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# KENYA NATIONAL AUDIT OFFICE

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**REPORT OF THE AUDITOR - GENERAL**

**ON**

**FINANCIAL STATEMENTS OF  
PYRETHRUM BOARD OF KENYA  
FOR THE YEAR ENDED  
30TH JUNE 2012**

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**PYRETHRUM BOARD OF KENYA**  
**CONSOLIDATED ANNUAL FINANCIAL**  
**STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2012**



# **PYRETHRUM BOARD OF KENYA**

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# **PYRETHRUM BOARD OF KENYA CORPORATE INFORMATION**

## **1. ESTABLISHMENT**

The Pyrethrum Board of Kenya is established under the Pyrethrum Act CAP 340, of the Laws of Kenya. It is mandated to regulate and control the growing, process and marketing of pyrethrum for scientific and agronomic research and for connected purposes. It is also subject to the provisions of the State Corporations Act (Cap 446).

## **2. CORE FUNCTIONS/BUSINESS OF PBK**

Under the Pyrethrum Act, the core functions of PBK are 'to control the growing, processing and marketing of pyrethrum, for the scientific and agronomic research and for connected purposes'

## **3. REGISTERED OFFICES**

Pyrethrum Board of Kenya is situated along Stanley Mathenge Road in Industrial Area, P.O. Box 420, Nakuru town.

## **4. BANKERS**

Principal Bankers,  
Co-operative Bank of Kenya Ltd.,  
P.O. Box 2982-20100,  
NAKURU.

## **5. AUDITORS**

Auditor General  
Kenya National Audit Office  
P.O. BOX 30084 - 00100  
**NAIROBI.**

## **6. ADVOCATES**

RODI, OREGI & CO.  
Mache Plaza,  
P.O. BOX 780,  
**NAKURU.**

KAGUCIA & ADVOCATES  
Belper House  
P.O. BOX 425,  
**NAKURU.**

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



# **PYRETHRUM BOARD OF KENYA**

## **7. MEMBERSHIP OF THE BOARD**

Mr. Solomon S. Boit, CBS	-	Board Chairman
Dr. Isaac J.W. Mulagoli	-	Managing Director
Dr. William Erneo Nyakiba	-	Board Member
Mr. Anthony Kipkorir Kimetto	-	Board Member
Col. Stephen K. Ngugi	-	Board Member
Mrs. Lucy Gitundu	-	Rep. Treasury
Mr. Mwaniki	-	Rep. PS Agriculture
Mr. John Kenduiywo	-	Rep. Commissioner of Co-operative
Mr. Peter Waweru	-	Rep. Inspector of State Corporations

## **8. SENIOR MANAGEMENT**

Mrs. Mary Magati	-	Ag. General manager- Technical Services
Mrs. Elizabeth Kabiru	-	Ag. General Manager – Finance Human Resource & Administration Services.
Dr. Kefa Sum	-	Product Development & Marketing Manager
Mr. Mark Cherop	-	Factory Manager
Mr. Peter Githendu	-	Finance Manager
Mr. Joel A. Nyachiro	-	Internal Auditor
Mrs. Roselyne Too	-	Administration Services Manager
Mr. Stanley K. Tanui	-	Crops Services Manager

**PYRETHRUM BOARD OF KENYA  
STATEMENT OF BOARD MEMBERS' RESPONSIBILITIES  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2012**

The Pyrethrum Act requires the Board members to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Pyrethrum Board of Kenya as at the end of the financial year and of the Board's surplus or deficit for that period. It also requires the Board members to ensure the Board keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Board. They are also responsible for safeguarding the assets of the Board.

The Board members accept responsibility for the annual financial statements for the year ended 30 June 2012, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standard and the requirements of the Pyrethrum Act. The Board members are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Board and of its surplus /deficit. The Board members further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Whereas the Government granted Kshs. 195M in the 2009/10 FY and advanced Kshs. 30M in the year 2011/12 FY only Kshs. 4M was granted through KARI. This denied the Board the initial working capital required to trigger revenue generation and therefore, contributed to an operating deficit of Kshs. 86.9M.

