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REPORT

OF

THE AUDITOR-GENERAL

ON

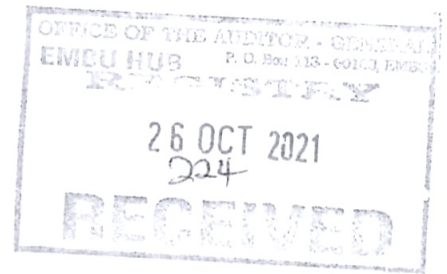
**MERU COUNTY INVESTMENT AND
DEVELOPMENT CORPORATION**

**FOR THE YEAR ENDED
30 JUNE, 2021**





MERU COUNTY
**INVESTMENT &
DEVELOPMENT**
CORPORATION



MERU COUNTY INVESTMENT & DEVELOPMENT CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2021**

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

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1. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

Meru County Investment & Development Corporation (MCIDC) is established by and derives its authority and accountability from the Meru County Investment & Development Corporation Act of 8th August 2014. The corporation is wholly owned by the County Government of Meru and is domiciled in Kenya.

Meru County Investment & Development Corporation is a corporate body with perpetual succession and a common seal and shall, in its corporate name, be capable of:

- a) Taking, purchasing or otherwise acquiring, holding, charging or disposing of movable and immovable property.
- b) Borrowing money or making investments;
- c) Entering into contracts; and
- d) Doing or performing all other acts or things for the proper performance of its functions under the Meru County Investment & Development Corporation Act which may lawfully be done or performed by a body corporate.

The Meru County Investment & Development Corporation principal activity is to act as an investment vehicle for County government of Meru investments & Developments in order to enhance financial and economic prudence in county government investments.

b) Principal Activities

Vision - To be the leading Investment Corporation in Kenya through design and execution of World-Class Commercial Ventures.

Mission- To create value for all Our Partners by attracting and promoting growth oriented investments that are innovative and sustainable.

The principal activities/mandate of the Meru county Investment and development Corporation is to:

- Establish an efficient and effective instrument for managing county government investments;
- Enhance competitiveness of county government investments; promote local investment and economic development; enhance county revenue base;

- Provide for mobilization of finances for investments; provide for investment in socially beneficial projects; facilitate investments by county residents;
- Coordinate and facilitate investments in the county;
- Enable the county government to undertake public private partnerships and joint ventures in areas that are beneficial to the county.

c) Board of Directors

Ref	Name	Position
1	Felicity Nkirote Biriri	Chairperson
2	James Mwenda Muratha	Member
3	Kenneth Kinoti Ntongai	Member
4	Catherine Kithinji	Member
5	Joseph Chabari	Member
6	Kenneth Ruteere	Member

d) Key Management

Ref	Name	Position
1	Kenneth Ruteere	Ag. Managing Director
2	Lilian Karambu	Human Resource Manager
3	Penina Kinya	Accountant
4	Winfred Mukiri	Economic Analyst
5	Mary Majau	Procurement
6	Eric Kinoti	ICT Officer

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e) Registered Offices

P.O. Box 3194 - 60200
New Meru County Headquarter Offices,
Meru, Kenya

f) Corporation Contacts

Telephone: 020-2500250
E-mail: info@investmeru.co.ke
Website: www.investmeru.co.ke

g) Corporation Bankers

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

h) Independent Auditors

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

i) Principal Legal Adviser



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



Meru County Attorney
P.O. Box 120-60200
Meru, Kenya

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 the Chairperson Meru County Investment & Development Corporation 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</p>

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		the Institute of Certified Public Accountants of Kenya and is a former Chairman of the Fund Managers Association in Kenya.
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>
4.	 <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, Commerce 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>Kenneth Ruteere Ag. Managing Director</p>	<p>Kenneth Ruteere, is the Ag. Managing Director of the Meru County Investment & Development Corporation since February 2020.</p> <p>He holds a Bachelor's Degree in economics from the University of Nairobi and a Master's Degree in Economic policy management from Makerere University.</p>

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**3. STATEMENT OF PERFORMANCE AGAINST COUNTY ENTITY'S
PREDETERMINED OBJECTIVES**

Introduction

Section 164 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each County Government entity Government entities in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the county government entity's performance against predetermined objectives. This requires further an objective review of the performance of achievements during the respective year in relation to the planned outputs.

The Meru County Investment and Development Corporation (MCIDC) is a Semi-Autonomous Government Agency created by an Act of County Assembly in, 2014; to among others pursue business ventures on behalf of the county; to facilitate private sector participation in local investments and public sector development; identify strategic investment opportunities for the benefit of the county; promote local economic growth and job creation; promote and facilitate investment in the county.

The five year plan set out programmes and projects to be implementation to achieve a united, prosperous, green model county. The key focus for the corporation in this light have been classified into four broad areas as follows; Agro processing, Manufacturing, Infrastructural Development and Tourism.

During the FY2020/21 the corporation planned to undertake various projects whose overall objective is to increase investments in the county, creating new jobs and wealth for the people of Meru. To realize this, the following are the specific objectives set out to be accomplished during the financial year;

The key development objectives of the Meru County Investment and Development Corporation are to:

1. To invest in value addition on farm produce
2. To invest in infrastructural development as an enabler to economic growth and development
3. To promote tourism and hospitality in the county
4. To lead in the promotion and investments in renewable energy generation

The progress on attainment of these Strategic development objectives by the Corporation has been reported in the table below as follows;

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Programme	Objectives	Outcome	Indicator	Performance (During the FY2020/21)
Value addition	To invest in value addition on farm produce	Additional earnings from farm produce	No. of completed projects	Thimangiri slaughter house operating; Ng'onyi White meat facility leased out; Kanyakine Fish processor operationalization achieved at 20% and Cherry cash model in the coffee sector operating.
Infrastructure development	To invest in infrastructural development as an enabler to economic growth and development	Enhanced ease to do business	% of completion	100% of Phase One of the County Headquarters completed.
Tourism and Hospitality	To promote tourism and hospitality in the county	Partnership with the Old Moses proprietors to improve the facility and promote Mt. Kenya tourism through Meru Route	MoU	Completion in the drafting the MoU and endorsement by the MCIDC board of directors.
Renewable energy Development	To lead in the promotion and investments in renewable energy generation	Increased investments in renewable energy	% Completion	80% progress in completing the development stage of the Meru Energy Park. MCIDC facilitated community and government engagements, County and National government waivers and general support to the project

As observed the corporation implementation of the Annual development plan has not been adequate. This has been attributed to the following challenges;



- ✓ Covid-19 Pandemic
- ✓ Inadequate budget allocations and disbursements;

