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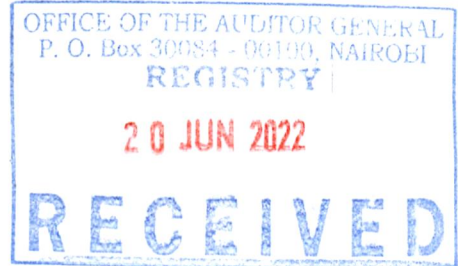
THE AUDITOR-GENERAL

ON

**MERU COUNTY MICROFINANCE
CORPORATION**

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





Meru County

Microfinance Corporation

Growing with you

Tel No. 0773-221-015
Email: info@countymicrofinance.go.ke

P.O. Box 2564 (60200)
MERU

MERU COUNTY MICROFINANCE CORPORATION REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2021

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

**COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION**

**Annual Reports and Financial Statements
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I. KEY ENTITY INFORMATION

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.

Principal Activities

The principal activities of the entity 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

The Board of Directors

The Board of Directors who served the entity during the year/period were as follows:

- | | | | |
|----|------------------------|--------------------|---------------------------|
| 1. | Gitonga Mutungi | - Chairman | - Appointed on 23/08/2017 |
| 2. | Catherine Kendi Kiecha | - Vice-Chairperson | - Appointed on 21/05/2018 |
| 3. | Benjamin Muketha | - Member | - Appointed on 21/05/2018 |
| 4. | Denson Mwirigi Mbuui | - Member | - Appointed on 22/02/2018 |
| 5. | Joseph Kabii Chabari | -Member | - Appointed on 22/02/2018 |

The Board of Directors contracts were renewed for another period of 3 years from December 2020.

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Registered Office

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

Corporate Headquarters

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

Corporate Contacts

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

Corporate Bankers

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

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

Independent Auditors

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

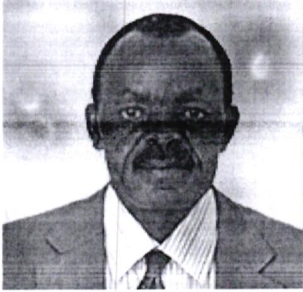


Principal Legal Advisers

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

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II. BOARD OF DIRECTORS

Photo	Board Name and Qualifications	Year of birth and experience
	<p>Samuel Gitonga Mutungi – Chairperson Fellow – Kenya Institute of Bankers Fellow – Kenya Computer Society Paul Harris – Fellow MSC Business Systems Analysis & Design (City University London) B.E.D (Maths & Business)</p>	<p>Year of Birth - 1954 Samuel Mutungi has over 30 years' experience in ICT and corporate business leadership. He has served in various key executive management positions at Co-Operative Bank of Kenya including Director Operations, Director Retail Banking, Director Corporate Banking and Chief Manager ICT.</p>
	<p>Catherine Kendi Kiecha – Vice-Chair MBA – Finance option Bachelor of Commerce – Accounting option CPA K</p>	<p>Year of birth – 1988 Ms. Catherine Kendi Kiecha has over 8 years' experience in Finance Management and Accounting. She serves as the Chairperson of both Audit and Risk Committee and Resource Mobilisation Committee and is a member of Finance Committee and Human Resource Committee of the Board.</p>
	<p>Benjamin Muketha – Member Master of Business Administration (MBA) Bachelor of Arts (Hons)</p>	<p>Year of birth - 1964 Business Executive with over 20 years' experience in senior management of large corporations. Extensive knowledge and experience in technology, operations and business development. Board level experience in initiation, coordination and execution of business strategy. He is the Chairman of both Finance Committee and Human Resource Committee and is a member of Audit and Risk Committee and Resource Mobilisation Committee of the Board.</p>

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	<p>Denson Mwirigi Mbuui – Member PHD (Entrepreneurship) Candidate UON MSC (Entrepreneurship) JKUAT MBA (Marketing) BBA (Accounting) CPA (K) Member ICPAK in good standing Member of International Process and Performance Institute (IPAPI)</p>	<p>Year of birth – 1964 Denson Mwirigi - 1.7 years Chief Officer Trade – Meru County Government 14 years Compassion International – Finance & Admin Manager, Senior Regional Operations Specialist 10 years National Council of Churches of Kenya – Senior Accountant in charge of Management Audit with the small and Micro Enterprises Programme He serves as a member of Human Resource Committee, Human Resource Committee and Resource Mobilization Committee in the Board</p>
	<p>Joseph Kabii Chabari – Member MBA – Finance BBA – Accounts CPA(K) Member – ICPAK</p>	<p>Year of birth - 1981 Joseph Kabii Chabari - Chief Officer Finance, Economic planning and ICT County Government of Meru. Mr. Chabari has a vast experience in Finance and accounting in Public Sector having worked at the National Treasury for 9 years. He serves as a member of Finance Committee and Resource Mobilization Committee in the Board</p>
	<p>Kenneth K Mbae – Managing Director Bachelor of Arts –Double Mathematics & Economics Corporate Governance – Centre for Corporate Governance Professional Sales Development – Robert Sales Training Hampshire Sales training – Dales Carnegie</p>	<p>Year of birth – 1977 Over 15 years’ experience in Corporate Banking, Business development and business relationships</p>

