

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 08 MAY 2019

DAY: WED

TABLED BY: Majority Whip
Hon. Benjamin W. Mado

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REPORT

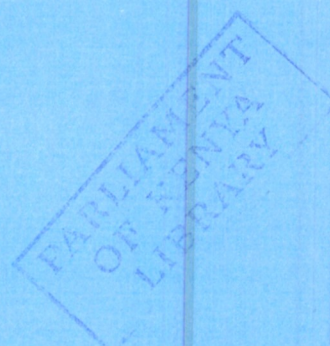
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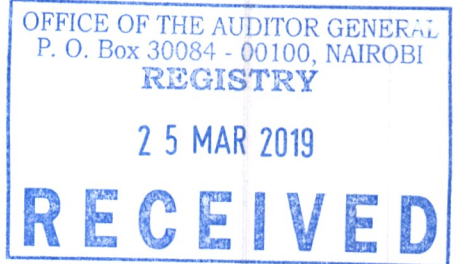
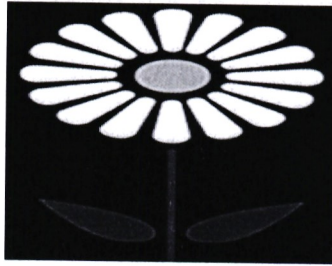
THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
PYRETHRUM PROCESSING COMPANY
OF KENYA

FOR THE YEAR ENDED
30 JUNE 2018





**PYRETHRUM PROCESSING COMPANY OF KENYA
FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED
JUNE 30TH 2018**

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

PYRETHRUM PROCESSING COMPANY OF KENYA
Reports and Financial Statements
For the year ended June 30, 2018.

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KEY ENTITY INFORMATION

Background information

The *Pyrethrum Processing Company of Kenya* (PPCK) was operationalized following Agriculture reforms through new legislations passed, Crop Act 2013 and the AFFA Act 2013, now AFA Act 2013 (amended) as of 10th May 2016. Following the operationalization of the two Acts, the repealed Pyrethrum Act Cap 340 implemented under pyrethrum Board of Kenya (PBK) was de-merged into two organizations to separately manage the Commercial and Regulatory functions. The pyrethrum regulatory arm was merged with other major scheduled crops and the commercial function arm operated under Pyrethrum Processing Company of Kenya (PPCK) registered in August 1963.

Principal Activities

The principal activity of *PPCK, Pyrethrum Processing Company of Kenya* is to process and marketing of Pyrethrum products, conduct scientific & agronomic research, promote and facilitate production of high yielding planting material & quality certified seeds of Pyrethrum. The Company is also subject to the provisions of the State Corporations Act (Cap 446) of the Laws of Kenya.

Registered Office

Pyrethrum Processing Company of Kenya

General Mathenge Road,

Industrial Area,

P.O. Box 420 20100,

Nakuru, KENYA

Corporate Contacts

Telephone: 254 51-211567/72

Fax 25451-214201/210466

E-mail: md@pyrethrum.co.ke

Corporate Bankers

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

PYRETHRUM PROCESSING COMPANY OF KENYA
Reports and Financial Statements
For the Period ended June 30, 2018.

Independent Auditors

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

Principal Legal Advisers

THE ARTONEY GENERAL
SHERIA HOUSE, HARAMBEE AVENUE
P.O. Box 40112-00100, Nairobi, Kenya
Tel: +254-2-2227461/2251355
0711 9445555/0732 529995

MANAGEMENT TEAM



Mr. Lolwerikoi C. Paul.

Managing Director

Qualifications:

- BSc in Agriculture- Kenya Methodist University
- Diploma in Water and Crop Production- Galilee College Israel
- Certificate in Agriculture- Bukura Agricultural College



Mrs. Lucy Birir Komen

Product Development & Marketing Manager

Qualifications:

- MBA Strategic Mgt - Egerton University
- BBA in Marketing – Kenya Methodist University
- Diploma in MIS – Algonquin College, Canada
- Member of MSK



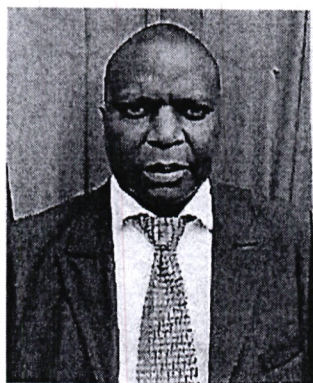
Mr. Rufus Ngotho

Finance Manager

Qualifications:

- CPA PART II Sec 3
- ACNC 1 & 2
- Certificate in Computer Applications

 Mrs. Elizabeth A. Luby	Ag.Human Resource Manager Qualifications: • BCOM – Human Resource Management, Egerton University. • Diploma – Business Management, Kenya Institute of Management • Member – Institute of Human resource Mgt • IHRM CERTIFICATION - Ongoing
 Mrs. Caroline Imbwaga	Crop Research Manager Qualifications : • MSC- in Agronomy & Rural Development • BSc in Agriculture • Cert. Agriculture & Home Economics • Member – Kenya Society for Agriculture Professionals (KESAP)
 Mrs. Rosaline Chepngeno	Planning, Strategy and Administration Manager Qualifications: • BSc in Science – Egerton University • Post Graduate Diploma in Procurement and Supplies Mgt, Mt. Kenya University • Member – Kenya Institute of Suppliers Mgt (KISM)



Mr. Joel Atuti Nyachiro

Risk & Audit Manager

Qualifications:

- BA in Economics & Statistics- University of Baroda, India
- Diploma in Production Management



Mr. Peter Kaumbuthu

Procurement Manager

Qualifications:

- MBA- Procurement & Logistics, Jomo Kenyatta University
- BBA- Supplies Management, Mount Kenya University
- Diploma in Procurement
- Certificate in Supplies Mgt
- Member – Kenya Institute of Supplies Mgt (KSM)



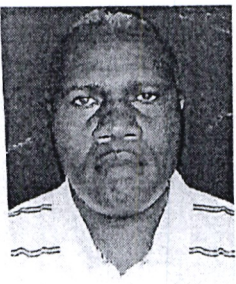
MR. Vincent Ouma

Quality Control & Assurance Manager

Qualifications:

- Higher Diploma in Applied Chemistry- Kenya Polytechnic

PYRETHRUM PROCESSING COMPANY OF KENYA
Reports and Financial Statements
For the Period ended June 30, 2018.

 Mr. Kennedy Miheso	Crop Production Manager Qualifications: • BSc Horticulture- Jomo Kenyatta University of Agriculture & Technology- Kenya
 Mr. Mark. K Cherop	Factory Manager Qualifications: • Diploma in Mechanical Engineering (Part I) – Kenya Polytechnic • Certificate In Refrigeration and Air Conditioning- Mombasa Polytechnic

REPORT OF THE MANAGING DIRECTOR

The Pyrethrum Processing Company of Kenya is the entity that assumed the commercial function of the former Pyrethrum Board of Kenya while the Pyrethrum and other Industrial Crops Directorate took up the regulatory function.

In an effort to revive the industry PPCK has paid out all farmers' arrears, the management has put in place a flower production strategy to ensure reliable source of dry flowers to the factory hence sustain business operations. One of the strategic activity in the production strategy was to increase pyrethrum crop acreage and the Management in collaboration with County Governments, carried out several aggressive crop campaigns and farmer field days where farmers were encouraged to grow more pyrethrum as a commercial crop. This campaigns were aimed at increasing the flower deliveries to the factory and an increase by 550 acres in Pyrethrum crop acreage was realized from 3905 acres in 2015/16 to 4,455 acres in 2017/18. Further the Company employed another strategy of paying Ksh 100.00 per kg as an advance on delivery of dry flowers.

Other turnaround strategies involve ensuring growers are paid on monthly basis for flower deliveries, providing quality planting materials and improvement of factory processing efficiency through acquisition of a new smaller capacity extraction plant.

The Government has been supporting reforms in PPCK through allocation of grants to finance the revival process so as to improve the financial position of PPCK. The total grant received was Ksh 99M

CORPORATE GOVERNANCE STATEMENT

Following the enactment of Crops Act 2013 and AFA Act 2013 (Revised 2016), the regulatory and commercial functions of the former Pyrethrum Board of Kenya (PBK) were separated. The Pyrethrum Processing Company of Kenya (PPCK) took over the commercial function while Pyrethrum & Other Industrial Crops Directorate (POICD) took over the regulatory function. The Managing Director consults both Agriculture & Food Authority (AFA) and Ministry of Agriculture Livestock and Fisheries (MoAL&F) on policy matters as PPCK Board has not yet been constituted.