4. MANAGEMENT TEAM

<p>1.</p>  <p>Kenneth Ruteere Ag. Managing Director</p>	<p>Kenneth Ruteere, is the Ag. Managing Director of the Meru County Investment & Development Corporation since February 2020. He holds a Bachelor's Degree in economics from the University of Nairobi and a Master's Degree in Economic policy management from Makerere University</p>
<p>2.</p>  <p>Winfred Mukiri Economic Analyst</p>	<p>Winfred Mukiri is currently in charge of business development department in absence of Director Business Development since February 2020.</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.</p>  <p>Lilian Karambu Human Resource Manager</p>	<p>Lilian Karambu is currently in charge of Human Resource department in absence of Director Corporate Service since February 2020.</p> <p>She holds a Bachelor's degree in Human Resource Management and Master's degree in Strategic Management.</p> <p>She is a member of the Institute of Human Resource Management.</p>
<p>4.</p>  <p>Peninah Kinya Accountant</p>	<p>Peninah Kinya is currently in charge of finance department in absence of Director Corporate Services since February 2020.</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 of Kenya(ICPAK)</p>

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<p>5.</p>  <p>Mary Majau Senior Procurement Officer</p>	<p>Mary Majau is currently in charge of procurement department in absence of Director Corporate Service since April 2020.</p> <p>She holds a Bachelor's Degree in Business Administration from Kenya Methodist University, diploma in supplies management from Kenya Institute of Management and Master's Degree in Strategic Management from Kenya Methodist University.</p> <p>She is a member of the Kenya Institute of supplies Management(KISM)</p>
 <p>Eric Kinoti ICT Officer</p>	<p>Eric Kinoti is currently in charge of ICT department in absence of Director Corporate Services since February 2020.</p> <p>He holds a Bachelor's Degree in BSc. Computer Information Systems from Kenya Methodist University, diploma in Computer Studies from Informatics School in Kenya.</p> <p>He is a member of Information System Audit and Control Association (ISACA) Kenya Chapter.</p>

5. BOARD CHAIRPERSON'S REPORT

On behalf of the Board of Directors, Meru County Investment and Development Corporation, I take this opportunity to present to you report and financial statements for the Year ended 30 June 2021, 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 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 corporation together with (a) a statement of financial position as at the thirtieth day of June; (b) a statement of comprehensive income; (c) a statement of cash flow for the year ended; (d) a summary of significant accounting policies and other explanatory information.

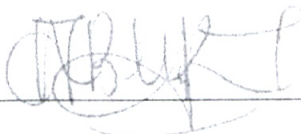
During the year under review there were no changes in any of the key management personnel and thus the organisation was relatively stable and steady in performance.

The Corporation finally completed refurbishment of its landmark infrastructure project that is the new Meru County Headquarter to create adequate office space for the Meru county Government departments. Appreciable effort was also put in the other key focus areas of Agribusiness, Hospitality and Renewable energy.

During the year under review, the Board and its committees actively advised and oversighted the Management as required. The Board continued to build its capacity to improve internal structures and controls to ensure that the institution employs the market's best practices in its day to day operations and administration. The board, in its role of providing strategic leadership also considered and approved the Corporation's Annual 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.

We look forward to implementing key strategic interventions as the corporation continues to build upon the achievements it has made so far. The Board has greater strategy to increase the investment portfolio of the Corporation through the Public Private Partnerships, Joint venture arrangements and other innovative approaches in the focal areas of renewable energy, Agriculture, Tourism and Infrastructure.

The Board confirms that the institution remains firm on its mandate and is set to achieve its vision of being the leading Investment Corporation in Kenya, through design and execution of world-Class Commercial Ventures. The Corporation's activities are well within the county's vision of being a United, Prosperous and a Happy County.



Signature

Felicity N. Biriri

MCIDC Board Chairperson

6. REPORT OF THE MANAGING DIRECTOR

I take this opportunity to present to you this Annual Report which highlights the performance of the corporation's operations for the year ended June 2021. The last twelve months have been particularly challenging for the corporation and I wish to sincerely appreciate combined efforts and commitment of our Board, stakeholders, management and staff, all of whom played key roles over the period.

Operational Overview

During the year, the corporation continued to strengthen its business processes to ensure improved revenue generation and cost containment. I am pleased to report that management has initiated various steps aimed at further improving the corporation's operations in line with its key mandate. The corporation re-viewed its developmental projects and initiatives besides taking strategic decisions for competitive positioning in the year.

To ensure delivery of its strategic plan, management continues to focus on the key focal areas of: agribusiness, renewable energy, hospitality and real estate sub-sectors while still keeping an eye on other sectors with high opportunity for investment returns.

In agri-business, the corporation is focussing on value addition of key food crops found across the Meru region and has made key inroads particularly in the coffee subsector which has been a long-standing key forex earner for the country. In renewable energy, the corporation is looking into both grid and off-grid opportunities and has made strides in the establishment of a promising project pipeline.

In the hospitality sector, the Corporation intends to play a key role in re-positioning the Meru region as a popular tourism destination. For the real estate sector, the corporation has completed the Meru County Headquarters office block which is now housing a majority of the County Executive.

Financial Performance

During the financial year 2020/2021 the corporation received Ksh 65,000,000 from the County Treasury to cater for the budgetary provisions. Further, the corporation earned revenue amounting to Ksh 29 million from its assets.

Future Outlook

2021/22 is projected to be a challenging year due to the continued adverse impact of the COVID 19 pandemic and weather on the Economy. The Year is also expected to come with more challenges as the National Treasury implements austerity measures for better fiscal management. In addition the political environment leading to 2022 elections may present yet again another challenge on our operations. Nevertheless, we look forward to implementing key strategic interventions as the Corporation continues to build on its current achievements.

Signed: _____

Kenneth Ruteere

MCIDC, Managing Director

7. CORPORATE GOVERNANCE STATEMENT

Process of Appointment & Removal of Board Members

The board members of MCIDC 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.

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 Chief Officers shall sit in their office capacity with power to appoint alternates. Each Board member shall signify their acceptance of the appointment in writing while the appointing authority shall ensure that any person appointed to the Board satisfies the fit and proper requirements.

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.

Number of Board Meetings and attendance

The current Board of Directors was officially inaugurated on 13th December 2017, reappointed for a further term of three years on 14th November 2020 vide Gazette Notice No. 536 and had various board meetings in FY2020/2021 as listed below.

