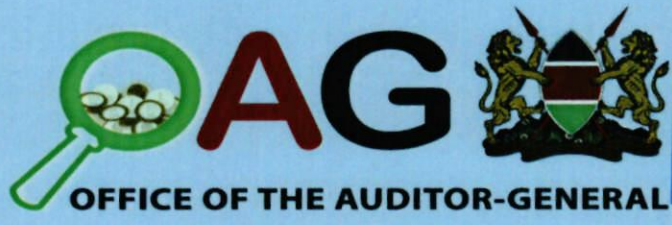


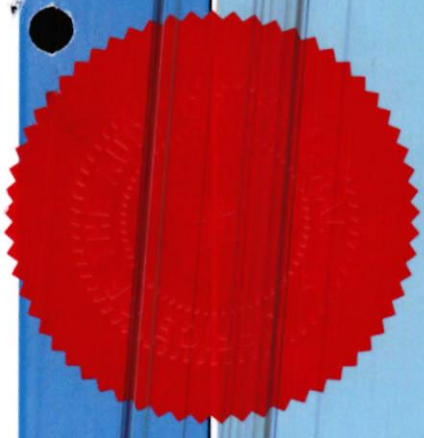
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*Enhancing Accountability*



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**MERU COUNTY INVESTMENT AND  
DEVELOPMENT CORPORATION**

**FOR THE YEAR ENDED  
30 JUNE, 2020**

PAPERS LAID	
DATE	02/03/2022
TABLED BY	SML
COMMITTEE	—
CLERK AT THE TABLE	CHANIA





— MERU COUNTY —  
**INVESTMENT &  
DEVELOPMENT**  
CORPORATION



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**MERU COUNTY INVESTMENT & DEVELOPMENT CORPORATION**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2020**

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

**Meru County Investment and Development Corporation  
Reports and Financial Statements  
For the year ended June 30, 2020**

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<b>1. KEY ENTITY INFORMATION AND MANAGEMENT</b>	<b>2</b>
<b>2. THE BOARD OF DIRECTORS</b>	<b>5</b>
<b>3. STATEMENT OF PERFORMANCE AGAINST COUNTY ENTITY'S PREDETERMINED OBJECTIVES</b>	<b>8</b>
<b>4. MANAGEMENT TEAM</b>	<b>10</b>
<b>5. BOARD CHAIRPERSON'S REPORT</b>	<b>13</b>
<b>6. REPORT OF THE MANAGING DIRECTOR</b>	<b>14</b>
<b>7. CORPORATE GOVERNANCE STATEMENT</b>	<b>15</b>
<b>8. MANAGEMENT DISCUSSION AND ANALYSIS</b>	<b>18</b>
<b>9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING</b>	<b>22</b>
<b>10. REPORT OF THE BOARD OF DIRECTORS</b>	<b>24</b>
<b>11. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES</b>	<b>25</b>
<b>12. REPORT OF THE INDEPENDENT AUDITOR</b>	<b>27</b>
<b>13. FINANCIAL STATEMENTS</b>	<b>28</b>
<b>13.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED     30<sup>th</sup> JUNE 2020 .....</b>	<b>28</b>
<b>13.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020 .....</b>	<b>29</b>
<b>13.3. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED     30 JUNE 2020 .....</b>	<b>30</b>
<b>13.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020 .</b>	<b>31</b>
<b>13.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS     FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2020.....</b>	<b>32</b>
<b>13.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....</b>	<b>33</b>
<b>13.7. NOTES TO THE FINANCIAL STATEMENTS .....</b>	<b>43</b>
<b>14. PROGRESS ON FOLLOW UP OF PRIOR YEAR AUDITOR'S RECOMMENDATIONS .....</b>	<b>48</b>

## **1. KEY ENTITY INFORMATION AND MANAGEMENT**

### **a) Background information**

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

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

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

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

### **b) Principal Activities**

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

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

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

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

**Meru County Investment and Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

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

**c) Board of Directors**

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

**d) Key Management**

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

**e) Registered Offices**

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

**f) Corporation Contacts**

Telephone: 020-2500250  
E-mail: [info@investmeru.co.ke](mailto:info@investmeru.co.ke)  
Website: [www.investmeru.co.ke](http://www.investmeru.co.ke)

**g) Corporation Bankers**

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

**h) Independent Auditors**

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


**i) Principal Legal Adviser**



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

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



**Meru County Investment and Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

**2. THE BOARD OF DIRECTORS**

	<b>Name</b>	<b>Details of Qualifications And Experience</b>
1.	 <p>Felicity Nkirote Biriri  <b>Chairperson</b></p>	<p>Felicity Nkirote Biriri is a Human Resource professional with more than 18 years’ experience in various sectors including banking, advertising and real estate. She was appointed the Chairperson Meru County Investment &amp; Development Corporation in December 2017. She is a seasoned governance expert who sits in various boards including Kenya Pipeline Company, Kenya Pipeline Pension Scheme, Meru University of Science and Technology, National Environment Complaints Committee and is a Kenya Private Sector Alliance (KEPSA) Foundation Trustee. She has previously sat in the board of directors of Geothermal Development Company GDC, governing council of Moi University and KEPSA governing council.</p> <p>Felicity holds a Bachelor of Arts degree in Human Resource Management and an MBA in Conflict Resolution and Peace Management from Kenyatta University. Felicity is currently pursuing doctorate studies.</p>
2.	 <p>James Mwenda Muratha  <b>Board member</b></p>	<p>James Muratha is the Chief Executive Officer of RE/MAX Kenya, a leading global real estate company.</p> <p>James has a wealth of experience in the international capital markets and has over 20 years’ experience in the financial services sector having worked in asset management, financial accounting and audit with leading global institutions.</p> <p>Mr. Muratha holds an MBA in finance from the University of New Brunswick in Canada</p>

		<p>and a Bachelor of Commerce degree in accounting from Kenyatta University. He is a member of the Institute of Certified Public Accountants of Kenya and is a former Chairman of the Fund Managers Association in Kenya.</p>
<p>3.</p>	 <p>Ken Kinoti Ntongai  <b>Board Member</b></p>	<p>A career banker with over 8 years' experience having served in different roles, Mr Ntongai is well versed with banking and financial institutional operations across East Africa having previously served with Equity Bank and Barclay's banks in various capacities.</p> <p>Mr Ntongai holds an MSc in Finance and Bachelor of Commerce Finance from the University of Nairobi.</p>
<p>4.</p>	 <p>Catherine Kithinji  <b>Board Member</b></p>	<p>Catherine Wanja Kithinji is the Trade Development and management specialist with 25 years of experience in domestic and international trade. She has worked in the government sector in various capacities rising through the ranks. Catherine has served as the trade officer, industrial development officer, market researcher analyst at International Trade Centre, Geneva, Civil Service Support Officer at the Ministry of Industry, Commerce and Investment, South Sudan and currently Chief Officer Trade, County Government of Meru.</p> <p>Catherine holds an MBA (International Business) from Kenya Methodist University, MA (Community Development and Project Management) from Egerton University and BA (Economics and Sociology) from Egerton University. Catherine is a board member of Meru Investment and Development Corporation as a government representative.</p>