**COUNTY GOVERNMENT OF MERU
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III. MANAGEMENT TEAM

Photo	Manager's Name and Qualifications	Year of Birth and Experience
	<p>Kenneth K Mbae – Managing Director Bachelor of Arts – Double Mathematics & Economics Corporate Governance – Centre for Corporate Governance Professional Sales Development – Robert Sales Training Hampshire Sales training – Dales Carnegie</p>	<p>Year of Birth – 1977 Over 15 years' experience in Corporate Banking, Business development and business relationship</p>
	<p>Daniel Kimathi – Finance and Administration Manager BBA Accounts; CPA(K) and Member of Institute of Certified Public Accountants(ICPAK) Master's degree – Finalizing</p>	<p>Year of Birth 1978 - Over 13 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 – 11 years' experience in banking and project management</p>
	<p>Martin Ntuara – Branch Manager – Meru Bachelor of Commerce – Marketing</p>	<p>Year of Birth 1982 – 10 years banking experience</p>

**COUNTY GOVERNMENT OF MERU
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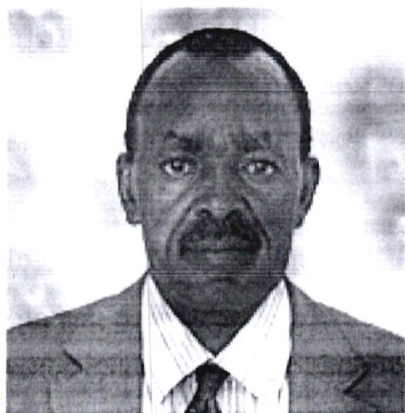
**Annual Reports and Financial Statements
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	<p>Edith Kaaria – Head of Human Resource Bachelor of Arts, Economics and Sociology Post Graduate Diploma in HRM</p>	<p>Year of Birth 1983 – 11 years’ experience in Human Resource practice</p>
	<p>Eric Kinyua – 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 11 years of experience implementing technology projects, developing product requirements, analysing support strategies and processes to facilitate improved operations and efficiency</p>

**COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION**

**Annual Reports and Financial Statements
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IV. CHAIRMAN'S STATEMENT



The Meru County Microfinance Corporation Act 2014 requires the corporation to prepare financial statements at the end of each financial year. On behalf of the Board of Directors, I am pleased to present the financial statements for the corporation, for the period ended 30th June 2021.

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 period 2020-2021, the Corporation had a total budget on County Government funding of Kes.100 Million on recurrent expenditure but received Kes.85 Million. The Corporation relies on the revolving fund from loan repayments to finance its development expenditure. The amount utilized for lending for the period under review was Kshs.105 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 6,500 customers, with products covering both loan 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 period under review the Corporation was supported by the County Government to provide Microfinance and related services to small and medium businesses in Meru County.

**COUNTY GOVERNMENT OF MERU
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For the year ended June 30, 2021

CHAIRMAN'S STATEMENT(Cont'd)

Among the main challenges experienced during the period include inadequate and delayed disbursement of funds, lack of adequate personnel and COVID - 19 pandemic. The Corporation intends to open an additional branch in the financial year 2021/2022 to serve its customers better.

The Board will continue working closely with management to ensure realization of its vision. My 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 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.



Gitonga Mutungi

CHAIRMAN-Board of Directors

**COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION**

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V. 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.

During the period under review, the combined financial absorption of the Corporation was Kes.100 Million out of an allocation of Kes.110 Million translating into 91% absorption rate. The Corporation raised a total of Kes.10 Million as Appropriation in Aid mainly from income interest from lending to customers, finance income and fees charged on strategic partnerships. This income dropped against the previous reporting period Financial Year 2020/21 of KES. 12 Million. The decrease in the income is attributed to reduced lending as a result of government directives on Covid – 19 prevention regarding social gatherings affecting group meetings and mandatory customer training before lending.

Advances in computer technology, networked communication and digitization of almost everything 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.

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REPORT OF THE MANAGING DIRECTOR(Cont'd)

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 and COVID-19 pandemic which presented major obstacle into achievement of 2020/21 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.

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.



Kenneth K. Mbae
Managing Director

**COUNTY GOVERNMENT OF MERU
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**VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES
FOR FY 2020/2021**

Meru County Microfinance Corporation has 3 strategic pillars and objectives within its Strategic Plan for the FY 2018/2019- 2022/2023. 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. The *Meru County Microfinance Corporation* achieved its performance targets set for the FY 2020/2021 period for its 3 strategic pillars, as indicated in the diagram below:

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

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**REVIEW OF MERU COUNTY MICROFINANCE CORPORATION PERFORMANCE FOR
FY 2019/2020(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 <p>Establish functioning formal partnerships</p>	<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 <p>Monetary value of partnerships developed</p>	
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**COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION**

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VII. 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.

