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REPORT

OF

THE AUDITOR-GENERAL

ON

MERU COUNTY OILS LIMITED

**FOR THE YEAR ENDED
30 JUNE, 2019**

TABLED BY: Sen. Samuel Pughiri
 DATE: 23/7/2021
 COMMITTEE: Regional Leaders
 AT THE TABLE: Kericho Murithi



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P.O Box 3194 (60-200)
MERU

MERU COUNTY OILS LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2019

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS).

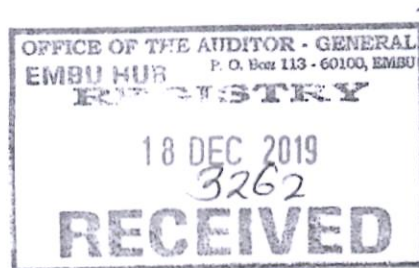


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1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

Meru County Oils Limited was established in 25th July 2016 as per Certificate of Incorporation under the Companies Act, 2015.

The Meru County Oils Limited started operations on 9th May 2017 operating as a fully owned subsidiary of Meru County Investment & Development Corporation. The facility is open not only to county government fleet but also to members of the public to boost the turnovers and guarantee long term sustainability and self-dependency

	<u>PROJECT</u>	<u>SECTOR</u>	<u>PARTNERSHIP</u>	<u>INVESTOR</u>
1	Petrol Station	Energy	100% Ownership	MCIDC

b) Board of Directors

Ref	Name	Position
1	Felicity Nkirote Biriri	Chairperson
2	James Mwenda Muratha	Board member
3	Kenneth Ntongai	Board Member
4	Joseph Chabari	Board Member (Government Rep.)
5	Catherine Kithinji	Board Member (Government Rep.)
6	Samwel Odhiambo	Ag. Managing Director

c) Key Management

Ref	Name	Position
1	Samwel Odhiambo	Ag. Managing Director
2	Winfred Mukiri	Ag. Director Business Development
3	Peninah Kinya	Ag. Director Corporate Services

d) Registered Offices

Meru County Oils Limited

P.O. Box 3194
 Meru County Government Workshop
 Mwendantu Road
 Meru, Kenya

e) Meru County Oils Contacts

Meru County Oils Contacts

Telephone: 020-2101553
 E-mail: merucountyoils@gmail.com

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f) Meru County Oils Bankers

Kenya Commercial Bank
P.O.BOX 178 -60200
Meru

g) Independent Auditors




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

h) Principal Legal Adviser




The Attorney General
State Law Office, Harambee Avenue
P.O. Box 40112, City Square 00200
Nairobi, Kenya

Meru County Attorney
PO BOX 120-60200
MERU




2. THE BOARD OF DIRECTORS

	Name	Details of Qualifications and Experience
1.	 <p>Felicity Nkirote Biriri Chairperson</p>	<p>Felicity Nkirote Biriri is a Human Resource professional with more than 18 years' experience in various sectors including banking, advertising and real estate. She was appointed as the Chairperson of the Board of Directors in December 2017. She is a seasoned governance expert who sits in various boards including Kenya Pipeline Company, Kenya Pipeline Pension Scheme, Meru University of Science and Technology, National Environment Complaints Committee and is a Kenya Private Sector Alliance (KEPSA) Foundation Trustee. She has previously sat in the board of directors of Geothermal Development Company GDC, governing council of Moi University and KEPSA governing council.</p> <p>Felicity holds a Bachelor of Arts degree in Human Resource Management and an MBA in Conflict Resolution and Peace Management from Kenyatta University. Felicity is currently pursuing doctorate studies.</p>
2.	 <p>James Mwenda Muratha Board member</p>	<p>James Muratha is the Chief Executive Officer of RE/MAX Kenya, a leading global real estate company.</p> <p>James has a wealth of experience in the international capital markets and has over 20 years' experience in the financial services sector having worked in asset management, financial accounting and audit with leading global institutions.</p> <p>Mr. Muratha holds an MBA in finance from the University of New Brunswick in Canada and a Bachelor of Commerce degree in accounting from Kenyatta University. He is a member of the Institute of Certified Public Accountants of Kenya and is a former Chairman of the Fund Managers Association in Kenya.</p>
3.	 <p>Ken Kinoti Ntongai Board Member</p>	<p>A career banker with over 8 years' experience having served in different roles, Mr Ntongai is well versed with banking and financial institutional operations across East Africa having previously served with Equity Bank and Barclay's banks in various capacities.</p> <p>Mr Ntongai holds an MSc in Finance and Bachelor of Commerce Finance from the University of Nairobi.</p>

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<p>4.</p>	 <p>Catherine Kithinji Board Member</p>	<p>Catherine Wanja Kithinji is the Trade Development and management specialist with 25 years of experience in domestic and international trade. She has worked in the government sector in various capacities rising through the ranks. Catherine has served as the trade officer, industrial development officer, market researcher analyst at International Trade Centre, Geneva, Civil Service Support Officer at the Ministry of Industry, Commence and Investment, South Sudan and currently Chief Officer Trade, County Government of Meru.</p> <p>Catherine holds an MBA (International Business) from Kenya Methodist University, MA (Community Development and Project Management) from Egerton University and BA (Economics and Sociology) from Egerton University. Catherine is a board member of Meru Investment and Development Corporation as a government representative.</p>
<p>5.</p>	 <p>Joseph Chabari Board Member</p>	<p>Kabii Chabari is the Chief Officer Finance, Economic planning and ICT of County Government of Meru. Mr. Chabari has a vast experience in Finance and accounting in Public Sector having worked at the National Treasury for 9 years.</p> <p>Mr Chabari holds an MBA in Finance from Meru University of Science and Technology and bachelor's degree in Business administration accounting option from Maseno University. He is a certified public accountant of Kenya and a Member of ICPAK.</p>
<p>6.</p>	 <p>Samwel Odhiambo Ag. Managing Director</p>	<p>Samwel Odhiambo, was appointed as Managing Director of the Meru County Investment & Development Corporation in June 2019.</p> <p>He holds a Bsc Civil and Construction Engineering Degree from The University of Nairobi. He is a member of the Engineers Board of Kenya.</p>