Although there was evident increase in flower production, deliveries to the factory was only 420MT, which was decline by 19% from last year's deliveries. Given the measures that have been instituted to curb illegal trade in flowers in the current financial year, there is anticipation of increased delivery to the factory that will result in increased revenue with the current grant of Kshs. 200M and anticipated sale of non-core assets worth Kshs. 300M the Board expects to return a net profit of Kshs. 48M in the current financial year.

Nothing has come to the attention of the Board members to indicate that the Pyrethrum Board of Kenya will not remain a going concern for at least the next twelve months from the date of the statement.

Signed: .....  
CHAIRMAN

Signed: .....  
MANAGING DIRECTOR



# REPUBLIC OF KENYA

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P.O.Box 30084-00100  
Nairobi

## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR –GENERAL ON PYRETHRUM BOARD OF KENYA FOR THE YEAR ENDED 30 JUNE 2012.

#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Pyrethrum Board of Kenya set out on pages 6 to 15, which comprise the consolidated statement of financial position as at 30 June 2012, and the consolidated statements of comprehensive income, consolidated statement of changes in reserves and consolidated statement of cash flows 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 14 of the Public Audit Act, 2003. 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.

#### 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 of Kenya. The audit was conducted in accordance with International Standards on Auditing. 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 judgment, 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 Board's internal control. An audit also includes 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.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for Adverse Opinion**

### **1. Financial Performance**

During the year under review, the Board recorded a total loss of Kshs. 86,971,000 compared to a deficit of Kshs. 184,678,000 in the previous year. In addition, the Board owes farmers Kshs. 136,714,000 and has failed to honour the terms of a Government loan which stood at Kshs. 990,933,000 inclusive of principal and accrued interest as at 30 June 2012.

In the circumstances, and as noted in 2010/2011, the continued operations of the Board still depend on the support from creditors and Government.

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

(i) As similarly reported in the previous year, property, plant and equipment balance of Kshs. 1,486,957,000 as 30 June 2012 includes land and buildings valued at Kshs. 1,009,447,000, which excludes and undetermined value of seven parcels of land registered with allotment letters and eight others which have not been registered in the name of the Board. In addition, the balance includes yet another two parcels of land situated at Nakuru Municipality block 7/138 and Nyandarua 11322/1/2/3 (Ol'jororok farm) valued at 7,500,000 and 45,800,000 respectively, whose ownership is in dispute. Additional available information indicates that the land in Nyandarua (Ol'jororok farm) has since been sold for Kshs. 30,050,000 to private developer although the matter is in court.

(ii) According to other information available property No. 71/138 within Nakuru Municipality on which a three bedroomed house stands was in 1989 fraudulently transferred to a private developer without the knowledge of the Board. As in the previous year instance, the matter had not been resolved as at 30 June 2012.

In the circumstances, it has not been possible to confirm that the property, plant and equipment balance of Kshs. 1,486,957,000 as at 30 June 2012 is fairly stated.

### **3. Unremitted Statutory Deductions**

As similarly reported in 2010/2011, the trade and other payables balances of Kshs. 702,296,000 includes trade and other payables provision of Kshs. 438,017,000 out of which a total amount of Kshs. 187,092,715 represents P.A.Y.E (employees), P.A.YE (Board), Pareto savings and Pension fund of Kshs. 69,523,704, Kshs.618,000, Kshs. 34,106,585 and Kshs. 82,844,426 respectively. The management is unable to explain under what circumstances they have continued to hold such huge sums of statutory deductions at the expense of its staff.

### **4. Trade and other Receivables**

(i) the trade and other receivables balances of Kshs. 143,390,000 includes trade debtors amounting to Kshs. 29,468,745 which are long outstanding. The



recoverability of these debts is doubtful and the management has not made any provision in the financial statements.

(ii) As similarly reported in the previous year, the trade and other receivables balance also includes Kshs. 7,180,00 relating to abortive purchase of Nairobi International ASK Show stand. No evidence was however provided to show that the amount was ever received by the vendor.

