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OFFICE OF THE AUDITOR-GENERAL

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REPORT

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ON

MERU COUNTY GOVERNMENT
EQUALISATION FUND

FOR THE YEAR ENDED
30 JUNE, 2026

PAPERS LAID	
DATE	7/10/2026
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COMMITTEE	---
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Meru 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

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 Meru 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

Meru County 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) County Executive Headquarters

P.O. Box 120 - 60200
County Headquarters Building
Meru- Makutano Road
Meru, Kenya

(e) Meru County Government Contacts

Telephone: (254) 720088043
E-mail: merucounty@meru.go.ke
Website: www.meru.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 120
Meru County

3. Report of the County Executive Committee Member for Finance

The Equalisation Fund continues to play a critical role in addressing regional disparities by financing projects aimed at improving access to basic services in marginalized areas of Meru County. During the period under review, the Fund supported investments in the roads, education, water, and energy sectors, contributing to improved infrastructure and enhanced service delivery.

Operational performance was satisfactory, with five of the six funded projects attaining 100 percent completion. These include the improvement of the Marega–Mwai–Riigi Road in Akachiu Ward, construction of the Giaki Box Culvert in Abogeta East Ward, construction of the Rimbera–Mundaki Road Box Culvert in Karama Ward, drilling of a borehole at Kandebene Village in Muthara ward, and the purchase of desks and chairs for Ugoti Day Secondary School. The completed projects have enhanced road connectivity, improved access to safe water, and strengthened the learning environment for students. The installation of a transformer at Giika–Kiegoi is currently at 30 percent completion, with implementation progressing following the transfer of funds to the Rural Electrification and Renewable Energy Corporation (REREC) to facilitate design and installation. All completed road projects complied with the required project branding and visibility guidelines awaiting payments of retention fee.

The Fund also recorded strong financial performance in terms of budget commitment and project implementation. Against an approved allocation of **Kshs 29,004,018**, contracts worth **Kshs 28,921,798** were awarded, while works valued at **Kshs 28,919,959** had been certified, demonstrating effective utilization of the allocated resources. However, payments amounting to **KSh 26,018,872** had been made, leaving outstanding payables of **Kshs 600,000** and retention payable of **Kshs 2,301,087**.

The implementation of the Equalisation Fund registered notable successes. The completion of key infrastructure projects has improved accessibility to markets and essential public services, enhanced access to clean and reliable water, and strengthened education infrastructure within the beneficiary communities. The high level of project completion and certification reflects effective implementation of the approved development interventions, while compliance with branding and visibility requirements demonstrates adherence to the Fund's implementation guidelines awaiting

Despite these achievements, the Fund continued to experience several implementation challenges. Delayed disbursement of funds from the National Government affected the timely implementation and financial closure of projects. Delays in the release of retention funds slowed completion of financial obligations for completed road and water projects, while payment processing challenges within the Integrated Financial Management Information System (IFMIS) delayed settlement of some contractors' claims. In addition, implementation of the transformer installation project was affected by procedural funding requirements involving REREC. Capacity gaps and limited community awareness on Equalisation Fund processes also continue to constrain effective implementation, underscoring the need for strengthened institutional capacity and enhanced civic education.

Going forward, the County Government will continue to strengthen project planning, financial management, stakeholder coordination, and monitoring of project implementation while advocating for timely disbursement of Equalisation Fund resources. These measures are expected to enhance efficiency in project delivery, improve financial performance, and maximize the socio-economic impact of the Fund in marginalized areas of the County.



.....
CPA. Monica Kathono

CECM Finance, Economic planning & ICT

4. Corporate Governance Statement**Part A: Key Management Profiles**

NAME	PICTURE	DETAILS
CPA Monica Kaithiori Kathono		CECM- Finance, Economic Planning & ICT
CPA Charles Mwenda Kaibiria		Head of Finance
Martin Mutai		Head of Procurement
CPA Douglas Kobia Domiziano		Head of Accounts

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 reporting period, the Equalisation Fund received a total of **KSh 28,619,958**. The revenue comprised transfers made to facilitate the implementation of Equalisation Fund projects for FY 2022/23 in the roads, water, energy, and education sectors. The receipts were utilized to finance ongoing project implementation and settlement of certified works in accordance with the approved work plans and budget.

- *Revenue Analysis*

During the reporting period, Meru County received **KSh 28,619,958** from the Equalisation fund to facilitate the implementation and settlement of Equalisation Fund projects approved under **FY 2022/2023**. The funds were applied towards projects in the roads, water, energy, and education sectors. Although the projects relate to the FY 2022/2023 allocation, the transfers received during the reporting period enabled continued implementation and payment of certified works. Delayed disbursement of funds remained a key challenge, contributing to the extended implementation period and delaying the financial closure of some completed projects.

