


REPUBLIC OF KENYA



Enhancing Accountability

 THE NATIONAL ASSEMBLY PAPERS LAID	
REPORT	
DATE: 06 JUN 2024	DAY: Thursday
TABLED BY:	Hon. Naome Wago, MP Deputy Majority Whip OF
CLERK-AT THE-TABLE:	M. Mado

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THE AUDITOR-GENERAL

ON

GATITU TEA FACTORY LIMITED

**FOR THE SIXTEEN MONTHS
PERIOD ENDED 30 JUNE, 2023**



**GATITU TEA FACTORY
ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE 16 MONTHS PERIOD ENDED
JUNE 30, 2023**

Prepared in accordance with the International Financial Reporting Standards (IFRS)

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1. Acronyms and Glossary of Terms

The acronyms and glossary of terms used in the annual report and financial statements are as below.

IFRS	International Financial Reporting Standards
MD	Managing Director
GTF	Gatitu Tea Factory
CSR	Corporate Social Responsibility.
NTZDC	Nyayo Tea Zones Development Corporation

2. KEY ENTITY INFORMATION

a) Background Information.

Gatitu Tea Factory Limited is a fully owned subsidiary of Nyayo Tea Zones Development Corporation (NTZDC) established under the Companies Act of Kenya. The Factory is the second tea processing factory to be established by the Nyayo Tea Zones Development Corporation to process green leaf tea into made tea. The Nyayo Tea Zones Development Corporation was established as a state corporation under legal notice 265 of 1986 which was later revised in March 2002 to, in consultation with the Chief Conservator of Forests, create tea and fuelwood growing zones to act as buffers around gazetted forests and gazetted trust land forests. Part of the corporation's mandate is to establish, manage and maintain tea processing factories and process tea. Gatitu Tea Factory was thus established in fulfillment of this mandate.

b) Principal Activities.

The principal activity of the factory is to process Green Leaf tea from the Corporation's catchment zones into Made Tea. The bulk of manufactured tea is sold through the Mombasa Tea Auction while small quantities are sold in the local market.

c) Location

Gatitu Tea Factory is located 36kms from Kerugoya town. It is 1643 meters above sea level. Its Latitude is 0° 26' 7" North and Longitude is 37° 25' 2" East. -Ngariama Ward, Gichugu Subcounty, Ngariama Location, Rungeto sublocation.

d) MISSION

"Establish and maintain gazetted forest buffer belts and produce eco-friendly, quality products to the satisfaction of all our stakeholders"

e) VISION

"Transforming livelihoods to inspire sustainable forest conservation".

f) CORE VALUES

Integrity, Professionalism, Teamwork, Commitment and Respect for others.

g) DIRECTORS

The Directors who served Gatitu Tea Factory during the period were as follows: -

Ms. Hellen Nangithia - Chairperson - Appointed in July 2022 and left in April 2023

Mr. Joseph Gitonga M'Limbiine - Chairperson - Appointed in April 2023

Mr. Peter K. Korir - Director - Appointed in November 2012

h) Legal Manager

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Kenyatta Avenue
P.O. Box 48552 – 00100
NAIROBI

i) Registered Office:

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Kenyatta Avenue
P.O. Box 48552 – 00100
NAIROBI

j) Corporate Headquarters:

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Nyayo House-11Floor
Kenyatta Avenue
Nairobi, Kenya

k) Corporate Contacts

Telephone: (254) 2217489
E-mail: info@teazones.co.ke
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l) Corporate Bankers:

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NAIROBI

Stanbic Bank Kenya Ltd
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P.O. Box 30550 00100
NAIROBI

m) Independent Auditors:

Auditor-General
The Office of the Auditor General
Anniversary Towers University Way
P.O. Box30084-00100 GPO
NAIROBI KENYA

n) Principal Legal Advisers

The Attorney General

State Law Office




Harambee Avenue

P.O. Box 40112





City Square 00200

Nairobi, Kenya

3. The Board of Directors

1	 <p>Hellen Nangithia Chairperson - Board of Directors</p>	<p>Madam Hellen Nangithia was born in 1962. She was appointed as an Independent Board Chair NTZDC in July 2022 and her term ended in April 2023. She had served in various senior-level positions in Government including Principal St. Angela's Girls Secondary School, Meru County Government as a CEC public service administration, CEC Education and Technology, and Kenya Bureau of Standards (Member of National Standards Council).</p> <p>Madam Hellen held a degree in B.E.D Arts from Kenyatta University and had over 27 years progressive work in education and senior-level management in various government institutions.</p>
2	 <p>Joseph Gitonga M'Limbiine Chairman - Board of Directors</p>	<p>Mr. Joseph Gitonga M'Limbiine was born on 15/11/1971. He was appointed as an Independent Board Chair NTZDC in April 2023. He has previously served in various government Boards between 2013 and 2022 - notably Pwani University, Kisii University, NTSA and JKUAT. Mr. M'Limbiine is a lawyer by profession with over 25 years post-admission experience in the legal practice. He is currently a Senior Partner at the law firm of M'limbiine and Mungai Advocates. Mr. M'Limbiine holds an MBA in Strategic Management and a Bachelor of Laws from the University of Nairobi and a post graduate Diploma from Kenya School of Law. He is an Advocate of the High Court of Kenya and a Certified Public Secretary. He has worked at EACC, Attorney General's office, High Court Judges Tribunal and the Judges and Magistrates Vetting Board as the Assisting Counsel. He brings a lot of experience in corporate governance and law.</p>
3	 <p>Peter K. Korir – Managing Director</p>	<p>Mr. Peter Korir was born on 13/12/1969. He joined the board as an Executive Director in November 2012. He holds a Bachelor of Science degree in Mathematics from Egerton University and MBA (Strategic Management) from University of Nairobi. He is also a graduate of IESE Business school in Advanced Management. He has over 26 years' experience in management having previously worked with East African Portland Cement and Unilever Kenya in various management positions.</p>