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Name	2020					2021				
	21 st July	22 nd July	17 th Sep	25 th Nov	15 th Dec	18 th Feb	19 th Feb	9 th March	10 th March	4 th June
Felicity Biriri	√	√	√	√	X	√	√	√	√	√
James Muratha	X	X	X	√	X	√	√	X	X	√
Kenneth Ntongai	√	√	√	√	√	√	√	√	√	√
Catherine Kithinji	√	√	√	√	X	√	√	X	X	√
Joseph Chabari	√	√	√	X	X	X	X	X	X	X
Kenneth Ruteere	√	√	√	√	√	√	√	√	√	√

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.

Roles and functions of the Board

The Meru County Investment & Development Corporation Board of directors' roles and functions are to:

- a) Determine the organization's mission, vision, purpose and core values.
- b) Set and oversee the overall strategy and approve significant policies of the organization.
- c) Ensure that the strategy is aligned with the purpose of the organization and the legitimate interests and expectations of all stakeholders and ensure effective communication with the stakeholders.
- d) Approve the organizational structure and annual budget of the organization.
- e) Monitor the organization's performance and enhance the corporate image of the organization.
- f) Ensure availability of adequate resources for the achievement of the organization's objectives.
- g) 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.
- h) Oversee all the subsidiaries of the corporation and monitor their performance.

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 corporate governance training.

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 and the Managing Director. It is the responsibility of the board to facilitate the annual evaluation and the result in a report with recommendations for implementation.

Board Remuneration

As stipulated in the MCIDC Act 2014, the remuneration of the members of the Board shall be as determined by the County Executive Committee. The remuneration policy for Board members shall clearly stipulate the elements of such remuneration including director's fees, attendance allowances and bonuses

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. However, a Board member who identifies an area of conflict shall be required to disclose.

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 procedures, independence, governance and shareholder value enhancement;

Succession Plan

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

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8. MANAGEMENT DISCUSSION AND ANALYSIS

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. The annual report that shall provide among others information regarding the activities and plans of the Corporation 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.

Operational Performance

The Meru County Investment and Development Corporation Act 2014 section 3 (j) mandates the corporation to undertake Public private partnerships and joint ventures for the purpose of promoting investments in the county. The corporation has already embarked on potential and viable partnerships with both the public and private sectors for the purposes of exploiting the various opportunities existing in the county.

Financial Performance

During the financial year 2020/2021 the corporation received Kshs 65,000,000 from the County Treasury being budgetary allocation. However, Kshs 15,964,538 recurrent and a Kshs.30, 000,000 development rollover from FY2019/20 remained non-disbursed in the period under review. The corporation earned revenue amounting to Kshs 29million from its assets and anticipate to increase revenue in FY2021/22 as the County Government of Meru will be paying increased rent for office space occupied by staff in the new Meru County Headquarter office block and Maisonette building. Further, the corporation anticipates increased revenue from revision of lease terms for commercial tenants and new leases for additional assets.

Key Projects and Investments (Completed and Ongoing)

(a) Ongoing

Meru Energy Park

Meru County Energy Park a hybrid renewable energy project of 80MW Wind, 10MW Solar and 5/10MW Battery energy storage being implemented in partnership with Windlab. MCIDC will have 20% shares in the project. The development phase of the project is at the final stages, with Power Purchase Agreement as the key remaining item. However, the projects tariff is quite competitive at 5.8\$ kWh compared to the current tariff Kenya Power is buying at which is 7\$ kWh.

The project has made the following milestones: Solar and Wind monitoring equipment installed and data collection ongoing; ESIA Study completed and NEMA Certificate Issued; Bird and bat studies done and approved; Grid Study done and approved; Aeronautic safety study done and KCAA clearance issued; Preliminary transport study done and approved; Land securement lease agreement signed for 1300 land owners; Land titling is at final stages; and Power Purchase Agreement proposal submitted waiting for approval.

Old Moses Camp site

MCIDC is partnering with the proprietors of the Old Moses Camp site to develop luxury cottages, dormitory, restaurant and shrine among other facilities. Old Moses Camp is an existing camp administered by Bantu Utamaduni Lodge on the Sirimon Route to Mount Kenya. Sirimon gate is the busiest gate to Mount Kenya National Park, generating approximately 50% of the park revenue. The camp is approximately 9km and the road to the camp is tarmacked making it accessible to both the motorist and those trekking to Mount Kenya. From the camp there is serene view of Lenana peak of Mount Kenya as well as the beautiful surrounding making it very ideal for tourism promotion.

Most hikers spend their first night at the camp which had two dormitory however one burnt down early last year, leaving a huge gap on the accommodation of the tourist trekking to Mount Kenya. During the year under review, the MCIDC board approved for formal partnership to be entered with the investor.

Kanyakine Fish Processing Factory

Kanyakine Fish Processing Plant situated within Kanyakine area South Imenti Meru County was constructed by the National Government under the Economic Stimulus Programme (ESP) and handed over to the County Government in 2015. The County further transferred the facility to Meru County Investment & Development Corporation for purposes operationalization to ensure the facility serves the purpose for which it was established. The Corporation is currently strategizing on establishing structured cost effective partnerships to ensure the facility is operational and yields returns.

Ng'onji white meat facility

The Ng'onji white meat market is a facility that was constructed by the National Government to promote horticulture in the County through the stimulus program. The facilities are located on along the Meru Embu Nairobi Highway just 1km out of the Meru Municipality and it sits in ½ Acre plot. Upon devolution, this project and other projects in the Counties, of the Ministry of Agriculture, Livestock and Fisheries became the responsibility of county governments. This project was therefore, upon completion official transferred, to the County Government of Meru for management by the County Department of Agriculture, Livestock and Fisheries. The department, upon takeover of the facility opted for community/farmer led facility operation and management through the area leadership.

The facility being along the highway the Department of Livestock and Fisheries in partnership with Meru County Investments and Development Corporation together with the local community is renovating the facility to be a white meat Centre. The Centre is envisioned to have eatery as well as value addition for indigenous chicken and fish. The Corporation has leased out the facility to ensure the facility is operational and has economic benefits to the County residents.

(b) Completed Project

Meru County Headquarters Office Block

The key projects for MCIDC for the FY 2020/2021 was completing the refurbishment of the proposed Meru County Headquarters. The refurbishment was undertaken to provide office space for the Meru County Government staff as there is a dire need of office space thus the government is paying more than Kshs.1 Million per month on rent for space which is still not enough. Therefore, MCIDC (Meru County Investment and Development Corporation) undertook to renovate Meru County Hotel to grade A, office space. The office block will be The Meru County Headquarters and host the office of the Governor. The total cost of refurbishment is being catered by the corporation, as at the closure of financial year under review the building was at 100% complete with an occupancy of over 100%. The project has been completed at a cost of Kshs. 231million.

