Financial Statements for the financial year ended **30th June 2026**. The Financial Statements present the financial performance of the County Government Executive.

(i) Financing of the County Equalization Fund

The Equalization Fund in Kenya, established by Article 204 of the Constitution, receives 0.5% of the national government's annual revenue, calculated on the most recent audited accounts. This fund aims to provide basic services to marginalized areas, bringing them up to the level enjoyed by the rest of the nation.

The fund is disbursed to counties in accordance with the Division of Revenue Act and the Equalization Fund Appropriation Act. These grants are tied to specific projects or programs aimed at improving basic services in marginalized areas. The county shall ensure that any projects undertaken under the workplan are carried out in accordance with the Public Procurement and Asset Disposal Act (Cap. 412C), and any other law.

The county remains committed, and continuously pursues the fulfilment of the fiscal responsibility principles as espoused in law. This has been a slow but steady endeavour, as these statements portray a significant adherence to the fiscal responsibility principles, which was remarkable given the difficult and unprecedented times due to drought mitigation, preparedness and response activities within the County.

During the year under review an amount of Kshs. 75,894,164.50 was received from Equalisation fund and subsequently payment made to settle Roads projects that were completed.

(ii) Summary of Funds Utilization

The summary of funds utilization against the approved budget during the year ended 30th June 2026 was as follows:

Table 7: Summary of Funds Absorption

	Budget Category	Original Budget (Kshs)	Budget Supplementary Adjustment (Kshs)	Revised Approved Budget (Kshs)	Actual Cumulative Expenditure (Kshs)	Level of Funds Absorption (%)
1	Roads Development	3,170,300	2,049,282	5,219,582	4,947,633	94.8%
2	Water Development	47,383,601	(1,229,079)	46,154,522	46,154,516	99.9%
3	Health Development	25,612,216	(820,203)	24,792,013	24,792,013	100%
	Total Budget	76,166,117	-	76,166,117	75,894,162	99.6%

Sources: Isiolo County Equalisation fund Budget

The County Equalisation fund reported overall absorption level at **99.6%** for the year under review.


.....
Lucy Kaburu

CECM Finance and Economic Planning

4. Corporate Governance Statement

Part A: Key Management Profiles

Name	Details
<p>County Executive Committee Member for Finance Lucy Kaburu</p> 	<p>Hon. Lucy Kaburu is the County Executive Member in charge of Finance.</p>
<p>Fund Engineer - Eng. Abduba Ahmed Abduba</p> 	<p>Mr. Abduba is registered engineer, holds Master's degree in Project planning and Management and Bachelor's degree in Civil Engineering. Has good experience in project planning, management, supervision, implementation and design works.</p>
<p>Ag. Head of Procurement - Mr. Stephen Muthomi</p> 	<p>Mr. Stephen holds a degree in Supply Chain Management. He has good experience in contract management supply planning and inventory management.</p>
<p>Ms. Monica Nkirote - Fund Accountant</p> 	<p>CPA Monica is a Certified Public Accountant (CPA) (K) and holds a bachelor's degree in accounting. She has a vast experience in financial reporting, Corporate Taxation and Public Finance Management.</p>

Part B: Governance Arrangements

a) Composition of Committees.

County Technical Committee

1. County Commissioner-Chairperson
2. County Executive Committee Member for Finance.
3. Constituency Development Fund managers.
4. Representative of the County Assembly.
5. Representatives of implementing sectors with prioritized Projects.
6. Chairperson of the Constituency Development Fund (CDF)

Sub-County Technical Committee

1. Sub-County Commissioner-Chairperson.
2. Four technical officers from ministries relevant to funding priorities.
3. Chairpersons of Project Identification and Implementation Committees within the sub-county.
4. Secretary of the Constituency

Project Identification and Implementation Committee

1. Assistant Sub-County Commissioner-Chairman
2. The village administrators of areas defined by the Commission on Revenue Allocation as marginalized.
3. Representative of the women, youth, minorities and persons with disabilities from marginalized areas.
4. A representative of the Constituency Development Fund committee member at the sub-county level; A representative of religious group or local Non-Governmental Organisation (NGO) with office at ward level

b) Functions of Committees

County Technical Committee

1. Approving all projects to be financed from the Fund.

Sub-County Technical Committee.

1. Receive project funding proposals from respective Project Identification and Implementation committees.
2. Evaluate and prioritize all development proposals from the Project Identification and Implementation Committees.
3. Assess the feasibility and cost all project proposals received from the Project Identification and Implementation Committees.
4. Submit project proposals and funding requests received from the Project Identification and Implementation Committees to the county government.
5. Monitor all projects being undertaken and ensure they meet the objectives they are originally meant to achieve.
6. Prepare quarterly reports on funds received and implementation status of all projects financed by the Fund to the county technical committee with a copy to the County Executive Committee Member responsible for matters relating to finance.
7. Prepare and submit annual reports on implementation of all projects financed by the Fund to the county technical committee with a copy to the County Executive Committee Member for Finance.

Project Identification and Implementation Committee.

1. Undertake public participation, in beneficiary areas.
2. Identify and prioritize project in beneficiary areas in line with guidelines issued by the administrator of the Fund.
3. Prepare and submit project funding proposals to sub-county technical committee.
4. Provide oversight on project implementation.

5. Financial Performance Overview

FY 2025/2026 Financial and Operational Performance Report.

1. Revenue

During the current financial year, the Fund received total revenue amounting to KSh 75,894,164.50. The revenue comprises budget allocations relating to previous financial years that were released and utilized during the current reporting period. These funds supported the implementation of projects aimed at improving access to basic services in marginalized areas in line with the objectives of the Equalisation Fund.