**COUNTY GOVERNMENT OF MERU
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CORPORATE GOVERNANCE STATEMENT (Cont'd)

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

- (a) Finance Committee - Comprises of Benjamin Muketha, Catherine Kendi Kiecha and Joseph Kabii Chabari.
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.
- (b) Human Resource Committee – The committee comprises of Benjamin Muketha, Catherine Kendi Kiecha and Denson Mwirigi. 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 – Comprises of Catherine Kendi Kiecha, Benjamin Muketha and Denson Mwirigi. 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 – Comprises of Catherine Kendi Kiecha, Benjamin Muketha, Denson Mwirigi.
Its mandate is to review current resource needs and funding gaps and pursue possible funding opportunities for the Corporation.

The attendance of Board meetings during the year under review was as follows:

Director	Full Board	Finance Committee	HR & Administration Committee	Audit Committee	Resource Mobilization Committee
Samuel Gitonga Mutungi	Membership				
Attendance	4/4				
Catherine Kendi Kiecha	Membership	✓	✓	✓	✓
Attendance	4/4	5/5	5/5	3/3	2/2
Benjamin Muketha	Membership	✓	✓	✓	✓
Attendance	4/4	5/5	5/5	3/3	2/2
Joseph Kabii Chabari	Membership	✓	✓	✓	-
Attendance	1/4				
Denson Mwirigi Mbuui	Membership	-	✓	✓	✓
Attendance	4/4		3/5	2/3	2/2
Mr. Kenneth K. Mbae	Membership	✓	✓	✓	✓
Attendance	4/4	4/5	4/5	2/3	2/2

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CORPORATE GOVERNANCE STATEMENT (Cont'd)

- (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.

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.

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MERU COUNTY MICROFINANCE CORPORATION**

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CORPORATE GOVERNANCE STATEMENT (Cont'd)

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

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

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CORPORATE GOVERNANCE STATEMENT (Cont'd)

(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 whatsoever 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.

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.


Chairperson

**COUNTY GOVERNMENT OF MERU
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VIII. 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.105 Million during the financial year.

Digital Transformation has been an on-going process since 2016 with an initial investment of Ksh. 15 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.

**COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION**

**Annual Reports and Financial Statements
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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.

**COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION**

**Annual Reports and Financial Statements
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IX. 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.

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. 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.



Managing Director

**COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION**

**Annual Reports and Financial Statements
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X. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2021 which show the state of the Meru County Microfinance Corporation affairs.

Principal activities

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

Results

The results of the entity for the year ended June 30, 2021 are set out on page 1.

Directors

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

Auditors

The Auditor General is responsible for the statutory audit of the entity 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

Jrah Nthubi

Signature

Jrah Nthubi

Date

29/06/2021

Secretary to the Board

**COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION**

**Annual Reports and Financial Statements
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XI. 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 in respect of that entity, which give a true and fair view of the state of affairs of the entity at the end of the financial year/period and the operating results of the entity for that year/period. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.

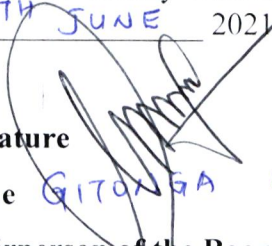
The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2021. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Meru County Microfinance 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). The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2021, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the entity will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Meru County Microfinance Corporation financial statements were approved by the Board on 25TH JUNE 2021 and signed on its behalf by:

Signature 
Name GITONGA MUTUNGI
Chairperson of the Board

Signature 
Name KENNETH K. MBARI
Managing Director

REPUBLIC OF KENYA

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



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

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

PREAMBLE

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

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

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Meru County Microfinance Corporation set out on pages 1 to 39, which comprise of the statement of financial position as at 30 June, 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant

accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Meru County Microfinance Corporation as at 30 June 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Public Finance Management Act, 2012 and the Meru County Microfinance Corporation Act, 2014.

Basis for Qualified Opinion

1. Unsupported Trade and Other Payables

The statement of financial position and Note 20 to the financial statements reflects a balance of Kshs.75,535,770 in respect of trade and other payables which includes a balance of Kshs.68,161,429 in respect of customer savings and a balance of Kshs.7,374,341 accrued expenses. However, supporting documents including schedules to support the balances owing to different groups and composition of the accounts balances were not provided for audit.

Further, the balance of Kshs.7,374,341 in respect of accrued expenses includes Kshs.115,293 that has been outstanding since 2018/2019 financial year. Management did not explain why this expense has been outstanding and did not demonstrate recovery strategy.

In the circumstances, the accuracy of the balance of Kshs.75,535,770 in respect of trade and other payables as at 30 June, 2021 could not be confirmed.

2. Unsupported Loans Due from Customers

The statement of financial position as disclosed in Note 17 to the financial statements reflects a balance of Kshs.141,941,184 as loans due from customers. However, supporting schedules provided for review lacked the loan periods, principal amount and interest paid, outstanding amounts for both current and non-current portion of the loans and breakdown of the balance brought forward of Kshs.127,571,433.

Further, the borrower's files to confirm the existence of the loans evidence of approval, were not provided for review.

In addition, supporting documents including loan repayment schedule and loan collection account bank statement for loan repayments of Kshs.99,150,953 were not provided for audit.