Meru County Maisonettes

The corporation took over the management of the Meru County Maisonettes, marked the rates to market and fast tracked the remittance of rent arrears. The refurbishment of the facility in FY2020/21 has not only improved its status but also aid maximization on rent collections. We believe that with strategic tenants the facility can earn revenue for the corporation.

Meru County Petrol Station

The Meru County Petrol Station opened its' operations in 2017 operating as a fully owned subsidiary of MCIDC. The station is currently not operating as the corporation devised its strategy to quit commercial activities but rather create an enabling business environment by promoting Small and Medium Enterprises (SMEs) firms through leasing out the facility. In FY2020/21 the corporation successfully leased out process the facility which will be generating about Kshs 1,800,000 annually.

Thimangiri Slaughter House

Thimangiri slaughterhouse is a prime asset located in Nyaki West ward, North Imenti Sub County. The asset was a great life line for the local community as it was strategic, affordable and had sufficient capacity to cater for large numbers of livestock from within and the environs. The corporation has leased out the facility to an operator who shall ensure social benefits to the community and revenue generation to the county government and long term sustainability. The Slaughter house is operational.

Michii Mikuru Tea Farm

The farm was established in 1960s as a demonstration farm on tea production/growing. The farm operated under the County Government of Meru department of Agriculture, Livestock & Fisheries under supervision by the Principal Kaguru ATC. Further, in February 2019 the farm's management

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For the year ended June 30, 2021

was transferred to the corporation whereby all the operational costs are borne by MCIDC as well as the revenue remittances.

The corporation intends to improve the farm maintenance to optimize the quantity of harvest to enhance income receivable from the tea farm. The corporation has improved the tea farm output from 18,388 kilograms in FY2019/20 to 49,729 kilograms in FY2020/21. Thus, increasing income from Kshs 1,084,371 in FY2019/20 to Kshs 1,604,495 in FY2020/21.

Table 1: Summary of the projects ownership

	PROJECT	SECTOR	INVESTOR
1	Meru County Petrol Station	Energy	MCIDC
2	Meru County Head Quarter Refurbishment	Real Estate	MCIDC
3	Meru County Maisonettes	Real Estate	MCIDC
4	Wind energy	Clean Energy	MCIDC& Partners
5	Kanyakine Fish Processing Factory	Value Addition	MCIDC
6	Michii Mikuru Tea Farm	Agri-Business	MCIDC
7	Thimangiri Slaughter house	Real Estate	MCIDC
8	Ng'onyi White Meat facility	Value Addition	MCIDC
9	Old Moses Camp site	Hospitality	MCIDC& Partners

Legal & Compliance with Statutory Requirements

The corporation 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 Corporation. The office provides efficient and timely professional legal services to the corporation, advise management on legal matters and risks facing the organization, ensure company's compliance with statutory and regulatory requirements to avoid legal penalties,

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 Corporation'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 Corporation 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 also ensures meetings are properly convened, development of charters etc. 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.

Major Risks facing the Corporation

The major risk facing the corporation is late disbursement of allocated funds from the Treasury. Further, the operating business environment is very turbulent necessitating rapid revision of investments strategies.

Material Arrears in Statutory and Financial Obligation

Meru County Investment & development Corporation has complied with all the statutory obligations during the FY 2020/2021. However, the key financial obligations during that financial year is the pending payment to Consultants amounting to Kshs 9,899,193 for the design and construction supervision for the refurbishment of the completed proposed new Meru County Headquarters project and further Kshs 13,547,641 being payment towards the final designs for the Meru Rising Tower project.

9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

MCIDC strives to ensure that the investments we finance supports economic and social development in the county. Our approach to sustainability in doing business focuses on three priorities: Contributing to sustainable economic growth, Being a responsible corporation and Investing in communities.

Meru County Investment and Development Corporation (MCIDC) was created to promote, attract and support investment programs in various sectors of the County economy. The corporation is hence at the centre of all county investments. This has meant that the success of corporation is pegged on professionalism, operational efficiency and excellence. This the corporation has strived to achieve through a results based management system. Below is a highlight of our detailed illustration of these achievements:-

1. Sustainability strategy and profile

The top management of the Corporation in the running of the day to day affairs make prominent reference to the strategic plan which is inspired by the broader visions as articulated in The Kenya Vision 2030, African Agenda 2063 and the Sustainable Development Goals. Programmes and projects planned and implemented by corporation are identified on the basis on these criterion to ensure relevance and to promote sustainability. The promotion of investments in the agro processing is a good example of the corporation's efforts to promote a sustainable economy.

2. Environmental performance

Environmental considerations very key as envisaged in Meru County's vision to be green model county. In this regard, MCIDC has singled out renewable energy as one of its big four focus areas as it strives to be the leading Investment Corporation through design and execution of World-class Commercial Ventures. On this front, the Corporation is currently undertaking a public private partnership with Windlab to set up the Meru energy park which will be Africa's first large scale hybrid wind, solar PV and battery storage project.

3. Employee welfare

MCIDC has put the following mechanisms in place to ensure comfort and safety of employees at all the time in order to keep their moral and motivation high and for staff retention.

a) Working environment

- i) Provision and maintenance of a work environment in compliance with Occupation safety and Health Act, 2007 for all employees that is safe, without risks to health, and adequate arrangements for the employees' welfare at work
- ii) Ensure safety provisions in case of fire by ensuring that fire extinguishers are properly installed and serviced; free from any obstructions so as to be readily accessible in case of fire and clearly marked fire exits.

b) Competency development

- i) Conducts staff needs assessments every year and facilitates trainings where necessary

- ii) Undertakes skills gap analysis once every year and executes interventions to address the identified gaps through trainings, recruitments, capacity building and outsourcing
- iii) Develop, update and maintain a skills inventory for all employees for purpose of identifying the available and required skills, which guide the training, recruitment and succession management decisions
- c) Developed Performance Contracts for the Managing Director, Directors and cascading of performance contracts to other employees**
 - i) To enhance efficiency and effectiveness in service delivery, the Corporation has put in place Performance Contracts where by the MD and Directors sign PC beginning of every financial year and evaluated at the end of the financial year.
 - ii) Carry out performance appraisal for individual employee below the directors based on negotiated and agreed performance targets drawn from annual work plan and Performance Contracts
 - iii) Implement Performance appraisal for employees, including implementation of the performance incentives and sanctions framework.
- d) Recruitment and selection**
 - i) MCIDC policy on recruitment and selection stipulates that corporation shall recruit staff in a competitive process and shall consider all job applicants on the basis of merit and ensure compliance with the Labour Laws and the Constitution of Kenya.

