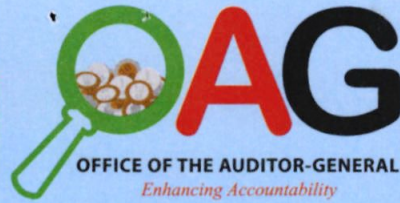


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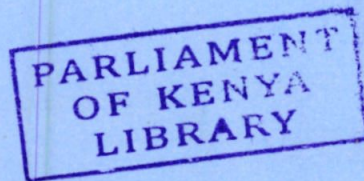
REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT



OF

THE AUDITOR-GENERAL

ON

**SECOND KENYA DEVOLUTION SUPPORT
PROGRAM (KDSP) II - PROJECT
GRANT/CREDIT NUMBER IDA-7447-KE**

**FOR THE YEAR ENDED
30 JUNE, 2026**

COUNTY GOVERNMENT OF MERU

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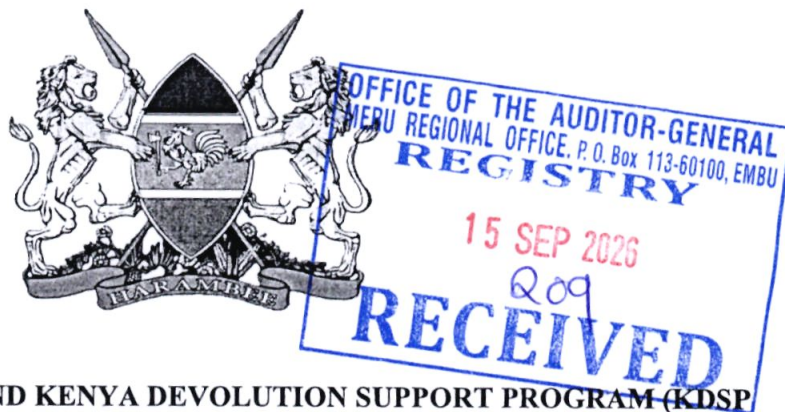
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PROJECT NAME: SECOND KENYA DEVOLUTION SUPPORT PROGRAM (KDSP II)

IMPLEMENTING ENTITY: COUNTY GOVERNMENT OF MERU

PROJECT GRANT/CREDIT NUMBER: IDA-7447-KE

(For Application by National and County Governments' Self-Reporting Development Projects as per the financing agreements)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2026

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

Second Kenya Devolution Support Programme– Meru County
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**Second Kenya Devolution Support Programme– Meru County
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1. Acronyms, Abbreviations, and Definition of Terms

A. Acronyms and Abbreviations

CBK	Central Bank of Kenya
ICPAK	Institute of Certified Public Accountants of Kenya
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
CT	County Treasury
NT	National Treasury
PFM	Public Finance Management.
PSASB	Public Sector Accounting Standards Board
WB	World Bank
OSR	Own Source Revenue
CPIU	County Project Implementation Unit
KRA	Key Result Area
ESHSRIM	Environmental, Social, Health and Safety Risks and Impact Management
OAG	Office of Auditor General
CPTC	County Project Technical Committee
PMC	Project Management Committee
LAPSMA	Legal Affairs Public Service Management and Administration
SRC	Salary Remuneration Commission
HR	Human Resource
DHRMAC	Department Human Resource Management Advisory Committee
IDA	International Development Association

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KDSP	Kenya Devolution Support Programme
CPSC	County Program Steering Committee
HRIS-ke	Human Resource Information System-Kenya
IGRTC	Intergovernmental Relations Technical Committee
CAJ	Commission on Administrative Justice

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2. Project Information and Overall Performance

2.1 Name and registered office

The project's official name is **Second Kenya Devolution Support Program (KDSP II) – Meru County.**

Objective

The key objective of the project is to strengthen county performance in the financing, management, coordination, and accountability for resources.

Address

The project headquarters offices are in Meru Town, Meru County, Kenya. The address of its registered office is County Government of Meru

The project also has offices/branches as follows: N/A

Contacts: The following are the project contacts

P.O. Box: 120 – 60200, Meru

Telephone: (+254) 116869976

E-mail: merucounty@meru.go.ke

Website: <https://meru.go.ke>

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Project information and overall performance (continued)

2.2 Project Information

Project Start Date:	07.12.2023
Project End Date:	31.12.2027
Project Coordinator:	Mr Nyamu Silas
Project Development Partner:	World Bank/Government of Kenya

2.3 Project Overview

Line Ministry or State departments/ County Department	Department of Legal Affairs, Public Service Management & Administration
Project Number	IDA-7447-KE
Strategic goals of the project	<p>The strategic goals of the project are as follows:</p> <ul style="list-style-type: none"> • Enhance performance of counties in financing, management, coordination and accountability of resources. • Strengthens intergovernmental relations, institutional performance, and county staffing/competency framework • Improves civic education, public participation frameworks, and citizen feedback tracking mechanisms.
Summary of Project Strategies for achievement of strategic goals	<p>The project management aims to achieve the goals through three Key results areas namely</p> <p>KRA 1: Sustainable Financing and Expenditure Management.</p> <p>This KRA supports efforts towards enhancing financing and expenditure management by Counties. In this KRA, the National-level activities, supported through investment project financing (IPF), entail the development of frameworks and guidelines for County revenue mobilization, policy to support</p>

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	<p>financing for service delivery units, and structures and tools to support Counties’ institutionalization of shared project management functions.</p> <p>KRA 2: Intergovernmental Coordination, Institutional Performance, and Human Resource Management. This KRA supports National and County Government initiatives towards strengthening intergovernmental coordination, institutional performance, and Human Resource Management (HRM).</p> <p>KRA 3: Oversight, Participation, and Accountability: KRA 3 will support improvements in oversight, participation, and accountability. The IPF component will support the development of guidelines on project stocktaking, community-led project management committees, and climate change risk screening and preparedness (including assessment of the climate resilience of existing infrastructure assets).</p>
Project duration	4 Years

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Project Information and Overall Performance (Continued)

2.4 Bankers

The following are the bankers for the project:

- (i) Central Bank of Kenya.

2.5 Independent Auditor

The project is audited by the Office of the Auditor General, Nairobi

2.6 Roles and Responsibilities

No	Names	Title designation	Key qualification	Responsibilities
1.	Stephen Nturibi Etirikia	CECM - LAPSMA	Executive Committee Member	<ul style="list-style-type: none">▪ Overall oversight, accountability, and achievement of results for the Program▪ Program Lead
2.	Arch. Martin Gitije	CO - LAPSMA	Chief Officer	<ul style="list-style-type: none">▪ County KDSP II Accounting Officer and a mandatory signatory to the KDSP II SPA.
3.	Nyamu Silas	County Program Coordinator	Director	<ul style="list-style-type: none">▪ Provide effective leadership to the CPIU▪ Undertake project completion and financing closing activities within the county when due, etc.
4.	Bernard Mugambi Kanyamu	Program M&E Officer	Senior Researcher	<ul style="list-style-type: none">▪ Overall Programme M&E and Reporting

2.7 Funding summary

The Project is for a duration of Four (4) years from 2023 to 2027 with an approved budget of Kshs 352M which is equivalent to \$ 2,721,299 USD.