3. MANAGEMENT TEAM

Name	Details of qualifications and experience
<p>1.  Samwel Odhiambo Ag. Managing Director</p>	<p>Samwel Odhiambo, was appointed as Managing Director of the Meru County Investment & Development Corporation in June 2019.</p> <p>He holds a Bsc Civil and Construction Engineering Degree from The University of Nairobi. He is a member of the Engineers Board of Kenya.</p>
<p>2.  Winfred Mukiri Ag. Director Business Development</p>	<p>Winfred Mukiri was appointed as the Ag. Director Business Development in June 2019.</p> <p>She holds a Bachelor of Economics & Statistics (Hons. University of Nairobi), CPA -Section 3, currently at University of Nairobi. She has extensive experience in Micro and Macro Economics, Finance analysis and Modelling and currently handles all investments matters in the Corporation.</p>
<p>3.  Peninah Kinya Ag. Director Corporate Services</p>	<p>Peninah Kinya was appointed as the Ag. Director Corporate Services in June 2019.</p> <p>She holds a Bachelor in Commerce (Accounting)-UON, Diploma in Business Management-UON and currently undertaking Master's in Business Administration (Finance) at the University of Nairobi.</p> <p>She is a member of the Institute of Certified Public Accountant (ICPAK)</p>

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4. BOARD CHAIRPERSON'S REPORT

On behalf of the Board of Directors, Meru County Oils Ltd, (MCO) I take this opportunity to present to you reports and financial statements for the period ended 30 June 2019 pursuant to section 21 (1) of the MCIDC act 2014 which alludes that: The Board shall cause to be kept proper books and records of accounts and assets of the Corporation as well as its subsidiaries and that within a period of three months after the end of each financial year, the Board shall submit to the Auditor-General, the accounts of the entity together with:

- a) A statement of financial position as at 30th June 2019;
- b) A statement of Profit and loss and other Comprehensive Income for the year ended 30th June 2019;
- c) A statement of cash flow for the year ended 30th June 2019;
- d) A summary of significant accounting policies and other explanatory information.

In the matter concerning good corporate governance, the institution has continued to build its internal structures and controls to ensure that the institution has employed the market's best practices in its day to day operations and administration. The board, in its role of providing strategic leadership has considered and approved the Corporation's investment plan to guide all investments activities and align them to the general vision of the county, integration of the institution's activities and align them to the general vision of the county, integrated development plan, the annual development plans as well as budgetary objectives.

The board has encouraged adequate systems and controls for identification and redress of grievances arising from unethical practices, as well as ensuring professional standards and corporate values are put in place that promote integrity for the board, senior management and other employees in the form of a Code of Conduct.

On matters of risk management and compliance, the board has approved funds for technical staff training to ensure employees are sufficiently equipped with technical skill, compliance matters as well as monitoring and evaluation.

The board shall continuously seek to ensure that: a system of sound internal control is established, which is effectively implemented and maintained at all levels within the organization.



Signature

Felicity N. Birin
MCIDC Board Chairperson

5. REPORT OF THE MANAGING DIRECTOR

The Managing Director has the day to day management responsibility for the running of the Company and the implementation of its strategy and policies as agreed by the Board. The Managing Director also has a key role in the process for the setting and review of strategy and also vision carrier for the Meru County oils culture and standards, which include appropriate corporate governance, throughout the Petrol station. In executing his responsibilities, the Managing Director is supported by the staff who, together with the Managing Director, are responsible for ensuring that high quality information is provided to the Board on the Company's financial and strategic performance.

The Meru County Oils is one of the flagship subsidiary for Meru County Investment and Development Corporation for the purpose of promoting investments in the county.

Meru County Oils believe that with strategic investors in these areas of focus it shall create employment opportunities, open up Meru County to the world, earn revenue for the county and also offer superior returns to the investors.

Signed: _____



MCIDC, Managing Director

6. CORPORATE GOVERNANCE STATEMENT

Practice of good corporate governance ensures delivery of sustainable value to the County as well meeting the needs of other stakeholders. This involves adoption of ethically driven business policies, procedures, processes in a transparent and accountable manner.

This report highlights the main corporate governance structures and practices that guide the Board:

Governance Principles and Guidelines

Board of Directors is at the core of the corporation's governance to ensure interest protection of all stakeholders. It performs its duties in a manner that seeks to increase corporation's sustainable value, increase investors' confidence and ultimately benefiting the people of Meru County.

Board Charter

The Board Charter defines the roles, responsibilities, scope and functions of the Directors in the governance of the Corporation and provides for free exercise of independent judgment.

Composition of the Board

The board is composed of five members exclusive of the managing director who is an ex officio and only executive member.