In the circumstances, the accuracy and existence of the balance of Kshs.141,941,184 in respect of loans due from customers 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 Microfinance Corporation Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2021 reflects budgeted revenue of Kshs.205,345,073 and actual revenue of Kshs.194,129,783 resulting to a shortfall of Kshs.11,215,290.

The under collection affected the operations of the Corporation and may have negatively affected service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Violation of the Corporation's Enabling Act

During the year, 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. No explanation was provided for this anomaly. Further, the Section prescribes the ideal composition of the Board members who are eligible to transact the Corporations' business as seven (7) members, however the Corporation operated with a membership of six Board members.

Also, Section 6(7) of the Meru County Microfinance Corporation Act, 2014 prescribes no more than two thirds of the members of the Board under Section(1) of the same Act shall be of the same gender. However, the Board had five males and one female member, translating to one sixth which is below the prescribed minimum of two thirds.

In addition, review of the Board attendance register, indicated that for four Board meetings held during the year, each was attended by a different person designated as the legal officer. The attendance by different legal officers casted doubts on the consistency of deliberations of the Boards agenda and value addition to the Corporation. The qualifications of the three legal officers were not provided for audit to confirm whether they met the qualification criteria as set out in Section 6(4) of the Act which emphasizes that the Corporation Secretary/Legal officer is supposed to be of good professional standing with the Institute of Certified Public Secretaries of Kenya.

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

2. Failure to Pay Taxes

2.1 Accrued Tax Liability on PAYE

The statement of profit or loss and other comprehensive income as disclosed in Note 8 to the financial statements reflects Kshs.98,533,145 in respect of administration costs which includes Kshs.57,515,507 in respect of staff costs. However, a review of the Corporation's KRA iTax records in the month of October, 2021 revealed that Management had accrued a tax liability of Kshs.1,907,708 for Income Tax - PAYE obligation being principal tax, penalties and interests between the tax periods April, 2017 and August, 2021. Further, the interest which is charged at 2% of the outstanding principal tax and the penalty at 25% of the outstanding principal tax or Kshs.10,000 whichever is higher continues to accumulate due to non-payment by the Corporation.

2.2 Penalty for Late Submission of VAT Returns

The Corporation is registered for Value Added Tax (VAT) obligation. However, review of the Corporation's KRA iTax records on 5 October, 2021 revealed total accrued tax liability of Kshs.710,000 for Value Added Tax (VAT) obligation being penalties for late submission between the periods October, 2014 and September, 2020.

2.3 Unaccounted Withholding Tax on Directors Sitting Allowances

The statement of profit or loss and other comprehensive income for the year ended 30 June, 2021 and as disclosed in Note 8 to the financial statements reflects administration costs totaling to Kshs.98,533,145, which includes an amount of Kshs.1,342,235 relating to director's emoluments. Review of payments of directors sitting allowances revealed that an amount of Kshs.110,400 had been deducted on various dates but had not been remitted to KRA as required by Income Tax Act Cap 470.

In the circumstances, Management is in breach of the law and stands to incur additional interests and penalties for delayed payments.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the International Financial Reporting Standards (IFRS) of accounting unless Management is aware of the intention to terminate the Corporation or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 (7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

05 September, 2022

**COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION**

**Annual Reports and Financial Statements
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**XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE YEAR ENDED 30 JUNE 2021**

	Note	2020-2021	2019-2020
		Kshs	Kshs
REVENUES			
Transfers from other Government entities	6	100,024,734	80,252,212
Other Income	7	8,006,129	9,248,622
Finance Income	9	1,972,701	3,177,005
TOTAL REVENUES		110,003,564	92,677,839
OPERATING EXPENSES			
Administration Costs	8	98,533,145	98,012,120
Depreciation of property, plant and equipment	10	1,429,701	2,411,866
Amortisation of Intangible Assets	11	3,099,256	5,325,801
TOTAL OPERATING EXPENSES		103,062,102	105,749,787
SURPLUS BEFORE TAXATION		6,941,462	(13,071,947)
INCOME TAX EXPENSE/(CREDIT)		-	-
SURPLUS AFTER TAXATION		<u>6,941,462</u>	<u>(13,071,947)</u>

**COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION**

**Annual Reports and Financial Statements
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XIV. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Note	2020-2021 Kshs	2019-2020 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	10	6,115,066	5,104,486
Intangible assets	11	6,175,785	15,993
Total Non-Current Assets		12,290,851	5,120,479
Current Assets			
Receivable from County Government	15	76,194,880	61,170,146
Fixed deposit interest receivable		-	175,000
Prepayments – Rent	16	-	-
Short-term deposits	13	64,000,000	55,000,000
Bank and cash balances	14.1	1,315,839	18,722,212
Loans due from customers	17	141,941,184	127,571,433
Total Current Assets		283,451,902	262,638,791
Total Assets		295,742,753	267,759,270
EQUITY AND LIABILITIES			
Capital and Reserves			
Capital Contribution	18	155,303,584	155,303,584
Retained earnings	19	64,903,398	57,961,936
Capital and Reserves		220,206,982	213,265,520
Current Liabilities			
Customer Savings	20	68,161,429	54,378,456
Trade and other payables	20	7,374,341	115,293
Total Current Liabilities		75,535,770	54,493,749
TOTAL EQUITY AND LIABILITIES		295,742,752	267,759,270