- *Revenue by Nature*

The Fund derived all its revenue from transfers by the National Government. Of the total amount received, **KSh 17,016,207 (59.46%)** was allocated to road infrastructure projects, **KSh 5,994,665 (20.95%)** to water projects, **KSh 5,309,087 (18.55%)** to energy projects, and **KSh 300,000 (1.05%)** to education projects. The distribution of funds reflects the Fund's priority of improving access to infrastructure and essential public services in marginalized areas.

Sector	Amount (KSh)	Percentage
Roads	17,016,207	59.46%
Water	5,994,665	20.95%
Energy	5,309,087	18.55%
Education	300,000	1.05%
Total Transfers Received	28,619,959	100.00%

Table 1. Revenue by nature

2. Expenditure

- *Expenditure FY 2025/2026*

During the reporting period, the Equalisation Fund incurred total development expenditure of **KSh 28,919,959** towards the implementation of projects in the roads, water, energy, and education sectors. The expenditure was directed towards improving access to essential services in marginalized areas

through investments in road infrastructure, water supply, electricity connectivity, and education facilities.

- *Expenditure Analysis*

The Fund recorded total expenditure of **KSh 28,919,959** during the reporting period. The roads sector accounted for the largest share of expenditure at **KSh 17,016,207**, reflecting the County's priority of improving road connectivity and accessibility in marginalized areas. Expenditure on water projects amounted to **KSh 5,994,665**, while **KSh 5,309,087** was incurred on energy projects to support expansion of electricity infrastructure. The education sector recorded expenditure of **KSh 600,000**, mainly towards improving learning facilities. Overall, the expenditure demonstrates the Fund's continued focus on financing infrastructure projects that enhance access to basic services and improve the socio-economic well-being of the beneficiary communities.

- *Expenditure by Nature*

All expenditure incurred by the Equalisation Fund during the reporting period was development expenditure. The expenditure was directed towards the implementation of infrastructure projects in the roads, water, energy, and education sectors, in line with the Fund's objective of addressing regional disparities through investment in basic services. No recurrent expenditure was incurred during the reporting period.

- *Expenditure by Function*

Expenditure was distributed across four key sectors in accordance with the approved project priorities. The roads sector recorded the highest expenditure of **KSh 17,016,207**, representing 58.84 percent of total expenditure. The water sector accounted for **KSh 5,994,665** (20.73 percent), followed by the energy sector at **KSh 5,309,087** (18.36 percent). The education sector recorded expenditure of **KSh 600,000**, representing 2.07 percent of the total expenditure. The expenditure pattern demonstrates the Fund's emphasis on improving transport infrastructure while simultaneously enhancing access to water, electricity, and education services in marginalized areas.

3. Revenue and Expenditure per Budget Estimates

- *Revenue variance explanation*
- Revenue and Expenditure per Budget Estimates

Sector	Budget Estimates (KSh)	Actual Revenue (KSh)	Variance (KSh)	Performance (%)
Roads	17,094,930	17,016,207	(78,723)	99.54
Water	6,000,000	5,994,665	(5,335)	99.91
Energy	5,309,088	5,309,087	(1)	100.00
Education	600,000	300,000	(300,000)	50.00
Total	29,004,018	28,619,958	(384,060)	98.68