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Project information and overall performance (continued)

Below is the funding summary:

A. Source of Funds

Source of funds	Development Partner Commitment		Amount received to date – (30 th June 2026)		Undrawn balance to date	
	Development Partner currency(\$)	Kshs	Development Partner currency(\$)	Kshs	Development Partner currency(\$)	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A') - (B')
(i) Grant						
World Bank-Through Gok	1,498,905	194,857,710	1,498,905	194,857,710		0
Insert name of development partner		0		0		0
(ii) Loan						
Insert name of development partner		0		0		0
Insert name of development partner		0		0		0
(iii) Counterpart funds						
Government of Kenya-Meru County	30,769	4,000,000	30,766	3,999,700	2	300
Total	1,529,674	198,857,710	1,529,672	198,857,410	2	300

The cumulative amount received from the Development partner to date excludes the amount that is held in the designated account.

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Project information and overall performance (continued)

B. Application of Funds

Application of funds	Amount received to date – (30 th June 2026)		Cumulative amount paid to date – (30 th June 2026)		Unutilised balance to date (30 th June 2026)	
	Development Partner currency(\$)	Kshs	Development Partner currency(\$)	Kshs	Development Partner currency	Kshs
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
Grant						
World Bank-Through Gok	542,335	70,503,589	158,226	20,569,456	384,108	49,934,130
		0		0		0
Loan						
Insert name of development partner		0		0		0
Insert name of development partner		0		0		0
Counterpart funds						
Government of Kenya-Meru County	30,766	3,999,700	30,766	3,999,700		
Total	573,101	74,503,289	189,032	24,569,156	384,108	49,934,130

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Project information and overall performance (continued)

2.8 Summary of Overall Project Performance:

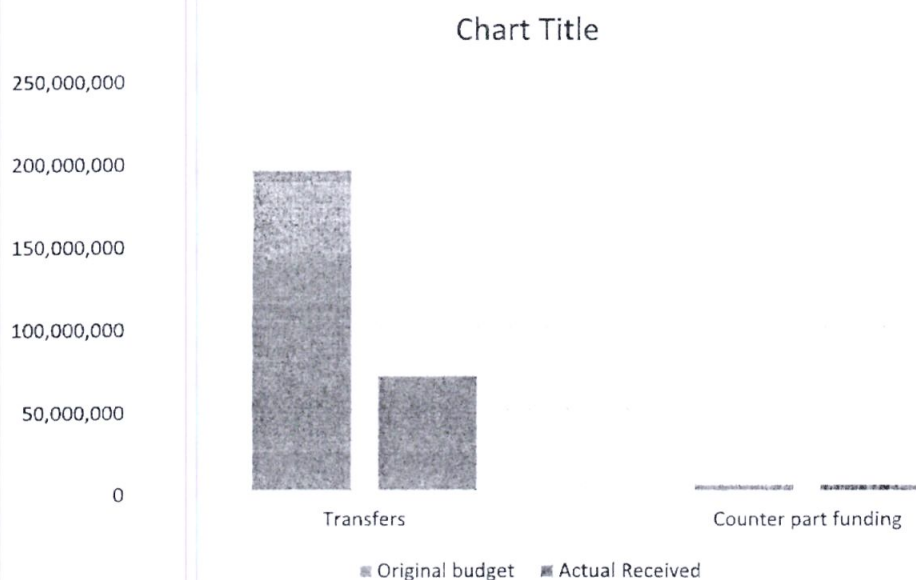
i) Budget performance against actual amounts:

The KDSP II program has generally progressed in line with the approved work plans and budgets. Expenditure has been incurred mainly on institutional strengthening, capacity building, project assessment, and monitoring and investment project documentation preparation.

Table 2.8.1- Budget Performance

SN	Revenue	Original Budget	Actual Amount Received
1	Transfers	194,857,710	70,503,589.00
2	Counterpart Funding	4,000,000.00	3,999,700.00
	Totals	198,857,710	74,503,289.00

Figure 2.8.1 Budget Performance against Actuals



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ii) Physical progress based on outputs and outcomes:

Implementation has progressed through preparation of Level 1 and Level 2 work plans, capacity building, performance management activities, project assessment, monitoring and implementation of investment projects.

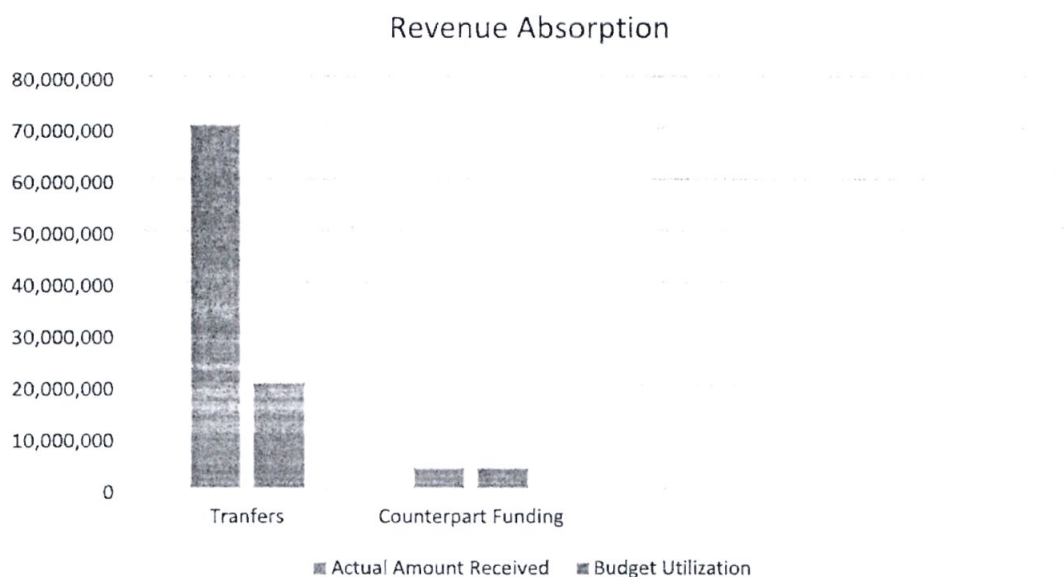
iii) Absorption rate:

Table 2.8.2 Budget Absorption

Sn	Revenue	Actual Amount Received	Budget Utilization
1	Transfers	70,503,589.00	20,569,459.00
2	Counterpart Funding	3,999,700.00	3,999,700.00
	TOTALS	74,503,289.00	24,569,159.00

Overall absorption has been affected by delays in disbursement of funds.

Figure 2.8.2 Revenue Absorption



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iv) Implementation challenges and next steps:

Key challenges included delayed disbursement of funds to hold planned activities in time. Coordinating various players drawn from different departments and disciplines was also a challenge.

