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OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
PYRETHRUM REGULATORY AUTHORITY

FOR THE ELEVEN (11) MONTHS  
PERIOD ENDED 30 JUNE 2015



## PYRETHUM REGULATORY AUTHORITY

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### PYRETHUM REGULATORY AUTHORITY REPORTS AND FINANCIAL STATEMENTS

FOR ELEVEN MONTHS PERIOD ENDED  
JUNE 30, 2015

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

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI

16 NOV 2016

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**AFFA – PYRETHRUM & OTHER INDUSTRIAL CROPS DIRECTORATE**

**Reports and Financial Statements  
For the year ended June 30, 2015**

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**PYRETHRUM REGULATORY AUTHORITY**  
**Reports and Financial Statements**  
**For Eleven Months Period ended June 30 2015**

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**KEY ENTITY INFORMATION**

**Background information**

The *Pyrethrum Regulatory Authority* was established by the AFFA Act, 2013.

**Principal Activities**

The principal activity of *Pyrethrum Regulatory Authority* is to regulate and control the growing, processing and marketing of pyrethrum and conduct scientific and agronomic research for pyrethrum development and connected purposes. The Directorate is also subject to the provisions of the State Corporations Act (Cap 446) of the Laws of Kenya.

**Registered Office**

Pyrethrum Regulatory Authority

General Mathenge Road,

Industrial Area,

P.O. Box 420 20100,

Nakuru, KENYA

**Corporate Contacts**

Telephone: 254 51-211567/72

Fax 25451-214201/210466

E-mail: [md@pyrethrum.co.ke](mailto:md@pyrethrum.co.ke)

**Bankers**

1. Kenya Commercial Bank  
Menengai Crater Branch  
Loncom House, Ground Floor  
P.O. Box 15923-20100 Nakuru  
Tel: 254-(051) 2216412  
[www.kcbbankgroup.com](http://www.kcbbankgroup.com)

**Independent Auditors**

**PYRETHRUM REGULATORY AUTHORITY**  
**Reports and Financial Statements**  
**For Eleven Months Period ended June 30 2015**

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

**Principal Legal Advisers**

RODI, OREGI & CO. ADVOCATES,  
Mache Plaza,  
P.O. BOX 780,  
**Nakuru, Kenya**

MUKITE MUSANGI & CO ADVOCATES,  
Seguton building,  
P.O. Box 149,  
**Nakuru, Kenya.**

NANCY W. NJOROGE & CO. ADVOCATES,  
Pluto Building,  
P.O. BOX 3653-20100,  
**Nakuru, Kenya**

MURIMI, NDUMIA, MBAGO & MUCHELA ADVOCATES  
P.O Box 2779 - 20100  
**Nakuru, Kenya.**

**PYRETHRUM REGULATORY AUTHORITY**  
**Reports and Financial Statements**  
**For Eleven Months Period ended June 30 2015**

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**MANAGEMENT TEAM**

1.	Solomon Odera	Interim Head of Directorate
2.	Mary Moraa Ontiri	Interim Manager, Technical and Advisory Services
3.	Dr. Kefa Sum	Interim Manager, Market RESEARCH & Product Development
4.	Caroline Imbwaga	Interim Manager, Regulations and Compliance
5.	Eng. Joash N. Osiemo	Factory Manager
6.	George Nyahoro	Human Resources Manager
7.	Harun Kirui	Interim Senior Accountant
8.	Mary Rose Kingao	Procurement Manager
9.	Kenneth C. Rono	ICT Manager
10.	Lucy Birir Komen	Corporate communications Manager

## **STATEMENT OF MANAGEMENT RESPONSIBILITIES**

Public Finance Management Act, 2012 and the State Corporations Act, require the Directors to prepare financial statements in respect of that *Pyrethrum Regulatory Authority*, which give a true and fair view of the state of affairs of the *Pyrethrum Regulatory Authority* at the end of the financial year/period and the operating results of the *Pyrethrum Regulatory Authority* for that year/period. The Management is also required to ensure that the *Pyrethrum Regulatory Authority* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *Pyrethrum Regulatory Authority*. The Directors are also responsible for safeguarding the assets of the *Pyrethrum Regulatory Authority*.

The Management is responsible for the preparation and presentation of the *Pyrethrum Regulatory Authority* financial statements, which give a true and fair view of the state of affairs of the *Pyrethrum Regulatory Authority* for and as at the end of the financial year (period) ended on June 30, 2015. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *Pyrethrum Regulatory Authority* ; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Management accept responsibility for the *Pyrethrum Regulatory Authority* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Management are of the opinion that the *Pyrethrum Regulatory Authority* financial statements give a true and fair view of the state of *Pyrethrum Regulatory Authority* transactions during the financial year ended June 30, 2015, and of the *Pyrethrum Regulatory Authority* financial position as at that date. The Management further confirm the completeness of the accounting records maintained for the *Pyrethrum Regulatory Authority*, which have been relied upon in the preparation of the *Pyrethrum Regulatory Authority* financial statements as well as the adequacy of the systems of internal financial control.