**Meru County Investment and Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

<p>5.</p>	 <p><b>Joseph Chabari</b>  <b>Board Member</b></p>	<p>Kabii Chabari is the Chief Officer Finance, Economic planning and ICT of County Government of Meru. Mr. Chabari has a vast experience in Finance and accounting in Public Sector having worked at the National Treasury for 9 years.</p> <p>Mr Chabari holds an MBA in Finance from Meru University of Science and Technology and bachelor's degree in Business administration accounting option from Maseno University. He is a certified public accountant of Kenya and a Member of ICPAK.</p>
<p>6.</p>	 <p><b>Kenneth Ruteere</b>  <b>Ag. Managing Director</b></p>	<p>Kenneth Ruteere, was appointed as Ag. Managing Director of the Meru County Investment &amp; Development Corporation in February 2020.</p> <p>He holds a Bachelor's Degree in economics from the University of Nairobi and a Master's Degree in Economic policy management from Makerere University.</p>

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

#### **Introduction**

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

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

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

During the FY2019/20 the corporation planned to undertake various projects whose overall objective is to increase investments in the county, creating new jobs and wealth for the people of Meru. To realize this, the following are the specific objectives set out to be accomplished during the financial year;

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

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

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



**Meru County Investment and Development Corporation  
Reports and Financial Statements  
For the year ended June 30, 2020**

<b>Programme</b>	<b>Objectives</b>	<b>Outcome</b>	<b>Indicator</b>	<b>Performance (During the FY 2019/20)</b>
Value addition	To invest in value addition on farm produce	Additional earnings from farm produce	% of completion	20% additional investments; Thimangiri slaughter house operationalized; Kanyakine Fish processor operationalization achieved at 80% and overseen the implementation of Cherry cash model in the coffee sector
Infrastructure development	To invest in infrastructural development as an enabler to economic growth and development	Enhanced ease to do business	% of completion	100% of Phase One of the County Headquarters completed
Tourism and Hospitality	To promote tourism and hospitality in the county	Improved visibility of Meru County as a choice tourism destination	% completion	30% increase in Visits to the County. MCIDC facilitated the organization of Mt. Kenya Run Championship
Renewable energy Development	To lead in the promotion and investments in renewable energy generation	Increased investments in renewable energy	% Completion	40% progress in the setting up of the Meru Energy Park. MCIDC facilitated community ownership, and National government waivers and support to the project



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



- ✓ Changing development priorities &
- ✓ Inadequate budget allocations and disbursements;

**4. MANAGEMENT TEAM**

<p>1.</p>  <p><b>Kenneth Ruteere</b> <b>Ag. Managing Director</b></p>	<p>Kenneth Ruteere, was appointed as Ag. Managing Director of the Meru County Investment &amp; Development Corporation in February 2020.</p> <p>He holds a Bachelor's Degree in economics from the University of Nairobi and a Master's Degree in Economic policy management from Makerere University</p>
<p>2.</p>  <p><b>Winfred Mukiri</b> <b>Economic Analyst</b></p>	<p>Winfred Mukiri is currently in charge of business development department in absence of Director Business Development since February 2020.</p> <p>She holds a Bachelor of Economics &amp; Statistics (Hons. University of Nairobi), CPA -Section 3, currently at University of Nairobi. She has extensive experience in Micro and Macro Economics, Finance analysis and Modelling and currently handles all investments matters in the Corporation.</p>

**Meru County Investment and Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

<p>3.</p>  <p>Lilian Karambu  <b>Human Resource Manager</b></p>	<p>Lilian Karambu is currently in charge of Human Resource department in absence of Director Corporate Service since February 2020.</p> <p>She holds a Bachelor’s degree in Human Resource Management and Master’s degree in Strategic Management.</p> <p>She is a member of the Institute of Human resource Management</p>
<p>4.</p>  <p>Peninah Kinya  <b>Accountant</b></p>	<p>Peninah Kinya is currently in charge of finance department in absence of Director Corporate Services since February 2020.</p> <p>She holds a Bachelor in Commerce (Accounting)-UON, Diploma in Business Management-UON and currently undertaking Master’s in Business Administration (Finance) at the University of Nairobi.</p> <p>She is a member of the Institute of Certified Public Accountant of Kenya(ICPAK)</p>

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

**Meru County Investment and Development Corporation  
Reports and Financial Statements  
For the year ended June 30, 2020**

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**5. BOARD CHAIRPERSON'S REPORT**

On behalf of the Board of Directors, Meru County Investment and Development Corporation, I take this opportunity to present to you the 12 months ended 30 June 2020 reports and financial statements pursuant to section 21 (1) of the MCIDC act 2014 which alludes that: The Board shall cause to be kept proper books and records of accounts and assets of the Corporation and that within a period of three months after the end of each financial year, the Board shall submit to the Auditor-General, the accounts of the corporation together with (a) a statement of financial position as at the thirtieth day of June; (b) a statement of comprehensive income; (c) a statement of cash flow for the year ended; (d) a summary of significant accounting policies and other explanatory information.

During the year under review there were changes in the key management personnel as follows: Eng. Samwel Odhiambo was the acting Managing Director at the commencement of the financial year up to January 2020. Then Mr. Kenneth Ruteere was appointed the acting Managing Director in February 2020.

Due to budget constraints the Corporation was only able to focus on infrastructure development that is the completion of the Meru County Headquarter Refurbishment to create adequate office space for the Meru county Government departments that have been in rented offices. The institution has continued to build its internal structures and controls to ensure that the institution has employed the market's best practices in its day to day operations and administration. The board, in its role of providing strategic leadership has considered and approved the Corporation's investment plan to guide all investments activities and align them to the general vision of the county, integration of the institution's activities and align them to the general vision of the county, integrated development plan, the annual development plans as well as budgetary objectives.

We look forward to implementing key strategic interventions as the corporation continues to build upon the achievements it has achieved so far. The board and management has a greater vision for the corporation in terms of public private partnerships and joint venture arrangements in the areas of renewable energy, Agriculture, Tourism and real Infrastructure.

The board confirms that the institution remains firm on its mandate and sound on its vision of being the leading Investment Corporation in Kenya through design and execution of world-Class Commercial Ventures as well as the county's vision of being a green unified prosperous county.



\_\_\_\_\_  
Signature

**Felicity N. Biriri**

**MCIDC Board Chairperson**

## **6. REPORT OF THE MANAGING DIRECTOR**

I take this opportunity to present to you this Annual Report which highlights the performance of the corporation's operations for the year ended June 2020. The last twelve months have been particularly challenging for the corporation and I wish to sincerely appreciate combined endeavours and commitment of our Board, stakeholders, management and staff, all of whom played key roles over the period.

### **Operational Overview**

I am pleased to inform you that during the year, the corporation continued to strengthen its business processes to ensure improved revenue recognition and cost containment. I am pleased to report that management has initiated various steps aimed at further improving the corporation's operations in line with its key mandate. During the year, the corporation re-viewed its developmental projects and initiatives particularly those relating to the real estate sector and took strategic decisions to enable its competitive positioning particularly in the real estate sub-sector.