Next steps: Strengthen coordination and ensure timely disbursement of funds

2.9 Summary of Project Compliance:

i) Significant cases of non-compliance:

No major cases of non-compliance have been identified

ii) Consequences of non-compliance:

None

iii) Mitigation measures:

The County has strengthened programme coordination, planning, procurement, monitoring and reporting. The CPIU and relevant departments continue to review compliance requirements, undertake regular monitoring and ensure that activities and expenditures are aligned with approved KDSP II plans and applicable Government regulations.

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

Introduction

The Second Kenya Devolution Support Program (KDSP II) is implemented under World Bank over a four-year period that began in 2023. The overall Development Objective of the Programme is to strengthen county performance in financing, management, coordination and accountability for resources.

The key development objectives of the project are to:

a) Strengthen sustainable county financing and expenditure management, including enhancement and automation of Own Source Revenue (OSR) collection, improved management of pending bills, asset management and accrual-based financial reporting.

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- b) Strengthen intergovernmental coordination and institutional performance through improved human resource management systems, HR policies, staff capacity building, performance management and institutional reforms.
- c) Improve county public investment management through project stocktaking, development of project registers, investment management guidelines and strengthening of Project Management Committees (PMCs).
- d) Strengthen oversight, public participation and accountability through improved project oversight, citizen feedback mechanisms, grievance redress mechanisms and County Assembly oversight.
- e) Strengthen environmental, social, health and safety management and climate-risk preparedness in county investment projects through development and operationalization of appropriate safeguards and guidelines.
- f) Strengthen KDSP II programme management, coordination, monitoring and reporting through effective operation of the CPSC, CPTC, CPIU and partner coordination structures, as well as preparation of annual work plans, budgets and cash flow plans.

These objectives are implemented under the Programme's three Key Result Areas:

KRA 1 Sustainable Financing and Expenditure Management;

KRA2 Intergovernmental Coordination, Institutional Performance and Human Resource Management; and

KRA 3 Oversight, Participation and Accountability.

Progress on the attainment of strategic development objectives

To implement and cascade the above development objectives to specific sectors, the objectives were translated into measurable outputs and indicators through the approved annual work plan and budget. Progress during FY 2025/26 was monitored through quarterly implementation reports.

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Objective 1: Sustainable Financing and Expenditure Management

Progress was recorded in strengthening revenue administration, pending bills management, and financial reporting and asset management. During the year, 100 county officers were trained on automated revenue collection systems, two revenue enhancement planning workshops were conducted, a pending bills verification team was constituted, a pending bills inventory and action plan were developed, and 50 staff received capacity building on accrual-based reporting. The County Finance Bill 2026 had been prepared in draft form and was awaiting Cabinet approval. Asset inventories were approximately 70% complete across departments.

Objective 2: Intergovernmental Coordination, Institutional Performance and Human Resource Management

Substantial progress was made in strengthening HR systems and institutional capacity. A draft induction policy was developed, HR reforms training was undertaken, HR officers and DHRMAC members were trained, staff establishment was uploaded to HRIS-Ke, a headcount and skills audit were undertaken, and the HR Records Management Policy was developed. Some validation and approval activities remained outstanding at the end of the financial year.

Objective 3: County Public Investment Management

The County made significant progress in strengthening public investment management. The 10-year project register was developed for the relevant departments, project stocktaking for FY 2024/25–2025/26 achieved approximately 80%, Project Management Committees were nominated and trained, project management and stocktaking guidelines were developed, and peer learning was undertaken with Murang'a County.

Objective 4: Oversight, Participation and Accountability

The County operationalized an interactive public investment management dashboard and trained 20 staff on its use. Public participation and project management structures were strengthened through formation of technical working groups, development of public participation and project management guidelines, establishment of grievance redress arrangements and opening of grievance/complaints registers in relevant programmes.

Objective 5: Environmental, Social, Health and Safety Management

Progress was made in institutionalizing environmental and social safeguards. The Environmental, Social, Health and Safety Risks and Impact Management (ESHSRIM) Manual was developed, an

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ESHSRIM committee was nominated, seven officers were trained on the Environmental and Social Framework, and grievance redress arrangements were established.

Objective 6: Programme Management, Coordination and Monitoring

Programme coordination structures remained operational throughout the year. The CPSC, CPTC, CPIU and partner teams held their planned meetings, while the County developed its annual work plans, budgets and cash flow plans. The County also participated in joint missions involving institutions including SRC, OAG, and State Department for Devolution, Council of Governors, IGRTC and CAJ.

Overall Performance

Overall, KDSP II implementation during FY 2025/26 made substantial progress in institutional strengthening, policy development, capacity building, public investment management and programme coordination. Key achievements included revision of the Annual Work Plan and Budget, preparation of Public Investment Management guidelines, uploading of the County staff establishment to HRIS-Ke, operationalization of the investment management dashboard, development of the ESHSRIM Manual, establishment and training of PMCs, and continued operation of programme coordination structures.

However, some activities remained partially implemented or pending, particularly Cabinet approvals, validation of HR policies, completion of asset inventories, procurement of some equipment, capacity-building activities and certain County Assembly oversight activities.

Challenges and Opportunities

The main implementation challenges were limited implementation of capacity-building activities, delays in departmental submission of information, institutional and administrative bottlenecks, delays in approvals and inter-departmental coordination.

The key opportunities are to strengthen inter-departmental coordination, accelerate approvals and procurement, improve digital reporting and monitoring, undertake capacity building earlier in the financial year, and use standardized reporting tools and designated departmental focal persons.

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These measures will support improved absorption, timely achievement of targets and sustained compliance with KDSP II requirements.

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

Project	Objective	Outcome	Indicator	Performance
KRA 1: Sustainable Financing & Expenditure Management	Enhance Own Source Revenue (OSR) collection and administration through automation.	Improved revenue collection efficiency and capacity.	Staff trained; revenue enhancement activities undertaken.	100 officers trained on automated revenue collection systems and 2 revenue enhancement workshops conducted.
KRA Sustainable Financing Expenditure Management	1: Reduce and effectively & manage the stock of pending bills.	Improved management and control of pending bills.	Pending bills verification team, inventory and action plan.	Pending bills verification team constituted; 10- year pending bills inventory and action plan developed.
KRA Sustainable Financing Expenditure Management	1: Strengthen financial & reporting and county asset management.	Improved financial accountability and asset management.	Staff trained; asset inventories prepared.	50 staff trained on accrual- based reporting; county asset inventories were

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				approximately 70% complete.
KRA 2: Intergovernmental Coordination, Institutional Performance & HRM	Strengthen human resource policies and institutional systems.	Improved HR management and institutional performance.	HR policies and guidelines developed/validated.	Draft induction, contract/casual management and HR records management policies developed; validation of some policies remained pending.
KRA 2: Intergovernmental Coordination, Institutional Performance & HRM	Build capacity of HR and institutional management teams.	Improved staff capacity and performance management.	Officers trained; capacity-building activities undertaken.	Training conducted for 30 HR officers, 15 DHRMAC members, 12 Registry Management Unit officers and 10 HR officers on HR reforms.
KRA 2: Intergovernmental Coordination, Institutional	Strengthen HR information and workforce planning systems.	Improved availability and management of HR information.	Staff establishment, headcount and skills audit.	County staff establishment uploaded to HRIS-Ke; headcount and