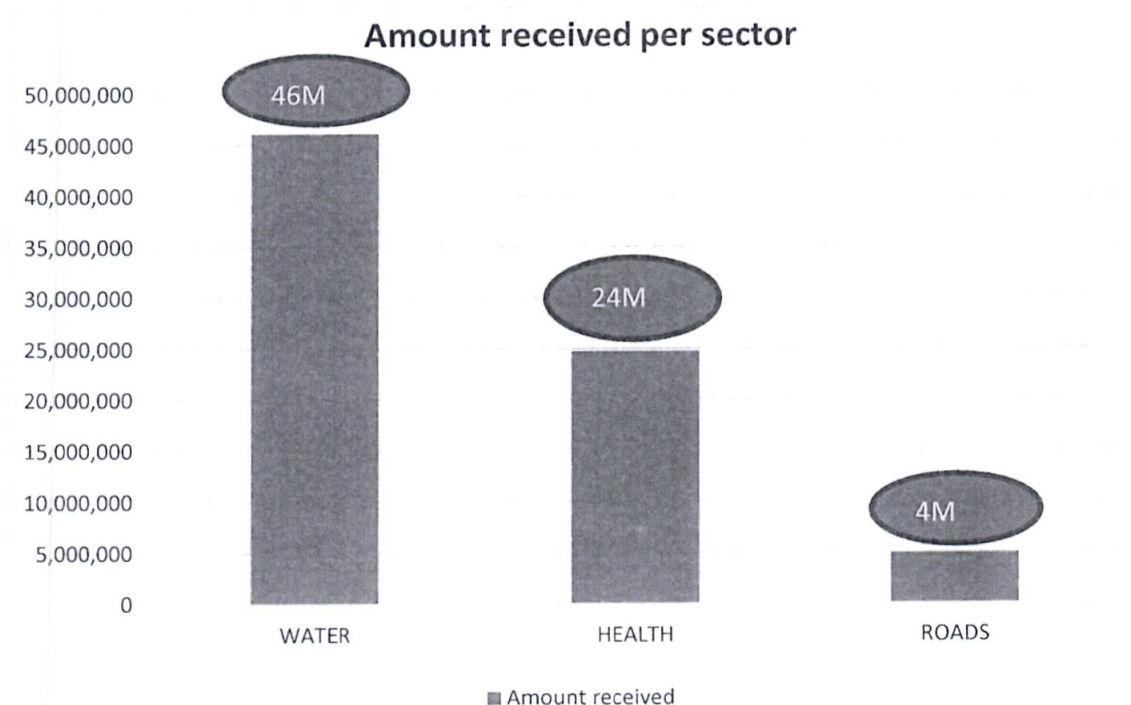


Figure 1. Analysis of amounts received from Equalisation Fund per sector

2. Expenditure

The expenditure incurred during the financial year comprised development expenditure relating to the implementation of projects under the Equalisation Fund. A total of KSh 75,894,161.50 was spent on activities and infrastructure investments within the water, health, and roads sectors in accordance with approved budgets and applicable government financial management regulations.

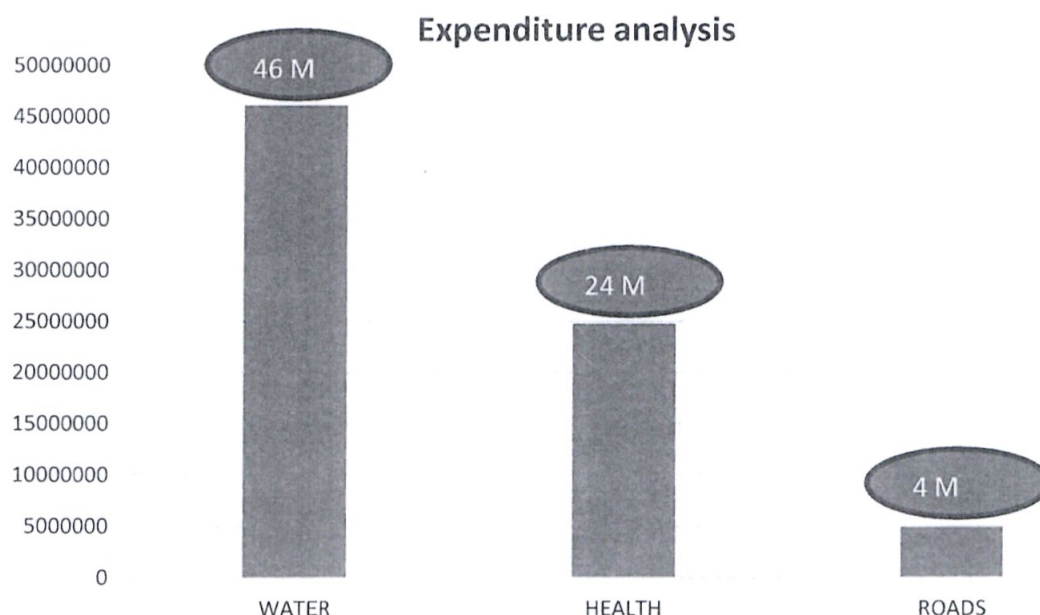


Figure 2: Analysis of expenditure per sector

3. Revenue and Expenditure per Budget Estimates

Revenue Variance Explanation

The revenue variance of KSh 271,952 was attributable to unremitted Equalisation Fund allocations that had not been disbursed during the financial year. Consequently, the County received slightly less revenue than had been budgeted, resulting in the reported variance. The outstanding funds are expected to be remitted in a subsequent financial period, subject to release by the National Government.

Expenditure Variance Explanation

There was no expenditure variance during the financial year. The total expenditure of KSh 75,894,161.50 was fully aligned with the revenue disbursed and received under the Equalisation Fund. Expenditure was therefore incurred only to the extent of the funds available, ensuring prudent financial management and compliance with the approved budget and applicable public finance regulations.

4. Assets of the Entity

The fund owns no assets as at the financial year under review.

5. Liabilities of the Entity

The fund has no liability as at the financial year under review.

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

Report on the Operational Performance of the Entity over the Period

In the last three years, the Equalisation Fund facilitated the implementation of development projects aimed at improving access to essential services in marginalized areas of Isiolo County. The Fund focused on the three priority sectors of roads, water, and health, in line with the objectives of the Equalisation Fund under Article 204 of the Constitution of Kenya. The projects contributed to improved road connectivity, increased access to clean and safe water, and enhanced healthcare infrastructure and services. Implementation was undertaken in accordance with approved work plans, applicable laws, and public financial management principles to ensure efficient and effective utilization of public resources.

Report on the Financial Performance of the Entity over the Period

Revenue Statement Highlights

The Equalisation Fund received a total of KSh 165,885,795 in the last three years. The revenue comprised budget allocations relating to previous financial years that were released during the current reporting period to facilitate the implementation of approved development projects.

Revenue Analysis

The Fund recorded total revenue of KSh 165,885,795, mainly representing delayed releases of budget allocations from previous financial years. A revenue variance of KSh 271,952 was attributable to unremitted Equalisation Fund allocations.