Process of Appointment & Removal of Board Members

The board members of Meru County Oils appointments shall be made in accordance with the Meru County Investment & Development Corporation (MCIDC) Act 2014 and shall be in line with Article 27 of the Constitution of Kenya. Members of the board are appointed through a transparent and formal process governed by the overriding principle of merit. The board shall be constituted of six members as provided by the MCIDC Act. A non-executive chairperson who shall be appointed by the Governor and approved by the county assembly; the chief officer for the time being responsible for finance; the chief officer for the time being responsible for trade; two professionals appointed by the executive member through a competitive process in consultation with the Governor and approved by the County Assembly; while the Managing Director (MD) shall be an ex officio member and secretary to the Board.

Board appointments shall take into consideration the mix of skills and competencies required for the achievement of the organization's long-term goals. The chairpersons shall be appointed by the Governor and approved by the county assembly and shall at a minimum possess the qualifications, skills and experience set out in MCIDC Act.

Each Board member shall be formally appointed to the Board through a Gazette Notice and thereafter an appointment letter. Board members shall be appointed by name, and shall sit on the Board individually with no power to appoint alternates.

The Board may recommend the removal of a member based on non-performance, non-attendance of meetings, unethical conduct or as set out in any constitutive documents or applicable law.

Every appointment shall cease if the Board member:

1. Serves the appointing authority with a written notice of resignation; or
2. Is absent, without the permission of the Chairperson, from three consecutive meetings; or
3. Is convicted of an offence and sentenced to imprisonment for a term exceeding six months

or to a fine exceeding ten thousand shillings; or

4. Is incapacitated by prolonged physical or mental illness from performing his duties as a member of the Board; or
5. Conducts himself in a manner deemed by the appointing authority to be inconsistent with membership of the Board.

Any removal of a Board member shall be through formal revocation as set out in the Act.

Roles and functions of the Board

The Meru County Oils Board of directors' roles and functions are to:

- a) Exercise their role collectively and not individually.
- b) Determine the organization's mission, vision, purpose and core values.
- c) Set and oversee the overall strategy and approve significant policies of the organization.
- d) Ensure that the strategy is aligned with the purpose of the organization and the legitimate interests and expectations of all stakeholders.
- e) Approve the organizational structure.
- f) Approve the annual budget of the organization.
- g) Monitor the organization's performance and ensure sustainability.
- h) Ensure availability of adequate resources for the achievement of the organization's objectives.
- i) Appoint the MD, on such terms and conditions of service as may be approved by the relevant government organ(s) and approve the appointment of senior management staff.
- j) Ensure effective communication with stakeholders.
- k) Oversee all the subsidiaries of the corporation, monitor their performance and ensure sustainability.

Capacity Building for the Board

Regular training and development programs are developed to equip the Board with necessary skills for effective discharge of their mandate. Newly appointed Directors undergo a detailed induction training to enhance their understanding of the nature of our corporation's performance and strategy. Each year the Board prepares a training calendar where specific training needs are identified and scheduled. During the year, Directors attended various capacity building programs focusing on leadership, governance, finance and other relevant areas deemed necessary.

Board Members Performance

The Board of directors determine its performance criteria and undertake an annual evaluation of its performance. The evaluation should cover the Board as a whole, its committees, individual members, the chairperson, the Chief Execution Officer. It is the responsibility of the board to facilitate the annual evaluation and the result in a report with recommendations for implementation.

Number of Board Meetings and attendance

The current Board of Directors was officially inaugurated on 13th December 2017 and had various board meetings as listed below.

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	2018							2019					
	26 th June	26 th July	14 th Sep	2 nd Oct	19 th Nov	10 TH Dec	17 th Dec	30 TH Jan	14 TH Mar	15 th Mar	10 TH May	20 TH June	21 ST June
Felicity Biriri	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
James Muratha	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Kenneth Ntongai	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Catherine Kithinji	✓	✓	X	X	✓	✓	✓	✓	✓	✓	X	✓	✓
Joseph Chabari	✓	X	✓	X	✓	✓	✓	✓	X	X	✓	X	✓
Miriam Riungu	X	X	X	X	X	✓	✓	✓	✓	✓	✓	X	X
Kimathi Ikiao	✓	✓	✓	✓	✓	✓	X	X	X	X	X	X	X
Samwel Odhiambo	X	X	X	X	X	X	X	✓	X	X	✓	✓	✓

Conflict of Interest

A member of the Board shall be considered to have a conflict of interest for the purposes of this code if he acquires any pecuniary or other interest that could conflict with the proper performance of his duties as a member of the Board.

A conflict of interest may also arise where a Board member or close family member has private interests that could improperly influence the performance of the Board member's official duties and responsibilities. Board members are required to avoid conflict of interest and deal at arms-length in any matter that relates to the organization.

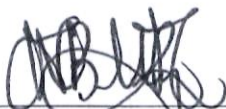
As stipulated in the MCIDC Act 2014, the remuneration of the members of the Board shall be as determined by the County Executive Committee.

Governance Audit.

The Board, in consultations with the Auditor General's office, shall ensure that it subjects the organization to an annual governance audit by a member regulated by the Institute of Certified Public Secretaries of Kenya (ICPSK) and accredited for that purpose. The governance audit will also include areas that cover the governance practices of the organization in the following parameters: (a) Leadership, strategic management, transparency, disclosure and compliance with Laws; (b) Communication with stakeholders and ensuring corporate social responsibility; (c) Board systems, procedures, independence and governance; (d) Consistent shareholder and stakeholders' value enhancement;

Succession Plan

The appointing authority shall ensure that the tenures of Board members are staggered to ensure a phased transition.