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

**PYRETHRUM REGULATORY AUTHORITY**  
**Reports and Financial Statements**  
**For Eleven Months Period ended June 30 2015**

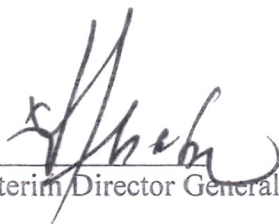
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**Approval of the financial statements**

The *Pyrethrum Regulatory Authority* financial statements were approved by Management on

9/9/ 2016 and signed on its behalf by:

  
Interim Head, Finance & Administration

  
Interim Director General



# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### **REPORT OF THE AUDITOR-GENERAL ON PYRETHRUM REGULATORY AUTHORITY FOR THE ELEVEN (11) MONTHS PERIOD ENDED 30 JUNE 2015**

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Pyrethrum Regulatory Authority set out on pages 7 to 23, which comprise the statement of financial position as at 30 June 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution and Section 14 of the Public Audit Act, 2003.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes

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*Report of the Auditor-General on Pyrethrum Regulatory Authority for the Eleven (11) Months Period ended 30 June 2015*

evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## **Basis for Disclaimer of Opinion**

### **1. Going Concern**

During the year under review, the Authority incurred a deficit of Kshs.101,452,000 (2013/2014 Kshs.190,569,000) which increased its general reserve to a debit (negative) balance of Kshs.440,946,000. In view of the negative general reserve balance, the Authority is technically insolvent and its continued existence as a going-concern is dependent upon the financial support of its creditors and the Government.

### **2. Property, Plant and Equipment**

- (i) As similarly reported in the previous period, the property, plant and equipment balance of Kshs.2,811,595,000 as at 30 June 2015 includes balances from a revaluation report dated 12 July 2012 which, however, has not been adopted/approved by the Board of Directors.
- (ii) Further, included in the property, plant and equipment balance is a sum of Kshs.354,340,000 in respect of 18 parcels of land which however are not registered in the name of the Authority. Further, the balance includes two (2) parcels of land situated in Nakuru Municipality (Block 7/138) and Nyandarua County (Oljororok Farm Block 11322/1/2/3 valued at Kshs.7,500,000 and Kshs.45,800,000 respectively, but whose ownership is disputed. Available information indicates that the land in Nyandarua was sold to a private developer at a cost of Kshs.30,050,000 and the matter has since been taken to court.
- (iii) Also, as similarly reported in the previous year, documents relating to the procurement of plant, machinery, equipment and furniture costing Kshs.477,104.25 were not presented for verification. Further, out of a total of fifty three (53) motor vehicles and heavy machinery owned by the Authority, thirty (30) were grounded and unserviceable at the time of audit.
- (iv) As reflected under Note 8 to the accounts, capital work in progress balance of Kshs.455,663,000 as at 31 July 2015 relates to a new retraction plant purchased and installed in 2006 but which has never been commissioned. Although management has explained that the machine was purchased in anticipation of an increase in flower deliveries to the factory and that the plant will be commissioned in future once the industry is revived, no evidence has been presented for audit to show the steps taken to revive the industry. Further,

technological changes, and wear and tear are bound to affect the idle machines adversely and may result in the loss of Kshs.455,663,000 in taxpayers' funds invested in the assets.

- (v) The property, plant and equipment balance of Kshs.2,811,439,000 disclosed under Note 8 to the accounts differs from the balance of Kshs.2,811,595,000 reflected in the statement of financial position by Kshs.156,000. Management has not explained the cause of the variance.

In view of these discrepancies, it has not been possible to confirm whether the property, plant and equipment balance of Kshs.2,811,595,000 as at 30 June 2015 is fairly stated.

### **3. Intangible Assets**

The statement of financial position (as also disclosed under Note 9 to the accounts) reflects Intangible assets balance of Kshs.825,650,000 relating to an amount incurred on the cost of registering licenses and studies undertaken on impact of pyrethrum on the environment and human life. However, the management has not explained how the balance was determined. In addition, the asset has not been subjected to amortization or revaluation over the years.

Although the management has explained that the benefits from the assets will accrue indefinitely to the Authority hence the reason for not amortizing them technological and other changes are bound to affect the value of the intangible asset hence the need to amortize or revalue it over time.

