

REPUBLIC OF KENYA



PARLIAMENT
OF KENYA
LIBRARY

REPORT

OF

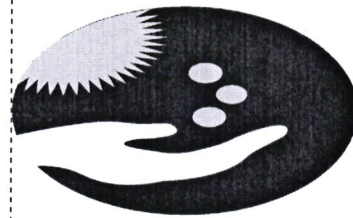
THE AUDITOR-GENERAL

ON

**MERU COUNTY MICRO-FINANCE
CORPORATION**

**FOR THE YEAR ENDED
30 JUNE, 2025**

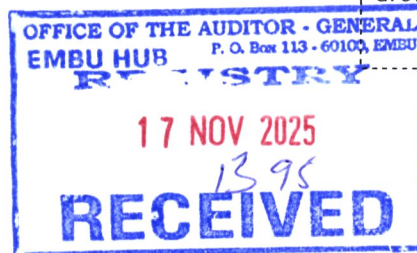
PAPERS LAID	
DATE	27/11/25
TABLED BY	SML
COMMITTEE	—
CLERK AT THE TABLE	Ms - Nabalayo



**Meru
County**

Microfinance Corporation

Growing with you



MERU COUNTY MICROFINANCE CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30TH JUNE 2025

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

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2025



MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2025

Table of contents.....	Page
1. Acronyms, Abbreviations, and Definition of Key Terms.....	ii
2. Key Entity Information	iii-iv
3. The Board of Directors.....	v
4. Key Management Team.....	vi-vii
5. Chairman’s Statement.....	viii-ix
6. Report of the Managing Director.....	x-xi
7. Statement of Performance against Predetermined Objectives for FY 2025.....	xii-xiii
8. Corporate Governance Statement.....	xiv-xviii
9. Management Discussion and Analysis.....	xix-xx
10. Environmental and Sustainability Reporting.....	xxi
11. Report of the Directors.....	xxii
12. Statements of Directors Responsibilities.....	xxiii-xxiv
13. Report of the Independent Auditor for the Financial Statements of Meru County Microfinance Corporation.....	xxv
14. Statement of Financial Performance for the ended 30 June 2025.....	1
15. Statement of Financial Position as at 30 June 2025.....	2
16. Statement of Changes in Net Assets for the year ended 30 June 2025.....	3
17. Statement of Cash Flows for the year ended 30 June 2025.....	4
18. Statement of Comparison of Budget and Actual amounts for the year ended 30 June 2025.....	5-7
19. Notes to the Financial Statements.....	8-39
20. Appendices.....	40-46

1. Acronyms, Abbreviations, and Definition of Key Terms

A: Acronyms and Abbreviations

CBK	Central Bank of Kenya
CECM	County Executive Committee Member
CEO	Chief Executive Officer
CO	Chief Officer
DG	Director General
ICPAK	Institute of Certified Public Accountants of Kenya
IPSAS	International Public Sector Accounting Standards
MD	Managing Director
NT	National Treasury
OAG	Office of the Auditor General
OCOB	Office of the Controller of Budget
OSHA	Occupational Safety and Health Act of 2007
PFM	Public Finance Management
PPE	Property Plant & Equipment
PSASB	Public Sector Accounting Standards Board
SAGAs	Semi-Autonomous Government Agencies
SC	State Corporations
WB	World Bank
MCMC	Meru County Microfinance Corporation

B: Definition of Key Terms

Fiduciary Management- Members of Management that are directly entrusted with the responsibility of financial resources of the organization.

Comparative Year- Means the prior period.

MERU COUNTY MICROFINANCE CORPORATION

Annual Report and Financial Statements for the year ended June 30, 2025

1. Key Entity Information

a) Background information

The Corporation is constituted as per the constitution of Kenya through an act of the County Assembly of Meru (Meru County Microfinance Act of 2014) and is headed by the Managing Director, who is responsible for the general policy and strategic direction of the corporation. The Corporation is domiciled in Meru County and has branches in Meru, Maua, Nkubu, Laare, Timau, Mikinduri and Muriri.

b) Principal Activities

The principal activities of the Corporation are to provide microfinance and related services to small and medium businesses in Kenya.

Vision

To be the model microfinance institution offering quality and affordable financial products to its customers.

Mission

To provide enhanced financial services that improve the living standards of low-income households.

Values

- Efficiency
- Teamwork
- Professionalism
- Transparency
- Accountability

c) Corporate Secretary

Ms. Irah Nkuubi
P.O. Box 120 - 60200
Meru

d) Registered Office

Meru County Maisonette Building, 1st & 2nd Floor
P.O. Box 2564 - 60200
Meru, KENYA

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2025

Key Entity Information (continued)

e) Corporate Headquarters

Meru County Maisonette Building, 1st & 2nd Floor
P.O. Box 2564 - 60200
Meru, KENYA

f) Corporate Contacts

Telephone: 0773 221 015
E-mail: info@countymicrofinance.go.ke
Website: www.countymicrofinance.go.ke

g) Corporate Bankers

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

Other Bankers

ABSA Bank Kenya PLC
P.O. Box 30120 – 00100
Nairobi

h) Independent Auditors

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



i) Principal Legal Advisers

1. The Attorney General
State Law Office and Department of Justice
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

MERU COUNTY MICROFINANCE CORPORATION

Annual Report and Financial Statements for the year ended June 30, 2025


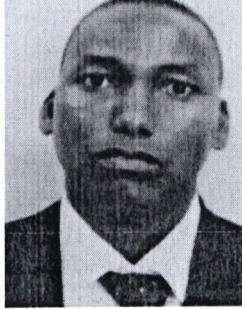


2. The Board of Directors

Photo	Board Name and Qualifications	Year of birth and experience
	Daniel Kimathi – Ag. Managing Director BBA Accounts; CPA(K) and Member of Institute of Certified Public Accountants(ICPAK) Master’s degree – Finalizing	Year of Birth 1978 - Over 15 years’ experience in Finance and accounts
	Irah K. Nkuubi – Legal Officer/Secretary Bachelor of laws, UON Diploma in law, Kenya School of law Development programme/Senior Management Course – KSG	Year of birth – 1988 Over 10 years’ experience in legal practice, management and corporate governance

MERU COUNTY MICROFINANCE CORPORATION


Annual Report and Financial Statements for the year ended June 30, 2025

3. Key Management Team

Photo	Manager's Name and Qualifications	Year of Birth and Experience
	<p>Daniel Kimathi – Ag. Managing Director BBA Accounts; CPA(K) and Member of Institute of Certified Public Accountants(ICPAK)</p>	<p>Year of Birth 1978 - Over 15 years' experience in Finance and accounts</p>
	<p>Salesio Miriti – Branch Manager – Timau Msc Agricultural Resource Management, BSC Agribusiness Management</p>	<p>Year of Birth 1981 – 13 years' experience in banking and project management</p>
	<p>Edith Kaaria – Head of Human Resource Bachelor of Arts, Economics and Sociology Post Graduate Diploma in HRM</p>	<p>Year of Birth 1983 – 13 years' experience in Human Resource practice</p>
	<p>Eric Kinyua – ICT Manager Bachelors of Science in Mathematics and Computer Science,2011 Masters of Science in Computer Systems Cont. CCNA - 2016 ITIL - 2017 PMP -2020</p>	<p>Year of birth 1989 13 years of experience implementing technology projects, developing product requirements, analysing support strategies and processes to facilitate improved operations and efficiency</p>

MERU COUNTY MICROFINANCE CORPORATION

Annual Report and Financial Statements for the year ended June 30, 2025

	<p>Irah K. Nkuubi – Legal Officer/Secretary Bachelor of laws, UON Diploma in law, Kenya School of law Development programme/Senior Management Course – KSG</p>	<p>Year of birth – 1988 Over 10 years’ experience in legal practice, management and corporate governance</p>
---	---	--

4. Chairman's Statement

The Meru County Microfinance Corporation Act 2014 requires the corporation to prepare financial statements at the end of each financial year.

Meru County Microfinance Corporation was created in 2014, through an Act of the County Assembly of Meru, to provide Microfinance and related services to SMEs in Kenya. This corporation was opened to the public on 15th January 2016. The performance reflected in these statements covers one year of operation.

In the fiscal reporting year 2024-2025, the Corporation had a total budget on County Government funding of Kes.78 million on recurrent expenditure but had received Kes.76 million at the end of the financial year. The Corporation relies on the revolving fund from loan repayments to finance its development expenditure. The amount utilized for lending for the year under review was Kshs.23.8 million.

The Corporation has operated seven branches covering the larger Meru County. These branches are Meru, Maua, Laare, Timau, Nkubu, Muriri and Mikinduri. The Corporation has reached over 13,000 customers, with products covering both credit facilities and Financial Literacy.

The Corporation is on a commendable growth trajectory. In this regard the Corporation appreciates the continued financial support from the County Government and Development Partners. During the year under review the Corporation was supported by the County Government to provide Microfinance and related services to small and medium businesses in Meru County.

Among the main challenges experienced during the year include inadequate and delayed disbursement of funds by the County Executive and inadequate personnel. To address the issue of inadequate funding, the Corporation intends to mobilize additional resources externally from donors and other external linkages.

The Board will continue working closely with management to ensure realization of its vision. The Board is committed to continue providing sound leadership to ensure extensive financial coverage in order to meet and exceed the expectations of the people of Meru County. I am grateful to Meru County Microfinance Corporation Management Team and staff for their continued dedication in

MERU COUNTY MICROFINANCE CORPORATION

Annual Report and Financial Statements for the year ended June 30, 2025

steering the Corporation. On behalf of the Board, staff and other stakeholders, I thank the Meru County Government for their continued provision of the seed capital to support the Microfinance.