Board Chairperson



Managing Director

7. MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

The Meru County Investment and Development Act 2014 Section (16) provides that the Corporation shall, within three months after the end of each financial year, prepare and submit to the executive member a report of the operations of the Corporation for the immediate preceding year hence the same applies to Meru County Oils being one of its subsidiary. The annual report that shall provide among others information regarding the activities and plans of the Meru County Oils during the year to which it relates sufficient to impart an accurate understanding of the nature and scope of its activities and its plans and priorities and, without limitation, shall include among others;

- a) Details of the performance of the Meru County Oils.
- b) Such information and other material as required by this Act or regulations made thereunder to include in the annual report;
- c) Measures taken to implement corporate governance principles and practices;
- d) The financial statements.
- e) Report of the Auditor-General prepared under Section 21 of the Act; and
- f) Such additional information or other material as the Executive Member may request in writing.

Legal & Compliance with Statutory Requirements

The Management has been keen to ensure compliance with all the laws through its legal office to take overall responsibility for the management of all legal matters pertaining to the Meru County oils. The office provides efficient and timely professional legal services to Meru county oils, advise management on legal matters and risks facing the organization, Ensure company's compliance with statutory and regulatory requirements to avoid legal penalties, Develop effective working relationships with key user departments to ensure their needs are understood and appropriate solutions developed that support business needs and effective legal counselling so as to ensure legal problems and risks are identified and dealt with before they emerge as significant risks to the corporation.

The office's major responsibilities have been offering sound legal counsel to management, Drafting and review of laws, regulations and by-laws that fall within the Company's purview for compliance purposes and risk management. The legal office therefore has ensured there are pre-qualified firms on standby ready to represent the Meru County oils and select appropriate firms. Further it is the responsibility of the office to compile information needed by the firms, monitor the matters and give status reports to management and the board. The legal officer has been the secretariat to the board. This involves minute taking, ensuring proper records of board papers, minutes and boards discussions.

The office has also been instrumental in business development, investor relationships and the partnerships the corporation gets into. This has involved conducting due diligence, Drafting of all contracts and agreements (business development agreements, consulting & services agreements, Financing agreements, EPC agreements, licensing agreements etc.), strategic alliances & collaborations monitoring and evaluations of partnerships and responding to queries/ guidance on agreements by investors/partners.

Material Arrears in Statutory and Financial Obligation

Meru County Oils Limited has complied with all the statutory obligations during the FY 2018/2019,

8. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Meru County Oils is committed to providing practical learning and workplace application experience for students and recent graduates. We provide our interns with new and creative approaches to best practice in the field of corporate management, business development and project management. As an intern one is given the opportunity to work with the corporation officers and management team to develop a strong foundation for their career.

Meru County Oils thrives to bring resources close to the people. For instance setting up of fueling station where residents can get quality fuel at reasonable prices.



Board Chairperson



Managing Director

9. REPORT OF THE BOARD OF THE DIRECTORS

The Directors submit the annual report together with financial statement for the financial year ended June 30, 2019 which show the state of the Meru County Oils Ltd affairs.

Principal Activities

The principal activities of the Meru County Oils Limited is to be the investment agency for the Meru County Investment and Development Corporation.

Results

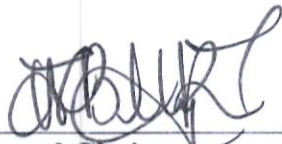
The results of the entity for the for the year ended 30th June, 2019 are set out on page 17

Directors

The members of the Board of Directors who served during the year are shown on page 4& 5. The board members serve for a renewable term of three years.

Auditors

The Auditor General is responsible for the statutory audit in accordance with the Section 23 of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.



Board Chairperson



Managing Director

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10. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Section 167 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Managing Director shall prepare financial statements for the entity in accordance with the standards and formats prescribed by the International Financial Reporting Standards.

The Managing Director of the Corporation is responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year ended on June 30, 2019. 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 entity; (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 entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Managing Director of the Company accepts responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012. The Managing Director of the Company is of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended 30th June, 2019, and of the entity's financial position as at that date. The Managing Director further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Managing Director of the Company has assessed the entity's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the Managing Director to indicate that the entity will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the Financial Statements

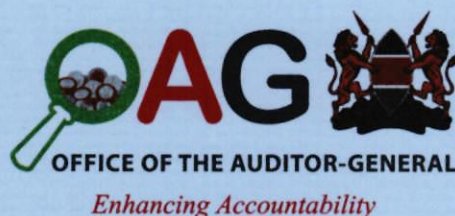
The Meru County Oils financial statements were approved by the Board on 17 October 2019 and signed on its behalf by:



Managing Director

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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

REPORT OF THE AUDITOR-GENERAL ON MERU COUNTY OILS LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Meru County Oils Limited set out on pages 17 to 39, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Meru County Oils Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Meru County Investment and Development Corporation Act, 2014 and the Companies Act, 2015.

Basis for Qualified Opinion

1.0 Cash and Cash Equivalents

Note 8 to the financial statements for the year under review reflects Kshs.2,939,126 in respect to cash and cash equivalents which includes Kshs.2,909,126 in respect to cash at bank. However, the bank reconciliation statements reflect Kshs.30,000 in respect to payments in bank statements not recorded in cashbooks and thereby overstating the cash and cash equivalents by the same amount. In addition, details of the Kshs.30,000 were not availed for audit review.