Expense Analysis

Total expenditure amounted to KSh 158,296,375, representing development expenditure incurred in the implementation of projects within the roads, water, and health sectors. Expenditure was fully aligned with the funds disbursed during the year, resulting in no expenditure variance. The surplus of KSh. 7,589,420 represents retention monies yet to be released.

Performance Metrics

The Fund achieved a high level of budget utilization, with virtually all revenue received during the year being applied to approved development projects. Resources were directed exclusively to the three priority sectors of roads, water, and health, supporting the Fund's objective of improving access to essential services in marginalized communities. Financial management remained prudent, with expenditure maintained within the available resources.

Balance Sheet Summary

As at the end of the financial year, the Equalisation Fund had substantially utilized the funds received during the reporting period, with total expenditure amounting to KSh 77,303,907 against revenue of KSh 75,894,165. The Fund maintained a sound financial position, with only minimal residual balances arising from the difference between revenue received and expenditure incurred, reflecting effective financial management and adherence to approved budgetary provisions.

7. Key Projects and Investment Decisions

All the approved projects funded during the reporting period were successfully completed within the financial year. There were no ongoing or uncompleted projects as at the reporting date. The completion of these projects has contributed to improved service delivery and enhanced the socio-economic well-being of the targeted communities.

8. Risk Analysis and Statutory Compliance

The Equalisation Fund experienced no major risks that materially affected its operations or the implementation of its projects during the financial year. The Fund maintained full compliance with all applicable statutory and regulatory requirements, including the Constitution of Kenya, the Public Finance Management Act, 2012, the Public Procurement and Asset Disposal Act, 2015, and other relevant government regulations governing the management of public funds. Additionally, there were no material arrears in statutory or other financial obligations as at the reporting date. The Fund met all its financial obligations as they fell due, demonstrating sound financial management, effective internal controls, and adherence to applicable legal and regulatory frameworks.

9. Economic and Sector Outlook

During the financial year, Kenya's economy continued to experience gradual recovery and growth, supported by improved macroeconomic stability, enhanced revenue mobilisation, and sustained public investment in infrastructure and social services despite fiscal constraints and competing demands on public resources. The devolution and public finance sector remained focused on strengthening service delivery, promoting equitable development, and enhancing accountability in the utilization of public resources.

The Equalisation Fund continued to play a critical role in reducing regional disparities by financing development projects that improve access to basic services in marginalized areas, particularly within the roads, water, and health sectors. During the reporting period, Isiolo County successfully implemented and completed all projects funded under the Equalisation Fund, contributing to improved infrastructure and service delivery for the targeted communities. Going forward, the County intends to continue collaborating with the National Government to secure timely disbursement of Equalisation Fund allocations and implement additional projects that address infrastructure gaps and improve the quality of life of residents in marginalized areas. The County will also continue to strengthen financial management, project monitoring and evaluation, procurement oversight, and compliance with applicable legal and regulatory frameworks to ensure that future allocations are utilized efficiently, effectively, economically, and transparently. Users of these financial statements should note that the Fund remains dedicated to achieving the constitutional objective of promoting equitable access to basic services while ensuring prudent management of public resources and full accountability for all funds entrusted to it.

6. Statement of Performance against Predetermined Objectives for FY 2025/2026

Isiolo County Equalisation fund has three strategic pillars and objectives within the current Strategic Plan for the FY 2025/2026. These strategic pillars are as follows:

- **Improve rural road infrastructure** to facilitate connectivity and access to essential services.
- **Enhance healthcare delivery** by upgrading selected health facilities.
- **Increase access to clean and safe water** in underserved areas.

The fund develops its annual work plans based on the above three pillars. Assessment of the Board's performance against its CIDP is done on a quarterly basis. The fund achieved its performance targets set for the FY 2025/2026 period for its strategic pillars, as indicated below:

Actual Performance

The following is a summary of achievements against each objective for the reporting year:

a) Road Infrastructure Development

Target: Routine maintenance and spot improvement in Cherab ward in Isiolo County.

Achievement: Routine maintenance and spot improvement of Dogogicha road was successfully done representing a 100% achievement of the infrastructure development target. This accomplishment has significantly improved mobility and access to markets, health centres and schools.

b) Healthcare Facility Upgrades

- **Target:** Maternity block at Lenguruma and Mataarba dispensary, Construction of Riga dispensary and Repair and equipping of Eldera dispensary
- **Achievement:** The selected Health facilities have been upgraded.

c) Water Projects

- **Target:** Drilling and equipping of Gafarsa borehole, Malkadaka borehole, Darer Dabaso Huka borehole, Garbatulla borehole, Kom borehole, Lagaaman borehole and excavation/construction of Malkagalla water pan.
- **Achievement:** Water supply systems (boreholes and water pan) have been developed

Variance Analysis

The fund reports no material variance in the implementation of the proposed projects in the financial year under review.

Impact Assessment

The immediate impact of the completed road grading has been highly positive:

- Enhanced accessibility for rural populations to essential services such as health care, schools and markets.
- Reduced travel time and transport costs, improving livelihoods and economic participation.

The impact of the health and water projects includes:

- Increased access to quality healthcare, especially in remote areas.
- Improved availability of safe and reliable water sources, contributing to public health and resilience in arid zones.

Conclusion and Recommendations

The Isiolo County Equalisation Fund made significant progress during the reporting year in all the sectors, where all planned targets were met.

Recommendations:

- Strengthen project management and coordination to minimize delays and improve efficiency.
- Streamline procurement processes to accelerate the implementation timeline.
- Enhance community engagement to foster ownership and smooth execution of ongoing projects.
- Improve monitoring and evaluation mechanisms to ensure continuous tracking of results and outcomes.