### **4. Fixed Interest Investment (Euro Bank Ltd)**

The statement of financial position reflects a fixed deposit balance of Kshs. 150,000,000 being a deposit made with Euro Bank in 2001 of which the bank was subsequently placed under receivership and dissolved in 2003. Although the management has made a full provision for bad and doubtful debts for this deposit, no evidence has been presented to show steps taken by the Authority to recover the long outstanding deposit.

### **5. Bank and Cash Balances**

The management did not provide cash survey forms to support cash in hand totaling Kshs.938,844. In addition, the bank reconciliation statements for Stanbic Bank (Mombasa Branch) account No.014,00/300349/01 balance of Kshs.33,442, Co-op (Nakuru Branch) Current account No. 011200225546200 balance of Kshs.150,842,000, Co-Op (Nakuru Branch) Rent Receivable Account No. 01120025546201 balance of Kshs.328,266, Co-Op Growers (Nakuru Branch) Account No. 01120025546201 balance of Kshs.104,755 and (KCB Menengai Crater, Nakuru Branch) USD Account No. 1153032171 balance of 50,039.

In addition, the bank and cash balance of Kshs.2,831,000 differs from the year end cash and cash equivalents balance of Kshs.58,000 reflected in the statement of cash flows by an explained difference of Kshs.2,773,008.

In view of these anomalies, it was not possible to ascertain whether the bank and cash transaction balances as at 30 June 2015, were fairly stated.

## **6. Trade and Other Payables**

(i) Included in the trade and other payables balance of Kshs.712,960,000 are outstanding statutory deductions of Kshs.103,288,120.33 and Kshs.1,002,000.00 relating to deduction for Pay As You Earn (PAYE) tax for employees and Board members respectively that have remained unpaid and thus attract interest and penalties in line with the provisions of Section 37(2) of the Income Tax Act Cap 470, of the Laws of Kenya.

(ii) The trade and other payables balance of Kshs.712,760,000 includes balances amounting to Kshs.106,234,349.75 ,Kshs.137,836,542.972 and Kshs.81,162,579.45 described as trade creditors control , sundry creditors control provisions and pension fund control respectively but which the management has not analysed or explained.

Under the circumstances, it has not been possible to confirm the accuracy of trade and other payables balance of Kshs.712,760,000 as at 30 June 2015.

## **7. Bank Overdraft**

The management has not presented for audit authority to borrow and other relevant evidence to explain the bank overdraft balance of Kshs.2,773,000 disclosed under Note 12(b) to the accounts. Under the circumstance, the accuracy and validity of the balance cannot be ascertained.

## **8. Inventories**

As similarly reported in the previous year, the statement of financial position for the year ended 30 June 2015 reflects an inventories balance of Kshs. 232,241,000 which includes inventories of other pyrethrum products valued at Kshs.104,168,000 brought forward from previous years. In addition, the value of the total inventories balance of Kshs.232,241,000 has not been supported with any documentary evidence. Consequently, it has not been possible to confirm the method under which the stock was valued and whether in the valuation, adequate provisions for obsolescence were made since the quality of the unprocessed stock could deteriorate and eventually lose all its value.

## **9. Trade and Other Receivables**

- (i) As similarly reported in the previous year, the trade and other receivables balance of Kshs.220,816,000 includes a sum of Kshs.7,180,000 relating to an abortive purchase of a stand at the Nairobi International Show Grounds. However, no documentary evidence has been provided to confirm the unrefunded payment was accounted for as a debt receivable from the vendor.

- (ii) The trade and other receivables balance of Kshs.220,816,000 includes trade debtors amounting to Kshs.103,913,000 which have been outstanding for long and whose recoverability remains doubtful. In addition, the management has not provided documentary evidence in support of the balance. The balance in addition, includes a sum of Kshs.41,021,000 owed by former staff for more than 13 years. Bad and doubtful debt provisions necessary in relation to these uncertain debts have not been incorporated in the financial statements.

## **10. Deferred Pyrethrin Costs**

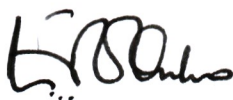
Note 19 to the accounts reflects deferred pyrethrin costs resulting from losses in the pyrethrin content in the crude pyrethrin extract (OR) inventories held between 1999 and 2003. Reconciliations made in the financial year 2005/2006 revealed substantial loss in the Pyrethrin totaling 180,859.71 kilograms and valued at Kshs.1,357,922,110. The stock could not be accounted for. According Section 18 of the Pyrethrum Act Cap 340(now repealed), the losses should have been born by the farmers. The Board of Directors therefore passed a resolution to amortize the losses over a period of 30 years with effect from 2007/2008. The management has however not explained the cause of the huge loss or justified how the 30-year amortization period was determined.