The financial statements were approved by the Board on

25th JUNE 2021

and signed on its behalf by

Managing Director

Head of Finance

Chairman of the Board

Name: **KENNETH K. MBAE**

Name: **DANIEL K. MUTHURI**

Name: **GITONGA MUTUNGI**

MBAE

ICPAK M/NO: 6019

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**COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION**

**Annual Reports and Financial Statements
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XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

	Ordinary Share Capital	Revaluation Reserve	Fair Value adjustment Reserve	Retained Earnings	Capital/ Development Grants/Fund	Proposed Dividends	Total
At July 1, 2018	-	-	-	71,033,883	155,303,584	-	226,337,467
Capital Contribution	-	-	-	(13,071,947)	-	-	(13,071,947)
At June 30, 2019	-	-	-	57,961,936	155,303,584	-	213,265,520
At July 1, 2020	-	-	-	57,961,936	155,303,584	-	213,265,520
Capital Contribution	-	-	-	6,941,462	-	-	6,941,462
At June 30, 2021	-	-	-	64,903,398	155,303,584	-	220,206,982

**COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION**

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

	Note	2020-2021	2019-2020
		Kshs	Kshs
CASH FLOWS FROM OPERATING ACTIVITIES			
Transfers from other Government Entities	15	85,000,000	100,325,236
Interest received	9	2,147,701	3,002,005
Fees earned	7	150,000	500,000
Payments for operating expenses	8	(98,533,145)	(97,748,120)
Net cash generated from/(used in) operating activities		(11,235,444)	6,079,122
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets	10&11	(4,440,281)	-
Loan advances to customers	17	(105,664,575)	(112,303,244)
Net cash generated from/(used in) investing activities		(110,104,856)	(106,224,122)
CASH FLOWS FROM FINANCING ACTIVITIES			
Customer savings		13,782,973	14,998,301
Repayment of loans	17	99,150,953	67,909,887
Net cash generated from/(used in) financing activities		112,933,926	82,908,188
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(8,406,373)	(23,315,934)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		73,722,212	97,038,145
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	14	65,315,837	73,722,212

COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION

Annual Reports and Financial Statements
For the year ended June 30, 2021

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

/	Note	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilisation
		2020-2021	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021
Revenue		Kshs	Kshs	Kshs	Kshs	Kshs	%
Balance b/f FY 2019/2020		-	-	-	-	-	-
Transfers from the Government		100,024,735	-	100,024,735	85,000,000	(15,024,735)	85%
Finance Income		2,120,338	-	2,120,338	1,972,701	(147,637)	93%
Revolving fund		96,000,000	-	96,000,000	99,150,953	3,150,953	103%
Other Revenue		7,200,000	-	7,200,000	8,006,129	806,129	111%
Total income		205,345,073	-	205,345,073	194,129,783	(11,215,290)	95%
Expenses							
Compensation of employees		58,013,778	-	58,013,778	57,515,507	498,271	99%
Use of goods and services		43,924,623	-	43,924,623	38,360,497	5,564,126	87%
Rent paid		2,406,672	-	2,406,672	2,657,141	(250,469)	110%
Development expenditure		101,000,000	-	101,000,000	105,664,575	(4,664,575)	105%
Total expenditure		205,345,073	-	205,345,073	204,197,720	1,147,353	99%
Surplus for the period		-	-	-	(10,067,937)	(10,067,937)	

**COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION**

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XVIII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Meru County Microfinance Corporation.

The financial statements have been prepared in accordance with the PFM Act, the Meru County Microfinance Act, 2014, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

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

- i. *New and amended standards and interpretations in issue effective in the year ended 30 June 2021.*

Title	Description	Effective Date
IAS 39- Financial Instruments: Recognition and Measurement	IAS 39 "Financial Instruments: Recognition and Measurement" outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Financial instruments are initially recognized when an entity becomes a party to the contractual provisions of the instrument and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument (typically amortized cost or fair value). Special rules apply to embedded derivatives and hedging instruments.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

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Title	Description	Effective Date
IFRS 4- Insurance Contracts (Superseded)	IFRS 4 "Insurance Contracts" applies, with limited exceptions, to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds. In light of the IASB's comprehensive project on insurance contracts, the standard provides a temporary exemption from the requirements of some other IFRSs, including the requirement to consider IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" when selecting accounting policies for insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.
IFRS 7- Financial Instrument Disclosures	IFRS 7 "Financial Instruments: Disclosures" requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

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Title	Description	Effective Date
IFRS 16- Leases	IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained.	The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

Application of New and Revised International Financial Reporting Standards (IFRS)

- ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021*

Title	Description	Effective Date
IAS 1 — Presentation of Financial Statements	IAS 1 "Presentation of Financial Statements" sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	Earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.