CHAIRMAN-Board of Directors

5. Report of the Managing Director

In the year under review, Meru County Microfinance Corporation achieved a strong performance. This performance has been driven by a disciplined growth strategy and a clear set of strategic priorities. Our talents, capabilities, energy and capital have been geared towards the ultimate goal of making our customers achieve their dreams.

Advances in computer technology, networked communication and digitization has created both extraordinary opportunities as well as presented challenges to businesses including our own. It's because of this reason that the corporation has invested in a robust operational system to enable us take advantage of the opportunities as well as overcome some of these challenges. The investment in technology will enable us make use of mobile based disbursement of funds for convenience and ease of access of our products.

The Corporation also intends to diversify its products in order to take care of other neglected sectors of the community. The Corporation intends to venture more into asset financing but targeting the small and medium businesses like salons, kinyozi and bodaboda in order to benefit the young entrepreneurs.

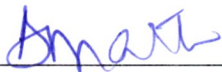
The main challenges to effective implementation of the Corporation's Strategic Plan include inadequate funding which presented major obstacle into achievement of 2024/25 targets. The Corporation will continue implementing the reforms aimed at enhancing service delivery, adhere to the Government's Financial Management requirements while upholding strict Financial Management Guidelines and application of best practice in management.

Moving forward, The Corporation intends to pursue the necessary approvals from the Central bank in order to be a deposit taking Microfinance. This will ensure that the Corporation not only caters for the borrowers' end of the market but also the savers. Being a deposit taking Microfinance will ensure that the Corporation will be fully under the Central bank regulations hence more supervision and accountability.

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2025

REPORT OF THE MANAGING DIRECTOR (Cont'd)

I wish to thank the County Government of Meru, Meru County Assembly and the Government of Kenya for their sound leadership and financial support in driving the implementation of the Corporation's Mandate. I extend our gratitude to the Board of Directors for their invaluable support and provisions of strategic leadership that was crucial in achievement of the Corporation's objectives. Finally, I also wish to applaud the commitment, cooperation and professionalism of the Management team and the entire staff of Meru County Microfinance Corporation.



Daniel Kimathi
AG. Managing Director

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2025

6. Statement of Performance against Predetermined Objectives for FY 2024/2025

Meru County Microfinance Corporation has 3 strategic pillars and objectives within its Strategic Plan for the FY 2022/2023- 2026/2027. These strategic pillars are as follows:

Pillar 1: Market Penetration

Pillar 2: Institutional Development

Pillar 3: Resource Mobilization

Meru County Microfinance Corporation develops its annual work plans based on the above 3 pillars. Assessment of the Board’s performance against its annual work plan is done on a quarterly basis.

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Market Penetration	Serving and developing appropriate products and using effective delivery channels.	<ul style="list-style-type: none"> • Number of products • Number of product evaluation reports • Increase branch network 	<ul style="list-style-type: none"> • Implement the new products approval procedures manual • Evaluate and revise current products as necessary • Develop and market sector focused products based on market studies • Develop and implement a product monitoring system 	<ul style="list-style-type: none"> • Products • Increased branch network
Institutional Development	Developing a highly qualified and motivated staff as well as the support systems	<ul style="list-style-type: none"> • <i>Fully operational organizational structure</i> • <i>Operating Policies and Procedures</i> 	<ul style="list-style-type: none"> • Final Organogram chart • Board Charter • Board oriented on and knowledgeable of roles, responsibilities, reporting and authority • Staff oriented on and knowledgeable of roles, responsibilities, reporting and authority 	<ul style="list-style-type: none"> • Final Organogram chart • Policies and procedures

MERU COUNTY MICROFINANCE CORPORATION

Annual Report and Financial Statements for the year ended June 30, 2025

I. REVIEW OF MERU COUNTY MICROFINANCE CORPORATION PERFORMANCE FOR FY 2024/2025(Cont'd)

Resource Mobilization	Build a wide range of strategic partnerships	<ul style="list-style-type: none">• Conduct studies on potential networks, linkages and partners• Develop and disseminate concept papers and presentations• Identify and approach networks, linkages and partners• Establish functioning networks, linkages and partners Establish functioning formal partnerships	<ul style="list-style-type: none">• Number of potential partners identified• Number of concept papers developed and disseminated• Number of presentations made• Number of established partnerships and linkages Monetary value of partnerships developed	
-----------------------	--	---	---	--

7. Corporate Governance Statement

Good corporate governance is key to the integrity of Microfinance institutions and for their stability. Corporate governance plays a leading role in making certain how corporations and their boards and management are directed, controlled and held to account. Corporate governance therefore encompasses the systems, practices and procedures by which the individual corporation regulates itself in order to remain competitive, ethical, sustainable and fair.

The Board of Meru County Microfinance Corporation follows principles of openness, integrity and accountability in its stewardship of the company affairs. It recognizes the evolving nature of corporate governance and assesses the company's compliance with generally accepted corporate governance practices on a regular basis directly and through its board committees and management. The role of the board is to ensure conformance by focusing on and providing the company's overall strategic direction and policy making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The board is also responsible for the overall system of internal control and for the reviewing its effectiveness. The controls are designed to both safeguard the company's assets and ensure the reliability of financial information.

A management team comprising of the managing director, heads of departments and senior staff meet regularly to consider issues of operational and strategic importance to the company. Here below are the key features of the existing corporate governance practices which are reviewed and improved on a regular basis:

1. Board of Directors

The board of directors consist of seven directors who have been appointed in accordance with the Meru County Microfinance Act of 2014. The chairperson of the board is a non-executive director and the board meets formally at least four times a year.

The board is responsible for setting the direction of the corporation through the establishment of strategic objectives, key policies and approval of budgets. It monitors the implementation of strategies and policies through a structured approach to reporting by management and consequent accountability.

The non-executive directors are actively involved in bringing strong independent judgement on board deliberations and discussions. These directors have a wide range of knowledge and experience of local markets that is applied to the formulation of strategic objectives and decision making. The board meets regularly and retains full and effective control over the company in strategic, financial, operational and compliance areas.

To assist the board in the discharge of its mandate, board committees have been established. The committees are as follows:

(a) Finance Committee -

The committee provides guidance to the board on finance, Credit, legal and ICT requirements for the corporation. It also advises on financial controls and compliance issues of the company.

MERU COUNTY MICROFINANCE CORPORATION

Annual Report and Financial Statements for the year ended June 30, 2025

- (b) Human Resource Committee –The purpose of the Human Resources Committee is to assist the Board in fulfilling its obligations relating to human resources issues, including the evaluation and compensation of the employees, succession planning and significant human resources policies.
- (c) Audit and Risk Committee –The Committee is mandated to raise the standards of corporate governance by reviewing the quality and effectiveness of the internal control systems, the internal and external audit functions and the quality of financial reporting.
- (d) Resource Mobilization Committee Its mandate is to review current resource needs and funding gaps and pursue possible funding opportunities for the Corporation.

Succession plan

The Governor/Executive who are the appointing authority have parameters in place to ensure that the tenures of Board members are staggered to ensure a phased transition.

Board charter

The Board has developed and adopted a Board Charter. The Board Charter defines the role, responsibilities and functions of the Board in the governance of the organization.

Process of appointment and removal of Directors

1. Meru County Microfinance Corporation Board appointment is in line with Article 6 of the Meru County Microfinance Corporation Act, 2014 and the guidelines of the Mwongozo Code of Conduct.
2. The Board is appointed through a transparent and formal process governed by the overriding principle of merit.
3. The Board has seven members who are formally appointed to the Board through a Gazette Notice.
4. Managing Director is a Board member with no voting rights.
5. Board appointments put into consideration the mix of skills and competencies required for the achievement of the organizations long term goals.
6. The Board membership has at least one third of the Board members who are independent upon appointment and maintains their independence during their term of service.
7. The removal of a Board member is based on non-performance, non-attendance of meetings, unethical conduct or as set out in any constitutive documents or applicable law

CORPORATE GOVERNANCE STATEMENT (Cont'd)

Roles and functions of the Board

These are;

- (a) Ensure proper and efficient exercise of the powers and performance of the functions of the Corporation;
- (b) Uphold the vision and mission of the Corporation
- (c) Provide strategic guidance to the Corporation and ensure effective organizational planning
- (d) Advise the management of the Corporation generally on the exercise of the powers and the performance of the functions of the Corporation
- (e) Approve the estimates of the revenue and expenditure of the Corporation

- (f) Ensure effective and efficient risk management;
- (g) Oversee the management performance
- (h) Perform such other functions as are provided for under this Act or any other written law

Board induction and training

The Corporation Board;

- (a) Develops an induction programme for new Board members.
- (b) Ensures that a competence needs assessment is carried out and an annual development programme for a Board member is put in place.

The Board members;

- (a) Ensure that they are up to date with continuous professional development in their respective professional bodies.
- (b) Receive regular briefings on matters relevant to the Corporation, changes in laws and regulations including government policies and practices.

Board and member performance

1. The Corporation's Board has;

- (a) Determined its performance criteria.
- (b) Undertaken an annual evaluation of its performance

2. The evaluation covers the Board as a whole, its committees and individual members.

CORPORATE GOVERNANCE STATEMENT (Cont'd)

Conflict of interest

The Board have ensured that a policy on the management of conflict of interest is in place.

The Board members;

- (a) Declare any real or perceived conflict of interest with the Corporation upon appointment to the Board.
- (b) Declare to the Board any real or perceived conflict of interest that may subsequently arise.
- (c) Do not take part in any discussions or decision-making regarding any subject or transaction in which they have a conflict of interest.
- (d) Do not influence in any manner decision making on any matter in which they have interest.