## **11. Current Assets**

The current assets balance of Kshs.1,526,898,000 includes a sum of Kshs.995,810,000 relating to deferred pyrethrin costs disclosed under Note 19 to the accounts. However, the manner of disclosure contradicts paragraph 66 (c ) of the International Accounting Standard (IAS) No 1 which states that an entity shall classify an asset as current when it expects to realise the asset within twelve months after the reporting date. Had the management complied with the standard, the Board would have reported a negative working capital of Kshs.474,968,000.

## **Disclaimer of Opinion**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements. Accordingly, I do not express an opinion on the financial statements.



**FCPA Edward R.O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**21 December 2016**

**PYRETHRUM REGULATORY AUTHORITY**  
**Reports and Financial Statements**  
**For Eleven Months Period ended June 30 2015**

**STATEMENT OF COMPREHENSIVE INCOME**

	Note	11 Months June 30 2015 Kshs '000'	13 Months July 31 2014 Kshs '000'
<b>REVENUES</b>			
Sales		182,519	224,463
Cost of sales	2	<u>(298,016)</u>	<u>(257,289)</u>
<b>Gross Surplus/ (deficit)</b>		<b><u>(115,497)</u></b>	<b><u>(32,826)</u></b>
<b>OPERATING EXPENSES</b>			
Administration Costs	5	(255,495)	(428,763)
Selling and Distribution Costs	6	(12,090)	(11,160)
<b>TOTAL OPERATING EXPENSES</b>		<b><u>(267,585)</u></b>	<b><u>(437,924)</u></b>
<b>OPERATING PROFIT/(LOSS)</b>		<b><u>(383,082)</u></b>	<b><u>(470,749)</u></b>
Finance Costs	7	(39,522)	(39,442)
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b><u>(422,605)</u></b>	<b><u>(510,191)</u></b>
<b>Other comprehensive income</b>			
Grants from National Government	3	300,000	299,707
Other Income	4	21,153	19,916
<b>Total comprehensive loss/income</b>		<b><u><u>(101,452)</u></u></b>	<b><u><u>(190,569)</u></u></b>


**PYRETHRUM REGULATORY AUTHORITY**  
**Reports and Financial Statements**  
**For the year ended June 30, 2015**

**STATEMENT OF FINANCIAL POSITION**

	Note	11 Months June 30 2015 Kshs '000'	13 Months July 31 2014 Kshs '000'
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	8	2,811,595	2,893,534
Intangible assets	9	825,650	825,650
Fixed interest investments (Euro bank Ltd)	17	150,000	150,000
<b>Total Non-Current Assets</b>		<b><u>3,787,246</u></b>	<b><u>3,869,184</u></b>
<b>Current Assets</b>			
Inventories	10	232,241	260,002
Trade and other receivables	11	220,816	154,158
Defferedpyrethrin costs	19	995,810	1,041,074
GOK Grants Receivables		75,200	
Bank and cash balances	12(a)	2,831	35,253
<b>Total Current Assets</b>		<b><u>1,526,898</u></b>	<b><u>1,490,487</u></b>
<b>Total assets</b>		<b><u>5,314,144</u></b>	<b><u>5,359,671</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
PBK Stock units	20	32,891	32,891
Levy Fund	21	49	31
Accumulated Capital Fund		322,622	326,071
General Reserve		(440,946)	(339,494)
Revaluation reserve		3,380,104	3,380,104
<b>Capital and Reserves</b>		<b><u>3,294,720</u></b>	<b><u>3,399,603</u></b>
<b>Non-Current Liabilities</b>			
Long term GOK Loan	14	863,368	863,368
Long Term Provision (Euro Bank Ltd)	17	150,000	150,000
<b>Total Non-Current Liabilities</b>		<b><u>1,013,368</u></b>	<b><u>1,013,368</u></b>
<b>Current Liabilities</b>			
Trade and other payables	15	712,960	693,267
Accrued Interest on GOK Loan	14	290,323	250,801
Bank Overdraft	12(b)	2,773	2,632
<b>Total Current Liabilities</b>		<b><u>1,006,056</u></b>	<b><u>946,700</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>5,314,144</u></b>	<b><u>5,359,671</u></b>

The financial statements were agreed upon by the Senior Managers of Pyrethrum Regulatory Authority and signed on their behalf by:

  
 \_\_\_\_\_  
 The Interim Head – Finance & Administration

  
 \_\_\_\_\_  
 Interim Director General

**PYRETHRUM REGULATORY AUTHORITY**  
**Reports and Financial Statements**  
**For Eleven Months Period ended June 30 2015**