Table 2: Revenue Variance by Sector

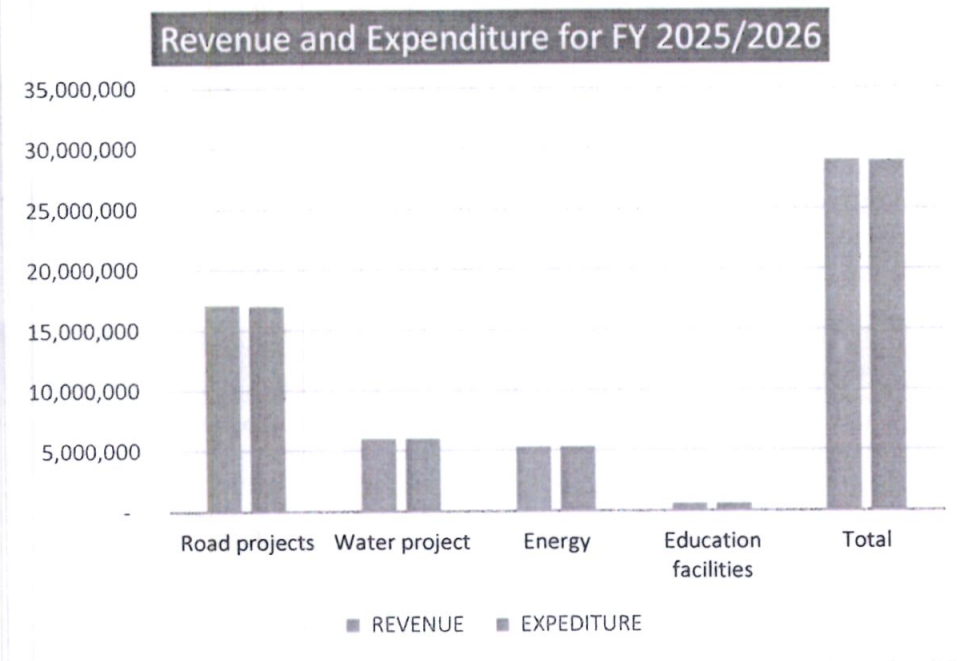


Fig 1. Revenue and Expenditure for FY 2025/2026

Revenue Variance Explanation

The Fund realized total revenue of **Kshs 28,619,958** against a budget estimate of **Kshs 29,004,018**, representing a revenue performance of **98.68 percent**. The overall revenue variance of **Kshs 384,060** was primarily attributable to the education sector, where IFMIS processing challenges delayed the processing of **Kshs 300,000**. Minor variances in the roads, water and energy sectors arose from the actual measured works and did not materially affect implementation.

Sector	Budget Estimates (Kshs)	Actual Expenditure (Kshs)	Variance (Kshs)	Absorption (%)
Roads	17,094,930	17,016,207	(78,723)	99.54
Water	6,000,000	5,994,665	(5,335)	99.91
Energy	5,309,088	5,309,087	(1)	100.00
Education	600,000	600,000	-	100.00
Total	29,004,018	28,919,959	(84,059)	99.71

Table 3: Expenditure Variance by Sector

Expenditure Variance Explanation

Actual expenditure amounted to **Kshs 28,919,959**, representing **99.71 percent** absorption of the approved budget. The Fund recorded full budget utilization in all sectors. Overall, expenditure performance reflects efficient utilization of the approved budget towards the implementation of development projects.

4. Key Projects and Investment Decisions

- *Entity's key projects or investment decisions*

The County under the equalisation Fund is implementing projects under the priority areas as stipulated in the Equalisation Fund Administration Regulations and projects as approved by the Equalisation Funds Board. The regulations stipulate that the county will implement projects focused on water, roads, energy, and health infrastructure in marginalized counties. These initiatives aim to reduce historical inequalities and bring essential services closer to underserved communities. The projects implemented for FY 22/23 include;

S/No.	Project Name	Sector	Status of implementation
1.	Improvement to gravel standards of Marega-Mwai-Riigi road in Akachiu ward	Roads	Complete and in Use
2.	Purchase of 100 desks and 100 chairs for Ugoti day Secondary School in Akachiu ward	Education	Complete and in Use
3.	Construction of Giaki box culvert in Abogeta East Ward	Roads	Complete and in Use
4.	Installation of a transformer at Giika-Kiegori	Energy	Ongoing
5.	Drilling of borehole at Kandebene village	Water	Complete and in Use
6.	Construction of Rimbera-Mundaki road –Box culvert	Roads	Complete and in Use

8. *Risk Analysis and Statutory Compliance*

- *Major risks facing the entity*

The Equalisation Fund faces a number of risks that continue to affect the timely implementation of projects and realization of its intended objectives. A key risk is the delayed disbursement of funds by the National Government. Although the Constitution provides for annual allocations to the Equalisation Fund equivalent to 0.5 percent of all national revenue collected, delays in the release of these funds have disrupted project implementation schedules and prolonged project completion timelines. Consequently, Meru County has continued implementing projects funded under the FY 2022/2023 allocation beyond the planned implementation period.

The Fund also faces institutional and capacity-related risks, including limited technical expertise and weak institutional frameworks, which can hinder effective project planning, implementation, monitoring, and evaluation. In addition, limited public awareness of the Fund's objectives and implementation processes may affect community participation and ownership of projects. Addressing these challenges requires continued capacity building for implementing institutions and enhanced civic education to strengthen stakeholder participation, transparency, and sustainability of Equalisation Fund interventions.

- *Compliance with statutory requirements*

The County ensures compliance with the Constitution 2010, the County Government Act 2012, The Public Financial Management Act 2012, the Public Procurement and Disposal Act 2015, the public Audit Act 2014, CRA marginalisation policies, Equalisation fund administration) regulations, among other laws and regulations

This means strict adherence to approved allocations, transparent reporting, timely audits, and community-driven project implementation.

9. Economic and Sector Outlook

- *Review of the economy*

According to the Kenya National Bureau of Statistics (KNBS) Economic Survey 2026, Kenya's economy grew by 4.6 percent in 2025, compared to 4.7 percent in 2024, indicating a slight moderation in the pace of economic growth. Growth was supported by continued expansion in sectors such as agriculture, construction, financial and insurance activities, information and communication, and public administration. However, the economy continued to experience fiscal pressures arising from competing expenditure demands and constrained public resources, which affected the timely financing of development programmes.