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Performance HRM	&				skills audit conducted.
KRA Oversight, Participation Accountability	3: &	Strengthen county public investment management and project oversight.	Improved identification, registration and monitoring of county projects.	Project register and project stocktaking.	10-year project register developed and project stocktaking for FY 2024/25–2025/26 achieved 80%.
KRA Oversight, Participation Accountability	3: &	Strengthen project management, public participation and citizen feedback.	Improved transparency, accountability and community participation.	PMCs; investment dashboard; grievance mechanism.	PMCs nominated and trained; investment management dashboard operationalized and 20 staff trained; grievance mechanisms established.
KRA Oversight, Participation Accountability	3: &	Strengthen environmental and social safeguards in county investments.	Improved management of environmental, social, health and safety risks.	ESHSRIM Manual; safeguards committee; officers trained.	ESHSRIM Manual developed, County ESHSRIM Committee nominated and 7 officers

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				trained on the Environmental and Social Framework.
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4. Environmental and Sustainability Reporting

4.1 Sustainability Strategy, Risk Management and Profile

The County's sustainability strategy under KDSP II is based on institutional strengthening and development of systems that can be maintained beyond the life of the Programme. The strategy includes strengthening financial management, human resource management, public investment management, accountability, citizen participation and environmental and social risk management.

Under KRA 1, the County strengthened sustainable financing and expenditure management through revenue automation activities, training of county officers, development of a pending bills inventory and action plan, accrual-based reporting capacity building and improvement of asset management systems. A total of 100 officers were trained on automated revenue collection systems, while 50 staff received capacity building on accrual-based reporting.

Under KRA 2, sustainability was supported through development of HR policies, training of HR personnel, strengthening of performance management and improvement of HR information systems. The County staff establishment was uploaded to HRIS-Ke, while a headcount and skills audit was undertaken.

Under KRA 3, sustainability was promoted through development of a 10-year project register, project stocktaking, establishment and training of Project Management Committees, operationalization of an interactive project management dashboard and development of project management guidelines.

4.2 Environmental Performance

Environmental sustainability under KDSP II is addressed principally through the Programme's environmental and social safeguards and the integration of environmental, social, health and safety considerations into county public investment management.

During FY 2025/26, the County made important progress in establishing the institutional framework for environmental and social risk management. The County developed the

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Environmental, Social, Health and Safety Risks and Impact Management (ESHSRIM) Manual, nominated an ESHSRIM Committee and established mechanisms for rolling out the framework. The County also conducted training on the Environmental and Social Framework, with seven officers trained. A grievance redress mechanism committee was established under the ESHSRIM arrangements.

These measures provide a framework for identifying and managing environmental and social risks associated with County investments. They also support the integration of environmental and social considerations into project planning, implementation and monitoring.

The main environmental sustainability achievement during the reporting period was therefore the development and institutionalization of the ESHSRIM framework and associated capacity building.

4.3 Employee Welfare

Employee welfare and institutional capacity development are important components of KDSP II, particularly under KRA 2 on Intergovernmental Coordination, Institutional Performance and Human Resource Management.

During FY 2025/26, the County implemented a number of HR strengthening activities. These included development of an induction policy, development and validation processes for HR records management and contract and casual management policies, training of HR officers, training of DHRMAC members and strengthening of registry management capacity.

The County also undertook a headcount and skills audit and uploaded the staff establishment to HRIS-Ke, thereby strengthening workforce planning and management of human resource information.

Gender mainstreaming was also incorporated into institutional strengthening. Eight gender officers were trained on gender mainstreaming and cross-cutting issues, supporting the integration of gender considerations into County programmes and institutional activities.

Staff capacity development was further supported through training on performance contracting, change management, HR reforms and other institutional strengthening activities.

The KDSP II Quarter 4 report does not provide detailed information on the overall County employee gender ratio, staff recruitment statistics, remuneration and reward systems, frequency of

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review of employment policies or detailed occupational safety compliance statistics. These matters are therefore not quantified in this statement.

On occupational health and safety, KDSP II incorporated health and safety risk management within the ESHSRIM framework. The ESHSRIM Manual and related institutional arrangements provide a basis for identification and management of health and safety risks associated with programme-supported investments.

4.4 Marketplace Practices

a) Responsible Supply Chain and Supplier Relations

KDSP II implementation is undertaken through approved annual work plans, budgets and cash flow plans, with procurement activities undertaken in accordance with applicable Government requirements.

Meru County developed its annual work plans, budgets and cash flow plans during the year, providing a basis for planned procurement and implementation of programme activities.

Meru County seeks to maintain responsible supplier relationships through adherence to approved procurement processes and contractual obligations.

b) Responsible Ethical Practices

KDSP II promotes transparency, accountability and responsible management of public resources through its programme governance structures. The CPSC, CPTC, CPIU and partner teams remained operational and conducted regular coordination meetings during FY 2025/26.

The Programme also strengthened accountability through development of project management guidelines, project stocktaking, citizen feedback mechanisms and grievance redress arrangements. The establishment of grievance and complaints registers and an ESHSRIM grievance redress mechanism provides channels through which stakeholders can raise concerns relating to programme implementation.

c) Regulatory Impact Assessment and Protection of Stakeholder Rights

The County seeks to safeguard citizen and stakeholder rights through public participation, grievance redress, project oversight and environmental and social safeguards.

During the year, technical working groups were established to support development of public participation guidelines, Project Management Committee guidelines and Public Investment Management guidelines.

The County also operationalized an interactive Public Investment Management Dashboard with a citizen feedback mechanism and trained 20 staff on its use. This provides an additional mechanism for improving transparency and access to information on public investments.

4.5 Community Engagements

During FY 2025/26, the County nominated and trained Project Management Committees to support community participation and project management. The County also conducted sensitization forums for sub-county and ward administrators on project status reporting, follow-up processes and project management policies.

The operationalization of the interactive Public Investment Management Dashboard with a citizen feedback mechanism further strengthened community access to information and participation in monitoring public investments. Twenty staff were trained on use of the dashboard.

The Programme's community engagement approach is therefore focused on ensuring that citizens participate in and exercise oversight over public investments, while also providing mechanisms for receiving and resolving grievances.

5. Statement of Project Management Responsibilities

The Chief Officer Legal Affairs Public Service Management and Administration who is the Accounting Officer responsible for KDSP II and Meru KDSP II County Programme Coordinator are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for the financial year ended on June 30, 2026.

This responsibility includes (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period, (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the project, (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv) safeguarding the assets of the project, (v) Selecting and applying appropriate accounting policies and (v) Making accounting estimates that are reasonable in the circumstances.

The Chief Officer for the Ministry/County Department of Legal Affairs Public Service Management and Administration and the Project Coordinator accept responsibility for the Project's financial statements, which have been prepared on the Transitional /IPSAS Accrual Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Chief Officer for the County Department of Legal Affairs Public Service Management and Administration and the Project Coordinator are of the opinion that the Project's financial statements give a true and fair view of the state of the Project's transactions during the financial year ended June 30, 2026, and of the Project's financial position as at that date. The Chief Officer for the department Legal Affairs Public Service Management and Administration and the Project Coordinator further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements and the adequacy of the systems of internal financial control.