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**STATEMENT OF CASH FLOWS**

	Note	11 Months <b>June 30</b> 2015 Kshs '000'	13 Months <b>July 31</b> 2014 Kshs '000'
<b>OPERATING ACTIVITIES</b>			
Cash generated from/(used in) operations	16	(22,247)	45,856
Adjustments for:			
<b>INVESTING ACTIVITIES</b>			
Purchase of fixed asset	8	(6,885)	(689)
<b>Net cash generated from/(used in) investing activities</b>		<b>(6,885)</b>	<b>(689)</b>
<b>FINANCING ACTIVITIES</b>			
Levy Fund		18	28
Accumulated Capital Fund		(3,449)	(2,743)
Prior year adjustments			1,534
<b>Net cash generated from/(used in) financing activities</b>		<b>(3,431)</b>	<b>(1,181)</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(32,563)</b>	<b>43,986</b>
<b>CASH AND CASHEQUIVALENTS AT BEGINNING OF YEAR</b>		<b>32,621</b>	<b>(11,365)</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b><u>58</u></b>	<b><u>32,621</u></b>



**PYRETHRUM REGULATORY AUTHORITY**

**Reports and Financial Statements**

**For the year ended June 30, 2015**

**STATEMENT OF CHANGES IN EQUITY**

	PBK Stock	Levy Fund	Accumulated Capital Fund	General Reserve	Revaluation reserve	Total
<b>At July 1, 2013 (12 Months)</b>	<b>32,891</b>	<b>3</b>	<b>328,814</b>	<b>(150,459)</b>	<b>3,380,104</b>	<b>3,591,353</b>
Transfer of excess depreciation	-	-	-	-	-	-
Total comprehensive income (deficit)	-	-	-	(190,569)	-	(190,569)
Revaluation Surplus			(2,743)			(2,743)
Levy Charge for the year		28				28
Prior year adjustment				1,534		1,534
<b>At July 31, 2014 (13 months)</b>	<b>32,891</b>	<b>31</b>	<b>326,071</b>	<b>(339,494)</b>	<b>3,380,104</b>	<b>3,399,603</b>
<b>At August 1, 2014</b>	<b>32,891</b>	<b>31</b>	<b>326,071</b>	<b>(339,494)</b>	<b>3,380,104</b>	<b>3,399,603</b>
Transfer of excess depreciation	-	-	-	-	-	-
Total comprehensive income (deficit)	-	-	-	(101,452)	-	(78,240)
Revaluation Surplus			(3,449)			(3,449)
Levy Charge for the year		18				18
Prior year adjustment						
<b>At June 30, 2015 (11 Months)</b>	<b>32,891</b>	<b>49</b>	<b>322,622</b>	<b>(440,946)</b>	<b>3,380,104</b>	<b>3,317,931</b>

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

**Statement of compliance and basis of preparation**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the *Pyrethrum Regulatory Authority's* accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *Pyrethrum Regulatory Authority* and all values are rounded to the nearest thousand (Kshs'000).

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**I. Revenue recognition**

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the *Pyrethrum Regulatory Authority* and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of *Pyrethrum Regulatory Authority* activities, and when specific criteria have been met for each of the *Pyrethrum Regulatory Authority* activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the *Pyrethrum Regulatory Authority* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised as it accrues.
- iii) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- iv) **Other income** is recognised as it accrues.

**II. Property, plant and equipment**

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

The Assets of the company were last revalued in July 2012 and this has formed the new basis of depreciation of the assets.

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

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

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

### **III. Depreciation and impairment of property, plant and equipment**

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

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

Long Leasehold properties and Buildings	
on freehold property	2%
Short Leasehold property	over the unexpired lease period
Plant, machinery, equipment & furniture	12.5 years
Motor vehicles	25%
Computers and related equipment	3 years

A full year's depreciation charge is recognised in the year of asset purchase and no depreciation charge is recognized in the year of asset disposal.

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

### **IV. Intangible assets**

Intangible assets include Licenses, Regulations information, registrations, information software and Data relating to AFFA- Pyrethrum & Other Industrial Crops Directorate.

**V. Amortisation and impairment of intangible assets**

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

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

**VI. Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost of dry pyrethrum flowers, grist, extracts and end use products comprise direct materials cost and, where applicable, direct labour costs and those overheads and other costs that have been incurred in bringing the inventories to their present location and condition. Cost of engineering spares and accessories are calculated using weighted average method. Net realizable value represents the estimated selling price less all estimated costs of disposal.

**VII. Trade and other receivables**

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

**VIII. 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 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 which were not surrendered or accounted for at the end of the financial year.