4. Key Management Team

1	 <p>Peter K. Korir – Managing Director</p>	<p>Mr. Peter Korir was born on 13/12/1969. He joined the board as an Executive Director in November 2012. He holds a Bachelor of Science degree in Mathematics from Egerton University and MBA (Strategic Management) from University of Nairobi. He is also a graduate of IESE Business school in Advanced Management. He has over 26 years' experience in management having previously worked with East African Portland Cement and Unilever Kenya in various management positions.</p>
2	 <p>Samuel Njire – Head of Finance</p>	<p>Mr. Samuel Njire joined the corporation in 2009 and is the Head of Finance. He holds a Bachelor of Commerce (Accounting) and MBA (Finance) degrees both from University of Nairobi. He is also a certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK) – Membership No. 6527. He is responsible for overall financial stewardship of the corporation. He has over 31 years' experience in finance in both public and private institutions</p>
3	 <p>Charles Mucheke – Head of Operations</p>	<p>Mr. Charles Mucheke joined the Corporation in 2005 and is the Head of Operations. He holds a Bachelor of Science (Agriculture) and MBA (Operations Management) degrees both from University of Nairobi. He is responsible for all agronomy operations in the Corporation. Prior to joining the Corporation, he worked with KTDA and has over 30 years' experience in the tea industry.</p>
4	 <p>William Togom – Head of Human Resource and Administration</p>	<p>Mr. Togom joined the corporation in 2003 and is the head of human resources and administration. He holds a Bachelor of Arts degree in Anthropology. He also holds a Diploma in Human Resource Management from Kenya Institute of management (KIM). He is a member of Human Resource Management Institute of Kenya – Membership No. 03386. He has over 26 years' experience in human resource and administration.</p>
5	 <p>David Chepkwony- Head of Commercial</p>	<p>Mr. Chepkwony joined the corporation in 2014 as head of commercial unit. He holds a Bachelor of Commerce degree in Marketing. Prior to joining the Corporation, he worked with Ketepa, Del Monte Kenya Ltd, Reckitt Benckiser EA Ltd & Unilever Kenya Ltd and has over 24 years' experience in sales and marketing.</p>

5. CHAIRMAN'S STATEMENT

I am pleased to present to you the Annual Report and financial statements of Gatitu Tea Factory Limited for the year ended 30 June 2023. The Factory is a wholly owned subsidiary of Nyayo Tea Zones Development Corporation.

The Company started operating in March 2022 and hence the reports is for 16 months period up to June 2023. A total of 7.2 million Kilograms of green leaf was received from the factory catchment zones namely Kirinyaga, Embu, Mathira and Meru South zones.

The investments made in form of machinery and equipment helped the Company to process the tea though we still have capacity underutilization in the factory.

We have aligned our strategy to enhance the achievement of the BeTA pillars of manufacturing, food security and nutrition.

During the year, the Company initiated programs to empower farmers and communities in the catchment in form of access to tree seedlings. This initiative will help increase trees planted and environmental conservation and in the long run improve the standards of living for the community. We also work closely with the County government in improvement of access roads in the past year.

Our tea brands continued to grow in the local market despite stiff competition and we expect to gain larger market share due to the high quality of our tea. Our sales volumes in the domestic market were maintained.

I extend my gratitude for the invaluable support given by the Board of Directors, management and staff and the Government for being committed to the Company's affairs. I also take this opportunity to appreciate our esteemed customers without who we could not have gone this far.

CHAIRMAN

Date.....


29/09/2023

6. Report of the Managing Director

General

I present to you the Annual Report and financial statements of Gatitu Tea Factory Limited for the year ended 30 June 2023. The Factory is a wholly owned subsidiary of Nyayo Tea Zones Development Corporation.

Financial Results

During the 16 months w.e.f March 2022, volumes of processed tea sold was 1.3million Kgs. The projected auction price was \$2.9, the actual was \$2.4 in the period. Revenues realized was Ksh 428.7 million. Overall, the company recorded a loss of Ksh.38.7 million.

Operations

GTF is designed to have 2 processing lines. Currently, its operating with only one line. The second line will be installed as we progress and with foreseen financial improvement in the future.