4. Market place practices

MCIDC is keen at being a responsible corporate entity. This way the corporation has recently put in place a framework to receive feedback from various stakeholders as a means to ensuring continuous improvement. Additionally the corporation continues to comply with regulatory provisions as a basic way to demonstrate adherence to market place practices. Further, the corporation has established;

- a) A responsible Supply chain and supplier relations by ensuring transparency in its tendering process, and payment of dues in time. This way the corporation has built a reputation as a responsible corporate government agency.
- b) Responsible marketing and advertisement-outline efforts to maintain ethical marketing practices

5. Community Engagements

The corporation has ensured compliance with the public participation principle in all its development progress. This has involved organization of stakeholder consultation forums and community barazas to sensitize stakeholders on the Corporation's project pipeline and to enhance their participation in the development agenda. During the FY 2019/20 for example the corporation engaged the Meru Fish farmers' cooperative in various consultation forums to arrive at the decision to engage a private sector to operationalize and commercialize the Kanyakine fish factory. Additionally the corporation sphere headed community engagement for the Meru energy part leading to the successful signing of lease agreements with Windlab under the PPP arrangement to establish the hybrid energy park.

10. REPORT OF THE BOARD OF DIRECTORS

The Board of directors submit their report together with the financial statements for the year ended June 30, 2021 which show the state of the Corporation affairs.

Principal activities

The principal activities of the Corporation is to invest on behalf of the Meru County Government.

Results

The results of the Corporation for the year ended June 30, 2021 are set out on 29 to 47.

Board of Directors

The members of the Board of Directors who served during the year are shown on page 5. There were no changes in the Board membership during the financial year, the current board of directors were appointed in November 2017 and reappointed for a further term of three years on 14th November 2020 vide Gazette Notice No. 536.

Auditors

The Auditor General is responsible for the statutory audit of the Corporation in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board

Meru County Investment and Development Corporation

Felicity N. Biriri

Chairperson of the Board

Date: _____

11. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

Administration established by a county legislation shall be required to prepare financial statements of each county Government entity, receiver of revenue and consolidated financial statements for all the County Government entities in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board. The corporation was established by the County Act of 2014 wholly owned by the County Government of Meru and headquartered in Meru.

The Managing Director of the Corporation is responsible for the preparation and presentation of the financial statements, which give a true and fair view of the state of affairs of the corporation as at the end of the financial year ended on June 30, 2021. 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 Corporation; (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 Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Managing Director accepts responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the MCIDC Act. 2014. The Managing Director is of the opinion that the corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30, 2021, and of the Corporation's financial position as at that date. Further the Managing Director confirms the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of its financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the managing director of the corporation has assessed the Corporation'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 corporation 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 Corporation financial statements were approved by the Board on September 2021 and signed on its behalf by:

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Felicity N. Biriri

Chairperson of the Board

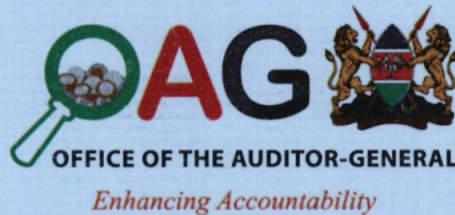
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Kenneth N. Ruteere

Managing Director

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON MERU COUNTY INVESTMENT AND DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- 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, the risk management environment, and the 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, and that its internal controls, 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, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Meru County Investment and Development Corporation set out on pages 30 to 49, which comprise of the statement of financial position as at 30 June, 2021, 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, 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 Investment and Development Corporation as at 30 June, 2021 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 Meru County Investment and Development Corporation Act, 2014 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the financial statements

1.1 The Statement of Changes in Net Assets

The statement of financial position and the corresponding Note 11 to the financial statements reflects Kshs.346,686,482 in respect to capital contribution. However, the same has not been disclosed under the statement of changes in net assets as required by Paragraphs 118-125 of the International Public Sector Accounting Standard (IPSAS) 1 which states that an entity shall present a statement of changes in net assets / equity showing on the face of the statement, any contributions by, and distributions to, owners in their capacity as owners.

1.2 The Statement of Comparison of Budget and Actual Amounts

The statement of comparison of budget and actual amounts reflects Kshs.131,225,319 in respect to total actual revenue while the statement of financial performance reflects Kshs.80,777,495 resulting to unexplained and unreconciled variance of Kshs.50,447,824.

In the circumstances, the accuracy of the financial statements could not be confirmed

2. Accounts Payable - Abandoned Radio Station

The statement of financial position and the corresponding Note 9 to the financial statements reflects Kshs.38,183,380 in respect to accounts payable, which includes Kshs.1,030,000 payable to a firm for phase 2 and 3 as the final payment for the abandoned radio station project. As reported in the previous year, Kshs.3,702,429 and Kshs.849,400 totalling to Kshs.4,551,829 was invested in 2016/2017 and 2017/2018 financial years respectively in a radio station which was closed on 21 December, 2017 due to non-viability. However, the Corporation had not undertaken project appraisal and financial analysis of the radio station project before making the investment contrary to Section 26 of the Meru County Investments and Development Corporation, 2014 which states that the Corporation shall not undertake any investment or project unless it has

undertaken an investment or project appraisal and financial analysis in accordance with the prescribed guidelines.

Further, the project is abandoned and the payable amount of Kshs.1,030,000 will increase the amount paid in respect to the project from Kshs.4,551,829 to Kshs.5,581,829 without corresponding benefits to the residents of Meru County.

In the circumstances, the payables of Kshs.1,030,000 could not be related to any asset from which the Corporation could draw future benefit.

3. Unsupported Other Income

The statement of financial performance and the corresponding Note 2 to the financial statements reflects Kshs.30,777,495 in respect to other income which includes Kshs.29,173,000 in respect to rental income out of which Kshs.5,173,000 was paid by three tenants. However, it was not established how the rents were determined as signed lease agreements and valuation reports from Ministry of Public Works were not provided.

In the circumstances, the validity and completeness of the rental income amount of Kshs.5,173,000 could not be confirmed.

4. Unsupported General Expenses

The statement of financial performance and the corresponding Note 4 to the financial statements reflects Kshs.27,433,650 in respect to general expenses which includes Kshs.3,891,980 in respect to domestic travel and subsistence allowances, out of which Kshs.1,483,100 relates to retreat expenses. However, supporting documents including invitation letters, attendance registers, details of recipients and amounts received by each participant was not provided for audit. Further, Management did not provide reasons on why the meetings were not done within the County. This is contrary to Section 7 of the National Treasury Circular Number 20/2015 on commitment control and expenditure measures, which curtails spending on domestic travel and other related expense by moving from Headquarters to other towns for purpose of discussing strategy documents, consultants report or even other assignment which would ordinarily be done in the office or within the County.