7. Environmental and Sustainability Reporting

The Equalization Fund in Kenya contributes to environmental and sustainability efforts primarily through projects related to water supply, drought mitigation and the management of natural resources in marginalized areas

The County Government of Isiolo Equalisation Fund is committed to managing the environment in a sustainable manner through continuous improvements in the environmental performance that aims to:

- Ensuring that processes and operations are safe to the environment.
- Reducing energy usage; conserve water; reduce, reuse and recycle waste
- Prevention of environment pollution
- Developing policy, legal and administrative framework for management of Environment.

i. Sustainability strategy and profile

In the medium term, the fund is seeking to develop energy master plan that aims to provide alternative energy sources with primary aim of reducing dependence on fuel and promote clean cooking technologies among others. The idea is aimed at ensuring sustainable renewable source of energy.

ii. Environmental Performance

The Equalization Fund project is being implemented in accordance with applicable environmental and social safeguards requirements to minimize adverse environmental impacts and promote sustainable development. Environmental considerations are integrated into project planning, implementation, monitoring and completion. Equalization Fund projects implemented under health, water and roads sectors were implemented in compliance with NEMA requirements.

iii. Employee Welfare

The County has put in place policies that ensure the employee welfare are well guarded and all staff are given fair and just treatment. All staff matters are considered through select committee that evaluates the staff matter and advise according for necessary action such promotion, deployment, reprimanding and or dismissal.

Isiolo County is equal opportunity employer with consideration for merit as prerequisite for hiring. The County ensures applicants are not discriminated by gender, religious background, ethnicity or any other form of personality.

The County also provides medical cover for its staff and also ensures the salaries and other allowances are paid without delay.

iv. Market place practices-

a) Responsible competition practice.

The fund promotes responsible competition by adhering to the Constitution of Kenya (2010), the Public Procurement and Asset Disposal Act, 2015, and relevant procurement regulations. The County conducts procurement through open tendering and other competitive methods to ensure fairness, transparency, equal opportunity, and value for public money while preventing corruption and favouritism. Anti-corruption measures, stakeholder participation, cashless payment systems, and public disclosure of procurement opportunities further strengthen accountability and improve service delivery. It also implements programmes financed through the Equalisation Fund in accordance with national laws and established criteria to ensure equitable access to basic services for marginalized communities.

b) Responsible Supply chain and supplier relations

The fund maintains responsible supplier relations by conducting procurement through transparent and competitive processes that provide equal opportunities to all qualified suppliers. It honours contractual obligations, processes payments subject to budgetary provisions and verification procedures, and ensures procurement decisions are based on fairness, integrity, and value for money. It also complies with procurement laws and promotes ethical business practices that foster trust and long-term partnerships with suppliers.

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

The fund actively engages citizens through public participation forums, consultative meetings, county websites, media platforms, and public notices to ensure transparency and inclusivity in decision-making. It also provides accurate and timely information on government programmes, procurement opportunities, and development projects while avoiding misleading communication. Through public sensitization and outreach, including awareness on projects funded by the Equalisation Fund, it promotes accountability, respects diversity, and encourages citizen participation in governance.

d) Product stewardship or Awareness Creation

The fund safeguards citizens' rights and interests by providing accessible information on public services, ensuring fair and transparent service delivery, and protecting personal data in accordance with applicable laws. It has mechanisms for handling complaints, resolving disputes, and reporting corruption or unethical conduct.

8. Statement of Management Responsibilities of Isiolo County Government Equalisation

Fund

Section 167 of the Public Finance Management Act, 2012 and Sec 20 of the Public Finance Management (Equalisation Fund Administration) Regulations, 2021 requires that, at the end of each financial year, the Administrator of a County Fund shall prepare financial statements for the Fund in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Management of the County Equalisation Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund as at the end of the financial year ended on June 30, 2026. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Management of the County Equalisation Fund accepts responsibility for the Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Public Finance Management (Equalisation Fund Administration) Regulations, 2021. The Management of the Fund is of the opinion that the Fund's financial statements give a true and fair view of the state of the Fund's transactions during the financial year ended June 30, 2026, and of the Fund's financial position as at that date. The Management further confirms the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Management of the County Equalisation Fund has assessed the Fund's ability to continue as a going concern and nothing has come to the attention of the Management to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Fund's financial statements were approved by the Management on 09/09 2026 and signed on its behalf by:

COUNTY GOVERNMENT OF ISILOLO
EQUILISATION FUND
 P.O. Box 36 - 60300, ISILOLO

Name: Lucy Kaburu

Fund Administrator

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: 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 ISIOLO COUNTY GOVERNMENT EQUALISATION FUND FOR THE YEAR ENDED 30 JUNE, 2026

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Isiolo County Government Equalisation Fund 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Isiolo County Government Equalisation Fund 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 Public Finance Management (Equalisation Fund Administration) Regulations, Legal Notice 54 of 2021 and the Public Finance Management Act, Cap. 412A.

Basis for Qualified Opinion

1. Inaccuracies of Transfers from the Equalisation Fund

The statement of financial performance reflects comparative transfers from Equalisation Fund of Kshs.166,157,748 as disclosed in Note 6 to the financial statements. However, the referenced Note 6 reflects an amount of Kshs.89,991,631, resulting in an unexplained and an unreconciled variance of Kshs.76,166,117.

In the circumstances, the accuracy and completeness for comparative transfers from Equalisation Fund of Kshs.166,157,748 could not be confirmed.

2. Lack of Ownership Documents

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects prior year use of goods and services amount of Kshs.160,938,160. The amount includes payments made in the current year of Kshs.70,946,529 for certified works for the construction of four (4) dispensaries and seven (7) water projects. However, ownership documents for the land on which the development projects were undertaken were not provided for audit review.

In the circumstances, the rightful ownerships to the assets could not be confirmed.

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

Key Audit Matters

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

Other Matter

Unresolved Prior Year Issues

The Auditor-General's report for the year ended 30 June, 2025 raised several audit issues which remained unresolved as at 30 June, 2026. Management has not taken adequate action to address these matters. The issues relate to prior periods and have been reported for emphasis of matter purposes.

S/No.	Issue
1.	Inaccuracies of transfers from Equalisation Fund
2.	Budgetary Control and Performance
3.	Inaccuracy of Summary of Fund Utilization
4.	Implementation of Projects Before Meeting Conditions by Equalisation Fund Advisory Board
5.	Routine Maintenance of Burat-Kakili Road
6.	Road Works Maintenance for Works Oldonyiro-Parkukuk Road

Other Information

Management is responsible for the Other Information set out on pages iv to xx which comprise of Who We Are, the Report of the County Executive Committee Member for Finance, Corporate Governance Statement, Financial Performance Overview, Statement of Performance Against Predetermined Objectives, Environmental and Sustainability Reporting, and Statement of Fund Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Fund'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 effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion.