(iii) The trade and other receivables balance further includes Ksh. 41,101,732 owned by staff who have since left the Board and most of these debts have remained outstanding for over 11 (eleven) years. The recoverability of these debts is doubtful although no provision has been made in the financial statements.

In the circumstances, it has not been possible to confirm that the trade and other receivables balance of Kshs. 143,390,000 is fairly stated.

## 5. Inventories

### (i) Un-Accounted for Stocks

As reported in 2010/2011, audit of the Board Stock movement records for the period covering June, 2002 to June 2005 revealed that stocks weighing 132,794Kgs and worth Ksh 2.66 billion were not accounted for as shown below:-

Financial Year Ending	Total Stock Available ( opening Stock plus deliveries) Kgs	Stock Sold Kgs	Calculated Balance in stocks Kgs	Actual Balance in stocks Kgs	Variance Kgs
June 2002	180,140	49,504	130,636	98,572	32,064
June 2003	245,703	48,854	196,849	138,229	58,620
June 2004	212,044	62,894	149,150	138,112	11,038
June 2005	166,422	61,438	104,984	73,912	<u>31,072</u>
<b>Total unaccounted for stocks</b>					<b><u>132,794</u></b>

As similarly observed in the previous year's report, the management has explained that two former managers and four other former members of staff were interdicted in connection with the losses and that the matter was being investigated by Ethics and Anti-corruption Commission. However, the investigations do not appear to have been completed as at 30 June 2012 and the recoverability of the losses is therefore doubtful.

### (i) Inventories of Other Pyrethrum Products

As similarly reported in the previous year, the statement of financial position as at 30 June 2012 reflects inventories balance of Kshs. 230,255,000 which includes Kshs. 104,168,000 related to other pyrethrum products and have continued to be reflected in the financial statements for many years. According to the laboratory report of investigation compiled in 2007, the amount was in

respect of eight hundred and twenty eight drums of pyrethrum-by-products with pyrethrin content of between 3% to 10% ww pys which had not been processed to final product of refine pale extract or sludge and green oil. The management has not explained why the by-products have not been processed to final stage to avoid loss of pyrethrum content which may eventually render the whole stock valueless.

Under the circumstances, the value of pyrethrum products reported could not be ascertained.

#### **6. (i) Cash and Bank Balances**

Included in the cash and bank balance of Kshs. 3,820,000 are balances from eight bank accounts for which the Board did not avail the bank reconciliations but relied on the bank statements to prepare the financial statements.

In the circumstances, it has not been possible to confirm that the cash and bank balance of Kshs. 3,820,000 is fairly stated.

#### **(i) Statement of Cash Flows**

The statement of cash flows for the year ended 30 June 2012 reflects a cash and cash equivalent overdraft of Kshs.59,501,000 while the statement of financial position shows a net overdraft of Kshs. 12,996,000 resulting to an unexplained and un-reconciled difference of Kshs. 46,505,000.

Under the circumstances, it has not been possible to confirm the accuracy and validity of cash and cash equivalent balance of negative Kshs. 59,501,000 shown in the statement of cash flows.

#### **7. Budgetary Control**

Section 3 of the State Corporations Act Cap 466 provides that every state corporation should submit its annual budget to the parent ministry and obtain approval from the Ministry of Finance. During the year 2011/ 2012 the Board prepared a budget, however, no evidence was availed to show that the budget was approved by the Treasury. Consequently, in the absences of such approval it has been possible to confirm the propriety of the expenses and the revenues reflected in the financial statements for the year ended 30 June 2012.

#### **Adverse Opinion**

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraphs, the financial statements do not present fairly the financial position of the Board as at 30 June 2012 and the financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and does not comply with Pyrethrum Board of Kenya Act, Cap 340 of the Laws of Kenya.