Management Committee

PPCK has a Management Committee whose membership are Senior Managers who are Heads of Departments. The Chair of the Management Committee is the Managing Director. The Management Committee is responsible for running the day to day business of the company and meets on monthly basis to discuss and deliberate on operational issues.

Budget Committee

The Budget Committee is mandated with the preparation of the annual budget estimates. The PPCK annual PC was developed based on annual budget and work plan. Quarterly review of the budgetary performance of the company is done and submitted through AFA.

Procurement and Disposal Committee

Both Procurement and Disposal Committees are mandated with ensuring that procurement and disposal of assets is in line with the Public Procurement and Disposal Act, 2015.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Owing to low cash flow stream the company did not meet all the set out CSR planned activities. The company carried out HIV awareness forums for the local football youth club. The company funded a forum at PPCK Estate IV Hall.

STATEMENT OF MANAGEMENT RESPONSIBILITIES

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

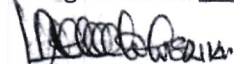
The Management is responsible for the preparation and presentation of the PPCK - *Pyrethrum Processing Company of Kenya* financial statements, which give a true and fair view of the state of Affairs of the PPCK - *Pyrethrum Processing Company of Kenya* for and as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the PPCK - *Pyrethrum Processing Company of Kenya* ; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

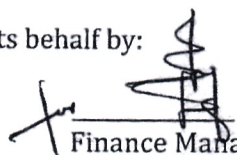
The Management accept responsibility for the PPCK - *Pyrethrum Processing Company of Kenya* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act 2012 and the State Corporations Act. The Management are of the opinion that the PPCK - *Pyrethrum Processing Company of Kenya* financial statements give a true and fair view of the state of PPCK - *Pyrethrum Processing Company of Kenya* transactions during the financial year ended June 30, 2018, and of the PPCK - *Pyrethrum Processing Company of Kenya* financial position as at that date. The Management further confirm the completeness of the accounting records maintained for the PPCK - *Pyrethrum Processing Company of Kenya*, which have been relied upon in the preparation of the PPCK - *Pyrethrum Processing Company of Kenya* financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

The PPCK - *Pyrethrum Processing Company of Kenya* financial statements were approved by

Management on 24th / 09 / 2018 and signed on its behalf by:


Managing Director
LOLWERIKOI, C PAUL


Finance Manager
RUFUS C. NGOTHO

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON PYRETHRUM PROCESSING COMPANY OF KENYA FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Pyrethrum Processing Company of Kenya set out on pages 11 to 28, which comprise the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

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

Basis for Disclaimer of Opinion

1. Undisclosed Material Uncertainty Related to Going Concern

The statement of comprehensive income for the year ended 30 June, 2018 reflects a loss of Kshs.264,257,000 (2017: a loss of Kshs.147,251,000). The loss for the year under review eroded further the general reserve to negative Kshs. 1,126,140,000 as at 30 June 2018 from negative Kshs. 861,884,000 as at 30 June 2017. In addition, the statement of financial position as at 30 June 2018, reflects total current assets of Kshs. 443,644,000 and total current liabilities of Kshs. 1,161,032,000 resulting in a negative working capital of Kshs. 717,388,000 as at that date. The Company is, therefore, technically insolvent and its continued existence is dependent upon the financial support of the Government and its creditors. This material uncertainty that casts doubts on the Company's ability to continue as a going concern has, however, not been disclosed in the financial statements by the management

2. Property, Plant and Equipment

The statement of financial position reflects a balance of Kshs.2,545,450,000 in respect of property, plant and equipment as at 30 June 2018. This balance, as

Report of the Auditor-General on the Financial Statements of Pyrethrum Processing Company of Kenya for the year ended 30 June 2018

disclosed under Note 8 to the financial statements comprise of value of land, buildings, plant and machinery, work in progress, motor vehicles, furniture, equipment and computers. Examination of available records revealed the following:

- (i) During the year under review, the Company revalued its assets and paid an amount of Kshs.14,556,443 for the services. However, the revaluation of the assets to Kshs.6,823,230,225 has not been adopted or approved by any authority or the board of directors.
- (ii) Included in the property, plant and equipment balance is a sum of Kshs.354,340,000 in respect of eighteen parcels of land which, however, are not registered in the name of the Company. Further, the balances include two parcels of land situated in Nakuru Municipality (Block 7/138) and Nyandarua County (Oljororok Farm Block 11322/1/2/3) valued at Kshs.7,500,000 and Kshs.45,800,000 respectively, but whose ownership is in dispute. Available information indicates that the land in Nyandarua was sold to a private developer at a cost of Kshs.30,050,000 and the matter has since been taken to court.
- (iii) Further, out of a total of fifty-eight motor vehicles and heavy machinery owned by the Company, only six motor vehicles were valued, while thirty-five, although serviceable had not been valued.
- (iv) A physical verification of the vehicles owned by Pyrethrum Company of Kenya revealed that eight vehicles were impounded and auctioned due to outstanding payments to a merchant who had carried out some works at the company in the financial year 2003/04. The eight vehicles had been purchased at a cost of Kshs.11,560,472.42. The disposal of the eight vehicles, which were auctioned in 19 May 2018, has not been recorded in these financial statements.
- (v) In addition, out of the existing fifty vehicles, logbooks for ten vehicles were not provided for audit. Consequently, their ownership remains doubtful.
- (vi) As disclosed under Note 8 to the financial statements, capital works in progress balance of Kshs.455,663,000 as at 30 June 2018 relates to a extraction plant purchased and installed in 2006 but which has never been commissioned. Although management has explained that the machine was purchased in anticipation of an increase in flower deliveries to the factory and that the plant will be commissioned in future once the industry is revived, no evidence has been presented for audit to show the steps taken to revive the industry. Further, technological changes and wear and tear are bound to affect the idle machines adversely and may result in the loss of Kshs.455,663,000 in taxpayers' funds invested in the assets.

In view of the above, it has not been possible to confirm whether, plant and equipment balance of Kshs.2,545,450,000 as at 30 June, 2018 is fairly stated.

3. Intangible Assets

As previously reported, the statement of financial position as at 30 June, 2018 similarly reflects intangible assets balance of Kshs.825,650,000 relating to an amount incurred on the cost of registering licenses and studies undertaken on impact of pyrethrum on the environment and human life. However, the management has not explained how the balance was determined.

In addition, the intangible assets have not been subjected to amortization or revaluation over the years. Although the management has explained that benefits from the assets will accrue indefinitely to the Company hence the reason for not amortizing them, technological and other changes are bound to affect the value of the intangible asset hence the need to amortize or revalue them over time.

4. Fixed Deposit in Euro Bank Ltd

As reported previously, the statement of financial position reflects under non-current liabilities, a long term provision relating to a fixed deposit balance of Kshs.150,000,000 placed with Euro Bank in 2001. The bank was subsequently placed under receivership and dissolved in 2003. Although the management has made a full provision for bad and doubtful debts for this deposit, no evidence has been presented to show steps taken by the Company to clear the unrecoverable amount of Kshs.150,000,000 from the books of account.

5. Bank and Cash Balances

The statement of financial position reflects bank and cash balances of Kshs.10,937,000 as at 30 June, 2018. The management has not provided bank confirmation certificate for Stanbic Bank – Mombasa Branch Account No. 014/00/300349/01 balance of Kshs.33,442, that has been outstanding since 2017. In addition, Note 12(a) to the financial statements reflects an amount of Kshs.41,000 in Other Bank Account whose details have not been disclosed.

Consequently, the accuracy and validity of bank and cash balances cannot be ascertained.

6. Trade and Other Payables

- (i) As reported also in the previous year, included in the trade and other payables balance of Kshs.736,385,000 as at 30 June 2018 are outstanding statutory deductions of Kshs.138,733,851 and Kshs.1,002,000 relating to pay as you earn (PAYE) for employees and board members, respectively that have remained unpaid, and thus continue to attract interest and penalties in line

with the provisions of Section 37 (2) of the Income Tax Act Cap 470 of the Laws of Kenya.

- (ii) Further, the supporting documents and age analysis to the list of trade payables have not been provided.

In view of the foregoing, the validity and accuracy of trade and other payables figure of Kshs. 736,385,000 cannot be ascertained.

7. Inventories

The statement of financial position as at 30 June 2018 reflects inventories balance of Kshs.204,262,000. This figure, however, includes other pyrethrum products valued at Kshs.104,168,000 brought forward from previous years and relates to sludge, green oil and carbon dust that is claimed to contain less than 3% pyrethrin. It was indicated that the value of Kshs.104,168,000 had been given by an Official from the Ministry and it has been difficult to either sell or dispose of the products.