Within Meru County, agriculture remains the backbone of the local economy, contributing significantly to household incomes, employment, food security, and agro-processing. The County also derives economic activity from trade, tourism, livestock production, and small and medium enterprises (SMEs). Continued investment in transport infrastructure, water supply, rural electrification, and education has strengthened the enabling environment for economic growth by improving connectivity, facilitating market access, enhancing agricultural productivity, and expanding access to essential public services.

Despite these positive developments, parts of the County continue to experience infrastructure deficits and limited access to basic services, particularly in marginalized areas targeted by the Equalisation Fund. Delayed disbursement of development funds and fiscal constraints have affected the pace of project implementation and completion. Continued investment in equitable infrastructure development remains essential to reducing regional disparities, stimulating local economic activity, and improving the quality of life of residents in underserved communities.

- *Review of the sector*

The Equalisation Fund remains an important instrument for addressing historical marginalization by financing projects that improve access to basic services in disadvantaged areas. During the period under review, the Fund supported investments in the roads, water, energy, and education sectors, contributing to improved road connectivity, increased access to clean and safe water, expanded electricity infrastructure, and enhanced learning environments.

The implementation of the Fund continued to register positive progress, with most projects attaining full physical completion. However, the sector continued to experience challenges associated with

delayed disbursement of funds, IFMIS-related payment processing delays and capacity constraints, which affected timely financial closure of some completed projects. Strengthening institutional capacity, improving coordination among implementing agencies, and enhancing public participation remain critical to improving project delivery and sustainability

- *Future developments*

Going forward, the Fund will continue to prioritize investments that enhance equitable access to basic services in marginalized areas. Emphasis will be placed on completing ongoing projects, strengthening project planning and monitoring, improving financial management, and ensuring timely settlement of outstanding contractual obligations, including retention payments.

The County Government will continue to collaborate with the National Government and other stakeholders to advocate for timely release of Equalisation Fund allocations and strengthen institutional capacity for effective project implementation. Enhanced monitoring and evaluation, improved stakeholder engagement, and continuous civic education will further support efficient utilization of the Fund and maximize its socio-economic impact.

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

Meru County has twelve strategic pillars/ themes/issues and objectives within the current Strategic Plan for the FY2025/2026. These strategic pillars/ themes/ issues are as follows:

Strategic Priority I: To improve Devolved Governance

Strategic Priority II: To reduce Water burden

Strategic Priority III: To improve ECDE and Village Polytechnics infrastructure

Strategic Priority IV: Town Improvement and beautification

Strategic Priority V: To improve food security and promotion of commercial agriculture

Strategic Priority VI: Better roads and improved connectivity and accessibility

Strategic Priority VII: Improved human Standards of living (decent housing)

Strategic Priority VIII: MSMEs Capacity building

Strategic Priority IX: Provision of quality, affordable and accessible Healthcare

Strategic Priority X: Tourism development

Strategic Priority Xi: Promotion of Youth, Women and Persons with Disabilities

Strategic Priority Xii: To improve environmental conservation

The County develops its annual work plans based on the above 12 pillars. Assessment of the Board's performance against its CIDP is done on a quarterly basis. The county achieved its performance targets set for the FY/2025/2026 period for its strategic pillars, as indicated in the table below:

Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
Water Infrastructure	To reduce the water burden and improve access to safe and reliable water.	Number of water projects completed; households benefiting from improved water access.	Drilling of a borehole at Kandebene Village.	Borehole drilling at Kandebene Village completed (100%). The project is expected to improve access to clean and reliable water for the surrounding community.
Education Infrastructure	To improve ECDE and Village Polytechnic infrastructure and enhance the learning environment.	Number of education infrastructure projects completed;	Purchase and supply of desks and chairs for Ugoti Day	The supply of 100 desks and 100 chairs was completed and the furniture is

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

		number of learners benefiting.	Secondary School.	in use, improving the learning environment.
Road Infrastructure	To improve road connectivity, accessibility and mobility.	Number of road projects completed; kilometres/road structures improved.	Improvement of Marega–Mwai–Riigi Road; Construction of Giaki Box Culvert; Construction of Rimbera–Mundaki Road Box Culvert.	All three road infrastructure projects were completed (100%), improving connectivity, accessibility to markets and social services, and facilitating movement within the beneficiary communities.
Energy Infrastructure	To improve access to reliable electricity.	Number of electricity projects implemented; project completion rate.	Installation of a transformer at Giika–Kiegoi.	Transformer installation was at 30% completion. The required funds were transferred to REREC and implementation is ongoing.