**IX. Borrowings**

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

**X. Trade and other payables**

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

**XI. Retirement benefit obligations**

The entity operates a defined contribution scheme for all full-time employees, as opposed to a defined benefit scheme as required by the Retirement Benefits Authority. This is mainly due to the fact that the Board has a deficit of unremitted deductions with the latest actuarial valuation done in December 2014 stands at 1.2B. This amount needs to be cleared first and an actuarial valuation done to enable a shift from the defined contribution to a defined benefit scheme.

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

**XII. Provision for staff leave pay**

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

**XIII. Exchange rate differences**

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

**XIV. Comparative figures**

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

**XV. Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2015.

## **XVI. Financial risk management**

The Directorate's activities expose it to a variety of financial risks including credit risk and effects of changes in foreign currency exchange rates. The groups overall risk management programme focuses on the unpredictability of future rates and prices and seeks to minimise potential adverse effects on its financial performance.

**Foreign exchange risk** is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the company. The risk is that there may be an adverse movement in the exchange rate of the denomination currency in relation to the base currency before the date when the transaction is completed.

The Directorate therefore has foreign currency accounts i.e Euro and Dollar accounts which are the main currencies used in transactions. This enables holding of the currency until the exchange rates are favourable.

**Legal risk** is the risk of loss to an institution which is primarily caused by:- (a) a defective transaction; or (b) a claim (including a defence to a claim or a counterclaim) being made or some other event occurring which results in a liability for the institution or other loss (for example, as a result of the termination of a contract) or; (c) failing to take appropriate measures to protect assets (for example, intellectual property) owned by the institution; or (d) change in law.

The Directorate has a number of court awards against it and other cases that are pending in court. To minimise this risk the Directorate made a provision in its annual 2013-14 budget to cater for legal expenses.

### **Commodity risk**

Refers to the uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities i.e Risk arising out of adverse movements in the world prices, exchange rates, basis between local and world prices.

The Directorate is focusing on the diversification of products and production of end use products that are to be sold in the local market. This would help reduce risk that are caused by fluctuations in the world prices of its products.

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**NOTES TO THE FINANCIAL STATEMENTS**

	11 Months June 30 2015 Kshs '000'	13 Months July 31 2014 Kshs '000'
<b>2. COST OF SALES</b>		
Opening inventories	158,345	117,049
<b>Add:</b> Purchase/Manufacturing costs		
Purchase of pyrethrins	101,748	106,765
Processing and refining costs	125,848	146,556
Crop production and flower reception costs	45,264	45,264
<b>Total</b>	<b>431,205</b>	<b>415,634</b>
<b>Less:</b> Closing inventories	(133,189)	(158,345)
<b>Cost of sales</b>	<b><u>298,016</u></b>	<b><u>257,289</u></b>
<b>3. GRANTS FROM NATIONAL GOVERNMENT</b>		
Current grants received	300,000	299,707
Capital grants received	-	-
	<u>300,000</u>	<u>299,707</u>
<b>4. OTHER INCOME</b>		
Rent	19,176	18,877
Farms	1,193	347
Others (Sale of seeds, Comm from FCC, Drying Charges etc)	784	691
	<u>21,153</u>	<u>19,916</u>
<b>5(a) ADMINISTRATION COSTS</b>		
Staff costs (note 5b)	75,294	80,924
Utilities	2,469	103
Maintenance	5,509	6,804
Security	953	2,202
Local travel	10,594	7,045
Audit fees	500	500
Restructure/rightsizing	30,000	99,903
Rent, rates and insurance	3,534	34,774
Depreciation	88,823	102,943
Entomology expenses	274	106
Other operating expenses	14,335	91,459
Provision for bad and doubtful debts	23,211	
	<b><u>255,496</u></b>	<b><u>426,763</u></b>

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	11 Months June 30 2015 Kshs '000'	13 Months July 31 2014 Kshs '000'
<b>5(b) STAFF COSTS</b>		
Salaries and allowances of permanent employees	42,035	41,244
Wages of unionisable employees	24,482	24,399
Overtime	-	8,454
Casuals	8,777	6,827
	<u><b>75,294</b></u>	<u><b>80,724</b></u>
<b>6. SELLING AND DISTRIBUTION COSTS</b>		
Salaries and wages of sales personnel	2,096	4,785
Shows & exhibitions	1,731	2,295
Local travel	1,699	580
Sales promotions	2,265	381
Other selling and distribution costs	3,135	419
Distributions	1,164	2,699
	<u><b>12,090</b></u>	<u><b>11,160</b></u>
<b>7. FINANCE COSTS</b>		
Interest expense on loans	39,522	39,442
	<u><b>39,522</b></u>	<u><b>39,442</b></u>



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**8. PROPERTY, PLANT AND EQUIPMENT**