Board remuneration

The Corporation has established a formal and transparent remuneration policy and remunerate Board members fairly, ethically and responsibly. The Corporation ensures that the remuneration policy is as per the Government regulations. The remuneration policy for Board members clearly stipulates the elements of such remuneration including sitting and other allowances.

Ethics and conduct

The Board;

- (a) Ensured that a code of conduct and ethics was developed.
- (b) Ensures that all members of the board subscribe to the code of conduct and ethics.
- (c) Reviews the code of conduct and ethics as necessary.
- (d) Promote ethical conduct and sanction misconduct.

Internal Controls

The corporation has implemented and maintained internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the company's assets. Such controls are based on established policies and procedures and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls is monitored regularly through operational meetings and the annual external audit.

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2025

CORPORATE GOVERNANCE STATEMENT (Cont'd)

Going concern

The directors confirm that the corporation has adequate resources to continue in business for the foreseeable future and therefore the continued use of going concern as a basis of preparing the financial statements.

MERU COUNTY MICROFINANCE CORPORATION

Annual Report and Financial Statements for the year ended June 30, 2025

8. Management Discussion and Analysis

The Meru County Microfinance Corporation (MCMC) was established by the MCMC Act, 2014 of the Meru County Assembly. Meru County Microfinance Corporation (MCMC) can safely be considered a product of Kenya's national long-term development policy, the Kenya Vision 2030. The Meru County Microfinance Corporation is a noble initiative of the Meru County Government, created to provide affordable and convenient credit to the low-income households in the County. The purpose of the institution as provided for in the Act is providing financial services to Micro, Small and Medium enterprises in order to:

- a) Promote local business and investment growth;
- b) Enhance access to capital and credit and financial services to micro, small and medium enterprises;
- c) Reduce poverty and unemployment;
- d) Promote local economic growth.

The banking industry in Kenya experienced a major shift with the amendment of the Banking Act in August 2016 to cap the lending rates to a maximum of 4.0 per cent above the Central Bank Rate (CBR), and deposit interest rate floor of 70% of that base rate. The implementation which began in September 2016, resulted in a substantial decline in the interest rates. Additionally, it also led to a significant reduction in margins against static operating expenditure. Kenya's banking sector will continue to be shaped by stricter prudential and conduct regulations.

In order to be more competitive and also ensure cheap access to credit for the low-income earners, the Corporation through the Board meeting held on 27th August 2018 resolved to review the interest rate charged to its customers from 15 percent to 12 percent. This was to ensure greater accessibility of cheap credit and also more visibility for the Corporation. The Corporation was able to disburse Kshs.9.3 Million during the year.

Digital Transformation has been an on-going process with an investment of over Ksh. 25 Million towards a stable core banking system and branch connectivity. The Corporation invested in this Core banking system so that all the departments can be linked and ensure more efficient capturing of data within the Corporation.

The board and management of the Meru County Microfinance Corporation has developed a strategic plan. Driven by the need to ensure execution of its mandate by growing its client base, the Corporation was in a position to build on the experiences and knowledge gained so far and to tap into the talent of its diverse staff and board to develop a plan to guide planning and operations into the next five years. A participatory approach that included reference to, consultation with and involvement of the relevant stakeholders - MCMC's board members, staff, clients, parent county department senior members, county government and oversight authorities – was adopted for the development of this plan.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

This strategic plan will see that Meru County Microfinance Corporation develops new products, increase the disbursement capacity by great margins, ensure we have an undeniably huge media presence, increase our customer base, and with it, our lending capacity, and finally, see to it that MCMC is converted into a deposit taking facility.

In order to deliver on its mission of providing financial services that improve the living standards of low-income households, a plan is proposed that pursues the following three strategic directions:

- Market Penetration: By clarifying the core market to be served and developing appropriate products and using effective delivery channels.
- Institutional Development: By developing a highly qualified and motivated staff as well as the support systems that will ensure that MCMC is able to carry out its mandate in a professional manner.
- Resource Mobilization: Build a wide range of strategic partnerships that will leverage their resources on the capacity of MCMC to offer financial services to the low-income categories.

On Human Capital, the Corporation invested in recruitment of top talent in the industry, for optimal performance of the business units and effective implementation of its strategy. The Corporation has ensured critical departments in the Corporation were fully filled up such as the Risk and ICT departments. Staff have been well trained in their specific areas of specialization. This was aimed at transforming Meru County Microfinance members of staff into bankers of the future - with superior skill-set, enhanced professional knowledge and a culture that supports diversity of thought. The plan has aligned the staff headcount with strategic needs and in tandem with a vigorous performance management program that the Corporation is currently implementing. The Corporation will continue acquiring top talent from the market, even as the growth continues.

9. Environmental and Sustainability Reporting

Meru County Microfinance Corporation is committed to being a responsible corporation, not only on how we work with our customers but also in terms of how we contribute to the wider community around us. We are committed to ensure that our employees work for a socially responsible corporation and that our approach to what we do reflects our people. Our activities as a corporation are endeavoured to positively impacting on our community as well as conserve the environment.

The corporation upholds its core values which enshrine ethical business practices, compliance with regulatory and other legal requirements and respect for humanity, communities and the environment. The company's corporate social responsibility hinges on three key pillars; the customer, employees and the community.

During the year under audit, the employees have become an important part of this noble objective. The employees are the backbone of our success. The corporation offers equal employment opportunity to all. The corporation has ensured that the employees have a favourable work environment. Training and development of staff has continued to be an important part of the corporation. All staff are encouraged to attend both internal and external training sessions in order to upgrade themselves technically and professionally. The internship programme has continued with several students working as interns in various departments and are drawn from various colleges in Kenya. The corporation has also provided both general and medical insurance to all members of staff and their immediate family.

Besides creating jobs to the community, we recognize the responsibility to act responsibly and constructively as a member of these communities. We always seek to create value and bring joy to the people we serve. As a corporation we have managed to change lives of our customers through providing financial and business advice for free. Our target customers are small and medium scale traders and farmers, including women and the youth who are not usually served by the mainstream banking sector.

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2025

10. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2025 which show the state of the Meru County Microfinance Corporation affairs.

Principal activities

The principal activities of the Corporation are to provide microfinance and related services to small and medium businesses in Kenya.

Results

The results of the Corporation for the year ended June 30, 2025 are set out on page 1.


Directors

The members of the board of directors who served during the year are shown on page v. The board members serve for a renewable term of three years. The external board members were appointed in the year 2018 for a 3 year term which was renewed in December 2020, and which expired in December 2023.

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 which also empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Board



.....

Name – Irah Nkuubi

Secretary to the Board

Date

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2025

11. Statement of Directors' Responsibilities

Section 81 of the Public Finance Management Act, 2012 and (section 14 of the State Corporations Act), require the Directors to prepare financial statements, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year/year and the operating results for that year. The Directors are also required to keep proper accounting records which disclose with reasonable accuracy the financial position. The Directors are also responsible for safeguarding the assets of the Corporation.

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of its affairs for and as at the end of the financial year ended on June 30, 2025. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting year, (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 Directors 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 Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act).

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2025

Statement of Directors' Responsibilities (Continued)

The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of its transactions during the financial year ended June 30, 2025, and of the financial position as at that date. The Directors further confirm the completeness of the accounting records maintained, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

In preparing the financial statements, the Directors have assessed the Corporation's ability to continue as a going concern.

Approval of the financial statements

Meru County Microfinance Corporation financial statements were approved by the Board on _____ 2025 and signed on its behalf by:

.....

Name
Chairperson of the Board

Kimathi
.....

Name – Daniel Kimathi
Ag. Managing Director

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
Email: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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

REPORT OF THE AUDITOR-GENERAL ON MERU COUNTY MICRO-FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

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

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

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

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 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 Micro-finance Corporation set out on pages 1 to 40, which comprise of the statement of financial position as at 30 June, 2025 and the statement of financial performance, statement of changes in net

assets, statement of cashflows 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 that, 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 Microfinance Corporation as at 30 June, 2025 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

Examination of the Corporation's financial statements provided for audit review, revealed the following anomalies;

- i. Statement of changes in net assets reflects a balance of Kshs.7,648,300 as revaluation reserves. However, Note 21 to the financial statements on property plant and equipment discloses a balance of Kshs.4,148,300 on revaluation adjustments, resulting in an unreconciled variance of Kshs.3,500,000 and Further nil amount was reflected in the statement of financial performance as gains on revaluations.
- ii. Statement of cash flows reflects negative amount of Kshs.24,329,480 on use of goods and services. However, the statement of comparison of budget and actual reflects the use of goods and services amount of Kshs.21,987,684 resulting in an unreconciled variance of Kshs.2,341,796.
- iii. Statement of cash flows reflects the employee cost amount of Kshs.59,491,864. However, the statement of comparison of budget and actual reflects employee cost Kshs.54,957,103, resulting in an unreconciled variance of Kshs.4,534,761.
- iv. Statement of cashflows reflects revolving funds amount of Kshs.1,372,722. However, Note 25 to the financial statements discloses an amount of Kshs.9,378,212 resulting in an unreconciled variance of Kshs.8,005,490.
- v. Statement of comparison of the Budget and actual amounts reflects actual employee costs amount of Kshs.54,957,103. However, the statement of cash flows reflects the actual employee cost of Kshs.59,491,864 resulting in an unreconciled variance of Kshs.4,534,761.
- vi. Statement of comparison of budget and actual amounts reflects actual amounts on use of Goods and services totalling Kshs.21,987,684. However, the statement

of cash flows reflects actual use of goods and services of Kshs.24,329,480 resulting in an unreconciled variance of Kshs.2,341,796.

