

REPUBLIC OF KENYA



Enhancing Accountability

REPORT



OF

THE AUDITOR-GENERAL

ON

**MERU COUNTY MICROFINANCE
CORPORATION**

**FOR THE YEAR ENDED
30 JUNE, 2024**

PAPERS LAID	
DATE	6/13/2025
TABLED BY	Dep Maj Whip
COMMITTEE	
CLERK AT THE TABLE	Maalim



Meru County

Microfinance Corporation

Growing with you



MERU COUNTY MICROFINANCE CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30TH JUNE 2024

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

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2024

Table of contents.....	Page
1. Acronyms, Abbreviations, and Definition of Key Terms.....	ii
2. Key Entity Information and Management.....	iii-v
3. The Board of Directors.....	vi-vii
4. Key Management Team.....	viii-ix
5. Chairman’s Statement.....	x-xi
6. Report of the Managing Director.....	xii-xiii
7. Statement of Performance against Predetermined Objectives for FY 2024.....	xiv-xv
8. Corporate Governance Statement.....	xvi-xx
9. Management Discussion and Analysis.....	xxi-xxii
10. Environmental and Sustainability Reporting.....	xxiii-xxvi
11. Report of the Directors.....	xxxvii
12. Statements of Directors Responsibilities.....	xxviii-xxix
13. Report of the Independent Auditor for the Financial Statements of Meru County Microfinance Corporation.....	xxx
14. Statement of Financial Performance for the ended 30 June 2024.....	1
15. Statement of Financial Position as at 30 June 2024.....	2
16. Statement of Changes in Net Assets for the year ended 30 June 2024.....	3
17. Statement of Cash Flows for the year ended 30 June 2024.....	4
18. Statement of Comparison of Budget and Actual amounts for the year ended 30 June 2024.....	5-7
19. Notes to the Financial Statements.....	8-41
20. Appendices.....	42-48

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2024

1. Acronyms, Abbreviations, and Definition of Key Terms

A: Acronyms and Abbreviations

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

B: Definition of Key Terms

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

Comparative Year- Means the prior period.

2. Key Entity Information and Management

(a) Background information

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

(b) Principal Activities

The principal activities of the 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

Key Management

The *Entity's* day-to-day management is under the following key organs:

No.	Details
1.	Board of Directors
2.	Accounting officer/MD
3.	Management

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2024 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	AG. MD	Daniel K. Muthuri
2.	Head of Human Resource	Edith Kaaria

MERU COUNTY MICROFINANCE CORPORATION

Annual Report and Financial Statements for the year ended June 30, 2024

No.	Designation	Name
4.	Head of Procurement	Ibrahim Ileri
5.	Head of ICT	Eric Kinyua

(d) Entity Headquarters

P.O. Box 2564 - 60200
Meru County Maisonette Building
Meru, KENYA.

(e) Entity Contacts

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

(f) Entity Bankers

1. Kenya Commercial Bank
Haile Selassie Avenue
P.O. Box 178 - 60200
MERU, KENYA
2. **Other Banks**
ABSA Bank Kenya PLC
P.O. Box 30120 – 00100
Nairobi

(g) Independent Auditor

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

(h) Principal Legal Adviser

i) The Attorney General

State Law Office and Department of Justice

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya

ii) County Attorney

P.O. Box 120

Meru, Kenya

MERU COUNTY MICROFINANCE CORPORATION


Annual Report and Financial Statements for the year ended June 30, 2024

3. The 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 10 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>
	<p>Daniel Kimathi – Ag. Managing Director BBA Accounts; CPA(K) and Member of Institute of Certified Public Accountants (ICPAK)</p>	<p>Year of Birth 1978 - Over 15 years’ experience in Finance and accounts and management</p>

MERU COUNTY MICROFINANCE CORPORATION





Annual Report and Financial Statements for the year ended June 30, 2024

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

MERU COUNTY MICROFINANCE CORPORATION



Annual Report and Financial Statements for the year ended June 30, 2024

4. Key Management Team

Photo	Manager's Name and Qualifications	Year of Birth and Experience
	Daniel Kimathi – Ag. Managing Director BBA Accounts; CPA(K) and Member of Institute of Certified Public Accountants(ICPAK)	Year of Birth 1978 - Over 15 years' experience in Finance and accounts
	Salesio Miriti – Branch Manager – Timau Msc Agricultural Resource Management, BSC Agribusiness Management	Year of Birth 1981 – 13 years' experience in banking and project management
	Martin Ntuara – Branch Manager – Meru Bachelor of Commerce – Marketing	Year of Birth 1982 – 13 years banking experience
	Edith Kaaria – Head of Human Resource Bachelor of Arts, Economics and Sociology Post Graduate Diploma in HRM	Year of Birth 1983 – 13 years' experience in Human Resource practice

MERU COUNTY MICROFINANCE CORPORATION

Annual Report and Financial Statements for the year ended June 30, 2024

	<p>Eric Kinyua – ICT Manager Bachelors of Science in Mathematics and Computer Science,2011 Masters of Science in Computer Systems Cont. CCNA - 2016 ITIL - 2017 PMP -2020</p>	<p>Year of birth 1989 13 years of experience implementing technology projects, developing product requirements, analysing support strategies and processes to facilitate improved operations and efficiency</p>
	<p>Irah K. Nkuubi – Legal Officer/Secretary Bachelor of laws, UON Diploma in law, Kenya School of law Development programme/Senior Management Course – KSG</p>	<p>Year of birth – 1988 Over 10 years’ experience in legal practice, management and corporate governance</p>

5. Chairman's Statement



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

Meru County Microfinance Corporation was created in 2014, through an Act of the County Assembly of Meru, to provide Microfinance and related services to SMEs in Kenya. This corporation was opened to the public on 15th January 2016. The performance reflected in these statements covers one year of operation; the period from 1st July 2023 to 30th June 2024.

In the fiscal reporting period 2023-2024, the Corporation had a total budget allocation on County Government funding of Kes.76 million on recurrent expenditure. Out of this allocation, the Corporation received Kshs.65,244,826. From this amount received, Kshs.2,693,840 related to the financial year 2022-2023 but was received in the current financial year under audit hence the amount relating to the financial year period was Kshs.62,550,986. 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.37,791,699.

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 10,000 customers, with products covering both credit facilities and Financial Literacy.

The corporation is on a commendable growth trajectory. In this regard the Corporation appreciates the continued financial support from the County Government and other 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.

I. CHAIRMAN'S STATEMENT(Cont'd)

Among the main challenges experienced during the period include inadequate and delayed disbursement of funds by the County Executive and inadequate personnel. To address the issue of inadequate funding, the Corporation intends to mobilize additional resources externally from donors and other external linkages. Additional funding through the budget process will ensure the staffing gaps can be addressed.

The Board will continue working closely with management to ensure realization of its vision. The Board is committed to continue providing sound leadership to ensure extensive financial coverage in order to meet and exceed the expectations of the people of Meru County.