1. Completed Projects not Put to Use

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects prior year use of goods and services amount of Kshs.160,938,160. The amount includes payments made in the current year of Kshs.24,792,013 and Kshs.46,154,517 in respect of works for health facilities and water projects respectively. However, the following observations were made:

1.1 Construction of Maternity Block at Lenguruma Dispensary

Payments for works on health facilities include an amount of Kshs.6,461,554 paid to a contractor for the construction of maternity block at Lenguruma Dispensary. However, physical verification conducted in the Month of August, 2026 revealed that although the maternity block was complete, it was not operational. Further, the Maternity block was not equipped, lacked electricity and water supply.

1.2 Drilling, Equipping and Fencing of Lagaaman Borehole

Payments for works on water projects includes an amount of Kshs.7,700,486 paid to a contractor for drilling, equipping and fencing of Lagaaman borehole. However, physical verification conducted in the Month of August, 2026 revealed that although the project was complete and implemented as per the BOQ, it was not operational.

In the circumstances, value for money on the expenditure on the completed projects not put to use has not been realized.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, Cap. 412B, based on the audit procedures performed, except for the effects of the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Lack of Functional Audit Committee

The Fund was not subjected to an internal audit review by the County Internal Audit Unit during the year under review. Further, there was no functional Audit Committee in place to receive, discuss and follow up the Internal Audit report and recommendations.

In the circumstances, the effectiveness of internal controls, risk management and governance processes over the project 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.

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

28 September, 2026

10. Statement of Financial Performance for the year ended 30 June 2026

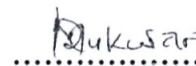
	Note	FY 2025/2026	FY 2024/2025
		Kshs	Kshs
Revenue from Non-Exchange Transactions			
Transfers from Equalisation Fund	6	0	166,157,748
Total Revenue		0	166,157,748
Expenditure			
Use of goods and services	7	4,947,633	160,938,160
Total Expenditure		4,947,633	160,938,160
Surplus/(deficit) for the year		(4,947,633)	5,219,588

The notes set out on pages 7 to 24 form an integral part of these Financial Statements. The Financial Statements set out on pages 1 to 6 were signed by:



Name: Lucy Kabui
Fund Administrator

Date: 09/09/2025



Name: Monica Nkirote
Fund Accountant

ICPAK M/No: 23115
Date: 09/09/2026

11. Statement of Financial Position as at 30 June 2026

Description	Note	FY 2025/2026	FY 2024/2025
		Kshs	Kshs
Assets			
Current Assets			
Cash And Cash Equivalents	8	7,589,419	8,999,163
Receivables non-exchange transactions	9	271,952	76,166,117
Total Current Assets		7,861,371	85,165,280
Total Assets (A)		7,861,371	85,165,280
Liabilities			
Current Liabilities			
Certificates Payable	10	-	70,946,529
Retention	11	7,589,416	8,999,163
Total Current Liabilities		7,589,416	79,945,692
Total Liabilities (B)		7,589,416	79,945,692
Net Assets (A-B)		271,955	5,219,588
Represented By:			
Accumulated Surplus		271,955	5,219,588
Net Assets		271,955	5,219,588

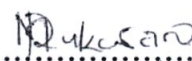
The notes set out on pages 7 to 23 form an integral part of these Financial Statements. The Financial Statements set out on pages 1 to 6 were signed by:



Name: Lucy Kabuu

Fund Administrator

Date: 09/09/2026



Name: Monica Miroto

Fund Accountant

ICPAK M/No: 23115

Date: 09/09/2026

12. Statement of Changes in Net Assets for the year ended 30 June 2026

Description	Accumulated surplus
	Kshs
Prior Year	
Balance As At 1 July 2024	-
Surplus/(Deficit) For the Year	5,219,588
Balance As At 30 June 2025	5,219,588
Current Year	
Balance As At 1 July 2025	5,219,588
Surplus/(Deficit) For The Year	(4,947,633)
Balance As At 30 June 2026	271,955

The accumulated surplus brought forward was utilized through routine maintenance of Dogogicha road project as per attached approval from Equalization Fund Board on 13th April 2026.

13. Statement of Cash Flows for the year ended 30 June 2026

Description	Note	FY 2025/2026	FY 2024/2025
		Kshs	Kshs
Cash flows from operating Activities			
Receipts			
Receipt from Equalisation Fund		75,894,165	89,991,631
Total Receipts		75,894,165	89,991,631
Payments			
Use of goods and services		77,303,909	80,992,468
Net cash flows (to)/from operating activities (a)	12	(1,409,744)	8,999,163
Cash flows from investments			
		-	-
Net cash flows (to)/from investing activities (b)		-	-
Cash flows from financing			
		-	-
Net cash flows (to)/from financing activities (c)		-	-
Movement in cash and cash equivalents			
Net increase/ decrease in cash and cash equivalents. (d) = (a) + (b) + (c)		(1,409,744)	8,999,163
Cash and cash equivalents at July 1st 2025	<u>8</u>	8,999,163	0
Cash and cash equivalents at June 30th 2026	8	7,589,419	8,999,163

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

	Original budget(s) As Appropriated in current Year	Balance from Previous Years	Final budget of Total funds appropriated	Actual on comparable basis	Performance difference	% of utilization
	Kshs	Kshs	Kshs	Kshs	Kshs	
Receipts	a	b	c=(a+b)	d	e=(c-d)	f=d/c*100
Transfers from EF	5,219,588	70,946,529	76,166,117	75,894,165	271,952	99.6%
Expenses						
Road projects	5,219,588	-	5,219,588	4,947,633	271,955	94.79%
Water project	-	46,154,516	46,154,516	46,154,516	-	100%
Health facilities	-	24,792,013	24,792,013	24,792,013	-	100%
Energy	-	-	-	-	-	-
Education facilities	-	-	-	-	-	-
Others (Savings)	-	-	-	-	-	-
Total Expenditure	5,219,588	70,946,529	76,166,117	75,894,162	271,955	99.64%
Surplus/Deficit	-	-	-	3	(3)	-

Budget Reconciliation

	Description of Particulars	Amount in Kshs
	Actual Surplus Amounts as per the statement of Budget	3
1	Retention monies	7,589,416
	Closing Cash and Cash Equivalent as per the statement of Cash flows	7,589,419

15. Notes to the Financial Statements

1. General Information

Isiolo County Equalisation fund is established by and derives its authority and accountability from Equalisation Fund Appropriation Act, 2025. The Entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The Entity's principal activity is to provide funding to support the provision of basic services including water, roads, health facilities and electricity to marginalized areas to the extent necessary to bring the quality of those services in those areas to the level generally enjoyed by the rest of the nation, so far as possible.