To ensure delivery of its strategic plan, management continues to focus on the agribusiness, renewable energy, hospitality and real estate sub-sectors whilst remaining opportunistic across other sectors.

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

In the hospitality sector, the Corporation intends to play a key role in re-positioning the Meru region as a popular tourism sector and steady progress is being made towards establishing a strong pipeline in this sector.


For the real estate sector, the corporation has completed the proposed Meru County Headquarters office block.

### **Financial Performance**

During the financial year 2019/2020 the corporation received Ksh 82,455,454 from the County Treasury to cater for the budgetary provisions. Further, the corporation earned revenue amounting to Ksh 5million from its assets.

### **Future Outlook**

2020 is projected to be a challenging year as the National Government initiates austerity measures aimed at improving fiscal management. We look forward to implementing key strategic interventions as the corporation continues to build upon the achievements it has achieved so far.

Signed:   
Kenneth Ruteere

MCIDC, Managing Director

## **7. CORPORATE GOVERNANCE STATEMENT**

### **Process of Appointment & Removal of Board Members**

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

The chairpersons shall be appointed by the Governor and approved by the county assembly and shall at a minimum possess the qualifications, skills and experience set out in MCIDC Act. Each Board member shall be formally appointed to the Board through a Gazette Notice and thereafter an appointment letter. Board members shall be appointed by name, and shall sit on the Board individually with no power to appoint alternates. The Chief Officers shall sit in their office capacity with power to appoint alternates. Each Board member shall signify their acceptance of the appointment in writing while the appointing authority shall ensure that any person appointed to the Board satisfies the fit and proper requirements.

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

Every appointment shall cease if the Board member:

1. Serves the appointing authority with a written notice of resignation; or
2. Is absent, without the permission of the Chairperson, from three consecutive meetings; or
3. Is convicted of an offence and sentenced to imprisonment for a term exceeding six months or to a fine exceeding ten thousand shillings; or
4. Is incapacitated by prolonged physical or mental illness from performing his duties as a member of the Board; or
5. Conducts himself in a manner deemed by the appointing authority to be inconsistent with membership of the Board.

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

### **Number of Board Meetings and attendance**

The current Board of Directors was officially inaugurated on 13<sup>th</sup> December 2017 and had various board meetings in FY2019/2020 as listed below.

**Meru County Investment and Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

NAME	2019			2020								
	17 <sup>th</sup> Oct	13 <sup>th</sup> Dec	17 <sup>th</sup> Dec	27 <sup>th</sup> Jan	19 <sup>th</sup> Feb	13 <sup>th</sup> March	27 <sup>th</sup> March	3 <sup>rd</sup> April	13 <sup>th</sup> May	4 <sup>th</sup> June	5 <sup>th</sup> June	23 <sup>rd</sup> June
Felicity Biriri	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
James Muratha	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓
Kenneth Ntongai	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓
Catherine Kithinji	X	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓
Joseph Chabari	X	✓	X	✓	X	X	✓	X	X	X	X	✓
Samwel Odhiambo	✓	✓	✓	✓	✓	X	X	X	X	X	X	X
Kenneth Ruteere	X	X	X	X	✓	✓	✓	✓	✓	✓	✓	✓
Crispus Mutoni	X	X	X	X	✓	X	X	X	X	X	X	X

**Board Charter**

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

**Composition of the Board**

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

**Roles and functions of the Board**

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

- a) Determine the organization's mission, vision, purpose and core values.
- b) Set and oversee the overall strategy and approve significant policies of the organization.
- c) Ensure that the strategy is aligned with the purpose of the organization and the legitimate interests and expectations of all stakeholders and ensure effective communication with the stakeholders.
- d) Approve the organizational structure and annual budget of the organization.
- e) Monitor the organization's performance and enhance the corporate image of the organization.
- f) Ensure availability of adequate resources for the achievement of the organization's objectives.
- g) Appoint the MD, on such terms and conditions of service as may be approved by the relevant government organ(s) and approve the appointment of senior management staff.
- h) Oversee all the subsidiaries of the corporation and monitor their performance.

**Meru County Investment and Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

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**Capacity Building for the Board**

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

**Board Members Performance**

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

**Board Remuneration**

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

**Conflict of Interest**

A member of the Board shall be considered to have a conflict of interest for the purposes of this code if he acquires any pecuniary or other interest that could conflict with the proper performance of his duties as a member of the Board. A conflict of interest may also arise where a Board member or close family member has private interests that could improperly influence the performance of the Board member's official duties and responsibilities. Board members are required to avoid conflict of interest and deal at arms-length in any matter that relates to the organization. However, a Board member who identifies an area of conflict shall be required to disclose.


**Governance Audit.**

The Board, in consultations with the Auditor General's office, shall ensure that it subjects the organization to an annual governance audit by a member regulated by the Institute of Certified Public Secretaries of Kenya (ICPSK) and accredited for that purpose. The governance audit will also include areas that cover the governance practices of the organization in the following parameters:

- (a) Leadership, strategic management, transparency, disclosure and compliance with laws
- (b) Communication with stakeholders and ensuring corporate social responsibility;
- (c) Board procedures, independence, governance and shareholder value enhancement;

**Succession Plan**

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

  
\_\_\_\_\_  
**Board Chairperson**

  
\_\_\_\_\_  
**Managing Director**

## **8. MANAGEMENT DISCUSSION AND ANALYSIS**

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

### **Operational Performance**

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

### **Financial Performance**

During the financial year 2019/2020 the corporation received Ksh 31,847,000 rollover for FY2018/19 and Kshs 50,608,454 from the County Treasury being budgetary allocation for FY2019/2020. However Kshs.30,000,000 development allocation was not disbursed in the period under review. The corporation earned revenue amounting to Ksh 5million from its assets and anticipate to increase revenue in FY2020/21 as the County Government of Meru will be paying rent for office space occupied by staff in the proposed new Meru County Headquarter office block and maisonette building.

### **Key Projects and Investments (Completed and Ongoing)**

#### **(a) Ongoing**

#### **Meru County Headquarters Office Block**

The key projects for MCIDC for the FY 2019/2020 was the refurbishment of the proposed Meru County headquarters. The refurbishment was undertaken to provide office space for the Meru County Government staff as there is a dire need of office space thus the government is paying more than Kshs.1 Million per month on rent for space which is still not enough. Therefore, MCIDC (Meru County Investment and Development Corporation) undertook to renovate Meru County Hotel to grade A, office space. The office block will be The Meru County Headquarters and host the office of the Governor. The total cost of refurbishment is being catered by the corporation, as at the closure of financial year under review the building was at 99% complete with an occupancy of over 80%. The project is expected to be completed at an estimated cost of Kshs. 201million.

#### **Meru Energy Park**

Meru Energy Park project in partnership with the Windlab is progressing well. Over the last financial year data collecting was on going with two Sodars, one Meteorological Mast and one Solar monitoring station and the data is positive. Environmental Study Impact Assessment is done awaiting submission to National Environmental Management Authority in October this year 2020.