GTF commenced green leaf processing in March 2023. Total green leaf received by the factory was 7.2 million Kgs which was collected from Nyayo Tea Zones factory catchment namely Kirinyaga, Embu, Mathira and Meru South against the projection of 10.32 million. This was largely due to weather variations in the period.

With the freezing of hiring of staff, GTF has been operating with seconded staff from both head office and Kipchabo tea factory. We are hopeful that the freezing will be lifted to enable us hire factory staff as per the human resource structure.

Processed tea volumes was 1.6 million Kgs giving an out-turn of 22%. We hope this will improve to 23%.

Initially, access roads to the factory were impassable and green leaf delivery was a major challenge. Trucks collecting our made tea from the factory to Mombasa warehouse were also having difficulties while collecting the same. We joined hands with the County government and the road to the factory is now graded.

Future Outlook

Tea prices in the global market are expected to improve in future and this will boost the company's revenues. However, the impact of Russia/Ukraine conflict and COVID-19 is still being felt in the Auction market. As a result of this, the company projects to grow its local market share which will also generate additional revenue.

Appreciation

I take this opportunity to appreciate the valuable support given by our stake holders namely the customers, suppliers, bankers, and the local community. On behalf of the board, I also wish to express my gratitude to the management, staff and the Government for their commitment to the Company. With your support the company will continue to grow sustainably for the benefit of all stakeholders.



Peter K. Korir
Managing Director

Date.....29/09/2023.....

7. Statement of Performance against Predetermined Objectives for FY 2022/2023

The key operational pillars for Gatitu Tea Factory are centered on Greenleaf received, Made Tea processed and Made Tea sold. During the financial year 2022/23, the factory's key objectives and actual performance are given as below.

March 2022 to June 2023

	Projections	Actual	Variance
Green Leaf - Catchment	10,320,844	7,324,532	2,996,312
Made Tea	2,373,727	1,618,079	755,648
Auction Sales	700,450,275	428,788,498	271,661,777

Actual green leaf and Made tea covers 16 months (March 2022- June 2023). Prior year comparison is not possible since GTF commenced operations in March 2022.

In the FY 2022/2023, the weather was not as good as was predicted and hence the factory did not receive the projected green leaf. The auction price of made tea was projected at an average of \$ 2.9 as the auction price and the actual averaged at \$2.4.

8. CORPORATE GOVERNANCE STATEMENT

Corporate governance is the manner in which the power of, and the power over a company is exercised in the stewardship of its assets and resources so as to enhance and sustain shareholders' value while at the same time satisfying the needs and interests of all its stakeholders. The Company recognizes that corporate governance is a shared responsibility and as such accords the shareholders opportunity to exercise their responsibility for safeguarding and propagating their interests by participating in its affairs, as appropriate, to ensure it is well governed.

The Company conducts its operations in accordance with recommended principles of good corporate governance as provided in Public Officers and Ethics Act as well as Public Financial Management Act 2015.

All the board members except the Managing Director are non-executive and are appointed for a renewable term of 3 years for a maximum of 2 terms.

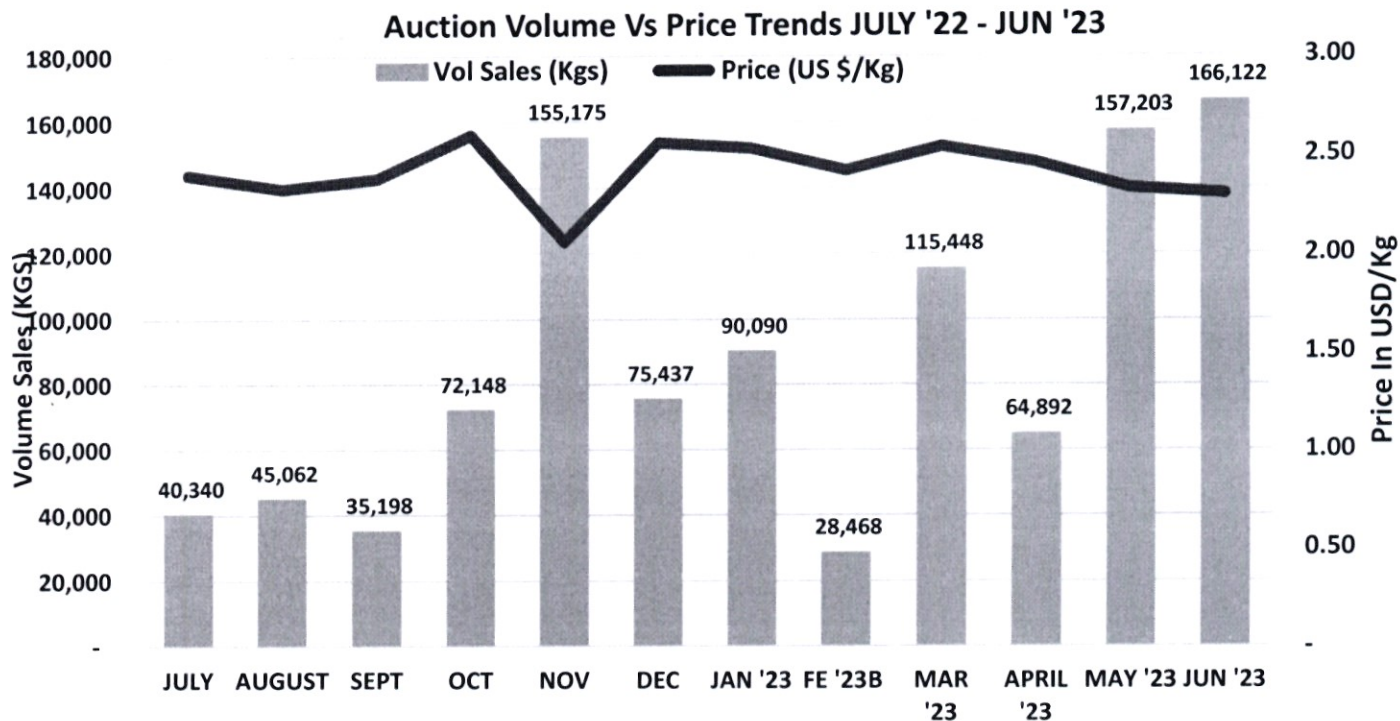
The board has established 3 committees: (i) Production, Business Development & Strategy Committee