Appreciation 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

6. Report of the Managing Director



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

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

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

The main challenges to effective implementation of the Corporation's Strategic Plan include inadequate funding which presented major obstacle into achievement of 2023/24 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

REPORT OF THE MANAGING DIRECTOR (Cont'd)

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.



Daniel Kimathi
Ag. Managing Director

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2024

7. Statement of Performance against Predetermined Objectives for FY 2023/2024

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

Pillar 1: Market Penetration

Pillar 2: Institutional Development

Pillar 3: Resource Mobilization

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

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

II. REVIEW OF MERU COUNTY MICROFINANCE CORPORATION PERFORMANCE FOR FY 2023/2024(Cont'd)

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

8. Corporate Governance Statement

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

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

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

1. Board of Directors

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

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

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

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

- (a) Finance Committee - Comprises of Benjamin Muketha, Catherine Kendi Kiecha and Dinah Gaceri.

CORPORATE GOVERNANCE STATEMENT (Cont'd)

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. 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 Dinah Gaceri. 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,
Its mandate is to review current resource needs and funding gaps and pursue possible funding opportunities for the Corporation.

Succession plan

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

Board charter

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

Process of appointment and removal of Directors

1. Meru County Microfinance Corporation Board appointment is in line with Article 6 of the Meru County Microfinance Corporation Act, 2014 and the guidelines of the Mwongozo Code of Conduct.
2. The Board is appointed through a transparent and formal process governed by the overriding principle of merit.
3. The Board has seven members who are formally appointed to the Board through a Gazette Notice.
4. Managing Director is a Board member with no voting rights.
5. Board appointments put into consideration the mix of skills and competencies required for the achievement of the organizations long term goals.

CORPORATE GOVERNANCE STATEMENT (Cont'd)

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

- (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.

CORPORATE GOVERNANCE STATEMENT (Cont'd)

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.
- (c) Do not take part in any discussions or decision-making regarding any subject or transaction in which they have a conflict of interest.
- (d) Do not influence in any manner decision making on any matter in which they have interest.

Board remuneration

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

Ethics and conduct

The Board;

- (a) Ensured that a code of conduct and ethics was developed.
- (b) Ensures that all members of the board subscribe to the code of conduct and ethics.

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2024

CORPORATE GOVERNANCE STATEMENT (Cont'd)

- (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.

9. 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.37 Million during the financial year.

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

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

III. 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.

10. Environmental and Sustainability Reporting

Meru County Microfinance Corporation is committed to being a responsible corporation, not only on how we work with our customers but also in terms of how we contribute to the wider community around us. We are committed to ensure that our employees work for a socially responsible Corporation and that our approach to what we do reflects our people. Our activities as a corporation are endeavoured to positively impacting on our community as well as conserve the environment. During the year under review, the Corporation was able to sponsor a needy student for studies as well as sponsor Meru Hospice to be able to cater for cancer patients.

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 aspect 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 general, life and medical insurance to all members of staff and medical insurance to their immediate family members.

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

i) *Sustainability strategy and profile*

Our approach to developing a sustainability strategy entails social elements such as diversity, equity and inclusion, employee well-being, social responsibility, and ethical supply chains. We ensure that our sustainability strategies meet the necessary economic, compliance and reporting requirements. With this approach, clients can generate added value, reinforce stakeholder trust, and build resilient, successful businesses. Our approach emphasises tailoring solutions to immediate needs while considering the bigger picture of long-term sustainability.

ii) *Environmental performance*

It is MCMC's policy to conduct its business in a manner that is compatible with the balanced environmental and economic needs of the communities in which it operates. The Corporation will engage in continuous efforts to improve environmental performance throughout its operations.

Accordingly, the Corporation's policy is to:-

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2024

- comply with all applicable environmental laws and regulations and apply responsible standards where laws and regulations do not exist;
- encourage concern and care for the environment;

The Corporation will always make efforts to ensure procurement and usage of products and services that promotes environment conservation and sustainability.

iii) Employee welfare

The Corporation has the following policies in place to guide on the employee welfare which are sensitized to all employees for awareness and compliance.

a) Recruitment & Selection Policy

The Corporation has a recruitment and selection policy which guides on the hiring process. The corporation employs and retains qualified and experienced personnel to carry out its functions and ensures that the employees derive satisfaction from employment by offering attractive remuneration, good working conditions, job security and opportunities for advancement.

As a policy, all vacancies are advertised through the media and website. During the selection process, there is no preference or prejudice based on candidate's tribe, race, gender, religion, political affiliation or any other form of discrimination. To achieve this, the Corporation strives to maintain its reputation as good employer both internally and externally by upholding the principles of justice, fairness and impartiality.

Recruitment and Selection aims to search and hire suitable candidates to fill vacancies with the view to satisfying human resources needs. The search may be internal and/or external.

The policy stipulates that the Corporation will;

- Seek and employ individuals who are qualified by job related standards of education, vocational, training and experience.
- Seek to employ persons who show potential of abiding to its core values.
- All appointments will be made on the basis of ability best demonstrated by recognised qualification, training, experience and recruits must be people who can be trained to work in a manner that will contribute to the effectiveness and objectives of Corporation.
- During the selection process, there shall be no preference or prejudice on the basis of a candidate's tribe, race, gender, age, political affiliation or ethnicity. The Corporation is an equal opportunity employer.

b) Training & Development

MCMC believes that employees' are its greatest asset and that the attainment of its mission depends on the efficiency and effectiveness of its employees. The Corporation's training programmes targets the achievement of this objective.

The corporation is committed to ensuring that all members of staff are provided with the training they need to perform their jobs safely at all times. As such, the corporation maintains and keeps under review a list of training that is mandatory for some or all staff members, and ensures that appropriate training is available at the required intervals.

The corporation is aware that resources, including funding, time, and effective use of internal expertise, will be required to achieve success in this area and therefore committed to identifying and allocating such resources as required, within the constraints placed on it.

Applications for staff training and development activities are considered strictly on merit and relevance.

c) Occupational Safety and Health Policy

- a. In the interests of health and safety, it is Corporation's policy to monitor the wellbeing of all employees.
- b. The Corporation's health and safety policy and practices have been formulated to fulfil the requirements of Kenyan Health and Safety Legislation. In implementing this policy:
 - i) Each employee shall be given such information, instruction and training geared towards creating a safe work environment
 - ii) The Corporation shall ensure that all processes and systems of work are designed to take account of health and safety, and are properly supervised.
 - i) Adequate facilities and arrangements shall be maintained to enable employees to raise issues of health and safety.
 - ii) Every employee is required to co-operate in the implementation of this policy. For its success, total commitment is required from every employee. Each employee is required to take reasonable care for his/her own health and safety, and for the safety of others who may be affected by his/her acts or omissions.
 - v) Disciplinary action is to be taken against any employee who fails to adhere to these requirements or any of the Corporation's health and safety practices.

iv) Marketplace practices-

The policy of Corporation is to comply with all Government laws, rules and regulations applicable to its business. All employees should deal fairly with colleagues, suppliers, customers, competitors and stakeholders. The Corporation upholds the policy of zero tolerance on corruption in accordance with the public.

a) Responsible Supply chain and supplier relations

The Corporation has a procurement manual which acts as the focal point in all supply chain and supplier relations. In addition to this the Corporation ensures compliance with the Public Procurement & Asset Disposal Act, 2015 in totality throughout the procurement processes. The corporation has a list of prequalified suppliers for supply of good and services which is updated biennially through

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2024

advertisement via nation dailies and website. A report on all contracts issued is always submitted to Public Procurement Regulatory Authority and the records well maintained.