**Meru County Investment and Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

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The land adjudication for the area has been published and the hearings are ongoing and 1,145 land owners in the project area have signed License and Option Agreement so far. Other studies i.e. Grid study, Preliminary transport study, Bird and bat studies and project optimization and hybrid modelling of wind, solar and battery storage done. Application made to Kenya Civil Aviation Authority for turbine height approval and preparations are underway for an aeronautic safety study for the proposed turbine locations to confirm the turbines will have no impact on flight safety once installed.

**Leopard Rock Lodge**

Leopard Rock hotel is a luxury lodge located in Meru National Park, Kenya. Meru National Park is one of the most beautiful and untouched parks in Kenya. The facility's ownership and administration was transferred from the defunct Nyambene County Council to The County Government of Meru in the wake of devolution in 2013. The Meru county government following a cabinet resolution classified the facility as a commercial entity best run by the Meru Investment and Development Corporation. This essentially resulted to the transfer of the facility to the Meru County Investment and Development Corporation (MCIDC) to manage the facility.

At the point of transfer, operations had seized at the facility due to termination of the contract of the previous operator. Months of non-operation have left the facility requiring facelift or rehabilitation. MCIDC plans to undertake various analysis to inform facility optimization. This analysis will involve effective stakeholders engagement through which a consensus to commercially lease out to a seasoned private investor to renovate, operate and maintain the facility in the FY2020/21.

**Kanyakine Fish Processing Factory**

Kanyakine Fish Processing Plant situated within Kanyakine area South Imenti Meru County was constructed by the National Government under the Economic Stimulus Programme (ESP) and handed over to the County Government in 2015. The County further transferred the facility to Meru County Investment & Development Corporation for purposes operationalization to ensure the facility serves the purpose for which it was established. The Corporation is currently undertaking a lease out process to ensure the facility is operational.

**Meru County Maisonettes**

The corporation took over the management of the Meru County Maisonettes, marked the rates to market and fast tracked the remittance of rent arrears. We plan to refurbish the facility in FY2020/21 in order to be able to maximize on rent collections. We believe that with strategic tenants the facility can earn revenue for the corporation.

**(b) Completed Project**

**Meru County Oils Limited**

The Meru County Oils Limited is a petrol station that opened its' operations in 2017 operating as a fully owned subsidiary of MCIDC. The station is currently not operating as the corporation devised its strategy to quit commercial activities but rather create an enabling business environment by promoting Small and Medium Enterprises (SMEs) firms through leasing out the facility.

### **Thimangiri Slaughter House**

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

### **Michii Mikuru Tea Farm**

The farm was established in 1960s as a demonstration farm on tea production/growing. The farm operated under the County Government of Meru department of Agriculture, Livestock & Fisheries under supervision by the Principal Kaguru ATC. Further, in February 2019 the farm's management was transferred to the corporation whereby all the operational costs are borne by MCIDC as well as the revenue remittances. The corporation intends to improve the farm maintenance to optimize the quantity of harvest to enhance income receivable from the tea farm.

**Table 1: Summary of the projects ownership**

	<b>PROJECT</b>	<b>SECTOR</b>	<b>INVESTOR</b>
<b>1</b>	Meru County Oils Limited	Energy	MCIDC
<b>2</b>	Meru County Head Quarter Refurbishment	Real Estate	MCIDC
<b>3</b>	Meru County Maisonettes	Real Estate	MCIDC
<b>4</b>	Wind energy	Clean Energy	MCIDC& Partners
<b>5</b>	Kanyakine Fish Processing Factory	Value Addition	MCIDC
<b>6</b>	Michii Mikuru Tea Farm	Agri-Business	MCIDC
<b>7</b>	Leopard Rock Lodge	Hospitality	MCIDC
<b>8</b>	Thimangiri slaughter house	Real Estate	MCIDC

### **Legal & Compliance with Statutory Requirements**

The corporation has been keen to ensure compliance with all the laws through its legal office to take overall responsibility for the management of all legal matters pertaining to the Corporation. The office provides efficient and timely professional legal services to the corporation, advise management on legal matters and risks facing the organization, ensure company's compliance with statutory and regulatory requirements to avoid legal penalties,

The office's major responsibilities have been offering sound legal counsel to management, Drafting and review of laws, regulations and by-laws that fall within the Corporation's purview for compliance purposes and risk management. The legal office therefore has ensured there are pre-qualified firms on standby ready to represent the Corporation and select appropriate firms. Further it is the responsibility of the office to compile information needed by the firms, monitor the matters and give status reports to management and the board.

**Meru County Investment and Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

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The legal officer has been the secretariat to the board. This involves minute taking, ensuring proper records of board papers, minutes and boards discussions. The office also ensures meetings are properly convened, development of charters etc. The office has also been instrumental in business development, investor relationships and the partnerships the corporation gets into. This has involved conducting due diligence, Drafting of all contracts and agreements (business development agreements, consulting & services agreements, Financing agreements, EPC agreements, licensing agreements etc.), strategic alliances & collaborations monitoring and evaluations of partnerships and responding to queries/ guidance on agreements by investors/partners.

**Major Risks facing the Corporation**

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

**Material Arrears in Statutory and Financial Obligation**

Meru County Investment & development Corporation has complied with all the statutory obligations during the FY 2019/2020. However, the key financial obligation during that financial year is a pending payment to Meru Rising Tower project amounting to 13,547,641 towards the payment for the final designs.

## **9. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING**

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

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

### **1. Sustainability strategy and profile -**

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

### **2. Environmental performance**

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

### **3. Employee welfare**

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

#### **a) Working environment**

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

#### **b) Competency development**

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

**Meru County Investment and Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

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

**4. Market place practices-**

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

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

**5. Community Engagements-**

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

## **10. REPORT OF THE BOARD OF DIRECTORS**

The Board of directors submit their report together with the financial statements for the year ended June 30, 2020 which show the state of the Corporation affairs.

### **Principal activities**

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

### **Results**

The results of the Corporation for the year ended June 30, 2020 are set out on 28 to 47.

### **Board of Directors**

The members of the Board of Directors who served during the year are shown on page 5. There were no changes in the Board membership during the financial year, the current board of directors were appointed in November 2017.

### **Auditors**

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

By Order of the Board

**Meru County Investment and Development Corporation**

**Felicity Nkirote Biriri**

**Board Chairperson**

**Date:**

10/11/2020



## **11. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES**

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

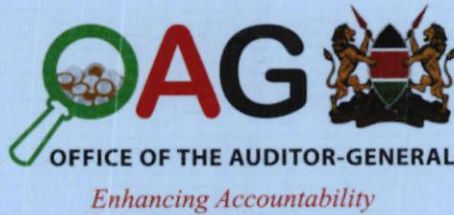
The Managing Director of the Corporation is responsible for the preparation and presentation of the financial statements, which give a true and fair view of the state of affairs of the corporation as at the end of the financial year ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Corporation; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Managing Director accepts responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the MCIDC Act. 2014. The Managing Director is of the opinion that the corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30, 2020, and of the Corporation's financial position as at that date. Further the Managing Director confirms the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of its financial statements as well as the adequacy of the systems of internal financial control.