2. Statement of Compliance and Basis of Preparation

The County Equalisation Fund Financial Statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The Financial Statements are presented in Kenya shillings, which is the functional and reporting currency of the Fund. The accounting policies have been consistently applied to all the years presented. The Financial Statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The Financial Statements are prepared on the accrual basis.

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	<p><i>Applicable 1st January 2025</i></p> <p>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.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p>
IPSAS 44: Non- Current	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p>

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

Standard	Effective date and impact:
Assets Held for Sale and Discontinued Operations	<p>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:</p> <p>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.</p>
IPSAS 45- Property Plant and Equipment	<p><i>Applicable 1st January 2025</i></p> <p>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.</p>
IPSAS 46 Measurement	<p><i>Applicable 1st January 2025</i></p> <p>The objective of this standard was to improve measurement guidance across IPSAS by:</p> <ul style="list-style-type: none"> i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used. ii. Clarifying transaction costs guidance to enhance consistency across IPSAS; iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement related disclosures. <p>The standard also introduces a public sector specific measurement bases called the current operational value.</p>

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

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

Standard	Effective date and impact:
IPSAS 47- Revenue	<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 entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.
IPSAS 48- Transfer Expenses	<i>Applicable 1st January 2026</i> The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers on accounting for such transfers.
IPSAS 49- Retirement Benefit Plans	<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.

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

Standard		Effective date and impact:
		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 Tangible Natural Resources Held For Conservation	51:	<p><i>Applicable 1st January 2028</i></p> <p>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.</p> <p>A tangible natural resource held for conservation is a naturally occurring tangible asset that is managed to prevent its degradation.</p>
IPSASB 1: Climate Related Disclosures	SRS	<p><i>Applicable 1st January 2028</i></p> <p>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.</p>

iii) Early adoption of standards

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

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the *Fund* 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 realized in the statement of financial performance upon fulfilling the conditions set. Revenue shall be recognised upon submission and approval of the payment request by the transferring agency (Equalisation Fund).

b) Certified Works

Certified works are recognized when the works can be measured reliably and/ or when certificates of work done are received and approved by the Equalization Fund.

c) Budget information

The Appropriation Act for the FY was passed by Parliament. The allocation shall continue in force until all projects identified are completed.

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. Included in the budget statement are balances of appropriations from previous years, not yet disbursed.

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.

d) 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 entity'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 Fund 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.

i) Financial assets

Classification of financial assets

The Fund 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 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.

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.

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.

Impairment

The Fund 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 13.

ii) Financial liabilities

Classification

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

e) Changes in accounting policies and estimates

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

f) Related parties

The Fund 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 Fund, or vice versa. Members of key management of the Fund are regarded as related parties.

g) Cash and cash equivalents.

Cash and cash equivalents comprise cash on hand and cash at bank. Bank account balances include amounts held at the Central Bank of Kenya special purpose account and the deposit account at the end of the financial year.

h) Comparative figures

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

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

Estimates and assumptions.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the 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.

6. Transfers from Equalisation Fund

Description	FY 2025/2026	FY 2024/2025
	Kshs	Kshs
Transfers for roads	-	89,991,631
Transfers for water projects	-	-
Transfers for health facilities	-	-
Transfers for energy	-	-
Transfers for education facilities	-	-
Others (<i>specify</i>)	-	-
Total	-	89,991,631

7. Use of Goods and Services

Description	FY 2025/2026	FY 2024/2025
	Kshs	Kshs
Certified works for roads	4,947,633	89,991,630
Certified works for water project	-	46,154,517
Certified works for health facilities	-	24,792,013
Certified works for energy	-	-
Certified works for education facilities	-	-
Total	4,947,633	160,938,160

8. Cash and Cash Equivalents

Description	FY 2025/2026	FY 2024/2025
	Kshs	Kshs
Special Purpose Account	3.00	-
Deposit Account	7,589,416	8,999,163
Cash balances	-	-
Total Cash and cash equivalents	7,589,419	8,999,163

9. Receivables from non-exchange transactions

Description	FY 2025/2026	FY 2024/2025
	Kshs	Kshs
Receivables from Equalisation Fund	271,952	76,166,117
Total receivables	271,952	76,166,117

Ageing analysis for Receivables from non-exchange transactions

Description	FY 2025/2026		FY 2024/2025	
	Kshs		Kshs	
	FY 2025/2026	% of the total	FY 2024/2025	% of the total
Less than 1 year	271,952	-	76,166,117	100%
Between 1- 2 years	-	-	-	-
Between 2-3 years	-	-	-	-
Over 3 years	-	-	-	-
Total	271,952	-	76,166,117	100%

10. Certificates Payable

Description	FY 2025/2026	FY 2024/2025
	Kshs	Kshs
Certificates payables	-	70,946,530
Total Payables	-	70,946,530

Ageing analysis of certificates payable

Description	FY 2025/2026		FY 2024/2025	
	Kshs		Kshs	
	Fy 2024/2025	% of the total	FY 2024/2025	% of the total
Less than 1 year	-	-	70,946,530	100%
Between 1- 2 years	-	-	-	-
Between 2-3 years	-	-	-	-
Over 3 years	-	-	-	-
Total	-	-	70,946,530	100%

11. Retention

Description	FY 2025/2026		FY 2024/2025	
	Kshs		Kshs	
Retention monies	7,589,416		8,999,163	
Total retention money	7,589,416		8,999,163	
Ageing analysis: (Retention deposits)	FY 2025/2026	% of the Total	FY 2024/2025	% of the Total
Under one year	7,589,416	100%	8,999,163	100%
1-2 years	-	%	-	%
2-3 years	-	%	-	%
Over 3 years	-	%	-	%
Total	7,589,416	100%	8,999,163	100%

12. Cash Generated from Operations

Description	FY 2025/2026		FY 2024/2025	
	Kshs		Kshs	
Surplus for the year before tax	(1,409,742)		8,999,163	
Adjusted for:	-		-	
	-		-	
Working capital adjustments	-		-	
Decrease/Increase in receivables	-		-	
Decrease/Increase in payables	-		-	
Net cash flow from operating activities	(1,409,742)		8,999,163	

13. Financial Risk Management

The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The fund does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history. The fund's financial risk management objectives and policies are detailed below:

i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, as well as receivables. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the entity's management based on prior experience and their assessment of the current economic environment.