The Corporation maintains good business practice by ensuring that contracts for goods, works and services are clear and the suppliers' payments are settled as per the contract terms and conditions.

b) *Responsible marketing and advertisement*

The Corporation endeavours to ensure that all marketing and advertisement communications respect human dignity and not incite or condone any form of discrimination or promote anti-social behaviour. This is by promoting its products and services in a way that prioritises ethical, sustainable and socially conscious principles; considering the impact on consumers, employee's society and environment. Further, it emphasises on transparency, fairness and accountability throughout the marketing process. The Corporation ensures that it markets its products in a way that actual without claiming presence of characteristics and attributes that are not possessed by the product.

c) *Product stewardship*

The Corporation ensures that consumer right and interest are safeguarded by providing information necessary for them to gain full benefit from services offered. Further, right to protection of their health, safety and economic interests. The Corporation has a customer service charter that highlights the consumer rights and interests.

The Corporation also ensures that all the products presented into the market serve the consumers as expected and also encourages the consumers to give feedback about their experience with various products and that information is used for further improvements. Similarly, consumer rights, interests and satisfaction are key consideration during the product development and roll out into the market.

v) *Corporate Social Responsibility / Community Engagements*

The Corporation is sensitive to the needs of the community and other stakeholders and will within its means support charitable causes or participate in community programs aimed at improving their welfare.

The Corporation projects an image of a caring and responsible Organisation in furtherance of corporate citizenship. The following are the charitable events that the Corporation participated in the year 2023/24;

- Supported Meru Hospice hospital

This is a hospital that supports cancer patients. The support impacted greatly on the operations of the hospital in taking care of physical and psychological wellbeing of the patients.

- Supported a needy student at Meru National Polytechnic

Through the Corporation's support, the said student was able to continue with his studies.

11. Report of the Directors

The Directors submits their report together with the audited financial statements for the year ended June 30, 2024, which show the state of the *Entity's* affairs.

i) Principal activities

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

ii) Results

The results of the Entity for the year ended June 30, 2024, are set out on page 1.

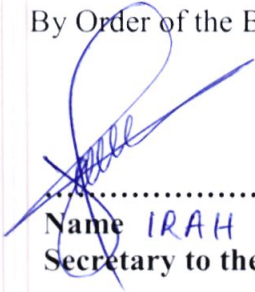
iii) Directors

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

iv) 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.

By Order of the Board


.....
Name **IRAH NKUUBI**
Secretary to the Board

12. Statement of Directors Responsibilities

Section 81 or 164 of the Public Finance Management Act, 2012 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 and the operating results of the *Entity* for that year. 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 ended on June 30, 2024. 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 *Entity's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and (the County Government Act) –The Directors are of the opinion that the *Entity's* financial statements give a true and fair view of the state of the *Entity's* transactions during the financial year ended June 30, 2024, and of the *Entity's* financial position as at that date. The Directors further confirms 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.

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2024

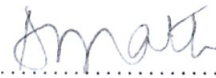
In preparing the financial statements, the Directors have assessed the entity's ability to continue as a going concern. Nothing has come to the attention of the Directors to indicate that the *Entity* will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The *Entity's* financial statements were approved by the Board on 20th Sept 2024 and signed on its behalf by:



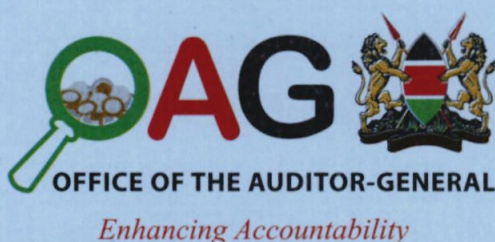
Name – Gitonga Mutungi
Chairperson of the Board



Name – Daniel Kimathi
Ag. Managing Director

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON MERU COUNTY MICROFINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE, 2024

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Meru County Microfinance Corporation set out on pages 1 to 43, which comprise the statement of financial position as at 30 June, 2024, statement of financial performance, statement of changes in net assets, 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, 2024, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Meru County Microfinance Corporation Act, 2014 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

Review of the financial statements reveals the following;

- i. The financial statements reflect comparative amounts which differ with prior year audited financial statements as detailed below;

Component	Comparative Amounts as Per 2023/2024 Financial Statements (Kshs.)	Amounts as Per 2022/2023 Audited Financial Statements (Kshs.)	Variance (Kshs.)
Statement of Financial Performance			
Interest Income	8,392,246	-	8,392,246
Fees and Other Charges	85,000	-	85,000
Use of goods and services	28,173,959	-	28,173,959
Employee Costs	58,042,302	-	58,042,302
Board Expenses	383,360	-	383,360
Depreciation and Amortization Expense	4,588,820	-	4,588,820
Repairs and Maintenance	900,133	-	900,133

Component	Comparative Amounts as Per 2023/2024 Financial Statements (Kshs.)	Amounts as Per 2022/2023 Audited Financial Statements (Kshs.)	Variance (Kshs.)
Other Payments	23,915,000	-	23,915,000
Statement of Financial Position			
Revenue from Non-Exchange Transactions	97,070,481	80,155,481	16,915,000

The variances have not been explained or reconciled.

- ii. The statement of cashflow reflects Note 18i against transfers from Other Government entities. However, transfers from Other Government entities have been disclosed in Note 6 to the financial statements.
- iii. The statement of financial performance reflects Nil fees and charges and referenced Note 9 to the financial statements. However, Note 9 to the financial statements discloses fees and charges amount of Kshs.85,000 resulting in a variance amount of Kshs.85,000 which has not been explained or reconciled.
- iv. The Statement of cash flows reflects other income amount of Kshs.28,370,000. However, Note 7 to the financial statements discloses other income amount of Kshs.16,915,000 resulting in a variance amount of Kshs.11,455,000 which has not been explained or reconciled.
- v. The statement of comparison of budget and actual amounts reflects total actual revenue amount of Kshs.127,390,953 on a comparable basis. However, recast of the revenue results in an amount of Kshs.124,390,953 resulting in unreconciled and unexplained variance of Kshs.3,000. The statement further, reflects total actual expenditure amount of Kshs.120,112,187. However, a recast of the expenses results in a total of Kshs.119,948,280 leading to another unreconciled and unexplained variance of Kshs.163,907.

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

2. Long outstanding Receivable

The statement of financial position reflects receivables from County Government balance of Kshs.82,005,505 as disclosed in Note 18 to the financial statements. However, the receivables had been outstanding for more than four (4) years. In addition, there was no policy on the impairment of long outstanding receivables casting doubt on the fair statement of the accounts receivables balance.