(ii) Audit & Risk Management Committee and (iii) Finance, Human Resources & ICT Committee. Each committee meets at least once every quarter before tabling their reports to the full board. During the period, four board meetings took place with all board members present.

The company is also focused on enhancing stakeholder's relations program to embrace best practice and to keep all stakeholders informed on the business.

9. MANAGEMENT DISCUSSION AND ANALYSIS

Gatitu factory has almost been consistent in terms auction prices as depicted below.



Over the period, the below investments have been made.

1. Gatitu Tea Factory is already certified on Rainforest Alliance.
2. Water intake is also complete and functional.

10. ENVIRONMENTAL AND SUSTAINABILITY REPORTING

(i) Sustainability Strategy & Profile

The main mandate of GTF is to collect green leaf tea from the catchment zones, process the same into black CTC tea, sell the same in the Mombasa auction and locally. The local sales have been minimal due to competition from the already established organizations.

Sustainability is at the core of NTZDC and Gatitu Tea factory. The Buffer zone management is a long-term intervention aimed at bringing about a transition to sustainability, in four dimensions: Ecological, Social, Institutional and Financial & Economic sustainability. i) Ecological sustainability - which concerns using natural resources in a way which does not reduce their future use potential or impair the long-term viability of the species. ii) social sustainability - which concerns the ability of contracting communities to sustain their obligations as set out in collaborative agreements. Social acceptability is an important criterion in this aspect. iii) Institutional sustainability - which concerns the managing authority's ability to meet conservation obligations, etc. iv) Financial and economic sustainability - a state in which resources are managed so as to maintain productive opportunities for the future and whereby natural capital stock is non-declining through time. Establishing buffer zones to better preserve conservation areas is by all means a sustainable economic activity coupled with value addition through tea processing via Gatitu factory.

(ii) Environmental Performance

Being a Rainforest Alliance Certified Institution, Gatitu factory undertakes a number of environmental conservation activities not only for compliance but also in keeping with the conservation core mandate of the mother company, NTZDC. This includes Ecosystem Conservation through tree-planting drives in the environmentally sensitive areas in partnership with local communities and administration.

(iii) Employee Welfare

Gatitu Tea Factory complies with the prescribed gender balance policy of 70:30% as recommended in the constitution of Kenya. Other policies actively implemented by the factory include Occupational Health and Safety, and provision of insurance cover against injuries and fire incidents (WIBA).

In addition, the factory pays overtime work on a voluntary basis and according to employment laws to ensure a working week of less than 60 hours. As a routine activity, the factory conducts an education programme for employees on environmental conservation.

(iv) Market Place Practices

The factory processes, packages and sells high quality teas through the auction and local market. Some of the brands include Gatitu mark sold in Mombasa Tea auction while Gatitu FDS and Eco Standard sold in the local market.

a) Responsible competition practice.

Gatitu mark sold through the auction is regulated by EATTA while products sold in the local market are priced to cater for all market segments and regulated by KEBS.

b) Responsible supply chain and supplier relations

Local products are distributed using local traders and customers.

c) Responsible marketing and advertisement

The corporation practices responsible marketing in its advertising and promotional activities.

d) Product stewardship

Gatitu Tea Factory is ISO 22000:2005 certified and assures customers the highest standards in processing and packing of its tea.

Corporate Social Responsibility

The Corporation continues to emphasize on the importance of Corporate Social Responsibility (CSR) for sustainability of its operations. As is rightly in our mandate conservation of the environment serves a key pillar in our operations.

Various CSR ventures have been implemented so far: -

- i. The Corporation has constructed over 100 tea buying centers in the 19 zones of operation where the Corporation and communities sell their tea to the factories.



A tea buying centre in Meru South Zone

- ii. The Corporation also upgrades and maintains rural access roads in the zones where it operates. This has improved local transport, opened trading centers in the zones and enabled farmers' access to markets with their farm produce.
- iii. The Corporation has supported community water projects in its areas of operation, including, and Nyaru water project at Gatitu factory catchment in Kirinyaga County.