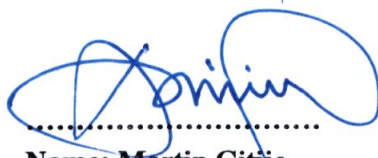
The Chief officer for the County Department of Legal Affairs Public Service Management and the Project Coordinator confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants and that Project funds received during the

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financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project Financial Statements

The Project financial statements were approved by the Chief Officer for the County Department of Legal Affairs Public Service Management and Administration and the County Project Coordinator on 15-9 2026 and signed by:



Name: Martin Gitije
Chief Officer



Name: Silas Nyamu
Project Coordinator

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON SECOND KENYA DEVOLUTION SUPPORT PROGRAM (KDSP) II - PROJECT GRANT/CREDIT NUMBER IDA-7447-KE FOR THE YEAR ENDED 30 JUNE, 2026 - COUNTY GOVERNMENT OF MERU

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 does not necessarily mean that an entity has complied with all relevant laws and regulations, is effective in the use of resources, or that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Second Kenya Devolution Support Program (KDSP) II - Project Grant/Credit Number IDA-7447-KE set out on pages 1 to 19, 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 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 Second Kenya Devolution Support Program (KDSP) II - Project Grant/Credit Number IDA-7447-KE as at 30 June, 2026 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Financing Agreement No.IDA-7447-KE dated 2 February, 2024 between the International Development Association and the Republic of Kenya and the Public Finance Management Act Cap. 412A.

Basis of Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Second Kenya Devolution Support Program (KDSP) II - Project Grant/Credit Number IDA-7447-KE Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects total final revenue budget and actual on comparable basis of Kshs.198,857,710 and Kshs.74,503,289 respectively, resulting in an under-funding of Kshs.124,354,421 or 63% of the budget. Further of the receipts realized of Kshs.74,503,289, only Kshs.24,569,159 was utilized resulting in an under-utilization of Kshs.49,934,130 or 67% of the receipts.

The under-funding and under-utilization affected the planned activities and may have impacted negatively on service delivery to the residents of Meru County.

My opinion is not modified in respect this matter.

Key Audit Matters

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

Other Information

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

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

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

The statement of financial performance reflects use of goods and services amount of Kshs.24,569,459 as disclosed in Note 7 to the financial statements. Included in this amount is training expenditure amounting to Kshs.4,103,059 which further, includes an amount of Kshs.3,544,484 for provision of consultancy services. However, the Tender Opening Committee minutes presented for audit review were not initialed on the first and the last pages. Further, the designations of the officers in the Committee were not indicated. This was contrary to Section 78(11) of the Public Procurement and Asset Disposal Act, Cap. 412C which requires every member of the tender opening committee to initial each page of the minutes and sign as well as initial the final page, indicating their full name and designation. In addition, the attendance register or list and personnel number of officers who attended the training was not provided for audit.

In the circumstances, value for money on the consultancy services amounting to Kshs.3,544,484 could not be confirmed.

2. Failure to Implement Project Activities Within the Approved Period

The statement of financial performance and as disclosed in Note 6 to the financial statements reflects revenue transfers amount of Kshs.198,857,710. Review of the capacity building plan for the year revealed that the Project activities were to be undertaken through three (3) Key Result Areas. However, the following activities were not undertaken during the financial year:

Project Activity	Budgeted Amount (Kshs)
Key Result Area 2-Knowledge Exchange (Benchmarking to Nyandarua County Executive on CHRMAC and HRIS-Kenya	420,000
Key Result Area 3- Office Equipment (Procurement of 1 printer, 3 Laptops and 1 Camera	800,000
Key Result Area 3-Programme Management/Coordination-ICT Equipment	906,000
Total	2,126,000

Failure to implement project activities during the planned period may result in cost escalation and delays in the achievement of program activities which may impact on the achievement of the intended objectives.

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

Weak Monitoring and Evaluation of the Project Activities

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects use of goods and services amount of Kshs.24,569,459. Although, the County Executive provided the progress reports and performance reports, citizen feedback reports were not provided for audit review. Further, though the project Management had in place a portal for grievance reporting mechanism in website there were minimal activity.

In the circumstances, the effectiveness in monitoring and evaluation programs over the project implementation could not be confirmed.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

As required by International Development Association (IDA) Financing Agreement, I report, based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.
- ii. Adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,
- iii. The Project's financial statements are in agreement with the accounting records and returns.

Basis for Conclusion

The Financing Agreement No.IDA-7447-KE dated 2 February, 2024, requires that I report on the legal or regulatory requirements, or on performance information disclosed. These matters require expressing a separate opinion as to the Project's compliance with laws and regulations. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Management and those Charged with Governance

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

21 September, 2026

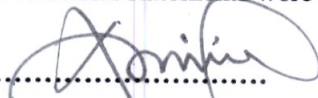


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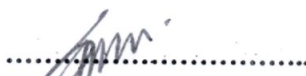
7. Statement of Financial Performance for the Year Ended 30th June 2026.

	Notes	30/06/2026
		Kshs
Revenue		
Revenue Transfers	6	198,857,710
Total revenue		198,857,710
Expenses		
Use of goods and services	7	24,569,459
Total expenses		24,569,459
Other gains/(losses)		
Surplus/ (deficit)		174,288,251

The financial statements were approved on 15-9 2026 and signed by:


 Name: Martin Gitije
 Chief Officer

Date


 Name: Silas Nyamu
 Project Coordinator

Date


 Name: Margaret Njeri
 Project Accountant
 ICPAK Member No: 26118
 Date

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

	Note	Jun-26
		Kshs
Assets		
Current Assets		
Cash and Cash equivalents	8	49,934,130.00
Receivables	10	124,354,421
Total Current Assets		174,288,551
Non-Current Assets		
Property, Plant and Equipment		0
Total Non- Current Assets		0
Total Assets (a)		174,288,551
Liabilities		
Current Liabilities		
Trade and Other Payables	11	300
Total Current Liabilities(b)		300
Total Liabilities		300
Total Net Assets		174,288,251
Represented By:		
Accumulated Surplus		174,288,251
Total Net Assets		174,288,251

The financial statements were approved on 15-9 2026 and signed by:

.....
Name: Martin Gitije
Chief Officer

.....
Name: Silas Nyamu
Project Coordinator

.....
Name: Margaret Njeri
Project Accountant
ICPAK Member No.26118
Date

Date

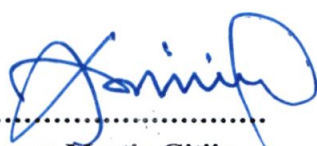
Date

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9. Statement of Changes in Net Assets

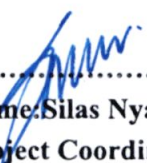
Description	Accumulated Surplus
	Kshs
As at 30th June 2025 (Cash Basis)	
Adjustments: (to recognize assets and liabilities)	-
As at 1st July 2025	-
Surplus/(Deficit) for the period	174,288,251
As at JUN-26	174,288,251

The financial statements were approved on 15-9 2026 and signed by:



Name: Martin Gitije
Chief Officer

Date



Name: Silas Nyamu
Project Coordinator

Date



Name: Margaret Njeri
Project Accountant
ICPAK Member No.26118
Date

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

Description	Note	Jun-26
		Kshs
Cashflow from operating activities		
Receipts		
Revenue Transfers		74,503,289
Total receipts		74,503,289
Payments		
Use of goods and services		24,569,159
Total payments		24,569,159
Net cash flow from operating activities	12	49,934,130
Cashflow from investing activities		
Acquisition of non-financial assets		-
Proceeds from sale of Assets		-
Acquisition of Intangible assets		-
Net cash flows from investing activities		-
<i>Specify the activity</i>		-
Cash flow from financing activities		-
Net cash flow from financing activities		-
Net increase/Decrease in cash and cash equivalents		49,934,130
Cash and cash equivalent at 1st July 2025		-
Cash and cash equivalent at 30th June 2026	8	49,934,130

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

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs	
Transfers	194,857,710	0	194,857,710	70,503,589	124,354,121	36%
Counter part Funding	4,000,000		4,000,000	3,999,700	300	100%
Total Revenue	198,857,710	0	198,857,710	74,503,289	124,354,421	37%
Payments						
Use of goods and services	198,857,710	0	198,857,710	24,569,159	174,288,551	12%
Total Payments	198,857,710	0	198,857,710	24,569,159	174,288,551	12%
Surplus or Deficit	-	0	-	49,934,130	(49,934,130)	

(The underutilization of the funds was due to late disbursement)

Second Kenya Devolution Support Programme – Meru County
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12. Notes to the Financial Statements

1. General Information

The Second Kenya Devolution Support Programme II is established by and derives its authority and accountability from 2012 Act. The Kenya Devolution Support Programme II is wholly owned by the Government of Kenya and is domiciled in Kenya. The principal activity is to strengthen county performance in the financing, management, coordination, and accountability for resources

2. Statement of Compliance and Basis of Preparation

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

Guiding note during the transition period:

The financial statements have been prepared in accordance with the PFM Act, and International Public Sector Accounting Standards (IPSAS), or the entity has taken advantage of the transitional provisions under IPSAS 33, and therefore these 2nd/ 3rd/year financial statements are transitional financial statements and the following elements of the financial statements have not been recognized as the entity has taken advantage of the transition provisions outlined in IPSAS 33. (Entity to state the transitional provisions it has applied and the steps being towards full compliance with IPSAS Accrual).

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

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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 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>

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 MDA shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.</p>

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Standard	Effective date and impact:
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>

iii) Early adoption of standards

The Kenya Devolution Support Programme II did not early – adopt any new or amended standards in the financial year

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Transfers from other government entities

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

b) Budget information

The original budget for FY 2025/2026 was approved by the Council or Board on **July 2025**. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals to conclude the final budget. The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the

Second Kenya Devolution Support Programme – Meru County
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approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of cash flows has been presented on page 4 under section 2 of these financial statements.

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

Financial assets

• Classification

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

Subsequent measurement

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

Second Kenya Devolution Support Programme – Meru County
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Amortized cost

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

Fair value through net assets/ equity

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

Fair value through surplus or deficit

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

Trade and other receivables

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

Financial liabilities

Classification

The Kenya Devolution Support Programme II classifies its liabilities as subsequently measured at amortized cost except for financial liabilities measured through profit or loss.

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d) Changes in accounting policies and estimates

The Second Kenya Devolution Support Programme II recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

e) Foreign currency transactions

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

f) Cash and cash equivalents

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

g) 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.

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5. Significant Judgments and Sources of Estimation Uncertainty

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

Estimates and assumptions.

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

Useful lives and residual values

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

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

Second Kenya Devolution Support Programme – Meru County
Annual Report and Financial Statements for the financial year ended June 30, 2026

6. Revenue Transfers

Description	30TH JUNE 2026
	KShs
Unconditional Transfers	
GoK Counter Part funding	4,000,000.00
Transfers from Development partners	194,857,710.00
Total Unconditional Transfers (a)	198,857,710.00
Conditional Transfers	0
Total Conditional Transfers (b)	0
Total Transfers for the Year (a + b)	198,857,710.00

The kshs 198,857,710 is composed of counterpart funding of kshs 4,000,000, level 1 grant of ksh 70,503,589 and level 2 funding which was not received as 30th June 2026 but accrued totalling to kshs 124,354,121

a) Details to Revenue Transfers

Name of The Entity Transferring	Amount recognized to Statement of Financial performance	Amount deferred under deferred income.	Total transfers (Current FY)
	Kshs	Kshs	Kshs
GOK Funding-MERU COUNTY CO-FUNDING	4,000,000.00	0	4,000,000.00
Development Partner -WORLD BANK	35,253,471.00	0	35,253,471.00
Development Partner -WORLD BANK	35,250,118.00	0	35,250,118.00
Development Partner -WORLD BANK	124,354,121.00		124,354,121.00
Subtotal	198,857,710.00	0	198,857,710.00
Total	198,857,710.00	0	198,857,710.00

Second Kenya Devolution Support Programme – Meru County
Annual Report and Financial Statements for the financial year ended June 30, 2026

7. Use of Goods and Services

Description	30TH JUNE 2026
	Kshs
Domestic travel and subsistence	20,254,400.00
Training payments(Consultancy)	4,103,059.00
Hospitality supplies and services	188,700.00
Other operating payments(dashboard website)	23,300.00
Total	24,569,459.00

8. Cash and Cash Equivalents

Description	30TH JUNE 2026
	Kshs
Cash in Bank	49,934,130
Cash on hand	0
Total Cash and Cash Equivalents	49,934,130

9. Project Bank Accounts

Details	30-Jun-26
	Kshs
Foreign Currency Accounts	
Central Bank of Kenya [A/c No 1000745355]	0
Total Foreign Currency balances	<u>0</u>
Local Currency Accounts	
Central Bank of Kenya [A/c No 1000745355]	49,934,130
Total local currency balances	<u>49,934,130</u>
Total bank account balances	<u>49,934,130</u>

Second Kenya Devolution Support Programme – Meru County
Annual Report and Financial Statements for the financial year ended June 30, 2026

10. Receivables

Description	30-Jun-26
	Kshs
Counter Part Funding	300
Development partner	124,354,121
Contractor's Advance payments	0
Total Receivables	124,354,421

Aging analysis for Receivables

Description	30TH JUNE 2026	
	Kshs	
	Current FY	% of the total
Less than 1 year	124,354,421	%
Total (a+b)	124,354,421	%

11. Trade and Other Payables

Description	30-Jun-26	
	Kshs	
Trade payables	300	
Employee payables	0	
Total trade and other payables	300	
Ageing analysis: (Trade and other payables)	30-Jun-26	% of the Total
Under one year	300	%
1-2 years	0	%
2-3 years	0	%
Over 3 years	0	%
Total (tie to above total)	300	

Second Kenya Devolution Support Programme – Meru County
Annual Report and Financial Statements for the financial year ended June 30, 2026

12. Cash Generated from Operations

Description	Jun-26
	Kshs
Surplus/Deficit for the period	49,934,130
Adjusted for:	
Working capital adjustments	
Increase in receivables	(300)
Increase in payables	300
Net cash flow from operating activities	49,934,130

13. Special Deposit Accounts

The balances in the Project's Special Deposit Account(s) as of 30th June 2026 are not included in the Statement of Financial Assets since the line items are yet to be drawn into the Exchequer Account as a voted provision.