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

**NAIROBI**  
**18 March 2013**

**PYRETHRUM BOARD OF KENYA  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30<sup>TH</sup> JUNE 2012**

ASSETS	Note	2012 KSHS'000'	2011 KSHS'000'
<b><u>Non-current assets</u></b>			
Property , plant and equipment	2(a)	1,486,957	1,546,362
Intangible Assets	2(b)	625,000	625,000
Investments-			
<b>Fixed deposit in:-</b>			
Euro Bank Ltd	3	<u>150,000</u>	<u>150,000</u>
		<b><u>2,261,957</u></b>	<b><u>2,321,362</u></b>
<b><u>Current Assets</u></b>			
Inventories	4(a)	230,255	247,295
Trade and other receivable	4 (b)	143,390	161,403
Cash in hand and at bank	4( c)	3,820	4,594
Deferred Pyrethrins Costs	4 (d)	<u>1,131,602</u>	<u>1,176,866</u>
		<b><u>1,509,067</u></b>	<b><u>1,590,158</u></b>
<b>TOTAL ASSETS</b>		<b><u>3,771,024</u></b>	<b><u>3,911,520</u></b>
<b>EQUITY, RESERVES AND LIABILITIES</b>			
<b><u>Capital and Reserves</u></b>			
PBK stock units issued	5	32,847	32,821
Levy fund	6	25	23
Accumulated capital fund	7	332,572	348,582
General reserve	8	18,386	150,621
Revaluation reserve	9	<u>1,654,714</u>	<u>1,700,137</u>
		<b><u>2,038,544</u></b>	<b><u>2,232,184</u></b>
<b><u>Non-current liabilities</u></b>			
Long-term GOK loan	10	863,368	863,368
Long-term provision	3	<u>150,000</u>	<u>150,000</u>
		<b><u>1,013,368</u></b>	<b><u>1,013,368</u></b>
<b><u>Current Liabilities</u></b>			
Trade and other payables	11(a)	702,296	639,542
Bank overdraft	11(b)	16,816	26,426
		<b><u>719,112</u></b>	<b><u>665,968</u></b>
<b>TOTAL RESERVES AND LIABILITIES</b>		<b><u>3,771,024</u></b>	<b><u>3,911,520</u></b>

These financial statements were approved by the Board of Directors at a meeting held on 21<sup>st</sup> September, 2012 and were signed on its behalf by:-

Signed: .....

**CHAIRMAN**

Signed: .....

**MANAGING DIRECTOR**



**PYRETHRUM BOARD OF KENYA**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2012**

		<b>2012</b>	<b>2011</b>
	Note	<u>KSHS'000'</u>	<u>KSHS'000'</u>
<b>Revenue</b>	12	219,114	164,714
Cost of sales	13	(214,004)	(209,458)
<b>Gross surplus / (deficit)</b>		<b>5,110</b>	<b>(44,744)</b>
GOK Grant	14	4,037	30,000
Other income	14	<u>25,290</u>	<u>22,983</u>
		<b>34,437</b>	<b>8,239</b>
Distribution costs	15	705	1,135
Administrative expenses	16	80,464	157,537
Other operating expenses	17	17,971	8,735
Surplus / (deficit) from operations		64,703	159,168
Finance costs	18	22,268	25,510
<b>Net surplus/ (deficit) for the year</b>		<b>(86,971)</b>	<b>(184,678)</b>



**PYRE/THRUM BOARD OF KENYA  
CONSOLIDATED STATEMENT OF CHANGES IN RESERVES  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2012.**