7. Environmental and Sustainability Reporting

i) *Sustainability strategy, risk management and profile*

The Equalisation Fund is a key instrument for promoting equitable and sustainable socio-economic development by financing projects that improve access to basic services in marginalized areas. The Fund's investments contribute to long-term community resilience through the development of infrastructure in the roads, water, energy, and education sectors. These interventions are aligned with the Constitution of Kenya, 2010, Kenya Vision 2030, the Bottom-Up Economic Transformation Agenda (BETA), the Meru County Integrated Development Plan (CIDP) 2023–2027, and the United Nations Sustainable Development Goals (SDGs), particularly SDG 4 (Quality Education), SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy), SDG 9 (Industry, Innovation and Infrastructure), SDG 10 (Reduced Inequalities), SDG 11 (Sustainable Cities and Communities) and SDG 13 (Climate Action).

The implementation of the Fund continues to be influenced by global and national economic conditions, including fiscal constraints, inflationary pressures, climate variability, and increasing demand for public infrastructure. These factors affect the cost of project implementation, the availability of public resources, and the timely completion of development projects. To address these challenges, the County Government continues to strengthen project planning, monitoring and evaluation, financial management, and stakeholder engagement while advocating for timely disbursement of Equalisation Fund allocations.

During the reporting period, the Fund recorded significant progress in improving access to essential services through the completion of road infrastructure, water, and education projects, while implementation of the electricity project continued. These investments are expected to enhance connectivity, improve access to clean and safe water, strengthen educational facilities, and increase electricity access for beneficiary communities.

The Fund continued to face challenges arising from delayed disbursement of funds, IFMIS-related payment processing challenges, pending retention payments, and institutional capacity constraints. These risks affected project implementation timelines and financial closure of some projects. To mitigate these challenges, the County Government continues to strengthen financial management systems, improve coordination with implementing agencies, enhance project monitoring, and undertake civic education to promote community participation and ownership of projects.

The County Government remains committed to transparent service delivery and prudent contract management in accordance with the Public Procurement and Asset Disposal Act, 2015, and other applicable public financial management laws. All contracts financed under the Equalisation Fund during the reporting period were awarded to local contractors, thereby promoting local economic development, supporting local enterprises, creating employment opportunities, and strengthening the County's economic base. Procurement processes were undertaken competitively, while project implementation was monitored through regular site inspections, certification of works, and quality assurance mechanisms to ensure value for money and timely delivery.

ii) *Environmental performance*

The Equalisation Fund recognizes that environmental sustainability is fundamental to the successful implementation and long-term benefits of development projects. All projects are implemented in compliance with applicable environmental laws, regulations, and standards, including the Environmental Management and Coordination Act (EMCA), 1999 (as amended), and are designed to minimize adverse environmental impacts while promoting sustainable use of natural resources.

During the reporting period, environmental considerations were integrated into project planning and implementation. Road and water infrastructure projects incorporated appropriate drainage systems to minimize soil erosion and reduce flood risks, while construction activities were supervised to ensure proper waste disposal and restoration of disturbed areas upon completion of works. The borehole project at Kandebene Village contributes to sustainable access to safe and reliable water, reducing the distance travelled by households in search of water and improving community resilience to water scarcity.

The ongoing electricity project at Giika-Kiegori is expected to enhance access to reliable and affordable electricity, reducing dependence on less sustainable energy sources and supporting economic activities within the beneficiary community. Improved electricity access also contributes to better education, healthcare, and business development.

Although the Fund recorded significant progress in implementing environmentally sustainable infrastructure, challenges such as delayed funding and prolonged implementation periods affected timely realization of some environmental and socio-economic benefits. The County Government continues to strengthen environmental safeguards, supervision of construction activities, and compliance monitoring to ensure that all projects are implemented in an environmentally responsible manner.

Going forward, the Fund will continue to promote sustainable infrastructure development by integrating environmental conservation, climate resilience, and efficient resource utilization into project design and implementation. Emphasis will be placed on supporting infrastructure that improves climate adaptation, enhances community resilience, and contributes to sustainable socio-economic development in marginalized areas.

8. Statement of Management Responsibilities

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.

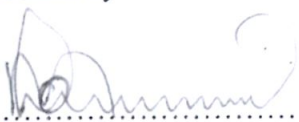
The Management of the County Equalisation Fund is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund as at the end of the financial year ended on June 30, 2026. This responsibility includes: (i) maintaining 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 02/09 2026 and signed on its behalf by:


.....