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

2. Incorrect Classification of Non-Performing Loans

The statement of financial position and as disclosed in Note 20 to the financial statements reflects a balance of Kshs.124,751,543 in respect to advances due from Customers. However, an analysis of the loan portfolio revealed that loan balance amounting to Kshs.112,494,722 or 90% of the total loans due from customers had not been serviced and remain in arrears, indicating weaknesses in loan recovery and credit management processes.

Further, review of the loan ledger revealed that amount totalling Kshs.5,080,000 had been disbursed out to twenty-five (25) beneficiaries between 22 January, 2024 and 25 June, 2025 for a period of two years. However, the same had been classified as current advances instead of non-current advances.

In the circumstances, the accuracy and recoverability of the loan balance totalling Kshs.112,494,722 could not be confirmed.

4. Long Outstanding Receivables from Meru County Government

The statement of financial position and as disclosed in Note 18 to the financial statements, reflects a balance of Kshs.83,780,434 relating to receivable from the County Government of Meru. The balance includes Kshs.71,094,850 which had been outstanding for over one year. However, the County Government's financial statements disclosed only a balance of Kshs.1,742,724 as amounts payable to the Meru County Microfinance Corporation as at close of financial year 2024/2025 resulting in unreconciled variance of Kshs.82,037,710.

In the circumstances, the accuracy and recoverability of receivables from County Government balance of Kshs.82,037,710 could not be confirmed.

5. Failure to Provide for Bad and Doubtful Debts

Statement of financial position and as disclosed in Note 20 to the financial statements reflects an amount of Kshs.124,751,543 as loans due from customers. However, an analysis of the loan portfolio revealed that loans amounting to Kshs.112,494,722 have not been serviced and remain in arrears. Management did not provide a provision for doubtful debts despite evidence of non-payments and outstanding loans since the financial year 2015/2016.

In the circumstances, the accuracy of the loan balance of Kshs.124,751,543, and its recovery could not be confirmed.

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

Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and other applicable ethical requirements for auditing financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the prior years' audit reports, several issues were raised under the Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness of Internal Controls, Risk Management and Governance, respectively. Review of the status during audit of the Meru County Micro Finance Corporation in 2024/2025 revealed that the following matters remained unresolved as shown in Appendix attached.

Other Information

The Board of Directors is responsible for the Other Information set out on pages i to xxiv, which comprises Corporation Information and Overall Performance, Board of Directors, Key Management Team, Chairman's Statement, Reporting of the Managing Director, Statement of Performance Against the Corporation's Predetermined Objectives, Environmental and Sustainability Reporting, and Statement of the Corporation's Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

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

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

Basis for Conclusion

1. Failure to Prepare a Budget

During the financial year under review, Management of the Corporation did not prepare estimates of revenue and expenditure in contravention of Section 149(2)(h) of the Public Finance Management Act, 2012 which provides that an Accounting Officer should, in respect of the entity, prepare estimates of expenditure of the entity in conformity with the strategic plan.

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

2. Failure to Remit Statutory Deduction

The statement of financial position, as disclosed in Note 23 to the financial statements, reflects a balance of Kshs.13,550,874 in respect to trade and other payables, which includes salary payables balances totalling Kshs.4,135,640. However, analysis of the supporting schedule revealed that statutory deductions amounting to Kshs.1,521,005 for the months of February, March, April, and May 2025 had not been remitted to the relevant Authorities, namely Transnational Sacco, County Pension Fund, and SHIF.

This was contrary to Section 19 of the Employment Act, 2017 on deduction of wages provides that an employer may deduct from the wages of his employee any amount due from the employee as a contribution to any provident fund or superannuation scheme or any other scheme approved by the Commissioner for Labour to which the employee has agreed to contribute. An employer who deducts an amount from an employee's remuneration in accordance with (5) in respect of failure by the employer to remit deductions from an employee's remuneration, the court may, in addition to fining the employer order the employer to refund to the employee the amount deducted from the employee's wages and pay the intended beneficiary on behalf of the employee with the employer's own funds.

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

3. Officers Acting for More than Six (6) Months

The Statement of financial performance and as disclosed in Note 12 to the financial statements reflects an amount of Kshs.54,957,103 in respect to employee costs. This includes an amount of Kshs.1,538,830 paid as acting allowances to twelve (12) officers for the entire financial year in acting capacity for various positions. Audit review revealed that these officers held acting positions for periods exceeding six (6) months, contrary to Section 34(3) of the Public Service Commission Act, 2017 states that an officer may be appointed in an acting capacity for a period of at least thirty days but not exceeding a period of six months.

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

4. Non-compliance with the One-Third of Basic Salary Rule

The statement of financial performance, as disclosed in Note 12 to the financial statements, reflects an amount of Kshs.54,957,103 in respect to employee costs. Review of the Corporation payroll for the financial year under review revealed that the Corporation had seven (7) employees whose net pay was below a 1/3 of their basic pay. This is contrary to Section C.1 (3) of the Human Resource Policies and Procedures Manual 2016, which states that public officers shall not over-commit their salaries beyond two-thirds (2/3) of their basic salaries, and Heads of Human Resource Units should ensure compliance.

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

5. Non-compliance with the Staff Ethnic Composition

As reported previously, the financial performance and as disclosed in Note 12 to the financial statements, reflects an amount of Kshs.54,957,103 in respect to employee costs. Review of human resource records revealed that the Corporation in the year under review had a total of fifty-nine (59) employees, out of whom fifty-five (55), representing 93% of the total workforce, were from the dominant ethnic community. This is contrary to Section 7(2) of National Cohesion and Integration Act, 2008 which provides that the staff establishments of public entities to reflect the diversity of the people of Kenya with least 30% of employees are expected to be from other ethnic communities.

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

6. Failure to Prepare and Submit a Report on Non-Performing Loans

The statement of financial position and as disclosed in Note 20 to the financial statements reflects a balance of Kshs.129,831,543 in respect to loans due from customers. However, an analysis of the loan portfolio revealed that loans totaling Kshs.112,494,722 have been outstanding for more than seven years (2016–2023), despite the fact that they should have been fully repaid within the stipulated two years as per the loan policy. Furthermore, Management did not provide evidence of having prepared and submitted a report on the overdue loans to the County Treasurer for onward transmission to the County Executive Committee for consideration. This was contrary to Section 37(b) of the Meru County Microfinance Corporation Act, 2014 states that the corporation shall prepare a quarterly report on all non-performing loans or credit facilities and submit it to the county treasury for onward transmission to the county executive committee for consideration.

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

7. Failure to Comply with the Reporting Template

Examination of the Meru County Micro Finance Corporation financial statements for the year ended 30 June 2025, provided for audit review, revealed the following anomalies;

- i) Chairman's statement was not signed on page ix as required by the template.
- ii) The statement of directors' responsibilities was not signed by the chairperson of the board, and the date was not specified.
- iii) The approval dates of the statement of financial position, and the chairman of the board, did not sign the report.
- iv) Statement of financial performance, statement of financial position was not signed by the chairman of the board.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT, AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. Lack of a Functional Board and Substantive Managing Director

During the financial year under review, the Corporation did not have a functional Board, and the Managing Director was in an acting capacity. Therefore, the Board did not meet during the financial year to be able to conduct its functions, which include providing strategic guidance to the Corporation, ensuring effective organizational planning, advising the management of the Corporation, ensuring effective and efficient risk management, overseeing the management performance, and approving the estimates of the revenue and expenditure of the Corporation.

In the circumstances, the effectiveness of internal controls, risk management and Governance could not be confirmed.

2. Non-Publication of Internal Audit Reports

During the year under review, the corporation, had not constituted an audit committee and an internal audit unit as required by Regulations 167(1) of Public Finance

Management (County Governments) Regulations, 2015 states that subject to paragraph (2) of this regulation, each County Government entity shall establish an audit committee.

In the circumstances, the Corporation did not benefit from the oversight role and advice from the audit committee and the internal audit function.

3. Weakness in Information Technology (IT) Governance and Control

Audit of IT Governance and environment revealed the following weakness.

- i) The Corporation's loan management system from M/S Prime Serve Services Limited is not integrated, requiring manual data entry of loan repayments from Excel sheets, which exposes the process to errors and fraud.
- ii) Loan applications are processed manually as the system lacks a customer interface for online applications, leading to inefficiencies and data entry risks.
- iii) The Corporation has not established an IT Steering Committee to oversee system operations, governance, and ICT controls.
- iv) The system does not capture or manage expenses, which are instead recorded manually in Excel, increasing the risk of inaccuracies and incomplete financial reporting.

In the circumstances, the IT control and governance could be confirmed.

4. Use of Manual Payroll

The statement of financial performance and as disclosed in Note 12 to the financial statements reflects an amount of Kshs.54,957,103 in respect of employee costs. However, the Corporation continued to use a manual system in preparation for payroll despite owning a system with a historical cost of Kshs.25,000,000. The use of the manual system required manual calculation of deductions and net pay, which further required constant updating of data, which was prone to human error and manipulation. No justification was provided for not using the system, particularly in the processing of the payroll.

In the circumstances, the controls on mitigation of errors in processing of payroll could not be confirmed.