	P. B. K Stock KSHS."000"	Levy Fund KSHS."000"	Accumulated Capital fund KSHS."000"	General Reserve KSHS."000"	Revaluation Reserve KSHS."000"	Totals
Balance as at 1 July 2010	29,969	2,841	346,701	380,563	1,745,560	2,505,634
Net Deficit for the year	-	-	-	184,678	-	(184,678)
Valuation-livestock/ Tea bushes	-	-	(1,861)	-	-	(1,861)
Revaluation surplus for the year	-	-	-	-	(45,423)	(45,423)
Depreciation	-	-	-	-	-	-
Amortization of deferred	-	-	-	-	-	-
Pyrethrins expenses	-	-	-	(45,264)	-	(45,264)
Levy Charged for the year	-	34	-	-	-	34
Asset Realization	-	-	-	-	-	-
Stocks issued	2,852	(2,852)	-	-	-	-
Prior year Adjustment	-	-	-	-	-	-
Balance as at 30 June 2011 (Audited)	32,821	23	348,582	150,621	1,700,137	2,232,184
Balance as at 1 July 2011	32,821	23	348,582	150,621	1,700,137	2,232,184
Net Deficit for the year	-	-	-	(86,971)	-	(86,971)
Valuation-livestock/ Tea bushes	-	-	(14,099)	-	-	(14,099)
Revaluation surplus for the year	-	-	-	-	-	-
Depreciation	-	-	-	-	(45,423)	(45,423)
Amortization of deferred	-	-	-	-	-	-
Pyrethrins expenses	-	-	-	(45,264)	-	(45,264)
Levy Charged for the year	-	28	-	-	-	28
Asset Realization	-	-	-	-	-	-
Stocks issued	26	(26)	-	-	-	-
Prior year Adjustment	-	-	(1,911)	-	-	(1,911)
Balance as at 30 June 2012	32,847	25	332,572	18,386	1,654,714	2,038,544

**PYRETHRUM BOARD OF KENYA  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2012.**

	<b>2012</b>	<b>2011</b>
	<u>KSHS'000'</u>	<u>KSHS'000'</u>
<b>Cash flow from operating activities</b>		
Net (deficit ) / surplus for the year	(86,971)	(184,678)
Adjustment for:		
Depreciation	12,898	13,536
Exchange gain on foreign currency translations	(361)	(13,213)
Levy	28	34
Prior year adjustment		-
<b>Net cash from operating activities</b>	<b><u>(74,406)</u></b>	<b><u>184,321</u></b>
(Increase) / decrease in inventories	17,040	(5,867)
(Increase) / decrease in trade and other receivable	18,013	(13,750)
Increase / (decrease) in trade and other payables	<u>62,754</u>	<u>118,141</u>
	<b><u>97,807</u></b>	<b><u>98,524</u></b>
Cash generated from operations	23,401	(85,797)
<b>Cash flows from financing activities</b>		
<b>Cash flows from Investing Activities</b>		
Purchase of fixed assets	(250)	
Interest income from investing activities		
Investment in fixed assets		
Proceeds from disposal of fixed assets	1,193	
Net increase / ( decrease) in cash	24,344	(85,797)
Cash and cash equivalents as at 1 July 11	<u>(83,845)</u>	<u>1,952</u>
Cash and cash equivalents as at 30 June 2012	<b><u>(59,501)</u></b>	<b><u>(83,845)</u></b>

**PYRETHRUM BOARD OF KENYA  
NOTES TO THE FINANCIAL STATEMENTS FOR THE  
YEAR ENDED 30<sup>TH</sup> JUNE 2012**

**1. ACCOUNTING POLICIES**

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

**(a) Basis of preparation**

The financial statements are prepared in compliance with International Financial Reporting Standards. The financial statements are prepared in Kenya shillings (Kshs, rounded to the nearest one thousand) on the historical basis of accounting as modified by the revaluation of certain property and equipment.

**(b) Basis of consolidation**

The Board's wholly owned subsidiary company, the Pyrethrum Processing Company of Kenya does not trade. The financial statements consolidate the assets and reserves of the subsidiary as modified by the revaluation of certain of its property.

**(c) Property Plant and Equipment**

Land, buildings, plant and machinery are stated at historical cost or valuation, less depreciation. All other assets are stated at historical cost less depreciation.

**(d) Depreciation**

No depreciation is provided on freehold land as it is deemed to have an indefinite life.

Depreciation charges are apportioned directly to user departments.

Depreciation on other property and equipment is calculated to write off their cost or valuation in equal annual installments over

their estimated useful lives. The annual depreciation rates in use are:

**Long leasehold properties and buildings on freehold**

Property	2%
Short leasehold property:-	over the unexpired period of lease
Plant, machinery, equipment & furniture:-	12.5%
Motor vehicles:-	25%

**(e) Inventories**

Inventories are stated at the lower of cost and net realizable 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 others 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.