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Title	Description	Effective Date
IAS 16 — Property, Plant and Equipment	IAS 16 "Property, Plant and Equipment" outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 37 — Provisions, Contingent Liabilities and Contingent Assets	IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IAS 41 — Agriculture	IAS 41 "Agriculture" sets out the accounting for agricultural activity – the transformation of biological assets (living plants and animals) into agricultural produce (harvested product of the entity's biological assets). The standard generally requires biological assets to be measured at fair value less costs to sell.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
IFRS 1 — First-time Adoption of International Financial Reporting Standards	IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

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Title	Description	Effective Date
IFRS 3 — Business Combinations	IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.
IFRS 17 — Insurance Contracts	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.	The IASB tentatively decided to defer the effective date of IFRS 17, Insurance Contracts to annual periods beginning on or after January 1, 2022. [The IASB has also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment also to annual periods beginning on or after January 1, 2023.]

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2020/2021

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

iv. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

- i) **Revenue from the sale of goods and services** is recognised in the year in which the *entity* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the *entity* actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the *entity* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *entity* includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

d) Depreciation and impairment of property, plant and equipment

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

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

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

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

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible assets

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

f) Amortisation and impairment of intangible assets

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

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

g) Investment property

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

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

h) Finance and operating leases

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Fixed interest investments (bonds)

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

j) Quoted investments

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

k) Unquoted investments

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

l) Inventories

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

m) Trade and other receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

n) Taxation

Current income tax

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Current income tax (Continued)

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

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 reassessed 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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Deferred tax (Continued)

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

o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various Commercial Banks at the end of the reporting period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

p) Borrowings

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

q) Trade and other payables

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

**COUNTY GOVERNMENT OF MERU
MERU COUNTY MICROFINANCE CORPORATION**

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2018. The scheme is administered by CPF Pension Services and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.15% of basic salary per employee per month.

s) Provision for staff leave pay

Employees' entitlements to annual leave are recognised as they accrue at the employees. At provision is made for the estimated liability for annual leave at the reporting date.

t) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

u) Budget information

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

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MERU COUNTY MICROFINANCE CORPORATION**

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity 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 Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

w) Comparative figures

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

x) 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, 2021.

**5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION
UNCERTAINTY**

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

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**5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY
(Continued)**

Estimates and assumptions

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

Useful lives and residual values

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

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

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NOTES TO THE FINANCIAL STATEMENTS

6. TRANSFERS FROM OTHER GOVERNMENT ENTITIES

	2020-2021	2019-2020
	Kshs	Kshs
Recurrent grants	100,024,734	80,252,212
Total	100,024,734	80,252,212

7. OTHER INCOME

	2020-2021	2019-2020
	Kshs	Kshs
Interest earned on loans issued	5,736,357	6,584,066
Application fee on loans issued	1,063,636	1,082,278
Insurance fee on loans issued	1,056,136	1,082,278
Fees earned**	150,000	500,000
Total	8,006,129	9,248,622

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.

Fees earned**- relates to fees charged on dealings with third parties.

8. ADMINISTRATION COSTS

	2020-2021	2019-2020
	Kshs	Kshs
Staff costs	57,515,507	57,965,952
Directors' emoluments	1,342,235	2,772,696
Electricity and water	202,830	221,425
Communication services and supplies	1,817,916	2,576,777
Transportation, travelling and subsistence	4,355,145	742,282
Advertising, printing, stationery and photocopying	518,584	3,865,939
Fuel and Lubricants	661,101	587,150
Rent expenses	2,657,141	2,046,566
Staff training expenses	509,800	4,144,836
Board conference and seminars	27,050	127,833
Hospitality supplies and services	2,286,051	3,454,527
Insurance costs	10,995,922	11,840,535
Capacity Building	1,571,577	1,923,562
Consultancy fees	-	367,200
Office and general supplies and services	907,351	1,076,197
Legal fees	13,000	391,020
Repairs and maintenance – Motor Vehicles	539,335	749,527

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Maintenance Of Office, Renovations, Furniture & Equipment	7,537,035	-
Repairs and maintenance – Other assets	3,942,829	1,298,228
Other operating expenses	1,129,736	1,859,868
Total	98,533,145	98,012,120

9 FINANCE INCOME

	2020-2021	2019-2020
	Kshs	Kshs
Interest income received on short-term bank deposits	2,147,701	3,002,005
Add: Accrued interest during the year	-	175,000
Less – Accrued interest for prior year received	(175,000)	-
Total Finance Income for the year	1,972,701	3,177,005

**COUNTY GOVERNMENT OF MERU
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles, including motor cycles	Furniture and fittings	Office equipment	Computers & related equipment	Total
COST/VALUATION					
At July 1, 2020	9,105,886	5,609,119	2,104,480	11,707,420	28,526,905
Additions(Acquisitions)	-	-	-	2,440,281	2,440,281
Disposals	-	-	-	-	-
At June 30, 2021	9,105,886	5,609,119	2,104,480	14,147,701	30,967,186
DEPRECIATION	25%	8%	8%	33.3%	
At July 1, 2020	9,105,886	1,829,900	779,214	11,707,420	23,422,420
Charge for the year	-	448,730	168,358	812,614	1,429,701
At June 30, 2021	9,105,886	2,278,630	947,572	12,520,034	24,852,121
Net book value at June 30, 2021	-	3,330,489	1,156,908	1,627,667	6,115,065