In the circumstances, the accuracy and full recoverability of the outstanding receivables balance of Ksh.82,005,505 could not be confirmed.

3. Inaccuracy of Loans Due from Customers

The statement of financial position reflects loans due from customers balance of Kshs.134,387,239 as disclosed in Note 20 to the financial statements. The balance includes loans due amounting to Kshs.94,258,429 whose repayment period had lapsed but were still not repaid. Further, no provisions have been made for bad and doubtful debts. Detailed loan ledger for the outstanding loans as at 30 June, 2024 was not provided for audit review. Review of the Board meetings file of the Corporation revealed that the finance committee had no sitting during the year and quarterly reports for non-performing loans as at 30 June, 2024 were neither discussed nor provided for audit.

In the circumstances, the accuracy and recoverability of loans due from customers amounting to Kshs.134,387,239 could not be confirmed.

4. Property, Plant and Equipment

The statement of financial position reflects property, plant, and equipment balance of Kshs.2,638,776 as disclosed in Note 21 to the financial statements. However, included in the assets are motor vehicles, motorcycles computers, and related equipment which the Corporation indicated that are fully depreciated. However, Management did not provide a revaluation report for the assets since the said assets have been insured and are in use despite indicating that they are fully depreciated. Further, the assets ownership documents were not provided for audit review.

In the circumstances, the accuracy, completeness and ownership of the property, plant, and equipment balance of Kshs.2,638,776 could not be confirmed.

5. Overdrawn Account and Netting off of Bank Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.101,388,729 as disclosed in Note 17 to the financial statements. Included in the bank balance is one (1) bank account with an overdraft balance of Kshs.552,261.37 which has been netted off resulting to bank balance of Kshs.101,388,729 contrary to Section 28(4)(5) of the Public Finance Management Act, 2012.

Further, the overdrawn amount of Kshs.552,261.37 was not supported by any approval from the Board or The National Treasury contrary to Section 119(4) of the Public Finance Management Act, 2012 which limits the powers of an Accounting Officer of a County Government Agency to overdraw bank account beyond the limit authorized by the County Treasury or Board of a County Government entity.

In the circumstances, the accuracy, completeness, and existence of the bank balance of Kshs.101,388,729 could not be confirmed. In addition, Management was in breach of the law.

6. Cash and Cash Equivalents

The statement of financial position as disclosed under Note 17 reflects Kshs.101,388,729 in respect to cash and bank balances. Review of documents presented for audit revealed that the Corporation operated two accounts in a local bank which had a bank balance of Kshs.3,929,875 and Kshs.4,075,615 at end of the financial year under review. However, the Corporation did not provide the authority to open the bank accounts, signatories' approval from The National Treasury, bank statement, cashbook and reconciliations to the respective bank account, contrary to Regulations 82(1) of the Public Finance Management Regulations (County Government), 2015 which requires an accounting officer of a County Government agency to seek approvals from The National Treasury. Further, no reports were provided for audit review in relation to the presentation of the bank accounts to The National Treasury.

In addition, bank account domiciled at a local bank with a balance of Kshs.67,930 was disclosed in the financial statements however, the cashbook and bank reconciliation for the same was not provided for audit confirmation.

Further, account numbers for two (2) on-call deposits totalling Kshs.70,300,000 held in two (2) local commercial banks were not disclosed.

In the circumstances, the accuracy and completeness of cash and cash balances could not be confirmed.

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

Key Audit Matters

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

Other Matter

Prior Year Matters

There were issues raised in the audit report for 2022/2023 financial year. However, no report or recommendations from the Corporation Management and oversight bodies were submitted for audit verification and clearance. Further, the issues remain unresolved contrary to Section 149(2)(l) of the Public Finance Management Act, 2012 which require

Accounting Officers designated for County Government entities to try to resolve any issues resulting from an audit that remain outstanding.

Other Information

Management is responsible for the Other Information set out on pages i to xxix which comprise of Corporation Information and Overall Performance, Statement of Performance against Corporation's Predetermined Objectives, Environmental and Sustainability Reporting and Statement of Corporation's Management Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on the 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. Non-Compliance with the Public Sector Accounting Standards Board Reporting Requirements

The financial statements presented for audit did not include all information provided in the format prescribed and published by the Public Sector Accounting Standards Board (PSASB) as follows;

- i. The table of contents indicated that the report of the directors should be on page xxxviii while the report of the directors was on page number xxvii.
- ii. Financial Statements reads 'entity's' instead of the name Microfinance.
- iii. Dates when the financial statement was signed have not been captured further, ICPACK number for the accountant who signed the financial was not included.

In the circumstances, Management was in breach of the PSASB guidelines.

2. Non-Compliance with the One-Third Basic Salary Rule

Review of the payroll revealed that the Corporation had seven (7) employees whose net pay was below a third of their basic pay. This was contrary to Section E.13(1)(2) of the County Public Service Human Resource Manual of May, 2013 which directs that to ensure that officers do not over-commit their salaries, no salary deduction will be effected beyond two thirds (2/3) of an officer's basic salary and officers should be cautious when taking credit facilities as this will lead to a reduction on the officer's earning. Heads of Human Resource Units will be held responsible for any over deductions arising from such credit facilities.

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

3. Non-Compliance with the Staff Ethnic Composition

Review of human resource records revealed that in the year under review the Corporation had a total of fifty-eight (58) employees. Out of the fifty-eight (58) employees, fifty-four (54) were drawn from the dominant ethnic community, representing ninety-three (93) percent of the total workforce. This is contrary to Section 7(2) of National Cohesion and Integration Act, 2008 which provides that the staff establishments of public entities to reflect the diversity of the people of Kenya with least 30% of employees are expected to be from other ethnic communities.

In the circumstances, Management was in breach of law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. Use of Manual System

The statement of performance and as disclosed in Note 8 to the financial statement reflects staff costs totalling Kshs.57,558,876. However, the Corporation uses excel

manual payrolls in preparation of monthly pay to staff despite having entered into an agreement with a local service provider for the design and installation of a system since 2016. The use of the manual system requires manual calculation of deductions and net pay by Human Resource officers and constant monthly and annual updates of data which could be prone to human error and manipulation.