Name: CPA Charles Mwenda Kaibiria

ICPAK No. 20191

**For: CECM -Finance Economic Planning
and ICT**

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
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 MERU 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 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 Meru County Government Equalisation Fund set out on pages 1 to 23, which comprise of the statement of financial position as at 30 June, 2026, and the statement of financial performance, the statement of changes in net assets, the statement of cash flows and the statement of comparison

of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, Cap. 412B. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Meru 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 Act, Cap. 412A and Equalisation Fund Administration Regulations, 2021.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Meru 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 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

The Management is responsible for the Other Information set out on page iv to xxi which comprise of the Fund Information and Overall Performance, Statement of Performance Against Predetermined Objectives, Environmental and Sustainability Reporting, and Statement of 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 conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Irregularities in the Procurement Process

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects use of goods and services amount of Kshs.28,919,959. Review of the procurement processes revealed the following irregularities:

1.1 Procurement of Desk and Chairs

Included in the expenditure is an amount of Kshs.600,000 relating to certified works for educational facilities. The amount was for a set of one hundred and fifty (150) desks and chairs. Review of the tender documents revealed that the tender was advertised on 10 July, 2024, opened on 24 July, 2024, and evaluated on 29 July, 2024. However, examination of the winning bidder's statutory documents submitted during evaluation revealed that, the documents were dated 2025 which was after the date of tender evaluation of 29 July, 2024. This could be indicative of the bid having not been responsive and ought to have been rejected. This was contrary to Section 80(2) of the Public Procurement and Asset Disposal Act, Cap.412C which states that the evaluation and comparison of tenders must be done using only the procedures and criteria set out in the tender documents. The expenditure was also not supported by way of market surveys.

Further, review of the delivery records revealed that only fifty (50) chairs and desks were physically delivered but the inspection and acceptance committee minutes dated 16 February, 2026 certified one hundred (100) chairs and desks were inspected and authorized full payment for the one hundred and fifty (150) desks and chairs. The significant contradiction between the documentation sets regarding the quantity of goods delivered and inspected has not been explained or reconciled.

In addition, there was no evidence of formal approval or variation authorization from the Equalisation Fund Advisory Board, the County Technical Committee, or any other relevant competent authority provided to justify the variance in quantities without a corresponding reduction in cost.

In addition, an extraneous and unauthorized Committee allowance of Kshs.200,000 was directly charged to the LPO without an approval, or support of evidence of services rendered.

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

1.2 Completed but Unutilized Project Due to Lack of Access Roads

Included in the certified works for roads expenditure amount of Kshs.17,016,207 is cost of construction of Giaki Box Culvert in Abogeta East Ward of Kshs.5,995,000. Physical verification conducted in the Month of August, 2026 revealed that although the construction was completed in 4 April, 2025 as per project records, it remained unusable because the adjoining access roads are dilapidated and impassable.

In the circumstances, value for money on the investment on the project could not be confirmed.

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.

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

21 September, 2026

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

	Note	30-Jun-2026
		Kshs
Revenue from Non-Exchange Transactions		
Transfers from Equalisation Fund	6	28,619,959
Total Revenue		28,619,959
Expenditure		
Use of goods and services	7	28,919,959
Total Expenditure		28,919,959
Surplus/(deficit) for the year		(300,000)

The notes set out on pages 7 to 22 form an integral part of these Financial Statements. The Financial Statements set out on pages 1 to 6 were signed by:



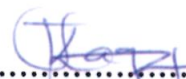
.....
Name: CPA Douglas Kobia

Domiziano

Head of Accounts

ICPAK M/No: 10401

Date: 02/09/2026



.....
Name: CPA Joy Kagwiria

Fund Accountant

ICPAK M/No: 33571

Date: 02/09/2026

11. Statement of Financial Position as at 30 June 2026

Description	Note		
		30-Jun-2026	30-Jun-2025
		Kshs	Kshs
Assets			
Current Assets			
Cash And Cash Equivalents	8	2,601,087	-
Receivables non-exchange transactions	9		-
Total Current Assets		2,601,087	-
Total Assets (A)		2,601,087	-
Liabilities			
Current Liabilities			
Certificates Payable	10	600,000	-
Retention	11	2,301,087	-
Total Current Liabilities		2,901,087	-
Total Liabilities (B)		2,901,087	-
Net Assets (A-B)		(300,000)	-
Represented By:			
Accumulated Surplus		(300,000)	-
Net Assets		(300,000)	-

The notes set out on pages 7 to 22 form an integral part of these Financial Statements. The Financial Statements set out on pages 1 to 6 were signed by:



CPA Douglas Kobia Domiziano
Head of Accounts
ICPAK M/No: 10401

Date: 02/09/2026



Name: CPA Joy Kagwiria
Fund Accountant

ICPAK M/No: 33571

Date: 02/09/2026

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	-
Balance As At 30 June 2025	-
Current Year	
Balance As At 1 July 2025	-
Surplus/(Deficit) For The Year	(300,000)
Balance As At 30 June 2026	(300,000)