In addition, the value of the total inventories balance of Kshs.204,262,000 has not been supported with any documentary evidence. Further, it has not been possible to confirm the method under which the stock was valued and whether in the valuation, adequate provisions for obsolescence were made since the quality of the unprocessed stock could deteriorate and eventually lose some or all its value.

Consequently, the valuation and accuracy of the inventories balance of Kshs.204,26,000 as at 30 June 2018 cannot be confirmed.

8. Trade and Other Receivables

8.1. Unsupported Balances

- (i) Trade and other receivables balance of Kshs.183,181,000 as at 30 June 2018 includes, as reported in the previous year, a sum of Kshs.7,180,000 relating to an abortive purchase of a stand at the Nairobi International Show Grounds. However, no documentary evidence has been provided to date to confirm the amount.
- (ii) Similarly, the trade and other receivables balance of Kshs.183,181,000 includes trade debtors amounting to Kshs.61,853,000 which have been outstanding for long and whose recoverability remain doubtful. Further, the management has not provided documentary evidence in support of this figure.
- (iii) The balance also includes staff debtors amounting to Kshs.43,604,000. The amount further includes unanalyzed debts totalling Kshs.36,798,000 owed by former staff members and which have been outstanding for more than fifteen years. The management has also not explained how the amount moved from

Kshs.41,951,000 in 2013/2014 to Kshs.43,604,000 in 2017/2018. Provisions for bad and doubtful debts necessary in relation to these uncertain debts have not been incorporated in these financial statements.

- (iv) The trade and other receivables figure of Kshs.183,181,000 also includes other debtors, growers' debtors, staff debtors and deposits held by courts all amounting to Kshs.86,238,000, Kshs.33,593,000, Kshs.43,604,000 and Kshs.4,454,000 respectively whose supporting documentation were not complete.

Under the circumstances, the completeness, accuracy and validity of the trade and other receivables balance of Kshs.183,181,000 as at 30 June 2018 cannot be confirmed.

8.2. Provision for Bad Debts

- (i) The statement of financial position's trade and other receivables balance of Kshs.183,181,000 as at 30 June 2018 is net of provision for bad debts for the year of Kshs.56,241,000, while the trial balance reflects an amount of Kshs.52,680,159 resulting in unexplained difference of Kshs.3,560,841. Although the management has been making a general provision for bad debts of Kshs.56,241,000 per year over the last three years, no policy on provision for doubtful debts was provided for audit scrutiny. It is, therefore, not clear how the accumulated provision for bad and doubtful debts is accounted for.
- (ii) It is also not clear how the provision was accounted for in the statement of comprehensive income as the provision for the year could not be traced to the cost of sales, administration costs or other costs in the statement of comprehensive income.

In the circumstances, it has not been possible to confirm the validity and accuracy of the provision for bad debts.

9. Deferred Pyrethrum Costs – Irregular Charge of Amortization Cost

As reported in the previous years, the deferred pyrethrin costs resulted from losses in the pyrethrin content in the crude pyrethrin extract (OR) inventories held between 1999 and 2003. Reconciliations made in the financial year 2005/2006 revealed substantial loss in pyrethrum totalling 180,859 kilograms and valued at Kshs.1,357,922,110. According to Section 18 of the Pyrethrum Act Cap 340 (now repealed), such losses should have been born by the farmers. However, the Board of Directors passed a resolution to amortize the losses over a period of 30 years with effect from 2007/2008. The management has, however, not explained over the years the cause of the huge loss or justified how the 30-year amortization period was determined.

10. Other Income

10.1. Rent Income

The statement of comprehensive income reflects an amount of Kshs.16,521,000 under Other Income. As disclosed in Note 4 to the financial statements, the amount includes rent income of Kshs.15,309,000. However, a detailed review of the ledger revealed that rent amounting to Kshs.18,082,720 was collected during the year and thus, resulting in undeclared receipts of Kshs.2,773,720. In addition, the following documents were not provided or audit scrutiny:

- (i) A list of all properties owned by the Company and the rent receivable from each of the properties.
- (ii) Lease agreements for leased properties.

A review of some of the physical rental properties revealed that the Company has a capacity to collect more rent than disclosed in these financial statements. Based on the enquiries done to existing tenants, the Company could be collecting up to Kshs.29,872,800 in rent on at least 189 of its rentable properties leased out to third parties, including two state entities, Commodities Fund and Pest Control Board. The rent collectable and collected is therefore not only under-declared but part of it is also not accounted for.