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

2. Irregularities in the Corporation's Governance Structure

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

- i. Corporation operated without the services of the Corporation Secretary contrary to Section 6(f) of the Meru County Microfinance Corporation Act, 2014 which prescribes for the inclusion of the Corporation Secretary in the Board;
- ii. The Board had five (5) males and one (1) female member, translating to one-sixth which is below the prescribed minimum of two-thirds;
- iii. The Corporation operated with a Membership of six (6) Board Members contrary to the prescribed ideal composition of seven (7) Board Members who are eligible to transact the Corporation's business;
- iv. Further, the statement of financial performance and as disclosed in Note 13 to the financial statements reflects an amount of Kshs.238,850 in respect to Directors' emoluments. Review of documents provided for audit revealed the following anomalies;
 - (a) The composition of the Board's Sub-committees was more than a third (1/3) of the full Board as follows: Finance, Audit, and Human Resource and Administration Committee's had four (4) Members each while Resource Mobilization Committee had five (5) members contrary to Clause B (4) of Head of Public Service Circular OP/CAB.9/1A dated 11 March, 2020 on composition of Board Committees which stipulates that the number of Members to any Committees should be no more than a third (1/3) of the full Board to obviate the risk of a Committee conducting its business within the framework of a full Board structure. Further, Members can only sit in a maximum of two (2) committees;
 - (b) Three (3) Board Members had been appointed to more than two Sub-committees of the Board contrary to Clause B (5) of Head of Public Service Circular OP/CAB.9/1A dated 11 March, 2020 stipulates that a Member serving in the Board audit and risk committee shall not be appointed a member of the finance committee and vice versa;
 - (c) No evidence was provided to confirm that the Committee Members served on a rotational basis. It is Noted that the membership of the Board Sub-committees had not been rotated since its inception in 2018;

- (d) The Board Members term limit expired in December, 2023. However, a new Board was not appointed and thus the Corporation operated without a Board for six (6) months.

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

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

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the

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

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

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL


Nairobi


24 December, 2024


MERU COUNTY MICROFINANCE CORPORATION**Annual Report and Financial Statements for the year ended June 30, 2024****14. Statement of Financial Performance for the year ended 30 June 2024**

	Notes	2023-2024	2022-2023
		Kshs	Kshs
Revenue from non-exchange transactions			
Transfers from other governments entities	6	76,155,481	80,155,481
Other receipts	7	22,800,000	16,915,000
		98,955,481	80,155,481
Revenue from exchange transactions			
Interest income	8	7,165,281	8,392,246
Fees and other charges	9	1,200,000	85,000
Finance income	10	3,269,307	4,429,853
Total revenue		110,590,069	109,977,579
Expenses			
Use of goods and services	11	22,853,872	28,173,959
Employee costs	12	57,558,876	58,042,302
Board Expenses	13	238,850	383,360
Depreciation and amortization expense	14	683,688	4,588,820
Repairs and maintenance	15	1,668,890	900,133
Other payments	16	22,800,000	23,915,000
Total expenses		105,804,176	116,003,574
Surplus/deficit from operating activities		4,785,893	(6,025,995)
Net Surplus/(deficit) for the year		4,785,893	(6,025,995)

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


.....
Name: Samuel Mutugi
Chairman Board


.....
Name: Samuel Kimani
Accounting Officer


.....
Name: Brian Juma
Head of Finance

Date 11/12/2024

Date 11/12/2024


ICPAK M/No: 6019
Date 11/12/2024


MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2024


15 Statement of Financial Position as at 30 June 2024

	Notes	2023-2024	2022-2023
		Kshs	Kshs
Assets			
Current Assets			
Cash and Cash equivalents	17.	101,388,729	87,467,899
Receivables from County Government	18.	82,005,505	71,094,850
Prepayments	19.	276,000	276,000
Advances due from customers	20.	134,387,239	139,941,799
Total Current Assets		318,057,473	298,780,547
Non-Current Assets			
Property, Plant and Equipment	21.	2,638,773	3,322,462
Intangible Assets	22.	-	-
Total Non- Current Assets		2,638,773	3,322,462
Total Assets (A)		320,696,246	302,103,008
Liabilities			
Current Liabilities			
Trade and Other Payables	23.	16,762,756	5,526,287
Refundable Deposits from Customers	24.	81,041,058	78,470,182
Total Current Liabilities		97,803,814	83,996,469
Total Liabilities (B)		97,803,814	83,996,469
Net Assets (A-B)		222,892,432	218,106,539
Represented By:			
Accumulated Surplus	25.	67,588,848	62,802,955
Capital Fund		155,303,584	155,303,584
Net Assets		222,892,432	218,106,539

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

for 
 Name: Samuel Mutunga
 Chairman Board


 Name: Samuel Kinoti
 Accounting Officer


 Name: Brian Juma
 Head of Finance

Date 11/12/2024

Date 11/12/2024

ICPAK M/No: 6019
 Date 11/12/2024

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2024

16. Statement of Changes in Net Assets for the year ended 30 June 2024

Description	Revaluati on reserve	Fair value adjustm ent reserve	Accumul ated surplus	Revolvin g Fund	Capital/ Developme nt	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
As at July 1, 2022	-	-	68,828,9 50	-	155,303,5 84	224,132,5 34
Revaluation gain	-	-	-	-	-	-
Fair value adjustment on investments	-	-	-	-	-	-
Surplus/ deficit for the year	-	-	(6,025,9 95)	-	-	(6,025,99 5)
Funds received During the year	-	-	-	-	-	-
Transfers from accumulated surplus to revolving fund	-	-	-	-	-	-
Capital/development grants received during the year	-	-	-	-	-	-
As at June 30, 2023	-	-	62,802,9 55	-	155,303,5 84	218,106,5 39
As at July 1, 2023	-	-	62,802,9 55	-	155,303,5 84	218,106,5 39
Revaluation gain	-	-	-	-	-	-
Fair value adjustment on investments	-	-	-	-	-	-
Surplus/ (deficit) for the year	-	-	4,785.89 3	-	-	4,785,893
Funds received During the year	-	-	-	-	-	-
Transfers from accumulated surplus to revolving fund	-	-	-	-	-	-
Capital/development grants received during the year	-	-	-	-	-	-
As at June 30, 2024	-	-	67,588,8 48	-	155,303,5 84	222,892,4 32

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2024

17. Statement of Cash Flows for the year ended 30 June 2024

		2023-2024	2022-2023
	Notes	Kshs	Kshs
Cash flows from operating activities			
Receipts			
Transfers from other governments entities	18(i)	65,244,826	87,461,640
Interest received	10.	3,269,307	4,429,852
Fees and other charges	9.	1,200,000	-
Other income	7.	22,800,000	28,370,000
Total receipts		92,514,133	120,261,492
Payments			
Use of goods and services		(23,366,198)	(27,641,147)
Employee costs		(53,500,878)	(53,450,385)
Board Expenses	13.	(238,850)	(383,360)
Repairs and maintenance		(1,504,983)	(900,133)
Total payments		(78,610,909)	(82,375,025)
Net cash flows from/(used in) operating activities		13,903,224	37,886,468
Cash flows from investing activities			
Purchase of property, plant and equipment		-	(2,484,720)
Proceeds from loan principal repayments	20(ii)	50,511,539	57,962,785
Loan disbursements paid out	20(i)	(37,791,699)	(56,685,710)
Customer savings received	24(i)	4,211,001	7,620,997
Customer savings refunded	24(ii)	(1,640,125)	(3,801,978)
Disbursements to partnerships		(23,278,600)	(51,719,535)
Net cash flows from/(used in) investing activities		(7,987,884)	(49,108,161)
Cash flows from financing activities			
Revolving fund receipts		8,005,490	-
Net cash flows from financing Activities		8,005,490	-
Net increase/(decrease) in cash & Cash equivalents			
Cash and cash equivalents at the beginning (1st July)	27	87,467,899	98,689,590
Cash and cash equivalents at the end (30th June)	27	101,388,729	87,467,899