Below is the Special Deposit Account (SDA) movement schedule, which shows the flow of funds voted in the year? These funds have been reported as loans/grants received in the year under the Statement of Receipts and Payments.

Second Kenya Devolution Support Programme – Meru County
Annual Report and Financial Statements for the financial year ended June 30, 2026

Special Deposit Accounts Movement Schedule

Description	30-Jun-26
	Kshs
(i) A/C Name [A/c No 1000745355]	
Opening balance	0
Total amount deposited in the account	74,503,289.00
Total amount withdrawn	<u>24,569,159.00</u>
Closing balance (as per SDA bank account reconciliation attached)	<u>49,934,130.00</u>

14. Related Party Disclosures

Nature of related party relationships

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

Government of Kenya

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

Other related parties include:

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

Description	30-Jun-26
	Kshs
Grants /transfers from the government	
Grants from national the government	70,503,589.00
Grants from county government	3,999,700.00
Total	74,503,289.00

Second Kenya Devolution Support Programme – Meru County
Annual Report and Financial Statements for the financial year ended June 30, 2026

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 Kenya Devolution Support Programme II is a State Corporation/ or a Semi-Autonomous Government Agency under the Ministry of Devolution. Its ultimate parent is the Government of Kenya.

17. Currency

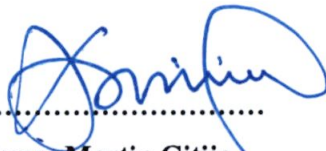
The financial statements are presented in Kenya Shillings (Kshs) rounded to the nearest Kshs.

Second Kenya Devolution Support Programme – Meru County
Annual Report and Financial Statements for the financial year ended June 30, 2026

19. Annexes

Annex 1: Prior Year Auditor-General's Recommendations

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


.....
Name: Martin Gitije
Chief Officer


.....
Name: Silas Nyamu
Project Coordinator

Annex 2: Reconciliation of inter-entity transfers

Project Name:				
Break down of transfers from the State Department o				
a.	Government Counterpart funding			
		Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
			3,999,700	2025/2026
		Total	3,999,700	
B.	Direct payments			
		Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
			0	2025/2026
		Total	0	
C.	Others			
	Transfers	Bank Statement Date	Amount (Kshs)	Indicate the FY to which the amounts relate
			70,503,589	2025/2026
			0	
		Total	70,503,589	
		Total (A+B+C)	74,503,289	

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

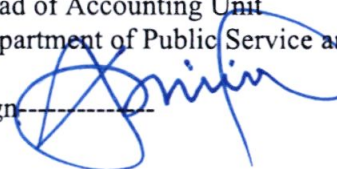
Project Coordinator
Meru County KDSPH

Sign



Head of Accounting Unit
Department of Public Service and Management/County

Sign



Annex 3: Other Support Documents

- i. Bank Reconciliations statement as at 30th June 2026
- ii. Board of Survey Report

AS AT 30th June 2026

MERU COUNTY GOVERNMENT
BANK RECONCILIATION STATEMENT
ACCOUNT NAME KENYA DEVOLUTION SUPPORT PROGRAMME II
ACCOUNT NO. 1000745355

		KSh.
	Bank Balance as per Cash Book	49,934,129.85
<i>Add</i>		
	a) Payments in Cash Book not yet recorded in Bank Statement (Unpresented Cheques)	-
	b) Receipts in Bank Statement not yet recorded in Cash Book	-
<i>Less</i>		
	c) Payments in Bank Statement not yet recorded in Cash Book	-
	d) Receipts in Cash Book not yet recorded in Bank Statement	
	Balance as per Bank Certificate	49,934,129.85

a) Payment in cashbook not yet recorded in bank statement (Unpresented Cheques)

No.	Date	Payee	Chq No	PV No./ Imp	Amount
		Total			-

b) Receipts in Bank Statement not yet recorded in Cash Book

No.	Date	Received from	Chq No	Comments	Amount
			Sub-Total		

c) Payments in Bank Statement not yet recorded in Cash Book(unsurrendered Imprest)

No.	Date	Payee	Chq No	Comments	Amount
			Sub-Total		-

d) Receipts in Cash Book not yet recorded in Bank Statement

No.	Date	Payee	Chq No	Comments	Amount
			Sub Total		-

Prepared by Margaret Njeri.....
Reviewed by
Approved by

Sign

Date

3/7/2026

31.7.2026



AS AT 31st May 2026

MERU COUNTY GOVERNMENT
BANK RECONCILIATION STATEMENT
 ACCOUNT KENYA DEVOLUTION SUPPORT PROGRAMME II
 ACCOUNT NI 1000745355

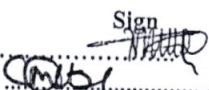
	KSh.
<i>Add</i>	Bank Balance as per Cash Book
	59,796,489.00
a) Payments in Cash Book not yet recorded in Bank Statement (Unpresented Cheques)	
b) Receipts in Bank Statement not yet recorded in Cash Book	
<i>Less</i>	
c) Payments in Bank Statement not yet recorded in Cash Book	
d) Receipts in Cash Book not yet recorded in Bank Statement	
Balance as per Bank Certificate	59,796,489.00

a) Payment in cashbook not yet recorded in bank statement (Unpresented Cheques)						
No.	Date	Payee	Chq No	PV No./ Imp No./ Comments	Amount	
		Total				-

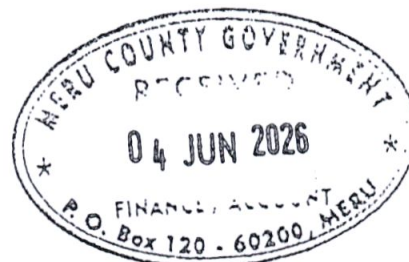
b) Receipts in Bank Statement not yet recorded in Cash Book						
No.	Date	Received from	Chq No	Comments	Amount	
			Sub-Total			

c) Payments in Bank Statement not yet recorded in Cash Book(unsurrendered Imprest)						
No.	Date	Payee	Chq No	Comments	Amount	
			Sub-Total			-

d) Receipts in Cash Book not yet recorded in Bank Statement						
No.	Date	Payee	Chq No	Comments	Amount	
			Sub Total			-

Prepared by Margaret Njeri.....
 Reviewed by 
 Approved by

Date
 4/6/2026
 4/6/2026



AS AT 30th April 2026

MERU COUNTY GOVERNMENT
BANK RECONCILIATION STATEMENT
ACCOUNT I KENYA DEVOLUTION SUPPORT PROGRAMME II
ACCOUNT NI 1000745355