Property, Plant and equipment include the following items that are fully depreciated:

	Cost or valuation	Normal annual depreciation charge
Computers and related equipment	11,707,420	1,692,487
Motor Vehicles including motor cycles	9,105,886	2,276,472
	20,813,306	3,968,959

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

PROPERTY, PLANT AND EQUIPMENT (Continued)

	Motor vehicles and motor cycles	Furniture and fittings	Office equipment	Computers and related equipment	Total
COST OR VALUATION					
At July 1, 2019	9,105,886	5,609,119	2,104,480	11,707,420	28,526,905
Additions(Acquisitions)	-				
Disposals	-	-	-	-	-
At June 30, 2020	9,105,886	5,609,119	2,104,480	11,707,420	28,526,905
DEPRECIATION	25%	8%	8%	33.3%	
At July 1, 2019	9,003,595	1,381,170	610,856	10,014,933	21,010,553
Charge for the year	102,291	448,730	168,358	1,692,487	2,411,866
Impairment loss	-	-	-	-	-
At June 30, 2020	9,105,886	1,829,900	779,214	11,707,420	23,422,420
Net book value at June 30, 2020	-	3,779,219	1,325,266	-	5,104,485

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 INTANGIBLE ASSETS

	2020-2021	2019-2020
	Kshs	Kshs
COST		
At July 1	15,993,396	15,993,396
Additions	9,259,048	--
Disposals	--	--
At June 30	25,252,444	15,993,396
AMORTISATION		
At July 1	15,977,403	10,651,602
Charge for the year	3,099,256	5,325,801
Disposals	---	----
Impairment loss	---	----
At June 30	19,076,659	15,977,403
NET BOOK VALUE		
At June 30	6,175,785	15,993
	=====	=====

The Corporation commissioned an integrated software system T24 to be used in all departments of the Corporation

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 TRADE AND OTHER RECEIVABLES

	2020-2021	2019-2020
	Kshs	Kshs
Deposits and prepayments	64,000,000	55,000,000
Other receivables	76,194,880	61,170,146
Fixed deposit interest receivable	-	175,000
Net trade and other receivables	140,194,880	116,345,146
	=====	=====

13 SHORT TERM DEPOSITS

	2020-2021	2019-2020
	Kshs	Kshs
Kenya Commercial Bank	64,000,000	55,000,000
Accrued Interest		-
	64,000,000	55,000,000
	=====	=====

The average effective interest rate on the short term deposits as at June 30, 2021 was 5.3% (2020: 6.45%).

14 BANK AND CASH BALANCES

	2020-2021	2019-2020
	Kshs	Kshs
Cash at bank	1,315,839	18,722,212
Short term deposits	64,000,000	55,000,000
	<u>65,315,839</u>	<u>73,722,212</u>
	=====	=====

The bulk of the cash at bank was held at Kenya Commercial Bank, the entity's main bankers.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

14.1 BANK AND CASH BALANCES (Continued)

Bank Accounts

Name of Bank, Account No. & currency	2020-2021	2019-2020
	Kshs	Kshs
Kenya Commercial bank, Ac no.1180085434	944,440	6,570,300
Kenya Commercial bank, Ac no.1180085329	2,958,253	138,399
Kenya Commercial bank, Ac no.1180084896	(4,326,176)	9,858,292
Kenya Commercial bank, Ac no.1168502993	1,739,322	2,155,221
Grand Total	<u>1,315,839</u>	<u>18,722,212</u>

The make – up of bank balances and short term deposits is as follows:

Detailed analysis of the cash and cash equivalents

Financial institution	2020-2021	2019-2020
	KShs	KShs
a) Current account		
Kenya Commercial bank	1,315,839	18,722,212
Other banks	-	-
Sub- total	<u>1,315,839</u>	<u>18,722,212</u>
b) On - call deposits		
Kenya Commercial bank	24,000,000	20,000,000
Other banks	40,000,000	-
Sub- total	<u>64,000,000</u>	<u>20,000,000</u>
c) Fixed deposits account		
Kenya Commercial bank	-	35,000,000
Other banks	-	-
Sub- total	<u>-</u>	<u>35,000,000</u>
Grand total	<u>65,315,839</u>	<u>73,722,212</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 RECEIVABLE FROM THE COUNTY GOVERNMENT

	2020-2021	2019-2020
	Kshs	Kshs
Balance brought forward	61,170,146	81,243,170
Allocation for the financial year	100,024,734	80,252,212
Less: Receipts during the year	(85,000,000)	(100,325,236)
Total due from County Treasury	76,194,880	<u>61,170,146</u>

The above amounts refer to funds that had not been received by the Corporation as at 30th June from the County Government.