Further, in the previous year, the Company contracted an agent to collect rent on its behalf. During request for quotation, it was mandatory for the bidders to provide the following supporting documents:

- (i) Company's certificate of incorporation;
- (ii) Pin certificate;
- (iii) Tax compliance certificate;
- (iv) Certificate of registration for youth, woman or disabled; and
- (v) Certificate of registration as an estate agent by Agents Registration Board and Trade or Business License.

The required relevant documents for the company that won the tender for rent collection agency service were not however provided for audit review. The validity of the award and contract for rent collection cannot be confirmed under the circumstances.

11. Irregularities on Staff Costs

11.1. Non-disclosure of Staff Expenditure

The statement of comprehensive income reflects an amount of Kshs.219,474,000 under administration costs. As disclosed in Note 5(b) to the financial statements, the amount includes Kshs.68,691,000 relating to staff costs. However, a review of

available records revealed that the company spent Kshs.147,812,802 on staff costs, and the balance of Kshs.79,121,802 was charged to cost of sales. No reason has been given for this misleading disclosure.

In addition, the company hired casuals and spent an amount of Kshs.20,090,000 on the same yet there was no processing of flowers that took place in the year under review.

11.2. Non-remittance of Statutory Deductions

The Company received from the parent ministry Kshs.144,000,000 vide a letter referenced MOA/CORP/II/16/2/VOL.II dated 5 April 2017 towards settlement of statutory obligations. However, examination of the payroll and payment vouchers revealed that the Company only paid the net salaries and statutory deductions relating to NHIF and NSSF and an amount of Kshs.6,728,849 in respect of PAYE. No explanations were given for failure to settle statutory deductions like workers' union subscriptions, pension scheme contributions and bank and loan repayments, and yet there was an allocation for the same in May 2017.

12. Government of Kenya Loan

The statement of financial position as at 30 June 2018, reflects a long term Government of Kenya loan of Kshs.863,368,000 and current portion of Kshs.424,647,000. According to the information available, the loan was given by the Government of Kenya through the National Treasury in the 2006/2007 financial year and was to be repaid within 10 years. It was, however, noted that the principal amount of Kshs.863,368,720 has not been repaid and has attracted accumulated interest of Kshs.424,647,000 and accumulated penalty of Kshs.195,448,022. In addition, although the loan balance has been categorized into a long term and a current portion, the total amount is now due and payable as the full sum ought to have been settled in full by the end of 30 June 2017.

13. Inaccurate Statement of Cash Flows

The statement of cash flows reflects a negative amount of Kshs.38,857,000 being net cash flows from operations activities. However, the cash and cash equivalents balance of Kshs.10,937,000 cannot be confirmed as increase in trade and other payables figure of Kshs.89,680,000 differs with the calculated figure of Kshs.89,728,000 by Kshs.48,000, which has not been reconciled or explained. The cost of assets disposed of amounted to Kshs.744,000 but the same was not captured in other income.

Consequently, the accuracy of the statement of cash flows as presented and the balance of cash and cash equivalents cannot be confirmed.

Other Matter

1. Grants from National Government

In the report for the previous year, it was indicated that the statement of comprehensive income for the year ended 30 June 2017 reflected an amount of Kshs.244,000,000 in respect of grants from National Government. As disclosed in Note 3 to the financial statements, these were capital grants. It is still, however, not clear how the amount was to be expended as no supporting documents have been provided to date regarding the same.

Out of the amount, Kshs.100,000,000 was transferred to Agriculture and Food Authority (AFA). No documentary evidence has however been provided for audit verification to show how the balance of Kshs.144,000,000 was utilized.

It was also indicated that the Company received funds from Agriculture and Food Authority (AFA) amounting Kshs.50,000,000 during the same period. However, no records have provided to show how the two transactions were effected and recorded in the books of account of the two entities.

Consequently, the completeness and validity of the transactions involving receipt and expenditure of government grant totalling to Kshs.244,000,000 and the additional amount of Kshs.50,000,000 received from AFA still cannot be ascertained.