18. Statement of Comparison of Budget and Actual amounts for the year ended 30 June 2024

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilization
	Kshs	Kshs	Kshs	Kshs	Kshs	
	a	B	c= (a+b)	d	e=(c-d)	f=d/c*100
Revenue						
Transfers from Other Governments entities	76,155,481	-	76,155,481	62,244,826	13,910,655	82%
Interest income	7,800,000	-	7,800,000	8,365,281	(565,281)	98%
Revolving fund	44,000,000	-	44,000,000	50,511,539	(6,511,539)	114%
Finance income	3,000,000	-	3,000,000	3,269,307	(269,307)	109%
Total Income	130,955,481	-	130,955,481	127,390,953	3,564,528	97%
Expenses						
Use of Goods and Services	24,674,481	-	24,674,481	22,853,872	1,820,609	93%
Employee costs	63,500,000	-	63,500,000	57,558,876	5,941,124	91%
Board Expenses	1,000,000	-	1,000,000	238,850	761,150	24%
Repairs and Maintenance	1,781,000	-	1,781,000	1,504,983	276,017	85%
Lending expenditure	40,000,000	-	40,000,000	37,791,699	2,208,301	95%
Total Expenditure	130,955,481	-	130,955,481	120,112,187	10,843,294	92%
Surplus for the year	-		-			
Capital Expenditure	-		-			

Budget notes

- a. The County government delayed in disbursement of allocated funds by the end of the financial year by Kshs.13 million affecting the revenue expected during the financial year.
- b. Due to the slowdown in the economic activities during the year, the Corporation slowed down on lending activities and focused more on collection boosting the amounts expected under the revolving fund.
- c. There was an increase of interest rates offered by the banks boosting the interest the Corporation had anticipated to be received under finance income.

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2024

- d. There was underutilization for board expenses because the board served until December 2023 when their term of contract expired and there was no board replacement for the rest of the financial year.
- e. There was also underutilization on repairs and maintenance expense because there was a significant portion of amount allocated in the budget which had not been received and there was uncertainty on whether this amount would be received after the end of the financial year.

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

Item	Actual on comparable basis	Statement of Financial Performance	Difference	Explanation
Transfers from Other Governments entities	62,244,826	76,155,481	13,910,655	The difference relates to amounts which had not been received at the end of the financial year
Revolving fund	50,511,539	-	50,511,539	The amount has not been captured in the statement of financial performance but in the statement of financial position to reduce the amount for loans due from customers
Repairs and maintenance	1,504,983	1,668,890	163,907	Relates to a provision which had been understated in the last financial years financial statements
Depreciation and amortization	-	683,688	683,688	This is a non-cash expense and therefore is not usually budgeted for.

MERU COUNTY MICROFINANCE CORPORATION
Annual Report and Financial Statements for the year ended June 30, 2024

Other payments	-	22,800,000	22,800,000	There was no budget for this because it was money received from Gender department for a specific project
Lending expenditure	37,791,699	-	37,791,699	The amount has not been captured in the statement of financial performance but in the statement of financial position to reduce the amount for loans due from customers

19. Notes to the Financial Statements

1. General Information

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

2. Statement of Compliance and Basis of Preparation

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

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

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

3. Adoption of New and Revised Standards

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

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

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

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

ii. Early adoption of standards

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

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees and other charges

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

Transfers from other government entities

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

ii) Revenue from exchange transactions

Rendering of services

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

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

Interest income

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

Rental income

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

b) Budget information

The original budget for the Current FY was approved by the County Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Entity upon receiving the respective approvals to conclude the final budget. The *Entity's* budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on an accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section on statement of comparison of budget and actual amounts for the period ended 30 June 2024 of these financial statements.

c) Taxes

Current income tax

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

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates, and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits, and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable *Entity* and the same taxation authority.

Sales tax

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

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

d) Investment property

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

e) Property, plant, and equipment

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

f) Leases

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

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

g) Intangible assets

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

h) Research and development costs

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

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

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

Financial instruments

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

a) Financial assets

Classification of financial assets

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

Subsequent measurement

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

Amortized cost

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

Fair value through net assets/ equity

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

Trade and other receivables

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

Fair value through surplus or deficit

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

Impairment

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

b) Financial liabilities

Classification

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

i) Inventories

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

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

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the *Entity*.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

j) Provisions

Provisions are recognized when the *Entity* has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the *Entity* expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

k) Contingent liabilities

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

l) Contingent assets

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

m) Nature and purpose of reserves

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

n) Changes in accounting policies and estimates

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

o) Employee benefits

Retirement benefit plans

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

p) Foreign currency transactions

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

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

q) Borrowing costs

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

r) Related parties

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

s) Service concession arrangements

The *Entity* analyses all aspects of service concession arrangements that it enters in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the *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.

t) Cash and cash equivalents.

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

u) Comparative figures

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

v) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2024.

5. Significant Judgments and Sources of Estimation Uncertainty

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

Estimates and assumptions.

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

Useful lives and residual value

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

6. Transfers from Other Government entities

Description	2023-2024	2022-2023
	Kshs	Kshs
Unconditional Grants		
Operational Grant	76,155,481	80,155,481
Development grants	-	-
Total	76,155,481	80,155,481

7. Other Receipts

	2023-2024	2022-2023
	Kshs	Kshs
Total receipts	24,000,000	17,000,000
Less: Administration fee at 0.5%	(1,200,000)	(85,000)
Net amount	22,800,000	16,915,000

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

8. Interest Income

Description	2023-2024	2022-2023
	Kshs	Kshs
Interest earned on loans issued	6,394,021	7,193,456
Application fees charged on loans	385,630	578,845
Insurance fee charged on loans	385,630	619,945
Total	7,165,281	8,392,246

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

9. Fees and other charges

Description	Insert Current FY	Insert Comparative FY
	Kshs	Kshs
Fees	1,200,000	85,000
Total Fees	1,200,000	85,000

Meru County Microfinance Corporation entered into a memorandum of understanding with the Department of Gender, Youth and Sports for women empowerment within the County. The Corporation through its well established infrastructure was to disburse Kshs.24million on behalf of gender department at an administration fee of 0.5% of this amount which amounts to Kshs.1,200,000.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

10. Other Income

Description	Insert Current FY	Insert Comparative FY
	Kshs	Kshs
Interest on cash investments and fixed deposits	3,269,307	4,429,853
Total Other income	3,269,307	4,429,853

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

11. Use of Goods and Services

Description	2023-2024	2022-2023
	Kshs	Kshs
Electricity	241,545	240,394
Water	51,103	41,902
Advertising	-	612,900
Fuel and Oil	1,205,000	1,255,154
Insurance	9,621,170	11,778,161
Legal Expenses	-	4,800
Postage	9,700	25,900
Printing and Stationery	6,861	33,045
Rent expenses	2,609,577	2,262,994
Capacity building	1,009,640	1,827,750
Telecommunication	12,000	985,500
Training	371,240	526,612
Travel, Subsistence & Other Allowances	4,621,250	4,386,838
Bank charges	20,486	1,659
Other program support expenses	3,074,300	4,190,350
Total	22,853,872	28,173,959