Board of Directors inspect the laying of pipes for Nyaru water project in Kirinyaga County

- iv. In addition, the Corporation has supported re-afforestation projects through tree seedlings donations which are distributed and planted through the zonal offices.

11. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 30 June 2023, which disclose the state of affairs of the Corporation.

(i) Principal Activity

The Company's principal activity is processing of CTC black Teas from green leaf. The green leaf is produced from the tea buffer belts established in the gazette forests and from out-growers. This enhances conservation through value addition.

(ii) Results

	2022/2023 (Ksh)
Profit /(Loss) before tax	(38,706,539)
Net Profit/ (Loss) for the year	<u>(38,706,539)</u>

(iii) Dividends

The Corporation's policy on dividends is to propose 5% of the Net Profit for the year as proposed dividends payable.

(iv) Directors

The directors who held office during the year and to date of this report are shown on page (vi)

(vi) Auditors

The Auditor-General is responsible for the statutory audit of Gatitu Tea Factory Limited in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By order of the Board



Peter K. Korir

Managing Director

Date 29/09/2023

12. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The State Corporations Act requires the directors to prepare financial statements for each year, which give a true and fair view of the state of affairs of the corporation and of its operating results for that year. It also requires the directors to ensure that the corporation keeps a set of proper accounting records, which disclose with reasonable accuracy at any time the financial position of the corporation. They are also responsible for safeguarding the assets of the corporation.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the legal requirements.

The directors are of the opinion that the March 2022 to June 2023 financial statements give a true and fair view of the financial affairs of the company and of its operating results. The directors 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.

Being its first year in operation the factory made a loss as a result of heavy investment hence high depreciation in addition to time lag between conversion of green leaf tea into made tea and conversion of made tea into cash. The factory is expected to break even in the second year and make profits in the third year. Despite the loss reported during the accounting period, nothing has come to the attention of the directors to indicate that the corporation will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

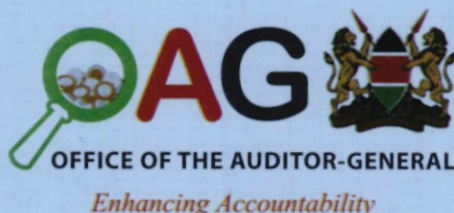
The Gatitu financial statements were approved by the Board on 29/07/2023 and signed on its behalf by:


Director


Mr. Peter K. Korir
Managing Director

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON GATITU TEA FACTORY LIMITED FOR THE SIXTEEN MONTHS PERIOD ENDED 30 JUNE, 2023

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Gatitu Tea Factory set out on pages 1 to 11, which comprise of the statement of financial position as at 30 June, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the 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 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, the financial statements present fairly, in all material respects, the financial position of Gatitu Tea Factory as at 30 June, 2023, and of its financial performance and its cash flows for the period then ended, in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Opinion

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

Emphasis of Matter

1.0 Budgetary Control and Performance

1.1 Under-Collection of Revenue

The statement of comparison of budget and actual amount, reflects final receipts budget and actual on comparable basis amounting to Kshs.517,913,693 and Kshs.437,612,166 respectively, resulting in a shortfall in receipts of Kshs.80,301,527 or 16% of the total revenue budget.

1.2 Under-Absorption of the Budgetary Allocation

The statement of comparison of budget and actual amounts reflects a final expenditure budget of Kshs.491,447,923 against actual expenditure of Kshs.476,318,705 resulting to budget under absorption of Kshs.15,129,218. Analysis of the budget revealed that Management under-utilised the budgetary allocation resulting to a performance difference of Kshs.30,080,632 on the items detailed below:

Description	Final Budget (Kshs.)	Actual Expenditure (Kshs.)	Performance Difference (Kshs.)	% of Utilisation
Motor Vehicle and Generator Fuel	25,860,495	4,969,147	20,891,348	81%
Factory Running Expenses	12,588,998	10,664,092	1,924,905	15%
Transport of Finished Tea	5,174,215	4,621,307	552,907	11%
Warehousing	5,174,215	3,586,639	1,587,575	31%
Insurance	3,973,235	2,367,577	1,605,658	40%
Salaries and wages	14,450,530	10,932,291	3,518,239	24%
Total	67,221,688	37,141,053	30,080,632	45%

In the circumstances, the under-collection of revenue and under-performance affected the planned activities and may have impacted negatively on goods and services delivery to the public.

2.0 Material Uncertainty Related to Going Concern

The statement of financial position reflects total current assets of Kshs.108,999,072 against total current liabilities of Kshs.139,917,969 resulting in a negative working capital of Kshs.30,918,897. In addition, the Factory made a loss of Kshs.38,706,539.

In the circumstances, there is a threat on the Company's going concern and the financial statements have been prepared on a going concern basis assuming continued support from the Corporation and other stakeholders.