5. Irregularities in the Corporation's Governance Structure

Audit review of the Board's records revealed the following anomalies:

- i) The Corporation operated without the services of the Corporation Secretary contrary to Section 6(f) of the Meru County Microfinance Corporation Act, 2014 which prescribes for the inclusion of the Corporation Secretary in the Board;

- ii) The Board had five (5) males and one (1) female member, translating to one-sixth which is below the prescribed minimum of two-thirds;
- iii) The Corporation operated with six (6) Board Members contrary to the prescribed composition of seven (7) Board Members who are eligible to transact the Corporation's business;
- iv) Further, the statement of financial performance and as disclosed in Note 13 to the financial statements reflects an amount of Kshs.238,850 in respect to Directors' emoluments. Review of documents provided for audit revealed the following anomalies;
 - (a) The composition of the Board's Sub-committees was more than a third (1/3) of the full Board as follows: Finance, Audit, and Human Resource and Administration Committee's had four (4) Members each while Resource Mobilization Committee had five (5) members contrary to Clause B (4) of Head of Public Service Circular OP/CAB.9/1A dated 11 March, 2020 on composition of Board Committees which stipulates that the number of Members to any Committees should be no more than a third (1/3) of the full Board to obviate the risk of a Committee conducting its business within the framework of a full Board structure. Further, Members can only sit in a maximum of two (2) committees;
 - (b) Three (3) Board Members had been appointed to more than two Sub-committees of the Board contrary to Clause B (5) of Head of Public Service Circular OP/CAB.9/1A dated 11 March, 2020 stipulates that a Member serving in the Board audit and risk committee shall not be appointed a member of the finance committee and vice versa;
 - (c) No evidence was provided to confirm that the Committee Members served on a rotational basis. It is Noted that the membership of the Board Sub-committees had not been rotated since its inception in 2018;
 - (d) The Board Members term limit expired in December, 2023. However, a new Board was not appointed and thus the Corporation operated without a Board for six (6) months.

In the circumstances, the Corporation may not have achieved its strategic objectives.

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

Responsibilities of 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 controls as Management determines is

necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Meru County Micro-finance Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 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 comply with the authorities that govern them and that public resources are applied in an effective way.

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


Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management, and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

19 November, 2025

Appendix; Unresolve Prior Year Matters



S/No	Financial Year	Description
1	2023/24	Inaccuracies in the Financial Statements
2	2023/24	Long outstanding Receivable
3	2023/24	Inaccuracy of Loans Due from Customers
4	2023/24	Property, Plant and Equipment
5	2023/24	Overdrawn Account and Netting off of Bank Balance
6	2023/24	Cash and Cash Equivalents
7	2023/24	Non-Compliance with the Public Sector Accounting Standards Board Reporting Requirements
8	2023/24	Non-Compliance with the One-Third Basic Salary Rule
9	2023/24	Non-Compliance with the Staff Ethnic Composition
10	2023/24	Use of Manual System
11	2023/24	Irregularities in the Corporation's Governance Structure

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2025

2. Statement of Financial Performance for the year ended 30 June 2025

	Notes	2024-2025	2023-2024
		Kshs	Kshs
Revenue from non-exchange transactions			
Transfers from other governments entities	6	78,758,591	76,155,481
Other receipts	7	-	22,800,000
		78,758,591	98,955,481
Revenue from exchange transactions			
Interest income	8	4,046,229	7,165,281
Fees and other charges	9	-	1,200,000
Finance income	10	4,141,515	3,269,307
Total revenue		86,946,335	110,590,069
Expenses			
Use of goods and services	11	24,423,394	22,853,872
Employee costs	12	54,957,103	57,558,876
Board Expenses	13	-	238,850
Depreciation and amortization expense	14	4,454,678	683,688
Repairs and maintenance	15	3,441,372	1,668,890
Other payments	16	-	22,800,000
Total expenses		87,276,547	105,804,176
Surplus/(deficit) from operating activities		(330,212)	4,785,893
Net Surplus/(deficit) for the year		(330,212)	4,785,893

The notes set out on pages 8 to 41 form an integral part of these Financial Statements. The Financial Statements set out on pages 1 to 7 were signed on behalf of the Board of Directors by:

.....		
Name:	Name: DANIEL K. MATHI	Name: JOSEPH MUNG'ATHA
Chairman Board	Accounting Officer	Head of Finance
Date	Date	ICPAK M/No: 33870 Date

MERU COUNTY MICROFINANCE CORPORATION

Annual Report and Financial Statements for the year ended June 30, 2025

15 Statement of Financial Position as at 30 June 2025

	Notes	2024-2025	2023-2024
		Kshs	Kshs
Assets			
Current Assets			
Cash and Cash equivalents	17.	105,779,819	101,388,729
Receivables from County Government	18.	83,780,434	82,005,505
Prepayments	19.	181,021	276,000
Advances due from customers	20(i)	124,751,543	134,387,239
Total Current Assets		314,492,817	318,057,473
Non-Current Assets			
Property, Plant and Equipment	21.	3,966,862	2,638,773
Intangible Assets	22.	2,333,333	-
Advances due from customers	20(ii)	5,080,000	-
Total Non- Current Assets		11,380,195	2,638,773
Total Assets (A)		325,873,012	320,696,246
Liabilities			
Current Liabilities			
Trade and Other Payables	23.	13,550,874	16,762,756
Refundable Deposits from Customers	24.	82,111,618	81,041,058
Total Current Liabilities		95,662,492	97,803,814
Total Liabilities (B)		95,662,492	97,803,814
Net Assets (A-B)		230,210,520	222,892,432
Represented By:			
Accumulated Surplus	26.	67,258,636	67,588,848
Revaluation reserve	27.	7,648,300	-
Capital Fund	28.	155,303,584	155,303,584
Net Assets		230,210,520	222,892,432

The financial statements set out on pages 1 to 7 were signed on behalf of the Board of Directors by:

.....
Name:

Chairman Board

Date

Daniel Kimani
.....
Name:

DANIEL KIMANI
Accounting Officer

Date

Joseph Mungathia
.....
Name:

JOSEPH MUNGATHIA
Head of Finance

ICPAK M/No: 33870

Date

MERU COUNTY MICROFINANCE CORPORATION**Annual Report and Financial Statements for the year ended June 30, 2025****16. Statement of Changes in Net Assets for the year ended 30 June 2025**

Description	Revaluation reserve	Fair value adjustment reserve	Accumulated surplus	Revolving Fund	Capital/Development	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at July 1, 2023	-	-	62,802,955	-	155,303,584	218,106,539
Revaluation gain	-	-	-	-	-	-
Fair value adjustment on investments	-	-	-	-	-	-
Surplus/ deficit for the year	-	-	4,785,893	-	-	4,785,893
Funds received During the year	-	-	-	-	-	-
Transfers from accumulated surplus to revolving fund	-	-	-	-	-	-
Capital/development grants received during the year	-	-	-	-	-	-
As at June 30, 2024	-	-	67,588,848	-	155,303,584	222,892,432
As at July 1, 2024	-	-	67,588,848	-	155,303,584	222,892,432
Revaluation gain	7,648,300	-	-	-	-	7,648,300
Fair value adjustment on investments	-	-	-	-	-	-
Surplus/ (deficit) for the year	-	-	(330,212)	-	-	(330,212)
Funds received During the year	-	-	-	-	-	-
Transfers from accumulated surplus to revolving fund	-	-	-	-	-	-
Capital/development grants received during the year	-	-	-	-	-	-
As at June 30, 2025	7,648,300	-	67,258,636	-	155,303,584	230,210,520

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2025

17. Statement of Cash Flows for the year ended 30 June 2025

	Notes	2024-2025	2023-2024
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Transfers received from other governments entities		76,983,662	65,244,826
Finance income	10.	4,141,515	3,269,307
Fees and other charges	9.	-	1,200,000
Other income	7.	-	22,800,000
Total receipts		81,125,177	92,514,133
Payments			
Use of goods and services		(24,329,480)	(23,366,198)
Employee costs		(59,491,864)	(53,500,878)
Board Expenses	13.	-	(238,850)
Repairs and maintenance		(3,441,372)	(1,504,983)
Total payments		(87,262,716)	(78,610,909)
Net cash flows from/(used in) operating activities		(6,137,539)	13,903,224
Cash flows from investing activities			
Purchase of property, plant and equipment		(467,800)	-
Proceeds from loan principal repayments	20(ii)	32,428,665	50,511,539
Loan disbursements paid out	20(i)	(23,826,740)	(37,791,699)
Customer savings received	24(i)	2,677,660	4,211,001
Customer savings refunded	24(ii)	(1,607,100)	(1,640,125)
Disbursements to partnerships		(48,778)	(23,278,600)
Net cash flows from/(used in) investing activities		9,155,907	(7,987,884)
Cash flows from financing activities			
Revolving fund receipts	25.	1,372,722	8,005,490
Net cash flows from financing Activities		1,372,722	8,005,490
Net increase/(decrease) in cash & Cash equivalents		4,391,090	13,920,830
Cash and cash equivalents at the beginning (1st July)	17.	101,388,729	87,467,899
Cash and cash equivalents at the end (30th June)	17.	105,779,819	101,388,729

MERU COUNTY MICROFINANCE CORPORATION

Annual Report and Financial Statements for the year ended June 30, 2025

18. Statement of Comparison of Budget and Actual amounts for the year ended 30 June 2025

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	Kshs	Kshs	Kshs	Kshs	Kshs	
	a	B	c=(a+b)	d	e=(c-d)	f=d/c*100
Revenue						
Transfers from Other Governments entities	78,758,591	-	78,758,591	76,983,662	1,774,929	97.7%
Interest income	4,750,000	-	4,750,000	4,046,229	703,771	85.2%
Loan disbursements paid out	25,000,000	-	25,000,000	23,826,740	1,173,260	95.3%
Finance income	4,500,000	-	4,500,000	4,141,515	358,485	92.0%
Total Income	113,008,591	-	113,008,591	108,998,146	4,010,445	96.5%
Expenses						
Employee costs	58,000,000	-	58,000,000	54,957,103	3,042,897	94.8%
Use of Goods and Services	26,396,591	-	26,396,591	21,987,684	4,408,907	83.3%
Board Expenses	-	-	-	-	-	-
Repairs and Maintenance	3,612,000	-	3,612,000	3,441,372	170,628	95.3%
Lending expenditure	25,000,000	-	25,000,000	23,826,740	1,173,260	95.3%
Total Expenditure	113,008,591	-	113,008,591	104,212,899	8,795,692	92.2%
Surplus for the year	-	-	-	4,785,247	4,785,247	

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2025

Budget notes

- a. Due to the slowdown in the economic activities during the year, the Corporation slowed down on lending activities and focused more on collection boosting the amounts expected under the revolving fund.
- b. The Corporation has over time received less funds than what is usually budgeted and approved. Due to this fact, it has always been prudent not to expect to receive all the funds allocated as approved at the end of the year. Therefore the funds for the year are not usually committed to avoid cases of pending bills.