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

12. Employee Costs

Description	2023-2024	2022-2023
	Kshs	Kshs
Salaries and wages	42,584,316	43,774,633
Employer contribution to pension schemes	4,444,173	4,458,295
Housing benefits and allowances	7,110,800	7,642,950
Social contributions	1,935,453	693,964
Gratuity	1,449,284	1,434,660
Other employee related costs *	34,850	37,800
Employee costs	57,558,876	58,042,302

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

13. Board Expenses

Description	2023-2024	2022-2023
	Kshs	Kshs
Sitting Allowances	238,850	383,360
Total	238,850	383,360

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

14. Depreciation and Amortization Expense

Description	2023-2024	2022-2023
	Kshs	Kshs
Property, plant, and equipment	683,688	1,496,301
Intangible assets	-	3,092,519
Total depreciation and amortization	683,688	4,588,820

A large component of the items under computers and related equipment was fully depreciated last financial year. The system under use by the Corporation was also fully depreciated last financial year under intangible assets hence the difference on depreciation between the two years.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

15. Repairs and Maintenance

Description	2023-2024	2022-2023
	Kshs	Kshs
Vehicles	454,328	260,333
Furniture and Fittings	5,830	15,900
Computers	1,208,732	623,900
Total Repairs and Maintenance	1,668,890	900,133

16. Other Payments

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

	2023-2024	2022-2023
	Kshs	Kshs
Co-operative	-	16,915,000
Gender	22,800,000	7,000,000
Total	22,800,000	23,915,000

17. Cash and Cash Equivalentents

Description	2023-2024	2022-2023
	Kshs	Kshs
Bank balances	31,088,729	17,167,899
Call Deposits	70,300,000	70,300,000
Total Cash and Cash Equivalentents	101,388,729	87,467,899

Detailed Analysis of the Cash and Cash Equivalentents

Financial Institution	Account number	2023-2024	2022-2023
		Kshs	Kshs
a) Bank balances			
KCB bank	1180085434	21,991,616	18,187,082
KCB bank	1180085329	1,131,305	283,919
KCB bank	1180084896	78,729	(122,657)
KCB bank	1168502993	(551,746)	(3,176,074)
KCB bank	1284845516	17,870	18,935
KCB bank	1288023324	67,930	546,530
ABSA Bank	2043505974	347,535	<u>1,430,163</u>
KCB bank	1259678806	3,929,875	-
KCB bank	1319474756	4,075,615	-
Sub- Total		31,088,729	17,167,899

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

Financial Institution	Account number	2023-2024	2022-2023
		Kshs	Kshs
b) On - Call Deposits			
KCB Bank		30,300,000	30,300,000
ABSA Bank		40,000,000	40,000,000
Sub- Total		70,300,000	70,300,000
Grand Total		101,388,729	87,467,899

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

18. Receivables from County Government

	2023-2024	2022-2023
	Kshs	Kshs
Balance brought forward	71,094,850	61,401,009
Allocation for the period	76,155,481	80,155,481
Less: Receipts during the year (i)	(65,244,826)	(87,461,640)
Correction of partnership amount wrongly posted as receipts from County Treasury	-	17,000,000
Total due from County Treasury	82,005,505	71,094,850

19. Prepayments

	2023-2024	2022-2023
	Kshs	Kshs
Balance brought forward	276,000	276,000
Rent expense for the period	276,000	744,000
Less: paid during the year	(276,000)	(744,000)
Rent prepaid	276,000	276,000

20. Advances due from customers

	2023-2024	2022-2023
	Kshs	Kshs
Balance brought forward	139,941,799	132,826,628
Loan advances to customers (i)	37,791,699	56,685,710
Loan interest charge	7,165,281	8,392,245
Loan repayments (ii)	(50,511,539)	(57,962,785)
Balance carried down	<u>134,387,239</u>	<u>139,941,799</u>

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024
21. Property, Plant and Equipment

Cost/Revalued amount	Motor vehicles		Furniture and fittings		ICT Equipment		Office Equipment		Total	
	Kshs	%	Kshs	%	Kshs	%	Kshs	%	Kshs	%
Depreciation rate	25%	8%	33.3%	8%						
As At 1 July 2022	9,105,886		5,609,119		14,347,701		2,104,480		31,167,186	
Additions	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-
Transfers/Adjustments	-	-	-	-	-	-	-	-	-	-
As at 30 th June 2023	9,105,886		5,609,119		14,347,701		2,104,480		31,167,186	
Additions	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-
Transfer/Adjustments	-	-	-	-	-	-	-	-	-	-
As at 30 th June 2024	9,105,886		5,609,119		14,347,701		2,104,480		31,167,186	
Depreciation And Impairment										
At 1 July 2022	9,105,886		2,727,359		13,399,247		1,115,931		26,348,423	
Depreciation	-	-	448,730	-	879,214	-	168,358	-	1,496,301	-
Impairment	-	-	-	-	-	-	-	-	-	-
Transfers/ Adjustments	-	-	-	-	-	-	-	-	-	-
As At 30 th June 2023	9,105,886		3,176,088		14,278,461		1,284,290		27,844,724	
Depreciation	-	-	448,730	-	66,600	-	168,358	-	683,688	-
Disposals	-	-	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-	-	-
Transfer/Adjustment	-	-	-	-	-	-	-	-	-	-
As at 30 th June 2024	9,105,886		3,624,818		14,345,061		1,452,648		28,528,413	
Net Book Values										
As at 30 th June 2023	-		2,433,031		69,240		820,190		3,322,462	
As at 30 th June 2024	-		1,984,301		2,640		651,832		2,638,773	

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

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

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

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

22. Intangible Assets

Description	2023-2024	2022-2023
	Kshs	Kshs
Cost		
At beginning of the year	25,252,444	25,252,444
Additions	-	-
At end of the year	25,252,444	25,252,444
Amortization and impairment		
At beginning of the year	25,252,444	25,252,444
Amortization	-	-
Impairment loss	-	-
At end of the year	25,252,444	25,252,444
NBV	-	-

23. Trade and Other Payables

Description	2023-2024	2022-2023
	Kshs	Kshs
Trade payables	-	
Employee payables	8,670,401	4,591,917
Third-party payments	8,092,355	934,370
Total trade and other payables	16,762,756	5,526,287

24. Refundable Customers Deposits/savings

Description	2023-2024	2022-2023
	Kshs	Kshs
Opening balance	78,470,182	74,651,163
Savings received for the year (i)	4,211,001	7,620,997
Savings refunded during the year (ii)	(1,640,125)	(3,801,978)
Total Savings	81,041,058	78,470,182

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

25. Accumulated Surplus

	2023-2024	2022-2023
	Kshs	Kshs
Balance brought forward	62,802,955	68,828,950
Surplus/(Deficit) for the year	4,785,893	(6,025,995)
Balance carried down	<u>67,588,848</u>	<u>62,802,955</u>