		KSh.
Bank Balance as per Cash Book		30,474,871.00
<i>Add</i>		
a) Payments in Cash Book not yet recorded in Bank Statement (Unpresented Cheques)		-
b) Receipts in Bank Statement not yet recorded in Cash Book		-
<i>Less</i>		
c) Payments in Bank Statement not yet recorded in Cash Book		-
d) Receipts in Cash Book not yet recorded in Bank Statement		
Balance as per Bank Certificate		30,474,871.00

a) Payment in cashbook not yet recorded in bank statement (Unpresented Cheques)

No.	Date	Payee	Chq No	PV No./ Imp No./ Comments	Amount
		Total			-

b) Receipts in Bank Statement not yet recorded in Cash Book

No.	Date	Received from	Chq No	Comments	Amount
			Sub-Total		

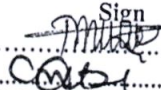
c) Payments in Bank Statement not yet recorded in Cash Book(unsurrendered Imprest)

No.	Date	Payee	Chq No	Comments	Amount
			Sub-Total		-

d) Receipts in Cash Book not yet recorded in Bank Statement

No.	Date	Payee	Chq No	Comments	Amount
			Sub Total		-

Prepared by Margaret Njeri.....
Reviewed by.....
Approved by.....

Sign

.....
.....

Date
3/5/2026
31/5/2026
.....
.....



AS AT 31st March 2026

MERU COUNTY GOVERNMENT
BANK RECONCILIATION STATEMENT
 ACCOUNT NAI KENYA DEVOLUTION SUPPORT PROGRAMME II
 ACCOUNT NO. 1000745355

	Bank Balance as per Cash Book	KSh.
Add		34,791,671.00
	a) Payments in Cash Book not yet recorded in Bank Statement (Unpresented Cheques)	
	b) Receipts in Bank Statement not yet recorded in Cash Book	-
Less		-
	c) Payments in Bank Statement not yet recorded in Cash Book	
	d) Receipts in Cash Book not yet recorded in Bank Statement	-
	Balance as per Bank Certificate	34,791,671.00

a) Payment in cashbook not yet recorded in bank statement (Unpresented Cheques)

No.	Date	Payee	Chq No	PV No./ Imp No./ Com	Amount
		Total			-

b) Receipts in Bank Statement not yet recorded in Cash Book

No.	Date	Received from	Chq No	Comments	Amount
			Sub-Total		

c) Payments in Bank Statement not yet recorded in Cash Book(unsurrendered Imprest)

No.	Date	Payee	Chq No	Comments	Amount
			Sub-Total		-

d) Receipts in Cash Book not yet recorded in Bank Statement

No.	Date	Payee	Chq No	Comments	Amount
			Sub Total		-

Prepared by Margaret Njeri.....
 Reviewed by
 Approved by

Sign 
 Date 2/4/2026
 2/4/2026



AS AT 28th February 2026

BANK RECONCILIATION STATEMENT
ACCOUNT NAK KENYA DEVOLUTION SUPPORT PROGRAMME II
ACCOUNT NO. 1000745355

Add

Bank Balance as per Cash Book

a) Payments in Cash Book not yet recorded in Bank Statement
(Unpresented Cheques)

b) Receipts in Bank Statement not yet recorded in Cash Book

Less

c) Payments in Bank Statement not yet recorded in Cash Book

d) Receipts in Cash Book not yet recorded in Bank Statement

Balance as per Bank Certificate

KSh.
35,303,471.00
-
-
-
35,303,471.00

a) Payment in cashbook not yet recorded in bank statement (Unpresented Cheques)

No.	Date	Payee	Chq No	PV No./ Imp No./ Comments	Amount
Total					-

b) Receipts in Bank Statement not yet recorded in Cash Book

No.	Date	Received from	Chq No	Comments	Amount
Sub-Total					

c) Payments in Bank Statement not yet recorded in Cash Book(unsurrendered Imprest)

No.	Date	Payee	Chq No	Comments	Amount
Sub-Total					-

d) Receipts in Cash Book not yet recorded in Bank Statement

No.	Date	Payee	Chq No	Comments	Amount
Sub Total					-

Prepared by Margaret Njeri.....
Reviewed by
Approved by

Date
3/3/2026
3/3/2026



AS AT 31st January 2026

ACCOUNT NO. 1000745355

KSh.

	50,000.00
	-
	-
	-
	50,000.00

Balance as per Bank Certificate

a) Payment in cashbook not yet recorded in bank statement (Unpresented Cheques)						
No.	Date	Payee		Chq No	PV No./ Imp No./ Comments	Amount
		Total				-

b) Receipts in Bank Statement

Receipts in Bank Statement not yet recorded in Cash Book						
No.	Date	Received from		Chq No	Comments	Amount
				Sub-Total		

c) Payments in Bank Statement not yet recorded in Cash Book

Payments in Bank Statement not yet recorded in Cash Book(unsurrendered Imprest)						
No.	Date	Payee		Chq No	Comments	Amount
				Sub-Total		

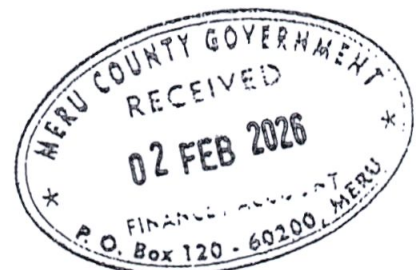
Receipts in Cash Book not yet recorded in Bank Statement						
No.	Date	Payee		Chq No	Comments	Amount
				Sub Total		

Sign

Date _____

2/2/2026

2/2/2022



Date 01/07/2026

Report of the Board of Survey on the Cash and Bank Balances of KEHIA
EVOLUTION SUPPORT PROGRAMME II as at the close of
 business on 30TH JUNE 2026

The Board, consisting of--(Names and official titles)

1. DOUGLAS KOBIA DR CRISPUS MURITHI COO
2. ANIL WANDIRIAHI SP PURITI KIRUJA SP
3. FLORIC SATI SP MARGARET NJERI SP

assembled at the office of HEADQUARTERS

at (time) on the 20.....
 and the following cash was produced:—

Notes	Sh.	<u>NIL</u>
Silver	Sh.	<u>NIL</u>
Copper	Sh.	<u>NIL</u>
Cheques (as per details on reverse)	Sh.	<u>.....</u>

It was observed that cheques amounting to Sh. cts. had been on hand for more than 14 days prior to the date of the survey.

The cash consists of East African currency and does not contain any demonetized coin or notes.

The Cash Book reflected the following balances as at the close of business on the 30 JUNE 2026

Cash on hand	Sh.	<u>NIL</u>
Bank Balance	Sh.	<u>49,934,129.85</u>

The Bank Certificate of Balance showed a sum of Sh. 49,934,129 cts. (Sh. cts.)

owing to the credit of the account on 20.....
 The difference between this figure and the Bank Balance as shown by the Cash Book is accounted for in the Bank Reconciliation Statement (F.O. 30) attached.

1. Anil Klandinan SP
 2. PURITI KIRUJA SP
 3. FLORIC SATI SP
 4. Margaret Njeri SP
CRISPUS MURITHI COO

Douglas Kobia Domizano
 Chairman.

Date

Members of the Board.