In the circumstances, the accuracy of the Kshs.2,939,126 in respect to cash and cash equivalents as at 30 June, 2019 could not be ascertained.

2.0 Trade and Other Receivables

Note 7 to the financial statements reflects Kshs.7,480,123 in respect to trade and other receivables as at 30 June, 2019. However, a dully authorized debt collection policy was not produced for audit review. In addition, review of the ageing analysis availed for audit revealed that included in the Kshs.7,480,123 trade and other receivables, was Kshs.1,230,327 in respect to receivables that has been outstanding for over twelve (12) months and whose recoverability is in doubt.

In the circumstances, the validity and recoverability of Kshs.7,480,123 in respect to trade and other receivables as at 30 June, 2019 could not be confirmed.

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

Key Audit Matters

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

Other Matter

1.0 Budget Controls and Performance

1.1 Revenue Analysis

The statement of comparison of budget and actual amounts for the year under review reflects an approved revenue budget of Kshs.16,823,153 and actual revenue of Kshs.13,345,842 resulting to a revenue shortfall of Kshs.3,477,311 in one (1) item as follows;

Items	Budget (Kshs)	Actual (Kshs)	Under (Kshs)	%
Roll over from 2017/2018	12,294,317	12,294,317	0	0%
Projected Revenue	4,528,836	1,051,525	3,477,311	77%
Total	16,823,153	13,345,842	3,477,311	

The Kshs.3,477,311 revenue shortfall represents services planned for but not delivered to the Meru County residents by the Management. There is need, therefore, for the Meru Oils Limited to review its budget making mechanism with a view to developing a more realistic budget.

1.2 Expenditure Analysis

The statement of comparison of budget and actual amounts for the year under review reflects an expenditure budget of Kshs.6,480,455 and an actual expenditure of Kshs.4,428,533 resulting to an under- expenditure of Kshs.2,051,922 on two (2) items as follows:

Item	Budget (Kshs)	Actual (Kshs)	Under (Kshs)	%
Staff costs	2,500,000	1,783,745	716,255	29
General Expenses	3,980,455	2,644,788	1,335,667	34
Total	6,480,455	4,428,533	2,051,922	

In overall, Meru County Oils Limited underspent on its budget by Kshs.2,051,922 which represents services planned for but not actualized for the benefits of Meru County residents. There is need therefore for Meru County Oils Limited to review its budget making mechanism with a view to come up with a more realistic budget.

2.0 Financial Performance

The Company's statement of profit and loss and other comprehensive income for the year ended 30 June, 2019 reflects a loss after taxation of Kshs.3,377,008 (2018: Loss Kshs.1,741,495) resulting to cumulative loss of Kshs.5,100,170 as at 30 June, 2019.

If strategies are not put in place to reverse the trend, the Company is likely to face financial challenges in near future and may have effect on the going concern.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion 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.

The audit was conducted in accordance with ISSAI 4000. The standard requires 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 are in compliance, 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 ON INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

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 control, risk management and 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

As required by the Companies Act, 2015, I report based on the 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. In my opinion, adequate accounting records have been kept by the company, so far as appears from my examination of those records; and
- iii. The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and those charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for such internal control 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 control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intentions to liquidate the Company or 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, 2015.

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 are in compliance 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 Company's financial reporting process, reviewing the effectiveness of how the entity 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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. 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 and weakness 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 addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, 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 accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control 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, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Company's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Meru County Oils Limited to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Meru County Oils Limited to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships

and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

17 September, 2021

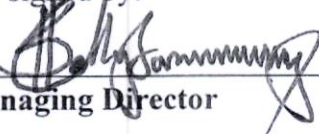
Meru County Oils Limited
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12. FINANCIAL STATEMENTS

12.1 STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	Note	FY2018-2019	FY2017-2018
		Kshs	Kshs
REVENUES			
Revenue	1	83,444,604	79,796,230
Cost of Sales	2	82,393,079	-
Gross Profit		1,051,525	-
TOTAL REVENUES		1,051,525	79,796,230
OPERATING EXPENSES			
Staff Cost	3	1,783,745	2,191,979
Administration Costs/General Expenses	4	2,644,788	79,345,746
TOTAL OPERATING EXPENSES		4,428,533	81,537,725
PROFIT/(LOSS) BEFORE TAXATION		(3,377,008)	(1,741,495)
INCOME TAX EXPENSE/(CREDIT)		-	-
PROFIT/(LOSS) AFTER TAXATION		(3,377,008)	(1,741,495)

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 17th October 2019 and signed by:


 Managing Director

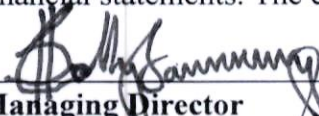

 Accountant
 ICPAK Member No.20480

Meru County Oils Limited
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12.2 STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2019

	Note	FY2018-2019	FY2017-2018
		Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	5	21,335,322	22,804,995
Total Non-Current Assets		21,335,322	22,804,995
Current Assets			
Inventories	6	1,577,154	-
Trade and Other Receivables	7	7,480,123	3,213,689
Bank and Cash Balances	8	2,939,126	12,294,317
Total Current Assets		11,996,403	15,508,006
Total Assets		33,331,725	38,313,001
EQUITY AND LIABILITIES			
Capital and Reserves			
Capital Contribution		36,489,328	36,489,328
Retained Earnings		(5,100,170)	(1,741,495)
Capital and Reserves		31,389,158	34,747,833
Non-Current Liabilities			
Total Non-Current Liabilities		-	-
Current Liabilities			
Trade and Other Payables	9	1,942,567	3,565,168
Total Current Liabilities		1,942,567	3,565,168
TOTAL EQUITY AND LIABILITIES		33,331,725	38,313,001
		=====	=====