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

# REPUBLIC OF KENYA

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## **REPORT OF THE AUDITOR-GENERAL ON MERU COUNTY INVESTMENT AND DEVELOPMENT CORPORATION FOR THE YEAR ENDED 30 JUNE, 2020**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Meru County Investment and Development Corporation set out on pages 28 to 48, which comprise the statement of financial position as at 30 June, 2020, and the 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 the Meru County Investment and Development Corporation as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Public Finance Management Act, 2012 and the Meru County Investment and Development Corporation Act, 2014.

#### **Basis for Qualified Opinion**

##### **1.0 Accuracy of the Financial Statements**

##### **1.1 Inaccuracies in the Statement of Cash Flows**

The statement of financial position reflects accounts payable balance of Kshs.31,523,227 as at 30 June, 2020 and comparative balance of Kshs.45,685,322 as at 30 June, 2019 resulting to a decrease of Kshs.14,162,095 between the two years. However, the statement of cash flows reflects Kshs.14,157,095 in respect of decrease in accounts payable balances. No explanation or reconciliation has been provided for the variance of Kshs.5,000 between the two statements.

Further, the statement of financial position reflects Kshs.888,000 and Kshs.2,352,500 in respect to accounts receivables for the year under review and comparative balances for

the 2018/2019 financial years respectively resulting to an increase in cash flow of Kshs.1,464,500 between the two years. However, the statement of cash flows reflects a decrease in cash flow of Kshs.888,000 in respect to the same item resulting to an unexplained variance of Kshs.2,352,500.

In the circumstances, the accuracy of the statement of cash flows could not be confirmed.

## **1.2 Under Stated Bank Balance**

The statement of financial position reflects Kshs.4,102,932 in respect to bank balance which includes Kshs.2,404,859 in respect to a balance in a bank account. However, the bank reconciliation statements for the same bank account reflects Kshs.30,000 in respect to receipts in bank statement but not recorded in cash book resulting to an understatement of the bank balance with the same amount. In addition, details of the receipts of Kshs.30,000 were not provided for audit review.

In the circumstances, the accuracy of the Kshs.4,102,932 bank balance could not be confirmed.

## **1.3 The Statements of Changes in Net Assets**

### **1.3.1 Prior Period Overstated Surplus**

The statement of changes in net assets for the year ended 30 June, 2020 reflects Kshs.2,347,500 in respect to prior period overstated surplus. However, the adjustment is made in the statement of changes in net assets for the year under review instead of adjusting it in the respective audit components in the year the same occurred and restated in the correct comparative balances in the year under review as required by International Public Sector Accounting Standards (IPSAS) 3 paragraph 47, which states that an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for prior period presented in which the error occurred or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

### **1.3.2 Capital Contribution**

As disclosed in Note 11 to the financial statements, the statement of financial position reflects a capital contribution balance of Kshs.331,686,482. However, the same has not been disclosed under the statement of changes in net assets as required by Section 118-125 of the International Public Sector Accounting Standard (IPSAS) 1. which states that, an entity shall present a statement of changes in net assets/equity showing on the face of the statement, any contributions by, and distributions to, owners in their capacity as owners.

In the circumstances, the accuracy of the statement of changes in net assets could not be confirmed.

## **2.0 Going Concern**

The Corporation's statement of financial position as at 30 June, 2020 reflects current assets of Kshs.4,990,932 and current liabilities of Kshs.32,923,227 resulting to a negative working capital of Kshs.27,932,295. The Corporation may therefore, not be able to pay its current obligations if and when they fall due.

In the circumstance, the continued operation of the Corporation, on a going concern assumption, depends on the continued financial support from the County Government of Meru, creditors and other external financial support.

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

### **Key Audit Matters**

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

### **Other Matter**

#### **1.0 Budgetary Control and Performance**

##### **1.1 Revenue Analysis**

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020 reflects an approved revenue budget of Kshs.118,631,455 and actual revenue of Kshs.88,404,497 resulting to revenue short fall of Kshs.30,226,958 or 25% of the budget.

The revenue shortfall represents services budgeted for but not delivered to the Meru County residents.

##### **1.2 Expenditure Analysis**

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020 reflects an expenditure budget of Kshs.118,631,455 and an actual expenditure of Kshs.83,846,932 resulting to under- expenditure of Kshs.34,784,523 about 29% of the budget.

The under expenditure represents services budgeted for but not delivered to Meru County residents and also an indicator of poor budget planning mechanism.

# REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

## **Conclusion**

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

## **Basis for Conclusion**

### **1.0 Abandoned Radio Station Project**

Note 9 (i) to the financial statements for the year ended 30 June, 2020 reflects Kshs.31,523,227 in respect to accounts payable which includes Kshs.1,030,000 payables to a firm as the final payment for the abandoned radio station project.

As reported in previous financial year, Kshs.3,702,429 and Kshs.849,400 totalling to Kshs.4,551,829 was invested in 2016/2017 and 2017/2018 financial years respectively in construction of a radio station which was closed on 21 December, 2017 due to non-viability. The Management had not undertaken project appraisal and financial analysis of the radio station project before making the investment contrary to Section 26 of the Meru County Investment and Development Corporation Act, 2014 which states that the Corporation shall not undertake any investment or project unless it has undertaken an investment or project appraisal and financial analysis in accordance with the prescribed guidelines.

Further, the project is still abandoned and the accounts payable balance of Kshs.1,030,000 has the effect of increasing the amount paid in respect to the project from Kshs.4,551,829 (which has already been paid) to Kshs.5,581,829 without corresponding benefits to the residents of Meru County.

In the circumstances, the propriety and value for money for the accounts payable balance of Kshs.1,030,000 and the total amount of Kshs.4,551,829 spent on the abandoned radio station could not be confirmed.

### **2.0 Meru Rising Tower Project**

As reported in the previous year and as disclosed in Note 9(i) to the financial statements, the statement of financial position reflects Kshs.31,523,227 in respect to accounts payable balance which includes Kshs.13,547,641 owed to a firm for design and construction and supervision of the proposed fifteen (15) storey Meru Rising Tower in Meru town. Documents provided for audit review indicated that the total consultancy fees incurred in 2016/2017 financial year was Kshs.40,357,104 out of which Kshs.19,000,000

was paid in June, 2017 and Kshs.7,809,464 in the year under review leaving a balance of Kshs.13,547,640.

However, the project which was estimated to cost Kshs.1,990,878,979 had not started as at the time of audit.

Consequently, the value for money on the Kshs.26,809,464 already paid in respect to consultancy fees as at 30 June, 2020 could not be confirmed.

### **3.0 Long Overdue Debt from the County Treasury**

As reported in the previous year and as disclosed in Note 10 to the financial statements, the statement of financial position reflects Kshs.1,400,000 in respect of borrowings from the County Treasury of Meru to pay salaries for the Corporation employees in March, 2018. However, no satisfactory explanation was provided to explain why the debt had not been settled as at the time of audit in October, 2020.

In the circumstances, the Corporation risks legal proceedings from the County Government of Meru.

### **4.0 Accrued Rent**

As disclosed in Note 6 to the financial statements, the statement of financial position reflects Kshs.888,000 in respect of accounts receivable balances which relates to accrued rent from various Corporation's tenants. The balances further includes Kshs.780,000 in respect to accrued rent from a local bank. However, the bank breached the tenancy agreement and had rent arrears totaling to Kshs.780,000 as at 30 June, 2020.