26. Employee Benefit Obligations

Retirement benefit Asset/ Liability

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

27. Financial Risk Management

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

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

i) Credit risk

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

Financial Risk Management

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

Description	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
As at 30th June 2024				
Receivables from exchange transactions	134,387,239	134,387,239	-	-
Bank balances	31,088,729	31,088,729	-	-
Total				
As at 30 June 2023	165,475,968	165,475,968		
Receivables from exchange transactions	139,941,799	139,941,799	-	-
Bank balances	17,167,899	17,167,899	-	-
Total	157,109,697	157,109,697	-	-

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 Entity has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The Entity has a significant concentration of credit risk on amounts due from amounts due from customers. The board of directors sets the Entity's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

ii) Liquidity risk management

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

Description	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
As at 30th June 2024				
Trade payables	-	16,762,756	81,041,058	97,803,814
Total	-	16,762,756	81,041,058	97,803,814
As at 30th June 2023				
Trade payables	-	4,428,010	78,470,182	82,898,192
Total	-	4,428,010	78,470,182	82,898,192

iii) Market risk

The *Entity* 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 rates, 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 Entity's Risk Department is responsible for the development of detailed risk management policies (subject to review and approval by the Audit and Risk Management Committee) and for the day-to-day implementation of those policies. There has been no change to the Entity's exposure to market risks or the way it manages and measures the risk.

a) Foreign currency risk

The *Entity* has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. The *Entity* manages foreign

Financial Risk Management(Cont'd)

exchange risk from future commercial transactions and recognised assets and liabilities by projecting expected sales proceeds and matching the same with expected payments.

b) Interest rate risk

Interest rate risk is the risk that the Entity's financial condition may be adversely affected as a result of changes in interest rate levels. The Entity's interest rate risk arises from bank deposits. This exposes the Entity to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Entity'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 38,341 (Current FY: Kshs.42,000). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Kshs191,705 (Current FY – Kshs210,000).

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

Fair value of financial assets and liabilities

a) **Financial instruments are measured at fair value.**

Determination of fair value and fair values hierarchy

IPSAS 30 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *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.

iv) Capital Risk Management

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

Description	2023-2024	2022-2023
	Kshs	Kshs
Revaluation Reserve	67,588,848	62,802,955
Retained Earnings	155,303,584	155,303,584
Capital Reserve		
Total Funds	222,892,432	218,106,539
Total Borrowings		
Less: Cash and Bank Balances	101,388,729	87,467,899
Net Debt/(Excess Cash And Cash Equivalents)	324,281,161	130,638,640

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

28. Related Party Disclosures

Nature of related party relationships

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

Government of Kenya

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

Other related parties include:

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

Description	2023-2024	2022-2023
	Kshs	Kshs
Transactions with related parties		
a) Grants /transfers from the government		
Grants from County government	76,155,481	80,155,481
Funds advanced for partnerships	22,800,000	16,915,000
Total	98,955,481	
a) Key management compensation		
Directors' emoluments	238,850	383,360
Total	99,194,331	97,070,481

29. Events after the Reporting Period

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

30. Ultimate And Holding Entity

The *Entity* is a Corporation under the County Government of Meru

31. Currency

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

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

20. Appendices

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

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	Unsupported loans due from customers	The loans due have since been supported	Resolved	
2.	Inaccurate bank and cash balance	The bank account has been reconciled	Resolved	
3.	Unsupported trade and other payables	Trade and other payables fully supported and paid out	Resolved	
4.	Inaccuracy of staff costs	This was caused by inadequate funding for staff salaries	Resolved	
5.	Inaccuracies in the statement of comparison of budget and actual amounts	The differences between the two statements were explained	Resolved	

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES				
1.	Unauthorized Deposit taking business	The Corporation does not carry out deposit taking business but receives savings to act as collateral for loans undertaken	Deposit taking registration not undertaken	This is subject to availability of resources
2.	Failure to provide quarterly loan arrears reports	The reports were subsequently submitted	Resolved	
3.	Irregular payment of special duty allowance	The Corporation's human resources manual has been updated and regularized with the PSC manual	Resolved	
4.	Ethnic composition	The issue to be addressed in future recruitments	Not resolved	
5.	Late remittance of statutory deductions	Caused by late disbursement by the National Treasury	Not resolved	
6.	Violation of the Corporation's enabling Act	The Corporation is yet to recruit a substantive secretary to the board	Not resolved	

Smatts

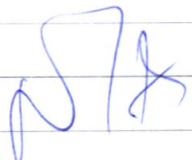
MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

M.D


Date: 30/09/2024

Appendix II: Projects implemented by Meru County Microfinance Corporation

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

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

Status of Project Completion

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

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

Appendix IV: Transfers from Other Government Entities

Name of the Entity Transferring the funds	Date received as per bank statement	Nature: Recurrent/ Development /Others	Total Amount - KES	Statement of Financial Performance	Where Recorded/recognized				Total Transfers during the Year
					Capital Reserve	Deferred Income	Receivables	Others - must be specific	
Meru County	06/07/2023	Recurrent	2,693,840	-	-	-	2,693,840	-	2,693,840
Meru County	16/08/2023	Recurrent	502,700	502,700	-	-	-	-	502,700
Meru County	23/08/2023	Recurrent	4,524,300	4,524,300	-	-	-	-	4,524,300
Meru County	18/09/2023	Recurrent	5,319,804	5,319,804	-	-	-	-	5,319,804
Meru County	12/10/2023	Recurrent	5,319,804	5,319,804	-	-	-	-	5,319,804
Meru County	06/12/2023	Recurrent	5,319,804	5,319,804	-	-	-	-	5,319,804
Meru County	10/01/2024	Recurrent	10,822,359	10,822,359	-	-	-	-	10,822,359
Meru County	08/02/2024	Recurrent	891,433	891,433	-	-	-	-	891,433
Meru County	08/02/2024	Recurrent	8,604,495	8,604,495	-	-	-	-	8,604,495
Meru County	20/02/2024	Recurrent	5,411,111	5,411,111	-	-	-	-	5,411,111
Meru County	03/04/2024	Recurrent	5,195,821	5,195,821	-	-	-	-	5,195,821
Meru County	22/05/2024	Recurrent	5,266,739	5,266,739	-	-	-	-	5,266,739
Meru County	07/06/2024	Recurrent	5,372,616	5,372,616	-	-	-	-	5,372,616
Total			65,244,826	62,550,986	-	-	2,693,840	-	65,244,826

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

Appendix V- Inter-Entity Confirmation Letter

Name of transferring entity:

Name of beneficiary entity:

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

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

Head of Accounts Department - Disbursing Entity:
 Name Sign Date

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

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

Appendix VI: Reporting of Climate Relevant Expenditures

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

MERU COUNTY MICROFINANCE CORPORATION
Annual Reports and Financial Statements for the year ended June 30, 2024

Appendix VII: Reporting on Disaster Management Expenditure

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