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

Description	Note	30-Jun-2026	30-Jun-26
		Kshs	Kshs
Cash flows from operating Activities			
Receipts			
Receipt from Equalisation Fund		28,619,959	-
Total Receipts		28,619,959	-
Payments			
Use of goods and services		26,018,872	-
Net cash flows (to)/from operating activities (a)	12	2,601,087	-
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)		2,601,087	-
Cash and cash equivalents at July 1st	<u>8</u>	-	-
Cash and cash equivalents at June 30th	8	2,601,087	-

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

	Original budget(s)		Final budget			
	As	Balance from Previous Years	of Total funds appropriated	Actual on comparable basis	Performance difference	% of utilization
	Appropriated in current Year					
	Kshs	Kshs	Kshs	Kshs	Kshs	
Receipts	a	b	c=(a+b)	d	e=(c-d)	f=d/c*100
Transfers from EF	29,004,018	-	29,004,018	28,619,959	384,059	99%
Expenses					-	
Road projects	17,094,930	-	17,094,930	17,016,207	78,723	100%
Water project	6,000,000	-	6,000,000	5,994,665	5,335	100%
Health facilities	-	-			-	
Energy	5,309,088	-	5,309,088	5,309,087	1	100%
Education facilities	600,000	-	600,000	-	600,000	0%
Others	-	-				
Total Expenditure	29,004,018	-	29,004,018	28,319,959	684,059	98%
Surplus/Deficit	-	-	-	300,000	(300,000)	

Budget Reconciliation

	Description of Particulars	Amount in Kshs
1	Actual Surplus Amounts as per the statement of Budget	300,000
2	Contractor's Retention/Deposit cash executed in the budget and is still retained in bank	2,301,087
	Closing Cash and Cash Equivalent as per the statement of Cash flows	2,601,087

15. Notes to the Financial Statements

1. General Information

Equalisation Fund is established by and derives its authority and accountability from Article 204 of the Constitution of Kenya and operationalized by the Public Finance Management (Equalisation Fund Administration) Regulations, 2021. The Entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The Entity's principal activity is 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.

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>

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

Standard	Effective date and impact:

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	<p><i>Applicable 1st January 2026</i></p> <p>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.</p>
IPSAS 48- Transfer Expenses	<p><i>Applicable 1st January 2026</i></p> <p>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.</p>
IPSAS 49- Retirement Benefit Plans	<p><i>Applicable 1st January 2026</i></p> <p>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.</p>
IPSAS 50: Exploration For & Evaluation of	<p><i>Applicable 1st January 2027</i></p> <p>The objective of this Standard is to specify the financial reporting for the exploration for and evaluation of mineral resources. The Standard requires:</p> <ol style="list-style-type: none"> Limited improvements to existing accounting practices for exploration and evaluation expenditures.

Standard	Effective date and impact:
Mineral Resources	<p>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.</p> <p>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.</p>
IPSAS 51: Tangible Natural Resources Held For Conservation	<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 SRS 1: Climate Related Disclosures	<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 Equalization 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 Company's financial statements. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, the 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.

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	30 Jun 2026
	Kshs
Transfers for roads	17,016,207
Transfers for water projects	5,994,665
Transfers for health facilities	-
Transfers for energy	5,309,087
Transfers for education facilities	300,000
Total	28,619,959

7. Use of Goods and Services

Description	Period ended 30 Jun 2026
	Kshs
Certified works for roads	17,016,207
Certified works for water project	5,994,665
Certified works for health facilities	-
Certified works for energy	5,309,087
Certified works for education facilities	600,000
Others)	-
Total	28,919,959

8. Cash and Cash Equivalents

Description	30 Jun 2026
	Kshs
Special Purpose Account	300,000
Deposit Account	2,301,087
Cash balances	-
Total Cash and cash equivalents	2,601,087

9. Receivables from non-exchange transactions

Description	30 Jun 2026
	Kshs
Receivables from Equalisation Fund	-
Total receivables	-

Ageing analysis for Receivables from non-exchange transactions

Description	30 Jun 2026	
	Kshs	
	Current FY	% of the total
Less than 1 year	-	-
Between 1- 2 years	-	-
Between 2-3 years	-	-
Over 3 years	-	-
Total	-	-

10. Certificates Payable

Description	30 Jun 2026
	Kshs
Certificates payables	600,000
Total Payables	600,000

Ageing analysis of certificates payable

Description	30 Jun 2026	
	Kshs	
	Current FY	% of the total
Less than 1 year	600,000	100%
Between 1- 2 years	-	-
Between 2-3 years	-	-
Over 3 years	-	-
Total	600,000	100%

11 .Retention

Description	30-JUN-2026	
	Kshs	
Retention monies	2,301,087	
Total retention money	2,301,087	
Ageing analysis: (Retention deposits)	Current FY	% of the Total
Under one year	2,301,087	100%
1-2 years	-	-
2-3 years	-	-
Over 3 years	-	-
Total	2,301,087	100%

Meru County Equalisation fund has a retention deposit of Kshs 2,301,087 arising from retention monies held from four payments made during the year i.e., 593,926; 540,203; 599,466 and 567,491.