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 17 October 2019 and signed by:


 Managing Director

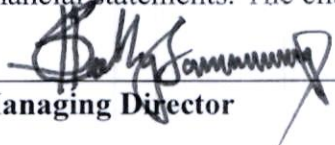

 Accountant
 ICPAK Member No.20480

Meru County Oils Limited
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12.3 STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30TH JUNE 2019

	Retained Earnings	Capital/Development Fund	Total
At July 1, 2017	-	34,220,245	34,220,245
Capital Contribution	(1,741,495)	2,269,083	527,588
At June 30, 2018	(1,741,495)	36,489,328	34,747,833
At July 1, 2018	(1,741,495)	36,489,328	34,747,833
Add: Previous Year Adjustment	18,333	-	18,333
Total Comprehensive Income	(3,377,008)		(3,377,008)
At June 30, 2019	(5,100,170)	36,489,328	31,389,158

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 17 October 2019 and signed by:



Managing Director



Accountant
ICPAK Member No. 20480

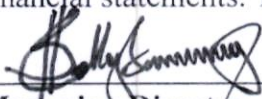
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12.4 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2019

	Note	FY2018/2019	FY2017/2018
		KShs	KShs
Cash Flows From Operating Activities			
Receipts			
Cash Generated From Operations	11 (i)	79,458,621	84,889,654
Add: Prior year Adjustment	10	18,333	-
Total Revenue		79,476,954	84,889,654
Payments			
Staff cost	3	1,783,745	2,191,979
Cost of Sales	11 (ii)	85,919,861	
Administration Costs/General Expenses	11 (iii)	2,598,212	86,826,505
Adjustment for Depreciation		(1,469,673)	(1,469,673)
Total Payments		88,832,145	87,548,811
Net Cash Generated From/(used in) Operating Activities		9,355,191	(2,659,157)
Cash Flows From Investing Activities			
Purchases of Air Gauge		-	(192,300)
Net Cash Flows Used in Investing Activities			(192,300)
Cash Flows From Financing Activities			
Transfers From MCIDC Account		-	11,645,774
Bank Guarantee		-	3,500,000
Net Cash Flows Used in Financing Activities			15,145,774
Net Increase/(Decrease) in Cash and Cash equivalents		9,355,191	12,294,317
Cash and Cash Equivalents at 1st July 2018		12,294,317	-
Cash and Cash Equivalents at 30th June 2019	8	2,939,126	12,294,317

For the comparative audited FY2017/18 the Cost of Sales was incorporated in General Expenses, whereas in FY 2018/19 the Cost of Sales has been disclosed as a separate note in compliance with the prescribed reporting template format of accrual basis under International Financial Reporting Standards (IFRS).

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 17th October 2019 and signed by:


 Managing Director


 Accountant - ICPAK Member No.20480

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12.5 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE 2019

	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Performance Difference	% Utilisation
	FY2018/2019	FY2018/2019	FY2018/2019	FY2018/2019	FY2018/2019	FY2018/2019
	KShs	KShs	KShs	KShs	KShs	
Rollover 2017/18FY	12,294,317	-	12,294,317	12,294,317		100%
Projected Net Revenue	4,528,836	-	4,528,836	1,051,525	3,477,311	23%
Total income	16,823,153	-	16,823,153	13,345,842	3,477,311	79%
Expenses						
Staff costs	2,500,000	-	2,500,000	1,783,745	716,255	71%
General Expenses	3,980,455	-	3,980,455	2,644,788	1,335,667	66%
Total Expenditure	6,480,455	-	6,480,455	4,428,533	2,051,922	68%
Surplus for the Period	10,342,698	-	10,342,698	8,917,309	1,425,389	-

Budget Notes

1. The Staff costs budget was provided on a reasonable estimate basis since the station expected to recruit additional staff in FY2018/2019. However this was not realized due to financial constraints
2. The Projected Net Revenue was not realized as budgeted to increase in operations cost for example the introduction of 8% Vat on fuel, reduction of discount by the distributor and fuel stock out experienced in the financial year under review.
3. The staff cost was not recognized as budgeted as the petrol station manager contract lapsed and he was disengaged hence the replacement of the vacant position was not done in the financial year under review, further the recruitment of the intended pump attendant was not undertaken due to low income realised at the petrol station.

13 NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Meru County Oils Limited was established in 25th July 2016 as per Certificate of Incorporation under the Companies Act, 2015.

The company started operations on 9th May 2017 as a fully owned subsidiary of Meru County Investment & Development Corporation. The facility is open not only to county government fleet but also to members of the public to boost the turnovers and guarantee long term sustainability and self-dependency

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity.

The financial statements have been prepared in accordance with the PFM Act, the Companies Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

IFRS 16: Leases

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognized in respect of most operating leases where the Company is the lessee.

IFRIC 23: Uncertainty Over income tax treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively

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- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017.

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests

Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognized when a liability to pay a dividend is recognized, and that these income tax consequences should be recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions to which they are linked.

Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

IFRS 17 Insurance Contracts (Issued 18 May 2017)

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

iii) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

a. Revenue Recognition

Revenue is recognised to the extent that is probable that future economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the Companies activities, net of value added tax (VAT), where applicable, and when specific criteria have been met for each of the Company's activities as described below.

- a) **Revenue from the Sale of Goods and Services** is recognised in the year in which the Company delivers products to the customer.
- b) **Dividend Income** is recognised in the income statement in the year in which the right to receive the payment is established.
- c) **Rental Income** is recognised in the income statement as it accrues using the effective lease agreements.
- d) **Other Income** is recognised as it accrues.

b. Property, Plant and Equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When

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significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

c. Depreciation and Impairment of Property, Plant and Equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the cost of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on property, plant and equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount to its residual value over its estimated useful life. The annual rates in use are

Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

A full year's depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal.

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

d) Intangible assets

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

e) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

f) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the entity, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

g) Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to the entity are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognized in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

h) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

i) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

j) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

l) Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These 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. Bad debts are written off after all efforts at recovery have been exhausted.

m) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Current income tax (Continued)

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and
Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
m) Taxation (Continued)

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) 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 reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

o) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

p) Trade and other payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

q) Accounts Receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as expenditure when fully accounted for by the imprest or AIE holders. Other accounts receivables are disclosed in the financial statements.

r) Trade and Other Payables

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the *entity* or not, less any payments made to the suppliers.

s) Non-Current Assets

Non-current assets are expensed at the time of acquisition while disposal proceeds are recognized as receipts at the time of disposal. However, the acquisitions and disposals are reflected in the entity fixed asset register a summary of which is provided as a memorandum to these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Changes in Accounting Policies and Estimates

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

u) 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 Kenya Commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

v) Comparative Figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation. The comparative year 2017/2018 FY represents transactions over a 14 months period.

w) 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, 2018

x) Budget information

The original budget for FY 2018-2019 was approved by the County Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order 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 a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget .A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on page 21 of these financial statements

y) Revised Reporting Templates

The entity adopted a new reporting templates in accordance with accrual basis under the International Financial Reporting Standards (IFRS) template provided by the Public Sector Accounting Standards Board (PSASB) in the National Treasury Website.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with IFRS 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: for example

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.

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 assets
- Changes in the market in relation to the asset

Provisions

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

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1 REVENUE

Description	FY2018/2019	FY2017/2018
	Kshs	Kshs
Gross Sales Of Goods	83,444,604	79,796,230
Total	83,444,604	79,796,230

2 COST OF SALES

Description	FY2018/2019	FY2017/2018
	Kshs	Kshs
Opening Stock	808,691	-
Purchases	83,161,541	-
Less: Closing Stock	1,577,153	-
Cost of Sales on Goods	82,393,079	-

For the comparative audited FY2017/18 the Cost of Sales was incorporated in General Expenses, whereas in FY 2018/19 the Cost of Sales has been disclosed as a separate note in compliance with the prescribed reporting template format of accrual basis under International Financial Reporting Standards (IFRS) thus resulting to nil figure in the comparative period.

3 STAFF COSTS

	FY2018/2019	FY2017/2018
	Kshs	Kshs
Salaries And Wages	1,390,823	1,640,693
Staff Gratuity	202,740	298,840
Social Security Contribution	20,000	25,600
Other Staff Costs	170,182	226,846
Total	1,783,745	2,191,979

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4 ADMINISTRATION COSTS/GENERAL EXPENSES

	FY2018/2019	FY2017/2018
Description	Kshs	Kshs
Cost of Sales of Fuel and Lubricants	-	75,860,353
Electricity and Water Expenses	81,147	197,402
Insurance Costs	-	85,683
Telephone Internet &Postage	9,000	33,600
Domestic Travel and Subsistence	101,200	-
Printing, Stationery and Office Supplies	183,655	238,597
Security Costs	631,412	771,719
Regulatory Approvals/Permits	5,000	79,600
Depreciation and Amortization Costs	1,469,673	1,469,673
Other Expenses	66,675	542,077
Hospitality	50,450	-
Generator Fuel	24,307	44,330
Transaction Cost	22,270	22,712
Total	2,644,788	79,345,746

For the comparative audited FY2017/18 the Cost of Sales was incorporated in General Expenses, whereas in FY 2018/19 the Cost of Sales has been disclosed as a separate note in compliance with the prescribed reporting template format of accrual basis under International Financial Reporting Standards (IFRS) thus the reason for the huge difference in the comparative period.

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5 PROPERTY, PLANT AND EQUIPMENT

Description	Building And Civil Works	Plant And Machinery	Computer And Related Equipment	Office Equipment Furniture And Fittings	Total
COST OR VALUATION	KShs	KShs	KShs	KShs	KShs
At 1st July 2017	16,210,635	1,950,000	695,233	5,418,800	24,274,668
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Transfer/Adjustments	-	-	-	-	-
At 30 th June 2018	16,210,635	1,950,000	695,233	5,418,800	24,274,668
Depreciation-Charge For The Year	648,425	156,000	231,744	433,504	1,469,673
At 30 th June 2018	15,562,210	1,794,000	463,489	4,985,296	22,804,995
At 1st July 2018	16,210,635	1,950,000	695,233	5,418,800	24,274,668
Additions	-	-	-	-	-
At 30 th June 2019	-	-	-	-	-
Depreciation-Charge For The Year	648,425	156,000	231,744	433,504	1,469,673
Accumulated Depreciation	1,296,850	312,000	463,488	867,008	2,939,346
Net Book Values					
Net Book Value At 30th June 2019	14,913,785	1,638,000	231,745	4,551,792	21,335,322

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6 INVENTORIES

	FY2018/2019	FY2017/2018
Description	Kshs	Kshs
Closing Stock-Fuel And Lubricants	1,577,154	-
Total Closing Stock	1,577,154	-

For the comparative audited FY2017/18 the closing stock was incorporated in trade and other receivable, while in FY 2018/19 the closing stock has been disclosed as a separate note in compliance with the prescribed reporting template format of accrual basis under International Financial Reporting Standards (IFRS).