Reconciliation of items where the total of actual on comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis or on accounting treatment in the financial statements

Item	Actual on comparable basis	Statement of Financial Performance/cash flow statement	Difference	Explanation
Transfers from Other Governments entities	76,983,662	78,758,591	1,774,929	The difference relates to amounts which had not been received at the end of the financial year
Loan disbursements paid out	23,826,740	-	23,826,740	The amount has not been captured in the statement of financial performance but in the statement of financial position to reduce the amount for loans due from customers as well as in the cash flow statement
Employee costs	54,957,103	54,957,103	-	

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2025

Use of goods and services	24,423,394	21,987,684	2,435,710	
Depreciation and amortization	-	4,454,678	4,454,678	This is a non-cash expense and therefore is not usually budgeted for.
Lending expenditure	23,826,740	-	23,826,740	The amount has not been captured in the statement of financial performance but in the statement of financial position to reduce the amount for loans due from customers
Use of goods and services	21,987,684	24,329,480	2,341,796	Under the actual amounts, there are expenses both payables and prepayments which have been taken into account. However under cash flow statement all the payments made under that year whether they relate to that year or not have been taken into account
Employee costs	54,957,103	59,491,864	4,534,761	Both under prior year and current year we have employee costs payable which have been taken into account. Under cash flow statement all the employee costs received have been taken into account irrespective of the period they relate to.

19. Notes to the Financial Statements

1. General Information

Meru County Microfinance Corporation is established by and derives its authority and accountability from Meru County Government Act (2014). The Corporation is wholly owned by the County Government of Meru and is domiciled in Kenya. The Corporation's principal activity is to provide microfinance and related services to SMEs in Kenya.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts, and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgment in the process of applying the *Corporation's* accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *Corporation*. The financial statements have been prepared in accordance with the PFM Act 2012, the State Corporations Act (*include any other applicable legislation*), and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

MERU COUNTY MICROFINANCE CORPORATION

Annual Reports and Financial Statements for the year ended June 30, 2025

3. Adoption of New and Revised Standards

- i. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2024.*

Standard	Effective date and impact:
IPSAS 43: Leases	<i>Applicable 1st January 2025</i> The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cashflows of an Corporation. The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<i>Applicable 1st January 2025</i> The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.
IPSAS 45: Property Plant and Equipment	<i>Applicable 1st January 2025</i> The standard supersedes IPSAS 17 on Property, Plant and Equipment. IPSAS 45 has additional guidance/ new guidance for heritage assets, infrastructure assets and measurement. Heritage assets were previously excluded from the scope of IPSAS 17 in IPSAS 45, heritage assets that satisfy the definition of PPE shall be recognised as assets if they meet the criteria in the standard. IPSAS 45 has an additional application guidance for infrastructure assets, implementation guidance and illustrative examples. The standard has clarified existing principles e.g. valuation of land over or under the infrastructure assets, under- maintenance of assets and distinguishing significant parts of infrastructure assets.
IPSAS 46: Measurement	<i>Applicable 1st January 2025</i> The objective of this standard was to improve measurement guidance across IPSAS by: i. Providing further detailed guidance on the implementation of commonly used measurement bases and the circumstances under which they should be used. ii. Clarifying transaction costs guidance to enhance consistency across IPSAS. iii. Amending where appropriate guidance across IPSAS related to measurement at recognition, subsequent measurement and measurement

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

	<p>related disclosures.</p> <p>The standard also introduces a public sector specific measurement bases called the current operational value.</p>
<p>IPSAS 47: Revenue</p>	<p><i>Applicable 1st January 2026</i></p> <p>This standard supersedes IPSAS 9- Revenue from exchange transactions, IPSAS 11 Construction contracts and IPSAS 23 Revenue from non- exchange transactions. This standard brings all the guidance of accounting for revenue under one standard. The objective of the standard is to establish the principles that an Corporation shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flow arising from revenue transactions.</p>
<p>IPSAS 48: Transfer Expenses</p>	<p><i>Applicable 1st January 2026</i></p> <p>The objective of the standard is to establish the principles that a transfer provider shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of expenses and cash flow arising from transfer expense transactions. This is a new standard for public sector entities geared to provide guidance to entities that provide transfers or accounting for such transfers.</p>
<p>IPSAS 49: Retirement Benefit Plans</p>	<p><i>Applicable 1st January 2026</i></p> <p>The objective is to prescribe the accounting and reporting requirements for the public sector retirement benefit plans which provide retirement to public sector employees and other eligible participants. The standard sets the financial statements that should be presented by a retirement benefit plan.</p>

ii. Early adoption of standards

The Corporation did not early – adopt any new or amended standards in the financial year.

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees and other charges

The *Corporation* recognizes revenues from fees and other charges when the event occurs, and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the Corporation and the fair value of the asset can be measured reliably.

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 *Corporation* and can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, the amount is recorded in the statement of financial position and realised in the statement of financial performance over the useful life of the assets that have been acquired using such funds.

ii) Revenue from exchange transactions

Rendering of services

The Corporation recognizes revenue from the rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

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.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Budget information

The original budget for the Current FY was approved by the County Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Corporation upon receiving the respective approvals to conclude the final budget. The *Corporation'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 an 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 section on statement of comparison of budget and actual amounts for the period ended 30 June 2025 of these financial statements.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the *Corporation* operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates, and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits, and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognized outside

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

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

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- i) When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- ii) When receivables and payables are stated with the amount of sales tax included
The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property. Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use.

e) 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 Corporation 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.

f) Leases

Finance leases are leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the *Corporation*. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The *Corporation* also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit. An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the *Corporation* will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the *Corporation*. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

g) 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. Intangible assets with an indefinite useful life are assessed for impairment at each reporting date.

h) Research and development costs

The *Corporation* expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the *Corporation* can demonstrate:

- i) The technical feasibility of completing the asset so that the asset will be available for use or sale.
- ii) Its intention to complete and its ability to use or sell the asset.
- iii) How the asset will generate future economic benefits or service potential
- iv) The availability of resources to complete the asset.
- v) The ability to measure reliably the expenditure during development.

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

Financial instruments

IPSAS 41 addresses the classification, measurement, and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. *The Corporation does not have any hedge relationships and therefore the new hedge accounting rules have no impact on the Company's financial statements.* A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. At initial recognition, the Corporation measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

a) Financial assets

Classification of financial assets

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

Subsequent measurement

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

Amortized cost

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

Fair value through net assets/ equity

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

Trade and other receivables

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

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

Fair value through surplus or deficit

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

Impairment

The Corporation assesses, on a forward-looking basis, the expected credit loss ('ECL') associated with its financial assets carried at amortized cost and fair value through net assets/equity. The Corporation recognizes a loss allowance for such losses at each reporting date.

b) Financial liabilities

Classification

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

i) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or 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:

- i) Raw materials: purchase cost using the weighted average cost method.
- ii) 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. 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 *Corporation*.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

j) Provisions

Provisions are recognized when the *Corporation* 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 *Corporation* 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.

k) Contingent liabilities

The Corporation does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

l) Contingent assets

The Corporation 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 Corporation 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.

m) Nature and purpose of reserves

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

n) Changes in accounting policies and estimates

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

o) Employee benefits

Retirement benefit plans

The Corporation provides retirement benefits for its employees. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate Corporation (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable. Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

p) 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.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

q) 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 the construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

r) Related parties

The *Corporation* 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 *Corporation*, or vice versa. Members of key management are regarded as related parties and comprise the Directors and senior managers.

s) Service concession arrangements

The *Corporation* analyses all aspects of service concession arrangements that it enters in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the *Corporation* recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement, or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the *Corporation* also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

t) 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 an insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and various commercial banks at the end of the financial year.

u) Comparative figures

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

v) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2025.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the *Corporation'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 *Corporation* 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 *Corporation*. Such changes are reflected in the assumptions when they occur.
IPSAS 1.140

Useful lives and residual value

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

- a) The condition of the asset is based on the assessment of experts employed by the Corporation.
- b) The nature of the asset, its susceptibility, and adaptability to changes in technology and processes.
- c) The nature of the processes in which the asset is deployed.
- d) Availability of funding to replace the asset.
- e) 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.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

6. Transfers from Other Government entities

Description	2024-2025	2023-2024
	Kshs	Kshs
Unconditional Grants		
Operational Grant	78,758,591	76,155,481
Development grants	-	-
Total	78,758,591	76,155,481

7. Other Receipts

	2024-2025	2023-2024
	Kshs	Kshs
Total receipts	-	24,000,000
Less: Administration fee at 0.5%	-	(1,200,000)
Net amount	-	22,800,000

The County Government of Meru through the Directorate of Gender identified women empowerment as a crucial element in the society which uplifts many families in the County. They were granted an amount of Kshs.24 million to be disbursed through registered women groups. Meru County Microfinance Corporation was to administer the funds at 0.5% of the total amount disbursed.(Current year – Nil)

8. Interest Income

Description	2024-2025	2023-2024
	Kshs	Kshs
Interest earned on loans issued	3,559,969	6,394,021
Application fees charged on loans	243,130	385,630
Insurance fee charged on loans	243,130	385,630
Fees		-
Total	4,046,229	7,165,281

Interest earned, application fee and insurance fees are recognized once a loan is issued to a customer and income thereon is prorated up to the end of the financial year.