**(f) Trade and other receivables**

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts i.e. provisions for bad debts.

**(g) Retirement benefits obligations**

The Board contributes to a defined benefits staff superannuation scheme for its employees.

The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the Board. The scheme's Trust Deed recognizes that an actuarial valuation be carried out at least once every three years.

**(h) Revenue recognition**

Revenue is recognized on an accrual basis. Sales of pyrethrum products are recognized as revenue after deduction of trade discounts, commissions payable and after adjustments for gains or



### (i) Foreign currency translation

Transactions in currencies other than the Kenya shilling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date monetary assets and liabilities that are denominated in foreign currencies are translated at the mean rates prevailing at balance sheet date. Gains and losses arising on translation and conversion are included as an adjustment to the revenue.

### (j) Amortization of Deferred pyrethrins

The Deferred pyrethrins costs are amortized over a period of 30 year.

### (k) GOK Grants

These are monies given for specific purposes and are recognized as revenue in the accounting period they are received.

## 2. NON-CURRENT ASSETS

### (a) Property, plant and equipment as at 30<sup>th</sup> June 2012

	Land & Buildings	Plant Machinery Equipment & Furniture	Motor Vehicles	Capital Intangible Assets	work in Progress	Totals
	<u>KSHS. KSHS"000"</u>	<u>KSHS."000"</u>	<u>KSHS"000"</u>	<u>KSHS"000"</u>	<u>KSHS"000"</u>	<u>KSHS"000"</u>
Cost/Rev. beginning of year	1,057,055	464,173	29,925	625,000	281,180	2,457,333
Additions	-	250	-	-	-	250
Disposals	-	-	(1,334)	-	-	(1,334)
Revaluation						
As at 30 June 2012	1,057,055	464,423	28,591	625,000	281,180	2,456,249
DEPRECIATION						
As at 1 July 2011	36,179	235,312	14,480	-	-	285,971
Year's charge	1,579	11,319	-	-	-	12,898
Year's charge to revaluation reserve	9,850	28,333	7,240	-	-	45,423
As at June 2012	47,608	274,964	21,720	-	-	344,292
NET BOOK VALUE						
As at 30 June 2012	<u>1,009,447</u>	<u>189,459</u>	<u>6,871</u>	<u>625,000</u>	<u>281,180</u>	<u>2,111,957</u>
As at 30 June 2011(Audited)	<u>1,020,876</u>	<u>228,861</u>	<u>15,445</u>	<u>625,000</u>	<u>281,180</u>	<u>2,171,362</u>

(a) **Capital Work-in-Progress**

	2012 <u>KSHS"000"</u>	2011 <u>KSHS"000"</u>
Igloo godown ( consultancy)	5,284	5,284
Factory Modernization (Consultancy)	2,705	2,705
New extraction plant	269,244	269,244
Filtration Machine	3,143	3,143
Entomology block	561	561
Prefabricated Houses	243	243
	<u>281,180</u>	<u>281,180</u>

The new Extraction Plant has been accounted for as work in progress since it has not been commissioned

(C) **Intangible Assets**

	2012 <u>KSHS"000"</u>	2011 <u>KSHS"000"</u>
Registrations / Licenses and Studies	35,095	35,095
Valuation	589,905	589,905
<b>Total</b>	<u>625,000</u>	<u>625,000</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 Marketing in Europe and America.

The major markets for PBK are in America and Europe hence the need to maintain these market segments, The benefits from these intangible assets shall be realized over an indefinite period of time and have therefore not been amortised.

### 3. INVESTMENTS

#### EURO BANK

The Board 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 Board made a provision in the year 2002/2003 and is awaiting the outcome of the case.