ITEM	LAND	BUILDINGS	PLANT AND MACHINERY	CWIP	MOTOR VEHICLES	FURNITURE	EQUIPMENT	COMPUTERS	TOTAL
	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'
<b>COST</b>									
<b>1ST JULY 2013</b>	1,493,940	525,920	537,928	455,663	56,604	5,793	12,634	2,173	3,090,654
Additions	-	-	-	-	-	28	298	363	689
Disposals	-	-	-	-	-	-	-	-	-
As at 31st July 2014	1,493,940	525,920	537,928	455,663	56,604	5,821	12,932	2,536	3,091,342
<b>1ST AUGUST 2014</b>	1,493,940	525,920	537,928	455,663	56,604	5,821	12,932	2,536	3,091,342
Additions	-	-	-	-	6,810	-	-	75	6,885
Disposals	-	-	-	-	-	-	-	-	-
As at 30 June 2015	1,493,940	525,920	537,928	455,663	63,414	5,821	12,932	2,610	3,098,227
<b>DEPRECIATION</b>									
<b>1ST JULY 2013</b>	-	10,518	67,241	-	14,151	724	1,579	652	94,865
Charge for the Year	-	11,395	72,844	-	15,330	788	1,776	809	102,943
Disposal	-	-	-	-	-	-	-	-	-
As at 31st July 2014	-	21,913	140,085	-	29,481	1,512	3,355	1,461	197,808
<b>1ST AUGUST 2014</b>	-	21,913	140,085	-	29,481	1,512	3,355	1,461	197,965
Charge for the Year	-	9,642	61,638	-	14,674	667	1,482	721	88,823
Disposal	-	-	-	-	-	-	-	-	-
As at 30th June 2015	-	31,555	201,723	-	44,155	2,179	4,837	2,182	286,788
<b>NET BOOK VALUES</b>									
<b>31ST JUNE 2015</b>	1,493,940	494,365	336,205	455,663	19,259	3,642	8,095	429	2,811,439
<b>31ST JULY 2014</b>	1,493,940	504,007	397,842	455,663	27,123	4,309	9,576	1,075	2,893,534

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	11 Months June 30 2015 Kshs '000'	13 Months July 31 2014 Kshs '000'
<b>9. INTANGIBLE ASSETS</b>		
<b>COST</b>		
At Aug 1 2014		
Registrations/licences & studies	78,583	78,583
Valuation	747,067	747,067
At June 30 2015	<u><b>825,650</b></u> =====	<u><b>825,650</b></u> =====

These are costs relating to Registrations/Licenses and studies undertaken on impact of pyrethrum on the environment and humans. The registrations/licenses and studies are mandatory as they form the basis for pyrethrum trade in the international markets. The major markets for PBK are in America and Europe, hence the need to maintain these market segments through sustained registrations. The benefits from these intangible assets shall be realised over an indefinite period of time and have therefore not been amortised.

	11 Months June 30 2015 Kshs '000'	13 Months July 31 2014 Kshs '000'
<b>10. INVENTORIES</b>		
Dry pyrethrin flowers	10,454	10,949
Pyrethrum grist & powder	-	-
Pymarc	-	709
Crude pyrethrum extract (OR)	1,660	17,816
Pale pyrethrum extract	16,332	24,467
End use products	577	235
Other pyrethrum products	104,168	104,168
<b>Subtotal</b>	<u><b>133,190</b></u>	<u><b>158,345</b></u>
Engineering spares & accessories	91,100	94,194
Livestock	1,950	1,919
Tea bushes	6,000	5,543
	<u><b>232,241</b></u> =====	<u><b>260,002</b></u> =====

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**11. TRADE AND OTHER RECEIVABLES**

Trade receivables	103,913	30,025
Kenya power deposit	2,500	2,500
Abortive Nairobi show	7,180	7,180
Deposit held by courts	4,454	4,454
Growers debtors	32,761	30,373
Staff debts	44,223	41,951
Other debtors	82,026	70,706
Gross trade and other receivables	<u>277,057</u>	<u>187,188</u>
Provision for bad and doubtful receivables	(56,241)	(33,030)
Net trade and other receivables	<u><u>220,816</u></u>	<u><u>154,158</u></u>

**12. (a) CASH AND CASH EQUIVALENTS**

Float	77	130
Current Bank Accounts	615	-
Growers Bank Account	150	1,013
Assets Disposal Bank Account	565	281
Foreign currency bank accounts	50	32,259
Other Bank Accounts	1,374	1,570
	<u>2,831</u>	<u>35,253</u>

**(b) BANK OVERDRAFT**

Current Bank Accounts	(953)	(340)
Growers Bank Account	(0)	(0)
Foreign currency bank accounts	(0)	(0)
Other Bank Accounts	(1,820)	(2,292)
	<u>(2,773)</u>	<u>(2,632)</u>

**13. REVALUATION RESERVE**

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment which was done in July 2012. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation. Revaluation surpluses are not distributable.