9. Fees and other charges

Description	2024-2025	2023-2024
	Kshs	Kshs
Fees	-	1,200,000
Total Fees	-	1,200,000

Meru County Microfinance Corporation entered into a memorandum of understanding with the Department of Gender, Youth and Sports for women empowerment within the County. The Corporation through its well established infrastructure was to disburse Kshs.24million on behalf

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year-ended June 30, 2025

of gender department at an administration fee of 0.5% of this amount which amounts to Kshs.1,200,000.(Current year – Nil)

10. Finance Income

Description	2024-2025	2023-2024
	Kshs	Kshs
Interest on cash investments and fixed deposits	4,141,515	3,269,307
Total Other income	4,141,515	3,269,307

11. Use of Goods and Services

Description	2024-2025	2023-2024
	Kshs	Kshs
Electricity	203,741	241,545
Water	93,576	51,103
Fuel and Oil	883,992	1,205,000
Insurance	9,675,122	9,621,170
Postage	9,450	9,700
Advertising, Printing and Stationery	95,945	6,861
Rent expenses	2,332,043	2,609,577
Capacity building	1,199,220	1,009,640
Telecommunication	604,390	12,000
Training	927,650	371,240
Travel, Subsistence & Other Allowances	5,908,495	4,621,250
Bank charges	37,824	20,486
Other program support expenses	2,451,946	3,074,300
Total	24,423,394	22,853,872

MERU COUNTY MICROFINANCE CORPORATION**Annual Reports and Financial Statements for the year ended June 30, 2025****12. Employee Costs**

Description	2024-2025	2023-2024
	Kshs	Kshs
Salaries and wages	48,287,016	42,584,316
Employer contribution to pension schemes	4,619,865	4,444,173
Housing benefits and allowances		7,110,800
Social contributions	1,650,490	1,935,453
Gratuity	364,932	1,449,284
Other employee related costs *	34,800	34,850
Employee costs	54,957,103	57,558,876

* Other employee-related costs- relate to payment to the National Industrial Training Authority(NITA).

13. Board Expenses

Description	2024-2025	2023-2024
	Kshs	Kshs
Sitting Allowances	-	238,850
Total	-	238,850

There was a reduction on directors sitting allowances because the term of the board expired in December 2023 and there was no replacement for the rest of the financial year.

14. Depreciation and Amortization Expense

Description	2024-2025	2023-2024
	Kshs	Kshs
Property, plant, and equipment	3,288,011	683,688
Intangible assets	1,166,667	-
Total depreciation and amortization	4,454,678	683,688

A large component of the items under computers and related equipment was fully depreciated last financial year. The system under use by the Corporation was also fully depreciated last financial year under intangible assets. However, a revaluation of both classes of assets was done hence the differences in depreciation and amortization.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

15. Repairs and Maintenance

Description	2024-2025	2023-2024
	Kshs	Kshs
Vehicles	556,860	454,328
Furniture and Fittings	12,300	5,830
Computers	2,872,212	1,208,732
Total Repairs and Maintenance	3,441,372	1,668,890

16. Other Payments

Other payments relates to payments made to programmes the Corporation runs in conjunction with the County Departments. The Corporation had Memorandum of Understanding with the departments of Co-operatives and Gender for disbursement of funds for empowerment of women within the County as follows:

	2024-2025	2023-2024
	Kshs	Kshs
Co-operative	-	-
Gender	-	22,800,000
Total	-	22,800,000

17. Cash and Cash Equivalents

Description	2024-2025	2023-2024
	Kshs	Kshs
Bank balances	35,479,819	31,088,729
Call Deposits	70,300,000	70,300,000
Total Cash and Cash Equivalents	105,779,819	101,388,729

Detailed Analysis of the Cash and Cash Equivalents

Financial Institution	Account number	2024-2025	2023-2024
		Kshs	Kshs
			Prior Year Restated
a) Bank balances			
KCB bank	1180085434	21,402,409	21,991,616
KCB bank	1180085329	1,655,347	1,131,305
KCB bank	1180084896	2,233,854	78,729
KCB bank	1168502993	30,781	(551,746)
KCB bank	1284845516	17,870	17,870
KCB bank	1288023324	19,152	67,930
ABSA Bank	2043505974	742,194	347,535
KCB bank	1259678806	4,151,100	3,929,875
KCB bank	1319474756	5,227,112	4,075,615
Sub- Total		35,479,819	31,088,729

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

Financial Institution	Account number	2024-2025	2023-2024
		Kshs	Kshs
b) On - Call Deposits			
KCB Bank	10929599	30,300,000	30,300,000
ABSA Bank	2043886943	40,000,000	40,000,000
Sub- Total		70,300,000	70,300,000
Grand Total		105,779,819	101,388,729

18. Receivables from County Government

	2024-2025	2023-2024
	Kshs	Kshs
Balance brought forward	82,005,505	71,094,850
Allocation for the period	78,758,591	76,155,481
Less: Receipts during the year (i)	(76,983,662)	(65,244,826)
Total due from County Treasury	83,780,434	82,005,505

19. Prepayments

	2024-2025	2023-2024
	Kshs	Kshs
Balance brought forward	276,000	276,000
Rent expense for the period	181,021	276,000
Less: paid during the year	(276,000)	(276,000)
Rent prepaid	181,021	276,000

20. Advances due from customers

	2024-2025	2023-2024
	Kshs	Kshs
Balance brought forward	134,387,239	139,941,799
Loan advances to customers (i)	23,826,740	37,791,699
Loan interest charge	4,046,229	7,165,281
Loan repayments (ii)	(32,428,665)	(50,511,539)
Balance carried down	<u>129,831,543</u>	<u>134,387,239</u>

The above balances has been classified as follows in the financial statements:

	2024-2025	2023-2024
	Kshs	Kshs
i) Current advances	124,751,540	134,387,239
ii) Non – Non Current advances	5,080,000	-
Balance carried down	<u>129,831,543</u>	<u>134,387,239</u>

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

- i) Current asset advances amount of Kshs.5,080,000 had been disbursed for a period of two years and has been classified as non-current assets in the Statement of Financial Position on the Financial Statements.
- ii) Non – Current advances amount relates to amounts disbursed during the period for a period of one year or less.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

21. Property, Plant and Equipment

Cost/Revalued amount	Motor vehicles	Furniture and fittings	ICT Equipment	Office Equipment	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Depreciation rate	25%	8%	33.3%	8%	
As At 1 July 2023	9,105,886	5,609,119	14,347,701	2,104,480	31,167,186
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Transfers/Adjustments	-	-	-	-	-
As at 30 th June 2024	9,105,886	5,609,119	14,347,701	2,104,480	31,167,186
Additions	-	-	467,800	-	467,800
Disposals	-	-	-	-	-
Transfer/Adjustments	-	-	-	-	-
Revaluation adjustments	2,711,000	-	1,437,300	-	4,148,300
As at 30th June 2025	9,105,886	5,609,119	16,252,801	2,104,480	35,783,286
Depreciation And Impairment					
At 1 July 2023	9,105,886	3,176,088	14,278,461	1,284,290	27,844,724
Depreciation	-	448,730	66,600	168,358	683,688
Impairment	-	-	-	-	-
Transfers/ Adjustments	-	-	-	-	-
As At 30 th June 2024	9,105,886	3,624,818	14,345,061	1,452,648	28,528,413
Depreciation	2,033,250	448,730	637,673	168,358	3,288,011
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Transfer/Adjustment	-	-	-	-	-
As at 30th June 2025	11,139,136	4,073,548	14,982,734	1,621,006	31,816,424
Net Book Values					
As at 30 th June 2024	-	1,984,301	2,640	651,832	2,638,773
As at 30 th June 2025	677,750	1,535,571	1,270,067	483,474	3,966,862

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

Property plant and Equipment includes the following assets that are fully depreciated:

Description	Cost or valuation	Normal annual depreciation charge
Motor Vehicles including Motorcycles	9,105,886	2,276,472
Computers and Related Equipment	11,707,420	1,692,487
Total	20,813,306	3,968,959

22. Intangible Assets

Description	2024-2025	2023-2024
	Kshs	Kshs
Cost		
At beginning of the year	25,252,444	25,252,444
Additions	-	-
Revaluation adjustments	3,500,000	-
At end of the year	28,752,444	25,252,444
Amortization and impairment		
At beginning of the year	25,252,444	25,252,444
Amortization	1,166,667	-
Impairment loss	-	-
At end of the year	26,419,111	25,252,444
NBV	2,333,333	-

23. Trade and Other Payables

Description	2024-2025	2023-2024
	Kshs	Kshs
Trade payables	-	-
Employee payables	4,135,640	8,670,401
Third-party payments	9,415,234	8,092,355
Total trade and other payables	13,550,874	16,762,756

24. Refundable Customers Deposits/savings

Description	2024-2025	2023-2024
	Kshs	Kshs
Opening balance	81,041,058	78,470,182
Savings received for the year (i)	2,677,660	4,211,001
Savings refunded during the year (ii)	(1,607,100)	(1,640,125)
Total Savings	82,111,618	81,041,058

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

**Meru County Microfinance Corporation operates under a group lending model which requires members in a group to save a substantial amount of money that acts as cash collateral for loans. The savings mobilized are refundable to the exiting members on request and on condition that the group has no outstanding loans with Meru County Microfinance Corporation.