16 PREPAYMENT – RENT

	2020-2021	2019-2020
	Kshs	Kshs
Balance brought forward	-	264,000
Current charge for the year	2,496,304	1,782,566
Less: Payments during the year	(2,496,304)	(2,046,566)
Balance carried down	=	=

17 LOAN DUE FROM CUSTOMERS

	2020-2021	2019-2020
	Kshs	Kshs
Balance brought forward	127,571,433	74,429,454
Loan advances to customers	105,664,575	112,303,244
Loan interest charge	7,856,129	8,748,622
Loan repayments	(99,150,953)	(67,909,887)
Balance carried down	<u>141,941,184</u>	<u>127,571,433</u>

18 CAPITAL CONTRIBUTION

	2020-2021	2019-2020
	Kshs	Kshs
Balance brought forward	155,303,584	155,303,584
Contribution for the year	-	-
Balance carried down	<u>155,303,584</u>	<u>155,303,584</u>

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19 RETAINED EARNINGS

The retained earnings represent amounts available for distribution to the shareholders. Undistributed retained earnings are utilised to finance the business activities.

	2020-2021	2019-2020
	Kshs	Kshs
Balance brought forward	57,961,936	71,033,883
Surplus/(Deficit) for the year	6,941,462	(13,071,947)
Balance carried down	<u>64,903,398</u>	<u>57,961,936</u>

20 TRADE AND OTHER PAYABLES

	2020-2021	2019-2020
	Kshs	Kshs
Refundable member savings**	68,161,429	54,378,456
Accrued expenses	7,374,341	115,293
	<u>75,535,770</u>	<u>54,493,749</u>

**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.

21 RETIREMENT BENEFIT OBLIGATIONS

The entity operates a defined contribution scheme with CPF Financial Services for all full-time employees from September 1, 2016. The Corporation contributes 15% of the basic salary of an employee to the Pension Scheme. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 PROVISION FOR LEAVE PAY

	2020-2021	2019-2020
	Kshs	Kshs
Balance at beginning of the year	-	-
Additional provision at end of year	308,000	539,960
Leave paid out or utilized during the year	(308,000)	(539,960)
Balance at end of the year	-	-

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

23 RELATED PARTY DISCLOSURES

(a) County Government of Meru

The County Government of Meru is the principal shareholder of the Corporation, holding 100% of the Corporation's equity interest

Other related parties include:

- i) The Parent Departments of Trade and Finance in the County Government;
- ii) Key management;
- iii) Board of directors;

There were no transactions within the related parties during the financial year.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 FINANCIAL RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks including credit and liquidity risks. The Corporation's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Corporation 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 Corporations'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 customer 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 their financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

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

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MERU COUNTY MICROFINANCE CORPORATION**

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2021				
Receivables from exchange transactions	141,941,184	141,941,184	-	-
Bank balances	1,315,839	1,347,121	-	-
Total	143,257,022	143,288,305	-	-
At 30 June 2020				
Receivables from exchange transactions	127,571,433	127,571,433	-	-
Bank balances	18,722,212	18,722,212	-	-
Total	146,293,645	146,293,645	-	-

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 company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The board of directors sets the company'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 company 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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk management (Continued)

	Less than 1 month Kshs	Between 1-3 months Kshs	Over 3 months Kshs	Total Kshs
At 30 June 2021				
Trade payables	-	-	75,535,770	75,535,770
Total	-	-	75,535,770	75,535,770
At 30 June 2020				
Trade payables	-	-	54,493,749	54,493,749
Total	-	-	54,493,749	54,493,749

(iii) Market risk

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

a) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company'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 entity 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.30,020(2020: KShs 36,824). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs.150,100(2020 – KShs 184,121).

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 FINANCIAL RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *entity's* market assumptions. These two types of inputs have created the following fair value hierarchy:

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 FINANCIAL RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities (Continued)

a) Financial instruments measured at fair value (Continued)

	Level 1 Kshs	Level 2 Kshs	Level 3 Kshs	Total Kshs
At 30 June 2021				
Non- financial Assets				
Property, plant and equipment	-	6,115,066	-	5,534,078
		<u>6,115,066</u>		<u>6,115,066</u>
	=====	=====	=====	=====
At 30 June 2020				
Non- financial Assets				
Property, plant and equipment	-	5,104,486	-	5,104,486
		<u>5,104,486</u>		<u>5,104,486</u>
	=====	=====	=====	=====

There were no transfers between levels 1, 2 and 3 during the year.

b) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 FINANCIAL RISK MANAGEMENT (Continued)

iv) Capital Risk Management

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

	2020-2021	2019-2020
	Kshs	Kshs
Retained earnings	64,903,398	57,961,936
Capital reserve	155,303,584	155,303,584
Total funds	220,206,982	213,265,520
Total borrowings		
Less: cash and bank balances	65,315,839	73,722,212
Net debt/(excess cash and cash equivalents)	154,891,143	139,543,308

25 CONTINGENT LIABILITIES

There were no contingent liabilities as at the end of the financial period.(2020 – Nil).

26 INCOPORATION

The entity is incorporated in Kenya and is domiciled in Kenya.

27 EVENTS AFTER THE REPORTING PERIOD

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

28 CURRENCY

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

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APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The follow-up on auditor recommendation will be updated once the Corporation receives the final certificate from the office of the Auditor General which has not been received yet.

Managing Director



Date.....