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**14. LONG TERM GOK LOAN**

	11 Months June 30 2015 Kshs '000'	13 Months July 31 2014 Kshs '000'
Principal Amount	863,368	863,368
Accumulated Interest Provision	290,323	250,801
	<u><b>1,153,691</b></u>	<u><b>1,114,169</b></u>

The Government of Republic of Kenya agreed to lend the AFFA – Pyrethrum & Other Industrial Crops Directorate (Formerly Pyrethrum Board of Kenya) a total of Kshs.863,368,268.90 to pay the outstanding growers arrears during the F/Y 2007/2008. The loan is repayable within a period of ten years at an interest of 4% on reducing balance.

**15. TRADE AND OTHER PAYABLES**

Trade payables and provisions	675,598	672,895
Payables to Tea Directorate	6,000	
Payables to Sugar Directorate	11,900	
Amounts due to Growers	19,462	20,346
	<u><b>712,960</b></u>	<u><b>693,267</b></u>

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11 Months June 30 2015 Kshs '000'	13 Months July 31 2014 Kshs '000'
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**NOTES TO THE STATEMENT OF CASH FLOWS**

**16. (a) Reconciliation of operating profit/(loss) to  
Cash generated from/(used in) operations**

Operating profit/(loss)	(101,452)	(190,569)
Depreciation	88,823	102,943
Amortisation	45,264	45,264
Provision for bad and doubtful debts		
Operating profit/(loss) before working capital changes	<u>32,636</u>	<u>(42,264)</u>
(Increase)/decrease in inventories	27,761	(37,594)
(Increase)/decrease in trade and other receivables	(141,858)	54,243
Increase/(decrease) in trade and other payables	59,215	71,570
Cash generated from/(used in) operations	<u>(22,247)</u>	<u>45,856</u>

**17. INVESTMENT IN EURO BANK**

The Directorate invested Kshs.150 million in Euro Bank Limited on 17<sup>th</sup> October 2001. Euro Bank collapsed on 20<sup>th</sup> February 2003 without significant assets. The Directorate made a provision in the year 2002/2003 and is awaiting the outcome of the case.

**18. INCOPORATION**

The entity is a Directorate under State Corporation Agriculture, Fisheries and Food Authority (AFFA) formed under the AFFA Act, 2013 and is domiciled in Kenya.

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**19. Deferred Pyrethrins Costs**

These costs relate to unaccounted for pyrethrins received between 1999-2003 valued at Kshs.1,357,922,110/=. The Pyrethrum Act Cap 340 (now repealed) Section 18 provides that the total amount realised from the operations of the Directorate ought to be paid based on performance and surplus or losses passed to the growers. Between the years 1999-2003, trade stocks were held mainly in Crude Pyrethrum Extract (OR). The pyrethrins reconciliation was then impossible. It was realised in the year 2005/2006 that quite substantial quantities of pyrethrins of 180,859.71 kg pys valued at Kshs.1,357,922,110/= could not be accounted for. Growers had therefore been paid an element that should have been adjusted to reflect the process losses. The necessary adjustment for the prior period error was therefore made in the financial statements to reflect a fair view of the financial statements. The Directorate noted the losses requested for a thorough investigation. They recommended for the adjustment of the prior period error to reflect the correct status in the books of account thereby accommodating the amount of Kshs.1,357,922,110/= in the general reserve account which will be amortised over a period of 30 years starting financial year 2007/2008.

	11 Months June 30 2015 Kshs '000'	13 Months July 31 2014 Kshs '000'
Balance at beginning of the year	1,041,074	1,057,570
Armotization for the year	45,264	45,264
Balance at end of the year	<u>995,810</u> =====	<u>1,041,074</u> =====

**20. PBK stock units issued**

In return for levy paid by pyrethrum growers the Directorate issues one unit of stock to each licensed grower for every amount of twenty shillings paid to it by way of levy.

**21. Levy fund**

Under the provisions of the Pyrethrum Act the Minister of Agriculture imposed a levy on all pyrethrum grown or cultivated in Kenya. The levy is at the rate of 6.6 cents per kilogram of dry pyrethrum flowers delivered to the Directorate. The levy is held as fund pending issuance of P&OICD units thereof.

**22. Comparative figures**

The comparative balances reflected in the financial statements are for 11 months for the year ended 30 June 2015 and 13 months for the year ended 31 July 2014. The change in the financial year end date was due to the operationalization of the AFFA Act effective from 1<sup>st</sup> August 2014.