25. Revolving fund receipts

Description	2024-2025	2023-2024
	Kshs	Kshs
Opening balance	8,005,490	-
Receipts during the period(i)	1,372,722	8,005,490
Total receipts	9,378,212	8,005,490

(i)Meru County Microfinance Corporation entered into a memorandum of understanding with the Department of Gender, Youth and Sports for women empowerment within the County. The funds are supposed to be paid back to empower other groups. The amount paid back for the fund during the period is as shown above.

26. Accumulated Surplus

	2024-2025	2023-2024
	Kshs	Kshs
Balance brought forward	67,588,848	62,802,955
Surplus/(Deficit) for the year	(330,212)	4,785,893
Balance carried down	<u>67,258,636</u>	<u>67,588,848</u>

27. Revaluation Reserve

	2024-2025	2023-2024
	Kshs	Kshs
Balance brought forward	-	-
Revaluation surplus during the year	7,648,300	-
Balance carried down	7,648,300	=

The revaluation reserve relates to fully depreciated assets (Motor vehicles, Motor cycles, computers and related equipment) which were revalued during the period.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

28. Capital fund

	2024-2025	2023-2024
	Kshs	Kshs
Balance brought forward	155,303,584	155,303,584
Funded during the year	-	-
Balance carried down	155,303,584	155,303,584

29. Employee Benefit Obligations

Retirement benefit Asset/ Liability

The Corporation operates a defined benefit scheme for all full-time employees from July 1, 2017. The scheme is administered by CPF Financial Services. The scheme is based on 15% percentage contribution by the employer and 12.5% by the employee of the salary of an employee. Employer contributions are recognized as expenses in the statement of financial performance within the period they are incurred. The Corporation also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The Corporation's obligation under NSSF is limited to specific contributions legislated from time to time.

30. 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 the 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 does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history. The Corporation's financial risk management objectives and policies are detailed below:

i) Credit risk

The Corporation has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments. Management assesses the credit quality of each customer, taking into account its financial position, past experience, and other factors. Individual risk limits are set based on internal or external assessments in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Corporation's management based on prior experience and their assessment of the current economic environment.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

Financial Risk Management

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

Description	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
As at 30th June 2025				
Receivables from exchange transactions	129,831,543	129,831,543	-	-
Bank balances	35,479,819	35,479,819	-	-
Total	165,311,362	165,311,362	-	-
As at 30 June 2024				
Receivables from exchange transactions	134,387,239	134,387,239	-	-
Bank balances	31,088,729	31,088,729	-	-
Total	165,475,968	165,475,968	-	-

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

ii) Liquidity risk management

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

Description	Less than 1 month	Between 1-3 months	Over 5 months	Total

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

	Kshs	Kshs	Kshs	Kshs
As at 30th June 2025				
Trade payables	-	13,550,874	82,111,618	95,662,492
Total	-	13,550,874	82,111,618	95,662,492
As at 30th June 2024				
Trade payables	-	16,762,756	81,041,058	97,803,814
Total	-	16,762,756	81,041,058	97,803,814

iii) Market risk

The *Corporation* has put in place an internal audit function to assist it in assessing the risk faced by the Corporation 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 rates, equity prices, and foreign exchange rates which will affect the Corporation'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 Risk Department is responsible for the development of detailed risk management policies (subject to review and approval by the Audit and Risk Management Committee) and for the day-to-day implementation of those policies. There has been no change to the Corporation's exposure to market risks or the way it manages and measures the risk.

a) Foreign currency risk

The *Corporation* has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. The *Corporation* manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting expected sales proceeds and matching the same with expected payments.

b) Interest rate risk

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

Management of interest rate risk

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

Sensitivity analysis

The Corporation analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year. Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of

Kshs 38,341 (Current FY: Kshs.42,000). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Kshs191,705 (Current FY – Kshs210,000).

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

Fair value of financial assets and liabilities

a) Financial instruments are measured at fair value.

Determination of fair value and fair values hierarchy

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

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

iv) Capital Risk Management

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

Description	2024-2025	2023-2024
	Kshs	Kshs
Revaluation Reserve	74,906,936	67,588,848
Retained Earnings	155,303,584	155,303,584
Capital Reserve		
Total Funds	230,210,520	222,892,432
Total Borrowings		
Less: Cash and Bank Balances	105,779,819	101,388,729
Net Debt/(Excess Cash And Cash Equivalents)	335,990,339	324,281,161

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

31. Related Party Disclosures

Nature of related party relationships

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

Government of Kenya

The Government of Kenya is the principal shareholder of the *Corporation*, holding 100% of the *Corporation's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the *Corporation*, both domestic and external.

Other related parties include:

- i) Department of Finance, Economic Planning and ICT
- ii) Department of Gender and Sports
- iii) County Government
- iv) Key management.
- v) Board of Directors

Description	2024-2025	2023-2024
	Kshs	Kshs
Transactions with related parties		
a) Grants /transfers from the government		
Grants from County government	78,758,591	76,155,481
Funds advanced for partnerships	-	22,800,000
Total	78,758,591	98,955,481
a) Key management compensation		
Directors' emoluments	-	238,850
Total	78,758,591	99,194,331

32. Events after the Reporting Period

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

33. Ultimate And Holding Corporation

The Corporation is a Corporation under the County Government of Meru

34. Currency

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

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

20. Appendices

Appendix 1: Implementation Status of Auditor-General's Recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
1.	Inaccuracies in the Financial Statements	This was due to change in financial statements format	Resolved	
2.	Long outstanding receivable	Amount not yet received	Not resolved	Not defined
3.	Property, Plant and equipment	Revaluation of the assets fully depreciated done	Resolved	
4.	Overdrawn account and netting off of balances	The accounts do not have negative balances	Resolved	
5.	Non-compliance with the one-third basic salary rule	Changes in statutory deductions	Not resolved	
6.	Non-compliance with staff ethnic composition	No employment has taken place during the year	Not resolved	
7.	Use of manual system	The Corporation is in the process of migrating to the Public Service Payroll system	Not resolved	By 30 th June 2026

..... *Smith*
M.D

Date:

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

Appendix II: Projects implemented by Meru County Microfinance Corporation

Projects implemented by the Corporation Funded by development partners and/ or the Government.

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements. (Yes/No)

Status of Project Completion

S/No	Project Name	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

Appendix IV: Transfers from Other Government Entities

Name of the Corporation Transferring the funds	Date received as per bank statement	Nature: Recurrent/ Development/ Others	Total Amount - KES	Statement of Financial Performance	Where Recorded/recognized				Total Transfers during the Year
					Capital Reserve	Deferred Income	Receivables	Others - must be specific	
Meru County	20/09/2024	Recurrent	10,707,597	10,707,597	-	-		-	10,707,597
Meru County	14/10/2024	Recurrent	5,373,566	5,373,566	-	-	-	-	5,373,566
Meru County	29/11/2024	Recurrent	5,432,708	5,432,708	-	-	-	-	5,432,708
Meru County	09/12/2024	Recurrent	4,985,261	4,985,261	-	-	-	-	4,985,261
Meru County	09/12/2024	Recurrent	9,645,063	9,645,063	-	-	-	-	9,645,063
Meru County	24/12/2024	Recurrent	5,004,991	5,004,991	-	-	-	-	5,004,991
Meru County	13/01/2025	Recurrent	5,310,091	5,310,091	-	-	-	-	5,310,091
Meru County	13/01/2025	Recurrent	4,239,763	4,239,763	-	-	-	-	4,239,763
Meru County	12/02/2025	Recurrent	5,004,991	5,004,991	-	-	-	-	5,004,991
Meru County	13/02/2025	Recurrent	2,718,706	2,718,706	-	-	-	-	2,718,706
Meru County	02/04/2025	Recurrent	1,719,507	1,719,507	-	-	-	-	1,719,507
Meru County	02/04/2025	Recurrent	4,938,836	4,938,836	-	-	-	-	4,938,836

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

Meru County	23/04/2025	Recurrent	4,771,211	4,771,211	-	-	-	-	4,771,211
Meru County	20/05/2025	Recurrent	2,431,577	2,431,577	-	-	-	-	2,431,577
Meru County	20/05/2025	Recurrent	4,699,794	4,699,794	-	-	-	-	4,699,794
Total			76,983,662	76,983,662	-	-	-	-	76,983,662

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

Appendix V- Inter-Corporation Confirmation Letter

Name of transferring Corporation:.....

Name of beneficiary Corporation:.....

Confirmation of amounts received as at 30th June 2024					
Reference Number	Date Disbursed	Recurrent (A)	Development (B)	Total (C)=(A+B)	Remarks
Total		N/A			

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

Head of Accounts Department - Disbursing Corporation:
 Name Sign Date

Head of Accounts Department - Beneficiary Corporation:
 Name Sign Date.....

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

Appendix VI: Reporting of Climate Relevant Expenditures

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

Handwritten in blue ink: 278

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2025

Appendix VII: Reporting on Disaster Management Expenditure

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