7 TRADE AND OTHER RECEIVABLES/ACCOUNT RECEIVABLE

	FY2018/2019	FY2017/2018
Description	Kshs	Kshs
Trade Receivables from National Oil	1,841,488	1,230,327
Prepayments on Fuel Cards	564,325	697,333
Staff Receivables - Shorts	4,563	15,509
Debtor-Metameta	-	4,000
Debtor-Kinoti	6,020	-
Unpaid Expenses by Mcide	-	15,220
Stock(Closing Stock)	-	808,691
Prepaid Fuel - National Oil	2,212,650	-
Meru County Departmental balances	2,851,078	442,609
Totals	7,480,123	3,213,689

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8 BANK AND CASH BALANCES

	FY2018-2019	FY2017-2018
Description	Kshs	Kshs
Cash At Bank	2,909,126	12,264,317
Cash In Hand	30,000	30,000
	=====	=====
Totals	2,939,126	12,294,317
	=====	=====

Detailed Analysis of The Cash And Cash Equivalentents

		FY2018-2019	FY2017-2018
Financial Institution	Account Number	KShs	KShs
A) Current Account			
Kenya Commercial Bank	1206735996	2,909,126	12,264,317
Sub- Total			12,264,317
B) Others			
Cash In Hand		30,000	30,000
Sub- Total			12,294,317
Grand Total		2,939,126	12,294,317

9 TRADE AND OTHER PAYABLES

	FY2018/2019	FY2017/2018
	Kshs	Kshs
Departmental Balances	1,942,567	3,509,498
NOCK Lubricants		55,670
	=====	=====
Total Trade Payables	1,942,567	3,565,168
	=====	=====

10 PRIOR YEAR ADJUSTMENT

Description	FY2018/2019	FY2017/2018
Reversed Stale Cheques in Cash Book	18,333	-
Totals	18,333	-

11 NOTES TO THE CASHFLOW STATEMENT

(i) Cash Generated from Operations

Description	FY2018/2019	FY2017/2018
Total Revenue (Gross Sales of Goods)- As per Note 1	83,444,604	79,796,230
Adjust for: Accrued Revenue		-
Less: Unpaid Meru County Departmental Fuel Consumption	(2,851,078)	(442,609)
Debtor-Metameta	-	(4,000)
Debtor-Kinoti	(6,020)	-
Unpaid Staff Shorts	(4,563)	(15,509)
Adjust for:		
FY 2017/18 Prepayment by County Department Earned in FY2018/19	(3,509,498)	
Total Sales Revenue Received	77,073,446	79,334,112
Adjust for: Unearned Revenue		
Trade and Other Payable - Prepaid Departmental Balances	1,942,567	3,509,498
Adjust for: FY 2017/18 Accrued Revenue Received in FY 2018/19		
2017/18FY Trade Receivable Received in FY 2018/19	442,609	-
Fuel Card Loading Recovery	-	2,046,044
Cash Generated From Operating Activities	79,458,621	84,889,654

(ii) Cost of Sales

Cost of Sales- As Per Note 2	82,393,079	-
Opening Stock	(808,691)	-
Closing Stock	1,577,154	-
Prepaid Fuel(Stock)	2,212,650	-
FY2017/18 Accrued Stock Expense paid in FY 2018/19	55,670	-
Preloading of Fuel Cards Paid in FY2018/19	490,000	-
Total Inventory Cost	85,919,861	-

(iii) Administration Cost/General Expenses

Administration Cost/General Expenses- As per Note 4	2,644,788	79,345,746
Adjust for: Non-cash Flow Items		
Generator Fuel	(24,307)	(44,330.00)
Transaction Cost	(22,270)	(22,712.00)
Unpaid Expenses		(15,220.00)
Unpaid Lubricants		(55,670.00)
Bank Guarantee		3,500,000
Preloading of Fuel Card		3,310,000
Closing Stock		808,691
Total General Expenses	2,598,212	86,826,505

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13. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

This being the first Year of Operations for Meru County Oils we have no issues raised by the External Auditor.

Reference No. On The External Audit Report	Issue / Observations From Auditor	Management Comments	Focal Point Person To Resolve The Issue (Name And Designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put A Date When You Expect The Issue To Be Resolved)
1.0 Presentation of Financial Statement	Presentation does not conform to the prescribed format by Public Sector Accounting Standards Board (PSASB)	The 2018/19FY financial statements have been prepared in accordance with the prescribed format by Public Sector Accounting Standards Board (PSASB)	Management	Resolved	
2.0 Non-Payment of Shares Capital	Meru County Investment & Development Corporation had not paid the for the share capital to Meru County Oils Limited	In 2018/19FY Meru County Investment & Development Corporation paid share Capital Kshs 100,000 to Meru County Oils as	Management	Resolved	