In the circumstances, the validity and completeness of the expenditure of Kshs.1,483,100 could not be confirmed.

5. Lack of Ownership Documents and Refurbishment of Meru County Hotel

The statement of financial position and the corresponding Note 7 to the financial statements reflect Kshs.394,784,968 in respect to net book value of property, plant and equipment which includes Kshs.50,653,538 in respect to additions to capital works in progress, which further includes Kshs.44,445,785 paid towards renovation of Meru County Hotel. However, the ownership documents for the land and building that was renovated was not provided for audit.

In addition, and as previously reported, the date of practical completion for the project was revised from 15 February, 2019 to 14 June, 2019. However, as at the time of this audit inspection in October, 2021, which is approximately twenty-seven (27) months after the expiry of the revised completion dates, works on fourth floor which is the proposed gym and restaurant were not complete. No reason or explanation was provided for failure to complete the project 27 months after the due date.

In the circumstances, the ownership of the asset could not be confirmed.

6. Undisclosed Material Uncertainty Related to Going Concern

The statement of financial position as at 30 June, 2021 reflects current assets of Kshs.6,903,763 and current liabilities of Kshs.39,583,379 resulting to a negative working capital of Kshs.32,679,616. The Corporation may therefore not be able to pay its current obligations if and when they fall due. The continued operation of the Corporation on a going concern assumption depends on the continued financial support from the County Government, creditors and other external financial support.

This material uncertainty was not disclosed the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Meru Investment and Development Corporation Management in accordance with 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 audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, 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 Matter

1. Budgetary Control and Performance

The summary statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis totalling to Kshs.148,539,386 and Kshs.131,225,319 respectively, resulting to an underfunding amounting to Kshs17,314,068 or 12% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.148,539,386 and Kshs.93,251,162 respectively, resulting to an underperformance amounting to Kshs. 55,288,224 or 37% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Un resolved previous year issues.

The audit report for the previous year highlighted several issues under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources The matters had not been resolved as at 30 June, 2021.

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

Basis for Conclusion

1. Unjustified General Expenses

The statement of financial performance and the corresponding Note 4 to the financial statements reflects Kshs.27,433,650 in respect to general expenses, which includes Kshs.18,184,757 in respect to other expenses out of which amounts of Kshs.337,000 and Kshs.446,100 were paid to staff and procurement of laptop, respectively. However, Management did not provide justification why the meetings were not held within the Corporation's premises. This is contrary to Section 7 of the National Treasury Circular Number 20/2015 on commitment control and expenditure measures which curtails spending on domestic travel and other related expense by moving from Headquarters to other towns for purposes of discussing strategy documents, consultants report or even other assignment which would ordinarily be done in office or within the County. Further, review of supporting documents for procurement of laptops revealed that the completed S11 was not serialized and evidence of market survey done was not provided to justify the purchase cost of the laptops.

In the circumstances, the value for money for the Kshs.783,500 expenditure incurred could not be confirmed.

2. Accounts Payables

2.1 Delayed Execution of Construction Contract

As reported in the previous year, the statement of financial position and the corresponding Note 9 to the financial statements reflects Kshs.38,183,380 in respect to accounts payables, which includes Kshs.13,547,641 owed to a consultant for the design and construction supervision of a proposed fifteen (15) floors Meru Rising Tower in Meru town. Documents provided for audit review indicated that the total consultancy fees which was incurred in 2017 was Kshs.40,357,104 out of which Kshs.19,000,000 was paid in June, 2017 and Kshs.7,809,464 in the year 2019 leaving a balance of Kshs.13,547,641

which has remained outstanding for 2017/2018, 2018/2019, 2019/2020 and 2020/2021 financial years. In addition, the project which was estimated to cost Kshs.1,990,878,979 had not started at the time of this audit in October, 2021.

2.2 Long Overdue Refund of a Borrowing

As reported in the previous year, the statement of financial position and the corresponding Note 10 to the financial statements reflects an amount of Kshs.1,400,000 in respect to borrowings from the County Government of Meru to pay salaries for the Corporation employees in March, 2018. However, no satisfactory explanation was provided on why the debt had not been settled as at the time of the audit in October, 2021.

In the circumstances, the Corporation risks litigation proceedings from its creditors for amounts due and interest on delayed settlement of bills.

3. Non-Compliance with the Law on Ethnic Composition

Examination of the staff establishment of the Corporation revealed that 69% of employees were from one ethnic community. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 that states that no public establishment shall have more than one third of its staff from the same ethnic community.

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

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 OF 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, 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.

Basis for Conclusion

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

Responsibilities of Management and the Board of Directors

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 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 overall governance.

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the 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 overall 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 overall 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 non-compliance. 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 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 applicable 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 Corporation's ability to continue 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 Corporation to cease to continue 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 Corporation 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

28 July, 2022

13. FINANCIAL STATEMENTS

13.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30th JUNE 2021

	Note	FY2020/2021	FY2019/2020
		KShs	KShs
Revenue From Non-exchange Transactions			
Transfers From the County Government	1	50,000,000	82,455,454
Revenue From Exchange Transactions			
Other Income	2	30,777,495	5,949,043
Total Revenue		80,777,495	88,404,497
Expenses			
Staff Cost	3	21,371,727	21,639,195
General Expenses	4	27,433,650	15,702,544
Depreciation and Amortization Costs	7	2,026,559	1,699,379
Total Expenses		50,831,936	39,041,118
Surplus/(Deficit) for the Period		29,945,559	49,363,379

The notes set out on pages 44 to 48 form an integral part of these Financial Statements.

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13.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Note	FY2020/2021	FY2019/2020
		KShs	KShs
Assets			
Current Assets			
Bank Balance - Current Account	5	5,494,763	4,102,932
Accounts Receivables	6	1,409,000	888,000
Non-current assets			
Property, Plant and Equipment	7	394,784,968	345,092,088
Investment	8	63,456,278	63,456,278
Total Assets		465,145,009	413,539,297
Equity & Liabilities			
Current Liabilities			
Accounts Payable	9	38,183,379	31,523,227
Borrowings From County Treasury	10	1,400,000	1,400,000
Non-Current Liabilities			
Total Liabilities		39,583,379	32,923,227
Net Assets			
Capital Contribution	11	346,686,482	331,686,482
Accumulated Surplus		78,875,148	48,929,589
Total Net Assets and Liabilities		465,145,009	413,539,297

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 13th September 2021 and signed by:



 Managing Director
 Name: Kenneth Ruteere

for 

 Corporation Accountant
 Name: Peninah Kinya
 ICPAK Member Number: 20480

13.3. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2021

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
Balance as at 1st July 2019		2,820,000.00	- 3,253,791	- 433,791
Surplus/(Deficit) for the Period		-	49,363,380	49,363,380
Balance as at 30th June 2020		2,820,000.00	46,109,589	48,929,589
Balance as at 1st July 2020		2,820,000.00	46,109,589	48,929,589
Surplus/(Deficit) for the Period		-	29,945,559	29,945,559
Balance as at 30th June 2021		2,820,000.00	76,055,148	78,875,148

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13.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	FY2020/2021	FY2019/2020
		KShs	KShs
Cash Flows From Operating Activities			
Receipts			
Transfers From the County Government	1	50,000,000	82,455,454
Other Income	2	30,777,495	5,949,043
Total Receipts		80,777,495	88,404,497
Payments			
Staff Cost	3	21,371,727	21,639,195
General Expenses	4	27,433,650	15,702,544
Adjusted For:			
Increase in Accounts Receivable		(521,000)	(888,000)
Decrease in Accounts Payable		6,660,153	(14,157,095)
Net Cash Flows From Operating Activities		38,111,271	36,017,663
Cash Flows from Investing Activities			
Purchase of Property, Plant, Equipment	7	(51,719,440)	(33,383,005)
Net Cash Flows Used in Investing Activities		(51,719,440)	(33,383,005)
Cash Flows From Financing Activities			
Transfers From the County Government (Capital Contribution)		15,000,000	-
Net Cash Flows Used in Financing Activities		15,000,000	-
Net Increase/(Decrease) in Cash and Cash Equivalents		1,391,831	2,634,659
Cash and Cash Equivalents at 1st July 2019		4,102,932	1,468,273
Cash and Cash Equivalents at 30th June 2020	5	5,494,763	4,102,932

13.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR
 THE PERIOD ENDED 30th JUNE 2021

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	FY2020/21	FY2020/2021	FY2020/2021	FY2020/2021	FY2020/2021	FY2020/21
Revenue	KShs	KShs	KShs	KShs	KShs	
Rollover FY2019/20	36,856,824	-	36,856,824	36,856,824	-	100%
Transfers From County Government.	65,964,539	-	65,964,539	50,000,000	15,964,539	76%
Other Income	30,718,024	-	30,718,024	29,368,495	1,349,529	96%
Transfers From County Govt.(Development)	15,000,000	-	15,000,000	15,000,000	-	100%
Total Income	148,539,386	-	148,539,386	131,225,319	17,314,067	88%
Expenses						
Staff Costs	29,172,639	-	29,172,639	21,371,727	7,800,911	73%
General Expenses	52,395,978	-	52,395,978	27,433,650	24,962,328	55%
Development	66,970,770	-	66,970,770	44,445,785	22,524,985	66%
Total Expenditure	148,539,386	-	148,539,386	93,251,162	55,288,224	64%
Surplus For the Period	-	-	-	37,974,157	(37,974,157)	

Budget notes

1. The anticipated rollover from FY2019/20 was provided on a reasonable basis on a reasonable estimate basis to enable the submission of FY2020/21 budget estimates to the county treasury.
2. The budgeted amount on staff costs was not fully utilized as the corporation didn't employ additional staff as intended.
3. The Kshs 45,511,687 is the total actual amount paid on capital expenditure in FY2020/2021. However, Kshs 51,719,440 is the actual capital expenditure for FY2020/2021 which is as a result of Kshs 45,511,687 less Kshs 1,000,000, and Kshs 11,229,663 being pending bills recognised in FY2019/2020 but paid in FY2020/2021. In addition the amount is inclusive of Kshs 8,303,584 and Kshs 10,133,832 being the accounts payable held during the year under review.

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13.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance and basis of preparation

The Corporation's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Corporation. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

2. Adoption of new and revised standards

a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2021

Standard	Impact
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019 The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only). Business combinations and combinations arising from non-exchange transactions are covered purely under Public Sector combinations as amalgamations.

b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	Applicable: 1st January 2022: The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;

Standard	Effective date and impact:
	<ul style="list-style-type: none"> • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
IPSAS 42: Social Benefits	<p>Applicable: 1st January 2022</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</p>
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	<p>Applicable: 1st January 2022:</p> <ul style="list-style-type: none"> a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued. b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued. c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued. <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>
Other Improvements to IPSAS	<p>Applicable: 1st January 2021:</p> <ul style="list-style-type: none"> a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment.

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Standard	Effective date and impact:
	<p>Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved</p> <p>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets. Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.</p> <p>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs). Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard</p>
	<p>IPSAS 40, Public Sector Combinations. Amendments to include the effective date paragraph which were inadvertently omitted when IPSAS 40 was issued</p>

c) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020

3. 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.

ii) Revenue from exchange transactions

Interest income

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

Standard	Effective date and impact:
	<ul style="list-style-type: none"> • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.
<p>IPSAS 42: Social Benefits</p>	<p>Applicable: 1st January 2022</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</p>
<p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p>	<p>Applicable: 1st January 2022:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p>
<p>Other Improvements to IPSAS</p>	<p>Applicable: 1st January 2021:</p> <p>a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks</p> <p>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment.</p>

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Budget information

The original budget for FY 2020/2021 was approved by the County Assembly on 30th June 2020. 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. Accordingly, the Corporation did not record additional appropriations on the FY 2020/2021 budget following the governing body's approval.

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 under the section of financial statements.

5. 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 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.

6. Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or a entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or an entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

8. Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

9. Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent assets

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

10. Nature and purpose of reserves

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

11. 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.

12. Employee benefits – Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a corporation), and will have no legal or constructive obligation to pay further contributions if the Corporation does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to corporation obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit are valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

13. Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

14. Borrowing costs

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

15. Related parties

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

16. 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. 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.

17. Comparative figures

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

18. Events after the reporting period

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

9. Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

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

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

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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.

12. Employee benefits – Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a corporation), and will have no legal or constructive obligation to pay further contributions if the Corporation does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to corporation obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit are valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

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Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

14. Borrowing costs

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

15. Related parties

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

16. 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. 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.

17. Comparative figures

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

18. Events after the reporting period

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

19. Ultimate and Holding Entity

The entity is established by MCIDC Act 2014 under department of Finance. Its ultimate parent is the County Government of Meru.

20. Currency

The financial statements are presented in Kenya Shillings (KShs).