Financial Risk Management

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

Description	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
As at 30th June 2026				
Receivables from non-exchange transactions	-	-	-	-
Bank balances	-	-	-	-
Total	-	-	-	-
As at 30th June 2025				
Receivables from non-exchange transactions	-	-	-	-
Bank balances	-	-	-	-
Total				

Financial Risk Management

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the entity has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The entity has significant concentration of credit risk on amounts due from the fund. The Board of Directors sets the entity's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Fund's management, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The Entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows. The table below represents cash flows payable by the entity under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Description	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
As at 30th June 2026				
Payables	-	-	-	-
Total	-	-	-	-
As at 30th June 2025				
Payables	-	-	-	-
Total	-	-	-	-

iii) Market risk

The Entity has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls. Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee. The Entity's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day

implementation of those policies. There has been no change to the entity's exposure to market risks or the way it manages and measures the risk.

a) Interest rate risk

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

Management of interest rate risk

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

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on the surplus or deficit of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Fair value of financial assets and liabilities

a) Financial instruments measured at fair value.

Determination of fair value and fair values hierarchy

IPSAS 30 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the fund's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market

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data when available. The fund considers relevant and observable market prices in its valuations where possible.

There were no transfers between levels 1, 2 and 3 during the year. Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

iv) Capital Risk Management

The objective of the Fund's capital risk management is to safeguard the entity's ability to continue as a going concern. The entity capital structure comprises of the following funds:

Description	FY 2025/2026	FY 2024/2025
	Kshs	Kshs
Accumulated surplus	-	-
Total Funds	-	-
Total Borrowings	-	-
Less: Cash and Bank Balances	-	-
Net Debt/(Excess cash and cash Equivalents)	-	-
Gearing	-	-

14. Related Party Disclosures

a) Nature of related party relationships

Entities and other parties related to Isiolo County Equalisation fund corporation 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.

b) County Government of Isiolo

The county Government of Isiolo is the principal shareholder of the fund, holding 100% of the Fund's equity interest. The County Government has provided full guarantees to all long-term lenders of the entity.

c) Other related parties include:

- i) The Parent Department.
- ii) County Governments
- iii) Other County Corporations
- iv) Key management.

d) Transactions with related parties

Description	FY 2025/2026	FY 2024/2025
	Kshs	Kshs
a) Sales to related parties		
Others (<i>specify</i>)	-	-
Total	-	-
B) purchases from related parties		
Others (<i>specify</i>)	-	-
Total	-	-
b) Grants /transfers from the government		
Grants from EF	-	-
Grants from other levels of Government	-	-
Donations in kind	-	-
Total	-	-
c) Expenses incurred on behalf of related party		
Payments for goods and services for xxx	-	-
Total		
d) Key management compensation		
Compensation to key management	-	-
Total	-	-

15. Contingent Assets and Contingent Liabilities

Contingent Assets

Description	FY 2025/2026	FY 2024/2025
	Kshs	Kshs
Contingent Assets		
Receivables from government entities	-	-
Others (<i>Specify</i>)	-	-
Total	-	-

Contingent Liabilities

Description	FY 2025/2026	FY 2024/2025
	Kshs	Kshs
Contingent Liabilities	-	-
Court case xx against the entity	-	-
Others (<i>Specify</i>)	-	-
Total	-	-

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 Entity is a Fund under the Department of Finance and Economic Planning. Its ultimate parent is the County Government of Isiolo.

18. Currency

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

16. Appendices

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

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

Reference No.	Issue/Observation	Management Response	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
OAG/IRO/AUD/ISL. CNTY/EQL.FUND/ 2024-2025/(04)	Financial Statements			
	Inaccuracies in the Financial statements	Financial statements have been amended to rectify the inaccuracies	Resolved	-
	Lawfulness & Effectiveness in the use of Public Resources			
	Implementation of projects before meeting EFAB conditions	Early execution arose from urgent commencement of the projects due to their critical nature of the water related interventions	Resolved	-
	Road works maintenance for works Oldonyiro-Parkruk road	The project was successfully implemented and completed. The bid documents, drawings, design and standard and specifications of the works for all participating bidders were provided for audit review. The contract period was specified in the bid documents.	Resolved	-

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Reference No.	Issue/Observation	Management Response	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Routine maintenance of Burat-Kakili road	The bid documents, drawings, design and standard and specifications of the works for all participating bidders were provided for audit review. The contract period was specified in the bid documents.	Resolved	-
	Effectiveness of Internal Controls, Risk Management & Governance			
	-	-	-	-

Guidance Notes:

- (i) Use the same reference numbers as contained in the Audit report.
- (ii) Obtain the “Issue/Observation” and “management Responses” required above from the report that is signed by Management.
- (iii) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report.



County Executive Committee Member for Finance

Date:

Appendix II: Projects Implementation Status Report.

S/No	Project Name (A)	Sector (B)	Constituency (C)	Ward (D)	Approved Budget/total allocation (E)	Contract Sum (F)	Amount certified (G)	Amount Paid (H)	Payable amount I=(G-H)	% Status of implementation (J)
1.	Maintenance of Oldonyiro - Parkukuk Road	Roads	Isiolo North	Oldonyiro	8,140,596	7,911,200	7,882,200	7,882,200	-	99.63%
2.	Maintenance of Kipsing - Makori Road	Roads	Isiolo North	Oldonyiro	7,996,302	7,064,400	6,994,800	6,994,800	-	99.01%
3.	Maintenance of Gotu - Barambate Road	Roads	Isiolo North	Ngaremara	6,690,640	6,533,919	6,533,919	6,533,919	-	100.00%
4.	Maintenance Duma - Matho Molu Road	Roads	Isiolo North	Cherab	5,333,874	5,320,224	5,204,224	5,204,224	-	97.82%
5.	Maintenance of Urura - Qorati Boru - Gagab Galla Road	Roads	Isiolo North	Cherab	6,242,727	6,237,033	6,121,497	6,121,497	-	98.15%
6.	Maintenance of Burto Bonsa - Dambala Chiracha Road	Roads	Isiolo North	Cherab	5,535,285	5,530,880	5,414,880	5,414,880	-	97.90%