No documentary evidence has been provided for audit review on the effort the Management has taken to recover the rent arrears contrary to Section 5 (b) of the Meru County Investment and Development Corporation Act, 2014 which states that the Corporation shall be responsible of undertaking investments on behalf of the County Government for the purposes of generating revenue.

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

### **5.0 Refurbishment of Meru County Hotel**

As disclosed in Note 7 to the financial statements, the statement of financial position reflects Kshs.345,092,088 in respect to property, plant and equipment, which includes Kshs.33,383,005 in respect to additions for the year which further includes Kshs.32,880,505 in respect to capital work- in- progress for refurbishment of Meru County Hotel. The date of practical completion was 14 June, 2019. However, as at the time of this audit inspection in October, 2020, the project was not complete 15 months after the due date.

In the circumstances, the contractor is in breach of the contract and the value for money on Kshs.32,880,505 incurred on refurbishment of the hotel could not be confirmed.

## **6.0 Ethnic Imbalance**

A review of the personnel records revealed that the Corporation had fifteen (15) employees out of which thirteen (13) or 87% were from the dominant ethnic community contrary to Section 65 (1)(e) of County Government Act, 2012 which require that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.

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

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

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

#### **Conclusion**

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

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

#### **Responsibilities of Management and 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 control, risk Management and governance.

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

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

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

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

### **Auditor-General's Responsibilities for the Audit**

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

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

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

occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

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

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

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

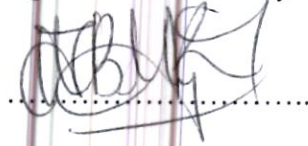
  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi

11 February, 2022

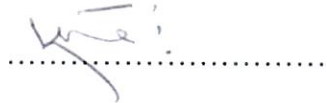
**Approval of the Financial Statements**

The Corporation financial statements were approved by the Board on 17<sup>th</sup> September 2020 and signed on its behalf by:



.....

**Chairperson of the Board**



.....

**Managing Director**

**13. FINANCIAL STATEMENTS**

**13.1. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2020**

	Note	FY2019/2020	FY2018/2019
		KShs	KShs
<b>Revenue From Non-exchange Transactions</b>			
Transfers From the County Government	1	82,455,454	15,000,000
<b>Revenue From Exchange Transactions</b>			
Other Income	2(i)	5,949,043	4,109,151
<b>Total Revenue</b>		<b>88,404,497</b>	<b>19,109,151</b>
<b>Expenses</b>			
Staff Cost	3	21,639,195	28,573,174
General Expenses	4	15,702,544	15,052,962
Depreciation and Amortization Costs	7	1,699,379	2,301,879
<b>Total Expenses</b>		<b>39,041,117</b>	<b>45,928,014</b>
<b>Surplus/( Deficit) for the Period</b>		<b>49,363,380</b>	<b>(26,818,863)</b>

The notes set out on pages 43 to 47 form an integral part of these Financial Statements.

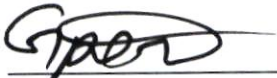
**Meru County Investment And Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

**13.2. STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

	Note	FY2019/2020	FY2018/2019
		KShs	KShs
<b>Assets</b>			
<b>Current Assets</b>			
Bank Balance - Current Account	5	4,102,932	1,468,273
Accounts Receivables	6	888,000	2,352,500
<b>Non-current assets</b>			
Property, Plant and Equipment	7	345,092,088	313,408,462
Investment	8	63,456,278	63,456,278
<b>Total Assets</b>		<b>413,539,297</b>	<b>380,685,513</b>
<b>Equity &amp; Liabilities</b>			
<b>Current Liabilities</b>			
Accounts Payable	9(i)	31,523,227	45,685,322
Borrowings From County Treasury	10	1,400,000	1,400,000
<b>Non-Current Liabilities</b>			
<b>Total Liabilities</b>		<b>32,923,227</b>	<b>47,085,322</b>
<b>Net Assets</b>			
Capital Contribution	11	331,686,482	331,686,482
Accumulated Surplus		48,929,589	1,913,709
<b>Total Net Assets and Liabilities</b>		<b>413,539,297</b>	<b>380,685,513</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 17<sup>th</sup> September 2020 and signed by:

  
 \_\_\_\_\_  
 Managing Director  
 Name: Kenneth Ruteere

  
 \_\_\_\_\_  
 Corporation Accountant  
 Name: Peninah Kinya  
 ICPAK Member Number: 20480

**13.3. STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2020**

	Revolving Fund	Revaluation Reserve	Accumulated surplus	Total
		KShs	KShs	KShs
<b>Balance as at 1st July 2018</b>			<b>24,140,376</b>	<b>24,140,376</b>
Add: Legal Expenses Adjustment			<b>1,758,000</b>	<b>1,758,000</b>
Add: Gains in Assets Revaluation		2,820,000		<b>2,820,000</b>
Add: Previous year Adjustments			14,196	<b>14,196</b>
Surplus/(Deficit) for the Period			<b>(26,818,863)</b>	<b>(26,818,863)</b>
<b>Balance as at 30th June 2019</b>		<b>2,820,000</b>	<b>(906,291)</b>	<b>1,913,709</b>
Adjust: Prior Period Overstated Surplus			<b>(2,347,500)</b>	<b>(2,347,500)</b>
<b>Balance as at 1st July 2019</b>		<b>2,820,000</b>	<b>(3,253,791)</b>	<b>(433,791)</b>
Surplus/(Deficit) for the Period			<b>49,363,380</b>	<b>49,363,380</b>
<b>Balance as at 30th June 2020</b>		<b>2,820,000</b>	<b>46,109,589</b>	<b>48,929,589</b>

**Meru County Investment And Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

**13.4. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020**

	Note	FY2019/2020	FY2018/2019
		KShs	KShs
<b>Cash Flows From Operating Activities</b>			
<b>Receipts</b>			
Transfers From the County Government	1	82,455,454	15,000,000
Other Income	2(i)	5,949,043	4,109,151
Adjust for:		-	
Unpaid Rental Income	2(ii)		(720,000)
FY 2017/18 Accrued Rent Received in FY2018/19	2(iii)	-	577,500
Add: Previous year Adjustment	12	-	14,196
<b>Total Receipts</b>		<b>88,404,497</b>	<b>18,980,847</b>
<b>Payments</b>			
Staff Cost	3	21,639,195	28,573,174
General Expenses	4	15,702,544	15,052,962
<b>Adjusted For:</b>			
Increase in Accounts Receivable	13	(888,000)	
Decrease in Accounts Payable	14	(14,157,095)	-
Trade Payable	9(ii)		(941,573)
FY 2017/18 Accrued General Expenses Paid in FY2018/19	9(iii)		3,858,750
<b>Net Cash Flows From Operating Activities</b>		<b>36,017,663</b>	<b>(27,562,466)</b>
<b>Cash Flows from Investing Activities</b>			
Purchase of Property, Plant, Equipment	7	(33,383,005)	(104,496,388)
<b>Adjust for:</b>			
Retention (Unpaid)			8,245,462
Accrued: Mugambo Jwetu (Maintel Technical Services)			1,030,000
Accrued: Project Expenses not Paid (Office Block)			2,484,862
Investment in Subsidiaries			(225,933)
<b>Net Cash Flows Used in Investing Activities</b>		<b>(33,383,005)</b>	<b>(92,961,997)</b>
<b>Cash Flows From Financing Activities</b>			
Transfers From the County Government (Capital Contribution)		-	95,000,000
Repayment of Amount Borrowed by County Treasury		-	20,000,000
Refund of Bank Guarantee (Capital Work in Progress)		-	5,200,000
<b>Net Cash Flows Used in Financing Activities</b>		<b>-</b>	<b>120,200,000</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>2,634,659</b>	<b>(324,462)</b>
Cash and Cash Equivalents at 1st July 2019		1,468,273	1,792,735
<b>Cash and Cash Equivalents at 30th June 2020</b>	5	<b>4,102,932</b>	<b>1,468,273</b>

The figures for the period under review are not in tandem with the prior year comparative figures due to the changes in reporting format whereby the new format requires adjustment for account receivable and accounts payable.