## 4. CURRENT ASSETS

### (a) Inventories

These comprised the following:-

	2012 <u>KSHS "000"</u>	2011 <u>KSHS "000"</u>
<b>Trade Stocks</b>		
Dry pyrethrum flowers	7,918	25,880
Pyrethrum grist & powder	9,977	0
Crude pyrethrum extract (OR)	51	1,041
Pale pyrethrum extract	250	8
End use products	776	238
Other pyrethrum products	<u>104,168</u>	<u>104,168</u>
<b>Sub total</b>	<b><u>123,140</u></b>	<b><u>131,335</u></b>
Engineering spares and accessories	100,780	109,353
Livestock	1,353	1,624
Tea Bushes	<u>4,982</u>	<u>4,983</u>
	<b><u>230,255</u></b>	<b><u>247,295</u></b>

### Biological assets

Livestock: The valuation of livestock was carried out by officers from the Ministry of Livestock.

The Bushes: Valuation of tea bushes was carried out by officers from the Ministry of Agriculture.

### (b) Trade and other receivables

	2012 <u>KSHS "000"</u>	2011 <u>KSHS "000"</u>
Trade debtors	29,469	46,578
Abortive purchase of Nairobi Show	7,180	7,180
Deposit held by courts	454	454
Growers debtors	50,156	50,680
Staff Debts	41,102	38,590
Others Debtors	<u>15,019</u>	<u>17,921</u>
	<b><u>143,390</u></b>	<b><u>161,403</u></b>

Trade debtors relate to amounts due mainly from overseas customers.

The deposit held by courts relate to cash bail paid for a court case between NSSF and PBK and another case Nku CMCC -859 of 2006 where judgment was passed against PBK. Growers debtors relate to recoverable amounts from growers for transport, commission, planting materials e.t.c. other debtors include rent receivable from Board's houses, VAT refunds, DIT reimbursements, deposits e.t.c.

**(C) Cash in hand and at bank**

	2012 <u>KSHS "000"</u>	2011 <u>KSH "000"</u>
Cash in hand	1	540
Current Bank Accounts	2,343	1,725
Assets Disposal Bank Account	41	44
Growers Regional Bank Accounts	1,396	1,409
Foreign Currency Bank Accounts	<u>39</u>	<u>876</u>
	<u>3,820</u>	<u>4,594</u>

Growers Regional Bank Accounts (growers in transit)

These relate to uncollected cash held in regional bank accounts disbursed from main account for payments to growers. It also includes cash in the growers account at Co-op Bank.

**d) 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) Section 18 provides that the total amount realised from the operations of the Board 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 realized 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 board 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 amortized over a period of 30 years starting financial year 2007/2008.

**5. PBK stock units issued**

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

**6. Levy Fund**

Under the provisions of Pyrethrum Act (Cap 340) 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 Board. The levy is held as fund pending issuance of PBK units thereof.



## 7. Accumulated Capital Fund

Comprise of increase in the values of tea bushes and livestock

## 8. General Reserves

This fund relates to a any surplus or deficit realized from the operations of the Board. Included in the Generations reserve is an amount of Kshs. 45,264,000/= being the amortization of deferred pyrethrins expenses.

## 9. Revaluation reserve

### (a) Basis of valuation

This comprises of incremental value of Board's properties following revolution done as at 30<sup>th</sup> April 2009 by Sec & M Co. Ltd, Registered Valuers. The assets have been valued based on the Open Market Value approach.

## 10. Long-term GOK Loan

The Government of Republic of Kenya agreed to lend. The Pyrethrum Board of Kenya a total of kshs. 863,368,268.90 to pay the outstanding growers arrears. The loan is repayable within a period of ten years at an interest of 4% on reducing balance.

## 11. Current Liabilities

(a) Trade and other payables	2012 KSHS "000"	2011 KSHS "000"
Trade payables and provisions	438,017	405,671
GoK loan interest provision	127,565	105,297
Amount due to growers	<u>136,714</u>	<u>128,574</u>
	<b><u>702,296</u></b>	<b><u>639,542</u></b>

The trade payables represent amounts due to suppliers of processing inputs, unremitted deductions e.t.c. The GoK loan interest provision relate to the accrued interest for the period up to 30<sup>th</sup> June 2010.

b) Overdraft	2012 KSHS. "000"	2011 KSHS. "000"
Co-operative Bank account	(16,816)	(26,426)

This relate to monies paid for the extraction plants by Co-operative Bank on behalf of Pyrethrum Board.