Isiolo County Government
Equalisation Fund

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S/No	Project Name (A)	Sector (B)	Constituency (C)	Ward (D)	Approved Budget/total allocation (E)	Contract Sum (F)	Amount certified (G)	Amount certified (G)	Payable amount I=(G-H)	% Status of implementation (J)
7.	Maintenance of Yamicha - Aba Arao Road	Roads	Isiolo North	Cherab	6,102,441	6,099,280	5,983,280	5,983,280	-	98.10%
8.	Maintenance of Korbasa - Rapsu Road	Roads	Isiolo South	Kinna	7,263,809	7,209,400	7,128,200	7,128,200	-	98.87%
9.	Maintenance of Bibi - Duse Road	Roads	Isiolo South	Kinna	6,449,148	6,396,240	6,396,240	6,396,240	-	100.00%
10.	Maintenance of Rapsu - Kinna Road	Roads	Isiolo South	Kinna	6,396,040	6,396,008	6,333,600	6,333,600	-	99.02%
11.	Maintenance of Quri - Modogashe Road	Roads	Isiolo South	Sericho	6,601,459	6,596,050	6,538,050	6,538,050	-	99.12%
12.	Maintenance of Badana - Biliqi Road	Roads	Isiolo South	Sericho	5,939,108	5,338,900	5,309,900	5,309,900	-	99.46%
13.	Maintenance of Burat - Kakili Road	Roads	Isiolo North	Burat	7,136,550	6,939,120	6,939,120	6,939,120	-	100.00%
14.	Maintenance of West - Aremeit - Amekwe Road	Roads	Isiolo North	Burat	7,333,952	7,269,720	7,211,720	7,211,720	-	99.20%

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S/No	Project Name (A)	Sector (B)	Constituency (C)	Ward (D)	Approved Budget/total allocation (E)	Contract Sum (F)	Amount certified (G)	Amount Paid (H)	Payable amount I=(G-H)	% Status of implementation (J)
15.	Proposed maternity block at Lenguruma dispensary	Health	Isiolo North	Oldonyiro	7,736,773	7,599,624	7,579,904	7,579,904	-	100%
16.	Proposed maternity block at Mata-arba dispensary	Health	Isiolo North	Cherab	5,525,265	5,450,579	5,433,179	5,433,179	-	100%
17.	Proposed construction of Riga dispensary	Health	Isiolo North	Cherab	6,103,443	6,103,433	6,101,600	6,101,600	-	100%
18.	Proposed repair works and equipping of Eldera dispensary	Health	Isiolo South	Sericho	6,246,735	5,694,730	5,677,330	5,677,330	-	100%
19.	Drilling and equipping of Gafarsa borehole	Water	Isiolo South	Garbatulla	6,652,563	6,608,358	6,556,350	6,556,350	-	100%
20.	Drilling and equipping of Malkadaka borehole	Water	Isiolo South	Garbatulla	7,586,467	7,384,449	7,347,382	7,347,382	-	100%

Isiolo County Government
Equalisation Fund

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S/No	Project Name (A)	Sector (B)	Constituency (C)	Ward (D)	Approved Budget/total allocation (E)	Contract Sum (F)	Amount certified (G)	Amount Paid (H)	Payable amount I=(G-H)	% Status of implementation (J)
21.	Drilling of Darer Dabaso Huka borehole	Water	Isiolo South	Garbatulla	6,248,739	6,087,087	6,062,624	6,062,624	-	100%
22.	Drilling and equipping of Garbatulla borehole	Water	Isiolo South	Garbatulla	6,898,063	6,628,562	6,603,642	6,603,642	-	100%
23.	Drilling and equipping of Kom borehole	Water	Isiolo North	Chari	5,290,786	5,345,437	5,288,672	5,288,672	-	100%
24.	Drilling and equipping of Laga Aman borehole	Water	Isiolo North	Oldonyiro	7,947,202	7,764,389	7,700,487	7,700,487	-	100%
25.	Excavation/construction of Malkagalla water pan	Water	Isiolo North	Cherab	6,759,781	6,701,610	6,595,360	6,595,360	-	100%
26.	Routine maintenance and spot improvement of Dogogicha road	Roads	Isiolo North	Cherab	4,956,850	4,947,632	4,947,632	4,947,632	-	100%

Appendix III: Transfers from Government Entities

Name of the Entity Transferring the funds	Date received as per bank statement	Total Amount - KES	Where Recorded/recognized		
			Statement of Financial Performance	Receivables	Total Transfers during the Year
Equalisation Fund	16 th Dec 2025	70,946,532.50	70,946,532.50	-	70,946,532.50
	16 th June 2026	4,947,632.00	4,947,632.00	-	4,947,632.00
Total		75,894,164.50	75,894,164.50	-	75,894,164.50

Appendix IV- Inter-Entity Confirmation Letter

Name of transferring entity: Equalisation Fund

Name of beneficiary entity: County Government of Isiolo

Confirmation of amounts received by [Insert name of beneficiary Entity] as at 30 th June (Current FY)			
Reference Number	Date Received	Total	Remarks
FT253503L8VN	16 th December 2025	70,946,532.50	
FT26167XW51X	16 th June 2026	4,947,632.00	
Total		75,894,164.50	

I confirm that the amounts shown above are correct as of the date indicated.

Head of Accounts Department - Disbursing Entity:

Name Sign Date

Head of Accounts Department - Beneficiary Entity:

Name Monica Nkire Sign [Signature] Date 09/09/2026

Appendix V: Funding Summary

Financial Year	Appropriation during the FY a	Funds received during the FY b	Outstanding funds c=a-b
2025/2026	76,166,117	75,894,162	271,955
2024/2025	166,157,748	89,991,630	76,166,118
Total	242,323,865	165,885,792	76,438,073

Appendix VI: Reporting of Climate Relevant Expenditures

Project Name	Project Description	Project Objectives	Project Activities	Quarter				Source of Funds	Implementing Partners
				Q1	Q2	Q3	Q4		
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-

Appendix VII: Reporting on Disaster Management Expenditure

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