My opinion is not modified in respect of these matters.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution and based on the audit procedures performed, I confirm that nothing 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

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (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 comply, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015 and based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my

report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Poor Maintenance of Cash Book

The statement of financial position reflects a cash and cash equivalents balance of Kshs.20,969,647 as disclosed in Note 5 to the financial statements. During the period under review, examination of the supporting documents provided for audit revealed that the Factory operates four commercial bank accounts one of them being a US dollar account. However, the cash books entries captured in the electronic cash books, lacked vital information such as payees and document references. Hence hindering efficient review of information on the cash books.

In the circumstances, the cash books controls were not efficient.

2.0 Incomplete Fixed Assets Register

The statement of financial position reflects property, plant and equipment balance of Kshs.1,219,576,676 as disclosed in Note 3 to the financial statements. However, the Factory did not have a comprehensive list of all assets under its ownership. Further, the asset register provided for audit lacked the following information:-

- i. Date of acquisition of the asset
- ii. Location of the asset
- iii. Custodian of the asset especially, laptops, tablets, and iPads
- iv. ICT equipment have no serial numbers and
- v. The buildings lacked the building description or title number of the land on which the buildings stand.

In the circumstances, the internal controls and documentation of the assets were not comprehensive.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, 2015 I report based on my audit, that:

- i. 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;

- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of the Management and Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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 controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Company'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 Management.
- Conclude on the appropriateness of Management's use of the going concern 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 Company's ability to continue as a going concern. 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 Company to cease to continue as a going concern.

- 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 Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.


FCPA Nancy Gatirungu, CBS
AUDITOR-GENERAL

Nairobi

18 April, 2024

14. Statement of Profit or Loss and other Comprehensive Income for 16 Months period Ended 30th June 2023


	Notes	2022/2023
	Notes	Kshs
		2022/2023
Revenue	2 (a)	428,788,498
Cost of Sales	2 (b)	(378,299,349)
Gross Profit		50,489,149
Administrative Expenses	2 (c)	(47,921,127)
Other Operating Expenses	2 (d)	(39,165,937)
Employment Expenses	2 (e)	(10,932,291)
Operating Profit Before Finance Costs		(98,019,356)
		(47,530,207)
Finance Costs	2 (f)	-
Profit before Exceptional Item		(47,530,207)
Other income/ (Exchange Loss)	2(g)	8,823,668
Net profit/(loss) for the year		(38,706,539)


15. Statement of Financial Position as at 30 June 2023

	Notes	2022/2023 Ksh.
NON - CURRENT ASSETS		
Property, Plant & Equipment	3	1,219,576,676
CURRENT ASSETS		
Inventories	4	64,186,894
Trade Receivables	6	23,842,531
Cash & Bank Balances	5	20,969,647
TOTAL CURRENT ASSETS		108,999,072
TOTAL ASSETS		1,328,575,749
EQUITIES & LIABILITIES		
Capital and Reserves		
Ordinary Shares	8	100,000
Share Premium	8	1,227,264,318
Accumulated Profit/(Loss)	8	(38,706,539)
Total Capital and Reserves		1,188,657,780
CURRENT LIABILITIES		
Trade & Other Payables		139,917,969
TOTAL EQUITY AND LIABILITIES		1,328,575,749

The financial statements were approved by the Board of Directors on 29/09/2023 and signed on its behalf by:


Peter K. Korir
Managing Director


Samuel K. Njire
Head of Finance
ICPAK M. NO: 6527


Joseph G. M'Limbiine
Chairman of the Board

16. Statement of Changes in Equity for the 16 Months Period Ended 30th June 2023

As at 1 st March 2022	1,227,364,318	-	1,227,364,318
Shareholders capital injection	-		-
Net Profit/(Loss) for the year		(38,706,539)	(38,706,539)
As at 30th June 2023	<u>809,271,518</u>	<u>(38,706,539)</u>	<u>1,188,657,779</u>

17. Statement of Cash Flows for the 16 Months Period ended 30 June 2023
Cashflow from Operating Activities

Operating Profit (Loss)		(38,706,539)
Exchange gain		8,823,668
Depreciation of Fixed Assets	2 (d)	36,601,023
Transfer of work in progress to parent Company		
Profit Before Working Capital Changes		6,718,152

Debtors & Prepayments	6	54,761,428
Creditors & Accruals	7	(108,999,072)
Stock	4	64,186,894
Net Changes in working Capital		9,949,250
Net Cash Generated from Operating Activities		16,667,403

Cashflows used in Investing Activities

Equity Investment		1,227,364,318
Purchase of Fixed Assets	3	(1,256,177,700)
Net Cash (Used) in Investing Activities		(28,813,381)

Net Increase in Cash and Cash Equivalents		(12,145,979)
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Movement in Cash and Cash Equivalents

At 1st March 2022		-
Other Income	2(g)	(8,823,668)
Increase/(Decrease) in the year		(12,145,979)
At 30th Jun 2023	5	(20,969,647)