## 12. REVENUE

	2012	2011
	<u>KSHS "000"</u>	<u>KSHS"000"</u>
Sales of pyrethrum products	218,753	151,501
Trade discounts	-	-
Gain /(loss )on foreign currency translations	<u>361</u>	<u>13,213</u>
	<u><b>219,114</b></u>	<u><b>164,714</b></u>

Sales of pyrethrum products mainly relate to export of extract. The foreign currency translation led to an exchange gain of Ksh. 13,213,000 during the year .

## 13. COST OF SALES

	2012	2011
	<u>KSHS "000"</u>	<u>KSHS"000"</u>
Opening inventories	131,335	129,424
<b>Add: Purchase/manufacturing costs:</b>		
Purchase of pyrethrins	76,352	102,641
Processing and refining costs	80,486	58,413
Crop production & flower reception costs	43,071	43,099
Scientific services costs	5,900	7,216
Total purchase / manufacturing costs	337,144	340,793
Less costing inventories	<u>(123,140)</u>	<u>(131,335)</u>
Costs of sales	<u><b>214,004</b></u>	<u><b>209,458</b></u>

Purchase of pyrethrins relates to flower deliveries from growers.

Processing and refining costs comprise of Factory department expenses.

Crop Production and Flower Reception costs are expenses relating to flower collecting and extension services.

Scientific services costs are Quality control expenses.

#### 14. OTHER INCOME

	2012 <u>KSHS "000"</u>	2011 <u>KSHS "000"</u>
Other income	25,290	22,983
MOA Through KARI	<u>4,037</u>	<u>30,000</u>
	<u>29,327</u>	<u>52,983</u>

Other income relations to income from rent on Board house, receipts from farms, commissions from flower collection centers and a ministry of agriculture advance of Kenya Shillings four million.

#### 15. DISTRIBUTION COSTS.

These relate to costs incurred in moving finished products form the factory to the airfreight and shipment point.

#### 16. ADMINISTRATIVE EXPENSES

The relates to all staffs costs and other expenses of the support departments, which includes General Administration, Logistics, Finance, Internal Audit, Crop Research and Product Development.

	2012 <u>KSHS "000"</u>	2011 <u>KSHS "000"</u>
Staff Costs	50,760	48,000
Other expenses	27,423	104,763
Board Expenses	<u>2,281</u>	<u>4,774</u>
	<u>80,464</u>	<u>157,537</u>

#### 17. OTHER OPERATING EXPENSES

This relates to marketing expenses amounting to Kshs. 17,970,749.05

#### 18. FINANCE COSTS

The finance costs relate to interest charged on the Kshs. 863 million loan from GOK amounting to Kshs. 22,268,456.90



## **19. CONTINGENT LIABILITIES**

- (a) A claim of kshs. 612,869,819.00 in respect of tax deducted from terminal benefits and pension dues of employees who voluntarily left Board's employment in November 2001 filed against the Board. No provision has been made in the financial statement.
- (b) Inter-Arch Consultants filed a case against the Board for an amount of Kshs. 4,870,015.00 allegedly due to them on account of consultancy services rendered in respect of drawing for moderation of the factory. The dispute is pending in High Court Nakuru.
- (c) The Pyrethrum Board of Kenya's staff superannuation scheme is currently under funded to a tune of over Kshs. 442 million. The interim administrator has prepared a remedial plan to eliminate the deficit. Some of the recommended remedial plans include an increase in the contributions by both the sponsor (PBK) and members, transfer of some of the PBK assets to the scheme. The remedial plan is awaiting the Board's deliberations and consideration. This deficit has not been provided for in these accounts.

## **20. TAXATION**

The Income Tax Act (Cap 470) exempts the income of the Pyrethrum board of Kenya from Income Tax.

## **21. CURRENCY**

These financial statements are prepared in Kenya shillings (Kshs.)





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