**13.5. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2020**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% utilisation
	FY2019/2020	FY2019/2020	FY2019/2020	FY2019/2020	FY2019/2020	FY2019/2020
	KShs	KShs	KShs	KShs	KShs	
<b>Revenue</b>						
Rollover FY2018/19	31,847,000		31,847,000	31,847,000		100%
Transfers From County Government.	50,608,454		50,608,454	50,608,454	-	100%
Other Income	36,050,002	(29,874,001)	6,176,001	5,949,043	226,958	96%
Transfers From County Govt.(Development)	30,000,000	-	30,000,000	-	30,000,000	0%
<b>Total Income</b>	<b>148,505,456</b>	<b>(29,874,001)</b>	<b>118,631,455</b>	<b>88,404,497</b>	<b>30,226,958</b>	<b>75%</b>
<b>Expenses</b>						
Staff Costs	30,608,454	(6,000,000)	24,608,454	21,639,195	2,969,259	88%
General Expenses	40,333,839	(17,027,873)	23,305,966	15,702,544	7,603,422	67%
Development	77,563,163	(6,846,128)	70,717,035	46,505,194	24,211,841	66%
<b>Total Expenditure</b>	<b>148,505,456</b>	<b>(29,874,001)</b>	<b>118,631,455</b>	<b>83,846,932</b>	<b>34,784,523</b>	<b>71%</b>
<b>Surplus For the Period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,557,565</b>	<b>(4,557,565)</b>	

**Budget notes**

1. The anticipated rollover from FY2018/19 was provided on a reasonable basis on a reasonable estimate basis to enable the submission of FY2019/20 budget estimates to the county treasury.
2. The reduction on actual budget compared to final budget is due to non-disbursement of Kshs 30,000,000 for development expenditure.
3. The budgeted amount on staff costs was not fully utilized as the corporation didn't employ additional staff as intended.
4. The changes between original and final budget is due to rental income anticipated to be received from the Meru County Government, however the signing of lease agreement and occupancy did not materialise as envisaged in the financial year under review thus the Corporation didn't earn the said revenue.
5. The Kshs 46,505,194 is the total actual amount paid on capital expenditure in FY2019/2020. However, Kshs 33,383,005 is the actual capital expenditure for FY2019/2020 which is as a result of Kshs 46,505,194 less Kshs 7,809,464, Kshs 2,484,862, and Kshs 9,867,274 being pending bills recognised in FY2018/2019 but paid in FY2019/2020. In addition the amount is inclusive of Kshs 5,435,922 and Kshs 1,603,489 being the accounts payable held during the year under review.

**13.6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Statement of compliance and basis of preparation**

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

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

**2. Adoption of new and revised standards**

**a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020**

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

**b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020**

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

**Meru County Investment and Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

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

**Meru County Investment and Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

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

**c) Early adoption of standards**

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

**3. Revenue recognition**

**i) Revenue from non-exchange transactions**

**Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

**ii) Revenue from exchange transactions**

**Interest income**

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

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **4. Budget information**

The original budget for FY 2019/2020 was approved by the County Assembly on 30<sup>th</sup> June 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Corporation did not record additional appropriations on the FY 2019/2020 budget following the governing body's approval.

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

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under the section of financial statements.

### **5. Property, plant and equipment**

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

### **6. Intangible assets**

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

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**7. Financial instruments**

*Financial assets*

*Initial recognition and measurement*

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

*Impairment of financial assets*

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

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

**8. Inventories**

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

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

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

**9. Provisions**

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

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

***Contingent assets***

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

**10. Nature and purpose of reserves**

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

**11. Changes in accounting policies and estimates**

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

**12. Employee benefits – Retirement benefit plans**

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**13. Foreign currency transactions**

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

**14. Borrowing costs**

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

**15. Related parties**

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

**16. Cash and cash equivalents**

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

**17. Comparative figures**

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

**18. Events after the reporting period**

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

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**19. Ultimate and Holding Entity**

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

**20. Currency**

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

**21. Significant judgments and sources of estimation uncertainty**

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

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

**Useful lives and residual values**

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

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

**Provisions**

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

**Meru County Investment And Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**22. Financial risk management**

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

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

**a) Liquidity risk management**

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

**b) Market risk**

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

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

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

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

**23. Prior Period Accounting Errors**

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

For the Correction of Prior Period Accounting Errors the comparative amounts of each prior period presented that is FY2018/19 which contain errors have been restated.

**Meru County Investment And Development Corporation  
Reports and Financial Statements  
For the year ended June 30, 2020**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

An error which relates to a reporting period that is before the earliest prior period presented which is FY2018/19, the opening balances of assets, liabilities and equity of that period presented have been restated.

An accrued rent of Kshs. 2,352,500, Kshs. 5,000 and Kshs. 720,000 have been restated in the opening balances in Account Receivable, Accounts Payable (prepaid rent) and Other Income respectively. Further, the opening balances of accumulated surplus in the Statement of Changes in the Net Asset has been restated by Kshs. 2,347,500 being accrued rent arising from un receivable rent income by the Corporation in the previous years.

**Meru County Investment And Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

**13.7. NOTES TO THE FINANCIAL STATEMENTS**

**1. Transfer from County Government.**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Transfers From County Govt. – Operations	82,455,454	15,000,000
<b>Total</b>	<b>82,455,454</b>	<b>15,000,000</b>

**2. (i) Other Income**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Rental Income	4,720,900	3,816,000
Miscellaneous Income-Domestic Travel & Tax Refund	50,439	27,200
Income from bill board site rental	93,333	160,000
Income from Tea Farm	1,084,371	105,951
<b>Total Other Income</b>	<b>5,949,043</b>	<b>4,109,151</b>

**2(ii) Unpaid Rental Income**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
FY2018/19 Unpaid Rental Income		720,000
<b>Total Income Received</b>	<b>-</b>	<b>720,000</b>

**(iii) FY 2017/18 Accrued Rent Received in FY2018/19**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
FY 2017/18 Accrued Rent Received		577,500
<b>Total Income Received</b>	<b>-</b>	<b>577,500</b>