18. Statement of Comparison of Budget and Actual Amount for the 16 Months period ended 30 June 2023

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilisation
	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023	2022-2023
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue						
Sale of goods	517,913,693	-	517,913,693	428,788,498	(89,125,195)	83%
Finance Income	-	-	-	20,897	20,897	0%
Exchange gain/loss	-	-	-	8,802,771	8,802,771	
Total Income	517,913,693	-	517,913,693	437,612,166	(80,301,527)	84%
Closing stock				(51,189,205)		
Green Leaf Intake	317,651,849	-	317,651,849	336,336,521	(18,684,671)	106%
Other factory operating expenses	2,744,661	-	2,744,661	11,999,853	(9,255,192)	437%
Factory Materials & Consumables	-	-	-	-	-	0%
Motor Vehicle & Generator Fuel	25,860,495	-	25,860,495	4,969,147	20,891,348	19%
Electricity	19,311,382	-	19,311,382	24,326,743	(5,015,360)	126%
Factory running expenses	12,588,998	-	12,588,998	10,664,092	1,924,905	85%
Fuelwood	14,629,835	-	14,629,835	17,025,130	(2,395,295)	116%
Manufacturing Labour	13,546,216	-	13,546,216	12,799,945	746,270	94%
Transport of finished tea	5,174,215	-	5,174,215	4,621,307	552,907	89%
Warehousing	5,174,215	-	5,174,215	3,586,639	1,587,575	69%
Brokerage and Catalogue fee	3,484,878	-	3,484,878	3,198,177	286,700	92%
Advertising Marketing & Publicity	3,000,000	-	3,000,000	5,232,057	(2,232,057)	174%
Bank charges	120,000	-	120,000	254,081	(134,081)	212%
Insurance	3,973,235	-	3,973,235	2,367,577	1,605,658	60%
Other administrative expenses	10,094,906	-	10,094,906	40,067,412	(29,972,506)	397%
Repairs & Maintenance	-	-	-	-	-	0%
Security	2,758,110	-	2,758,110	2,525,914	232,196	92%
Depreciation	36,884,400	-	36,884,400	36,601,023	283,377	99%
Salaries and wages	14,450,530	-	14,450,530	10,932,291	3,518,239	76%
Total Expenditure	491,447,923	-	491,447,923	476,318,705	15,129,218	97%
Surplus for the period	26,465,770	-	26,465,770	(38,706,539)	65,172,309	-146%

Notes

The weather in the catchment during the period was not as expected and this led to low supply of green leaf. This led to low volumes of manufactured tea sold both locally and internationally. The auction prices were declining averaging at \$2.4 in the period.

The costs of manufacturing covers 16 months (March 2022-June 2023) and the budget is for 2022/2023FY. The general economy was affected by Russia/Ukraine conflict, the covid 19 effects and the general increase of prices of various inputs due to inflation.

19. Notes to the Financial Statement

1(a). General Information

GTF is established by and derives its authority and accountability from Company's Act. The entity is a wholly owned subsidiary of NTZDC and is domiciled in Kenya. The principal activity of GTF is to process green leaf tea to CTC tea for auction and local sales.

1(b) Statement of compliance and basis of preparation

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of Gatitu Tea Factory.

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

i. New and amended standards and interpretations in issue and effective in the year ended 30 June 2023.

Title	Descriptions	Effective Date
IFRS 17	N/A Accounts started on 1 st March 2022	
IAS 8	N/A Accounts started on 1 st March 2022	
Amendments to IAS 1	N/A Accounts started on 1 st March 2022	
Amendments to IAS 12	N/A Accounts started on 1 st March 2022	

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

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.

Title	Description	Effective Date
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)	N/A	
Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)	N/A	
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)	N/A	

(iii) Early adoption of standards

Gatitu Tea Factory did not early adopt any new or amended standard in the financial year.

1 (d) Summary of Accounting Policies

i) Revenue Recognition

Revenue represents the fair value of the consideration received or receivable for sales of goods and Services and is stated net of value-added tax (VAT), rebates and discounts and after eliminating sales Within the Group. Revenue is recognised as follows:

- Sales of goods are recognised when significant risk and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and when there is no continuing management involvement, and the amount of revenue can be measured reliably.
- Sales of services are recognised in the period in which the services are rendered by reference to the completion of specific transactions assessed on the basis of actual service provided as a proportion of total services to be provided. Sales revenue can only be recognised when the associated costs can be estimated reliably, and the amount of revenue can be estimated reliably.

ii) Property Plant & Equipment

Property, plant, and equipment are measured at cost or revalued amounts less accumulated depreciation and any impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

Depreciation is calculated on a straight-line basis, at annual rates estimated to write-off the assets over their expected useful lives.

The annual depreciation rates in use are: -

Buildings	2%	Equipments	25%
Machinery	6.65%	Computers & Accessories	33.33%
Furniture & Fixtures	12.5%	Motor Vehicles	20%

iv) Inventories

Finished Tea and Other inventories are stated at cost which is determined on weighted average. Cost is determined on the weighted average cost. Cost comprises expenditure incurred in the normal course of business, including direct material costs, labour and production overheads, where appropriate, that have been incurred in bringing the stocks to their present location and condition. Net realisable value is the price at which the inventory can be realised in the normal course of business after allowing for costs of realisation. Consumable stores are stated on FIFO basis less provisions for obsolescence, slow moving and defective stocks.

v) 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. No provisions for bad debts are made if all debts are concluded to be collectible after assessment.

vi) Accrued expenses – specific and general provisions.