12. Cash Generated from Operations

Description	30-JUN-2026
	Kshs
Surplus for the year before tax	(300,000)
Adjusted for:	
	-
Working capital adjustments	
Decrease/Increase in receivables	
Decrease/Increase in payables	2,901,087
Net cash flow from operating activities	2,601,087

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				
Receivables from non-exchange transactions	-	-	-	-
Bank balances	-	-	-	-
Total	-	-	-	-

As at 30 June				
Receivables from non-exchange transactions	-	-	-	-
Bank balances	-	-	-	-
Total	-	-	-	-

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		600,000	0	0
Total	-	600,000	-	-
As at 30th June 2025				
Payables	-	-	0	-
Total	-	-	0	-

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.

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 Entity'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 data when available. The *Entity* 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	2025/2026
	Kshs
Accumulated surplus	(300,000)
Total Funds	(300,000)
Total Borrowings	-
Less: Cash and Bank Balances	(2,601,087)
Net Debt/(Excess cash and cash Equivalents)	300,000
Gearing	100%

14. Related Party Disclosures

a) Nature of related party relationships

Entities and other parties related to 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 Meru

The county Government of Meru is the principal shareholder of the Equalisation Fund, holding 100% of the Equalisation Fund 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.

14. Contingent Assets and Contingent Liabilities

Contingent Assets

Description	2025/2026
	Kshs
Contingent Assets	
Receivables from government entities	-
Others	-
Total	-

Contingent Liabilities

Description	Insert Current FY
	Kshs
Contingent Liabilities	-
Court case against the entity	-
Others	-
Total	-

15. Events after the Reporting Period

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

16. Ultimate And Holding Entity

The Entity is a Fund under the Department of Finance, Economic Planning and ICT. Its ultimate parent is the County Government of Meru.

17. Currency

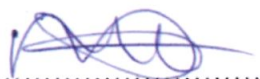
The financial statements are presented in Kenya Shillings (Kshs) rounded to the nearest Kshs.

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:	Timeframe:
	This is the first year of reporting, thus there are no prior years audit recommendations			


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County Executive Committee Member for Finance

Date: 21/9/2026

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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 (G-H)	% Status of implementation (J)
1	Improvement to gravel standards of Marega-Mwai-Riigi road in Akachiu ward	Roads	Igembe South	Akachiu	5,683,526	5,675,132	5,674,911	5,674,911	-	100%
2	Purchase of 100 desks and 100 chairs for Ugoti day Secondary School in Akachiu ward	Education	Igembe South	Akachiu	600,000	600,000	600,000	-	600,000	100%
3	Construction of Giaki box culvert in Abogeta East Ward	Roads	Imenti South	Abogeta East	5,995,000	5,940,082	5,939,264	5,939,264	-	100%
4	Installation of a transformer at Giika-Kieoi	Energy	Igembe South	Akachiu	5,309,088	5,309,088	5,309,087	5,309,087	-	30%
5	Drilling of borehole at Kandebene village	Water	Igembe South	Muthara	6,000,000	5,994,665	5,994,665	5,994,665	-	100%
6	Construction of Rimbera-Mundaki road	Roads	Tigania East	Karama	5,416,404	5,402,832	5,402,032	5,402,032	-	100%

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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	13-Nov-25	11,914,175	11,914,175	-	11,914,175
Equalisation Fund	20-Mar-26	16,705,784	16,705,784	-	16,705,784
Total		28,619,959	28,619,959	-	28,619,959

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Appendix IV- Inter-Entity Confirmation Letter

Name of transferring entity: Equalization Fund

Name of beneficiary entity: Meru County Government

Confirmation of amounts received by Meru County Government as at 30 th June			
Reference Number	Date Received	Total	Remarks
CGM/CECM/FIN/EF/VOL.2/26	29-Nov-2025	11,914,175	
CGM/CECM/FIN/EF/VOL.1/35	8-May-2026	16,705,784	
Total		28,619,959	

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

Head of Accounts Department – Equalization Fund:

Name Sign Date

Head of Accounts Department – Meru County:

Name: CPA Douglas Kobia Domiziano. Sign  Date 02/07/2026

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 Equalisation Fund
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Appendix V: Funding Summary

Financial Year	Appropriation during the FY a	Funds received during the FY b	Outstanding funds c=a-b
2025/2026	29,004,018.00	28,619,959	384,059.00
Total	29,004,018.00	28,619,959	384,059.00