**3. Staff Costs**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Salaries and Wages	10,728,878	14,074,254
Staff Gratuity/pension	3,325,650	4,135,610
Staff Training Expenses	1,255,940	1,981,820
Social Security Contribution	72,000	74,800
Other Staff Costs	6,256,727	8,306,690
<b>Total</b>	<b>21,639,195</b>	<b>28,573,174</b>

**Meru County Investment And Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**4. General Expenses**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Domestic Travel and Subsistence	3,147,570	3,480,530
Electricity and Water Expenses	256,382	109,430
Fuel and Oil costs	239,000	339,386
Telephone Internet & Postage	661,043	527,691
Printing, Stationery and Office Supplies	565,931	938,104
Security Costs	210,468	841,882
Board Allowances	2,937,877	3,915,446
Legal Expenses	-	8,500
Hospitality	363,387	481,979
Other Expenses	7,320,886	4,410,014
<b>Total</b>	<b>15,702,544</b>	<b>15,052,962</b>

**5. Bank Balance**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Fixed Deposits Account	-	-
Bank Balance-Current Account	4,102,932	1,468,273
<b>Total Cash and Cash Equivalents</b>	<b>4,102,932</b>	<b>1,468,273</b>

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

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

Financial Institution	Account Number	FY2019/2020	FY2018/2019
		KShs	KShs
<b>Current account</b>			
Kenya Commercial Bank	<b>1168502845</b>	2,404,859	22,777
Kenya Commercial Bank	<b>1176612611</b>	1,269,655	1,340,265
Kenya Commercial Bank	<b>1225554969</b>	428,418	105,231
<b>Grand total</b>		<b>4,102,932</b>	<b>1,468,273</b>

**6. Accounts Receivables**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
<b>Current Receivables</b>		
Accrued Rent	888,000	2,352,500
<b>Total Current Receivables</b>	<b>888,000</b>	<b>2,352,500</b>
<b>Total Accounts Receivables</b>	<b>888,000</b>	<b>2,352,500</b>

**Meru County Investment And Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**7. Property, Plant and Equipment**

	Capital work	Motor vehicles-4yrs	Computer and related equipment-3yrs	office equipment furniture and fittings-12.5yrs	Total
Cost	In progress				
	KShs	KShs	KShs	KShs	KShs
<b>At 1<sup>st</sup> July 2018</b>	209,642,725	5,900,000	2,573,004	2,725,174	220,840,903
Additions/Revaluation	102,861,388		880,000	755,000	104,496,388
<b>At 30<sup>th</sup> June 2019</b>	312,504,113	5,900,000	3,453,004	3,480,174	325,337,291
Transfer/Adjustment	(5,200,000)		(1,807,610)		(7,007,610)
Revaluation Gain		2,820,000			2,820,000
<b>At 1<sup>st</sup> July 2019</b>	307,304,113	8,720,000	1,645,394	3,480,174	321,149,681
Additions/ revaluation	32,880,505		502,500		33,383,005
Transfer/Adjustments		(5,900,000)			(5,900,000)
<b>At 30<sup>th</sup> June 2020</b>	340,184,617	2,820,000	2,147,894	3,480,174	348,632,685
<b>Depreciation and Impairment</b>					-
<b>At 1<sup>st</sup> July 2018</b>	-	4,425,000	2,217,993	603,957	7,246,950
Depreciation	-	1,475,000	548,465	278,414	2,301,879
<b>At 30<sup>th</sup> June 2019</b>		5,900,000	2,766,458	882,371	9,548,829
<b>At 1<sup>st</sup> July 2019</b>		5,900,000	2,766,458	882,371	9,548,829
Depreciation(Charge for the Year)		705,000	715,965	278,414	1,699,379
Transfer/Adjustment		(5,900,000)	(1,807,610)		(7,707,610)
Revaluation Gain					
<b>At 30<sup>th</sup> June 2019(Accumulated Depreciation)</b>		705,000	1,674,812	1,160,785	3,540,597
<b>Net Book Values</b>					
<b>At 30<sup>th</sup> June 2019</b>	307,304,113	2,820,000	686,546	2,597,803	313,408,462
<b>At 30<sup>th</sup> June 2020</b>	340,184,617	2,115,000	473,082	2,319,389	345,092,088

**Meru County Investment And Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**8. Investments**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
<b>Cost</b>		
At Beginning of the Year	63,456,278	63,230,345
Additions	-	225,933
At End of the Year	<b>63,456,278</b>	<b>63,456,278</b>

**9. (i) Accounts Payable**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Prepaid Rent	280,000	378,333
AIA Consultant	13,547,641	21,357,105
Board Accrued Expenses-PAYE	-	60,000
10% Contractors Retention Fees	11,229,663	19,493,449
Accrued Operations Expense	-	881,573
Mugambo Jwetu (Maintel Technical Services)	1,030,000	1,030,000
Office Block (Norkun Intakes & Symbion)	5,435,922	2,484,862
<b>Total Trade and Other Payables</b>	<b>31,523,227</b>	<b>45,685,322</b>

**(ii) Trade Payable**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Board Accrued Expenses-PAYE		60,000
Accrued Operations Expense		881,573
<b>Totals</b>		<b>941,573</b>

**(iii) Account Payable FY2017/18 Accrued Expenses Paid in FY2018/19**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
Board Accrued Expenses-PAYE	-	3,783,307
Accrued Operations Expense	-	75,443
<b>Totals</b>	<b>-</b>	<b>3,858,750</b>

**10. Borrowings**

Description	FY2019/2020	FY2018/2019
	KShs	KShs
<b>Balance at Beginning of the Period</b>		
Borrowings From County Treasury	1,400,000	1,400,000
<b>Balance at End of the Period</b>	<b>1,400,000</b>	<b>1,400,000</b>

**Meru County Investment And Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11. Capital Contribution**

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

**12. Prior Year Adjustment**

Description	FY2019/2020	FY2018/2019
Reversed Stale Cheques in Cash Book		14,196
Totals	-	14,196

**13. Changes in Accounts Receivable**

Description of the Error	FY2019 - 2020	FY2018 - 2019
	KShs	KShs
Account Receivable as at 1 <sup>st</sup> July 2019 (A)	-	-
Account Receivable Issued During the Year(B)	888,000	
Account Receivable Settled During the Year (C)	-	-
Accounts Receivable as the End of Year D= A+B-C	888,000	
Net changes in Account Receivables E=A-D	<b>(888,000)</b>	-

**14. Changes in Accounts Payable**

Description of the Error	FY 2019 - 2020	FY2018 – 2019
	KShs	KShs
Accounts Payable as at 1 <sup>st</sup> July 2019 (A)	45,680,322	-
Accounts Payable Held During the Year (B)	5,440,923	-
Accounts Payable Paid During the Year (C)	19,598,018	-
Accounts Payable as the End of Year D= A+B-C	31,523,227	
Net Changes in Account Payable E = D-A	<b>(14,157,095)</b>	-

**Meru County Investment And Development Corporation**  
**Reports and Financial Statements**  
**For the year ended June 30, 2020**

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

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		The entity had not received the FY2018/19 audit certificate from the office of the Auditor general as at the period of submission of the financial statement, Thus the prior year issues raised by external auditor have not been disclosed.			