Provision is made for specific and general expenses incurred during the accounting period but where invoices have not been received. The expenses are charged in the accounting period in the year they are incurred and not necessarily when they were paid. General expenses are measured only using substantial degree of estimation.

vii) Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, liquidity risk and operational risk. The board has come up with policies for mitigating risks where its implementation is reviewed on quarterly basis.

viii) Related Party disclosures

The company is involved in processing of green leaf tea some of it delivered by the parent corporation (Nyayo Tea Zones).

1 e). Significant Judgements and sources of Estimation Uncertainty**(i) Useful lives and residual values**

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

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

ii) 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. The only provision in our books is provision for audit fee.

	2022/2023
	Kshs
2 (a) Revenue	
Sale of Finished Tea	428,788,498
	428,788,498
2 (b) Cost of Sales	
Opening Stock	-
Green Leaf Intake	336,336,521
Other factory operating expenses	11,999,853
Motor Vehicle & Lubricants	4,969,147
Electricity	24,287,743
Factory running expenses	10,664,092
Fuelwood	17,025,130
Manufacturing Labour	12,799,945
Transport of finished tea	4,621,307
Warehousing	3,586,639
Brokerage and Catalogue fee	3,198,177
Less Closing Stock	(51,189,205)
	378,299,349
NB: cost associated with opening/closing stocks has been adjusted to specific cost component	
2 (c) Administrative Expenses	
Advertising Marketing & Publicity	5,232,057
Bank charges	254,081
Insurance	2,367,577
Other administrative expenses	40,067,412
	47,921,127
2 (d) Other Operating expenses	
Light & Water	39,000
Repairs & Maintenance	
Security	2,525,914
Depreciation	36,601,023
	39,165,937
2 (e) Employment Expenses	
Salaries and Wages	8,330,378
House Allowance	1,125,900
Leave Allowance	121,173
Commuter and other Allowances	1,257,000
Medical Expense	
Staff Welfare	-
Social Security Expense	97,840
Total Employment Expenses	10,932,291
NB: As at 30th June 2023, GTF had an average of 15 employees on the payroll	
2 (g) Other income	
Miscellaneous Income	-
Interest Income	20,897
Exchange Gain/ (Loss)	8,802,771
	8,823,668

Exchange gain/loss relates to changes in value in sales denominated in US dollars when converted to Kenya shillings.



3. Property Plant & Equipment

	Factory Buildings Kshs	Factory Machinery Kshs	Furniture & Fixtures Kshs	Equipment Kshs	Computers & Accessories Kshs	Motor Vehicles Kshs	Total Kshs
<u>2022/2023</u>							
Cost							
As at 1st March 2022	-	-	-	-	-	-	-
Additions	1,037,792,360	210,506,690	1,367,959	1,295,998	2,314,692	2,900,000	1,256,177,700
30th June 2022	1,037,792,360	210,506,690	1,367,959	1,295,998	2,314,692	2,900,000	1,256,177,700
Acum Depr 1st Mar 2022	-	-	-	-	-	-	-
Charge for the year	20,755,847	13,998,695	170,995	324,000	771,487	580,000	36,601,023
30th June 2023	20,755,847	13,998,695	170,995	324,000	771,487	580,000	36,601,023
Net Book Value							
30th June 2023	1,017,036,513	196,507,996	1,196,964	971,999	1,543,205	2,320,000	1,219,576,676



NOTES TO THE FINANCIAL STATEMENTS -Continued

	2022/2023
	Kshs
4. Inventories	
Finished Tea	51,189,205
Fuelwood at Gatitu factory	3,431,402
Other Inventories	9,566,288
	<u>64,186,894</u>
5. Cash & Cash Equivalents	
KCB Current Account	17,846,611
CFC Stanbic Bank	15,588
Cash in hand	7,447
KCB Fixed Deposit	3,100,000
	<u>20,969,647</u>
6. Trade Receivables	
Trade Debtors	19,747,632
Other Debtors	4,094,900
Nyayo Tea Zones Devt. Corporation - Advances	-
	<u>23,842,531</u>
7. Trade and other Payables	
Trade Payables	14,612,729
Green leaf Creditors - Nyayo Tea Zones	112,567,945
Payroll Creditors	12,737,295
Accruals	
	<u>139,917,969</u>
8. Shareholder's Funds	
Authorised No. of Shares - 5,000 Shares	
Type of Shares - Ordinary Shares	
Par value per Share Ksh. 20 each	
Total No. of Shares Subscribed - 5,000 Shares	
Value of subscribed Shares - Ksh 100,000	100,000
Share Premium	1,227,264,318
Revenue Reserves	
Profit / (Loss) for the year	(38,706,539)
	<u>1,188,657,780</u>

20. APPENDIX 1: Implementation Status of Auditor-General prior year Recommendations

In previous years, the Auditors General have not audited the financial statements of Gatitu Tea Factory Limited.



Peter K. Korir
Managing Director



Date..... 29/09/2023