21. Significant judgments and sources of estimation uncertainty

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

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

Useful lives and residual values

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

- 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

Provisions

Provisions were raised and management determined an estimate based on the information available. 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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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

22. Financial risk management

The Corporation's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Corporation's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The Corporation's financial risk management objectives and policies are detailed below

a) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Corporation's Managing Director, who has built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

b) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The Corporation's Audit Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

23. Prior Period Accounting Errors

Prior Period Errors are omissions from, and misstatements in, prior period financial statements resulting from the failure to use, or the misuse of, reliable information that was available, or could be reasonably expected to have been obtained, at the time of preparation of those financial statements. (IAS 8)

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13.7. NOTES TO THE FINANCIAL STATEMENTS

1. Transfer from County Government.

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Transfers From County Govt. -- Operations	50,000,000	82,455,454
Total	50,000,000	82,455,454

2. Other Income

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Rental Income	29,173,000	4,720,900
Miscellaneous Income-Domestic Travel & Tax Refund	-	50,439
Income from bill board site rental	-	93,333
Income from Tea Farm	1,604,495	1,084,371
Total Other Income	30,777,495	5,949,043

3. Staff Costs

Description	FY2020/2021	FY2019/2021
	KShs	KShs
Salaries and Wages	10,651,949	10,728,878
Staff Gratuity/pension	3,097,800	3,325,650
Staff Training Expenses	1,677,400	1,255,940
Social Security Contribution	72,000	72,000
Other Staff Costs	5,872,578	6,256,727
Total	21,371,727	21,639,195

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. General Expenses

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Domestic Travel and Subsistence	3,891,980	3,147,570
Electricity and Water Expenses	77,290	256,382
Fuel and Oil costs	456,440	239,000
Telephone Internet & Postage	697,774	661,043
Printing, Stationery and Office Supplies	708,205	565,931
Security Costs	1,054,164	210,468
Board Allowances	1,712,610	2,937,877
Hospitality	650,430	363,387
Other Expenses	18,184,757	7,320,886
Total	27,433,650	15,702,544

5. Bank Balance

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Fixed Deposits Account	-	-
Bank Balance-Current Account	5,494,763	4,102,932
Total Cash and Cash Equivalents	5,494,763	4,102,932

(The amount should agree with the closing and opening balances as included in the statement of cash flows)

Detailed analysis of the cash and cash equivalents are as follows:

Financial Institution	Account Number	FY2020/2021	FY2019/2020
		KShs	KShs
Current account			
Kenya Commercial Bank	1168502845	978,508	2,404,859
Kenya Commercial Bank	1176612611	2,345,590	1,269,655
Kenya Commercial Bank	1225554969	2,170,665	428,418
Grand total		5,494,763	4,102,932

6. Accounts Receivables

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Current Receivables		
Accrued Rent	1,409,000	888,000
Total Current Receivables	1,409,000	888,000
Non-Current Receivables		
Total Non-Current Receivables	-	-
Total Accounts Receivables	1,409,000	888,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Property, Plant and Equipment

	Capital work	Motor vehicles-4yrs	Computer and related equipment-3yrs	office equipment furniture and fittings-12.5yrs	Total
	In progress				
Cost	KShs	KShs	KShs	KShs	KShs
At 1 st July 2019	307,304,113	8,720,000	1,645,394	3,480,174	321,149,681
Additions/Revaluation	32,880,505	-	502,500	-	33,383,005
Transfer/Adjustment	-	(5,900,000)	-	-	(5,900,000)
At 30 th June 2020	340,184,617	2,820,000	2,147,894	3,480,174	348,632,685
At 1 st July 2020	340,184,617	2,820,000	2,147,894	3,480,174	348,632,685
Additions/ revaluation	50,653,538		954,902	111,000	51,719,440
At 30 th June 2021	340,184,617	2,820,000	3,102,796	3,591,174	400,352,125
Depreciation and Impairment					
At 1 st July 2019	-	5,900,000	2,766,458	882,371	9,548,829
Depreciation	-	705,000	715,965	278,414	1,699,379
Transfer/Adjustment	-	(5,900,000)	(1,807,610)	-	(7,707,610)
At 30 th June 2020		705,000	1,674,813	1,160,785	3,540,598
At 1 st July 2020		705,000	1,674,813	1,160,785	3,540,598
Depreciation(Charge for the Year)		705,000	1,034,265	287,294	2,026,559
At 30 th June 2021(Accumulated Depreciation)		1,410,000	2,709,077	1,448,079	5,567,157
Net Book Values					
At 30 th June 2020	340,184,617	2,115,000	473,082	2,319,389	345,092,088
At 30 th June 2021	378,677,521	1,410,000	393,719	2,146,407	394,784,968

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Investments

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Cost		
At Beginning of the Year	63,456,278	63,456,278
Additions	-	-
At End of the Year	63,456,278	63,456,278

9. Accounts Payable

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Prepaid Rent	732,400	280,000
AIA Consultant	13,547,641	13,547,641
Mugambo Jwetu (Maintel Technical services)	1,030,000	1,030,000
10% Contractors Retention Fees	8,303,584	11,229,663
Office block (Electrical Works)	234,639	-
Office block (Norkun Intakes & Symbion)	14,335,116	5,435,922
Total Trade and Other Payables	38,183,380	31,523,227

10. Borrowings

Description	FY2020/2021	FY2019/2020
	KShs	KShs
Balance at Beginning of the Period		
Borrowings From County Treasury	1,400,000	1,400,000
Balance at End of the Period	1,400,000	1,400,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Capital Contribution

Description	Capital contribution
	KShs
At 1st July, 2016	139,860,000
Additions	79,326,482
At June 30, 2017	219,186,482
At July 1, 2017	219,186,482
Coffee Union – Shares	12,500,000
Coffee Marketing Agency – Shares	5,000,000
At June 30, 2018	236,686,482
At July 1, 2018	236,686,482
Additions	95,000,000
At June 30, 2019	331,686,482
At July 1, 2019	331,686,482
Additions	-
At June 30, 2020	331,686,482
At July 1, 2020	331,686,482
Additions	15,000,000
At June 30, 2021	346,686,482

12. Changes in Receivable

Description of the error	2020-2021	2019-2020
	KShs	KShs
Account receivable as at 1 st July 2020	888,000	-
Account receivable as at 30 th June 2021	1,409,000	888,000
Net changes in Account Receivables	(521,000)	(888,000)

13. Changes in Accounts Payable

Description of the error	2020-2021	2019-2020
	KShs	KShs
Accounts Payable as at 1 st July 2020 (A)	-	-
Accounts Payable held during the year (B)	18,437,416	5,435,922
Accounts Payable paid during the Year (C)	12,229,663	19,598,018
Net changes in Account Payable D= A+B-C	6,660,153	(14,157,095)

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14. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

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, Resolved)	Timeframe (Put a date when you expect the issue to be resolved)
		The entity had not received the FY2019/20 audit certificate from the office of the Auditor general as at the period of submission of the financial statement. Thus the prior year issues raised by external auditor have not been disclosed.			