2. Legal Fees

The statement of comprehensive income for the year ended 30 June 2017 reflected administration costs amounting to Kshs.208,438,000. The amount included legal fees and court awards totalling Kshs.20,094,000, out of which Kshs.18,810,703 was paid to a legal firm for court case No. 16 of 2013 - Fredrick Ngori and 98 others against Pyrethrum Board of Kenya. The court awarded the plaintiffs Kshs.61,919,493. A review of documents, however, revealed an additional amount of Kshs. 13,702,361 was also paid to the plaintiff, and was described as interest. It is not clear why the interest on decretal amount was paid and the method used to compute the interest paid. No explanation has been provided as at 30 June 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion, Other Matter and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public

Resources and sections of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

1. Legal Status

The Company uses three different names in its operations as indicated below:

- (i) Pyrethrum Processing Company of Kenya – Financial statements
- (ii) Pyrethrum Regulatory Authority – Bank statements
- (iii) Pyrethrum & Other Industrial Crops Company– Payment vouchers

According to paragraph 3 of the transition provisions of the Agriculture and Food Authority Act, 2013 (revised) under the first schedule-

- (i) The regulatory part of the defunct Pyrethrum Regulatory Authority would be Pyrethrum and Other Industrial Crops Directorate under AFA.
- (ii) The commercial function transforms into to a company to be registered under the Companies Act.

It is not clear how the management chose to operate under the name Pyrethrum Processing Company of Kenya (PPCK) which was registered in August 1963 instead of registering the company under the Companies Act as required under the new legislative framework.

The management of the Company has presented the financial statements for 2017/2018 under the name Pyrethrum Processing Company of Kenya (PPCK) without taking cognizance of the new legislative framework.

2. Company Operating Without a Substantive Board

The Company has been operating without a substantive board of directors. As a result, the Company is in breach of Section 6(1) of the State Corporations Act.

3. Approval of the Company's Budget

The Company's budget for the year 2017/2018 was not approved by the National Treasury or the parent Ministry. Consequently, the basis for collecting revenue and incurring expenditure cannot be confirmed.

4. Unexplained Budget Deficit and Unapproved Disbursement

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflects total budgeted income of Kshs.423,268,000 with a comparable total budgeted expenditure of Kshs.762,258,000 and a deficit of Kshs.338,990,000.

No explanation has been provided for the fact that the Company had anticipated a budget deficit.

Further, examination of the same statement revealed that although the Pyrethrum Processing Company of Kenya had budgeted for receipts of Kshs. 90,000,000 from the Government, the Ministry went ahead and disbursed Kshs.99,000,000 to Company without the National Treasury's approval. This resulted to disbursement of unapproved amount of Kshs.9,000,000.

5. Operating Performance

The statement of comprehensive income for the year ended 30 June 2018 reflects sales totalling Kshs. 43,885,000 (2017: Kshs.45,295,000), while the cost of sales was Kshs.146,210,000 (2017: Kshs.187,816,000) a situation that does not make any business sense. Management has not explained the reasons for such a situation.

6. Under Collection of Revenue

The statement of comparison of budget and actual amounts for the year ended 30 June 2018 reflects an under collection of revenue by Kshs.263,862,000. This represents 62.34% of the gross estimates of Kshs.423,664,000. The under collection of revenue was attributed to failure to attain sales targets by Kshs.253,765,000 and other income by Kshs.19,097,000. However, no reasons were given by the Company for failure to achieve the set targets.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion, Other Matter and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and sections of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the ability of Pyrethrum Processing Company of Kenya 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 either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources, and

Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of Pyrethrum Processing Company of Kenya in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.



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

Nairobi

11 April 2019

PYRETHRUM PROCESSING COMPANY OF KENYA
Reports and Financial Statements
For the Period ended June 30, 2018.

STATEMENT OF COMPREHENSIVE INCOME

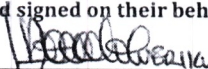
	NOTE	JUNE 2018 Kshs'000'	JUNE 2017 Kshs'000'
REVENUES			
Sales		43,885	45,295
Cost of sales		<u>(146,210)</u>	<u>(187,816)</u>
GROSS SURPLUS/(DEFICIT)		(102,325)	(142,521)
Grants from National Government	3	99,000	244,000
Other Income	4	<u>16,521</u>	<u>17,828</u>
TOTAL REVENUES		13,196	119,307
OPERATING EXPENSES			
Administration costs	5(a)	(219,474)	(208,438)
Selling & distribution costs	6	<u>(11,836)</u>	<u>(13,055)</u>
TOTAL OPERATING EXPENSES		(231,309)	(221,493)
OPERATING LOSS		(218,113)	(102,186)
Finance costs	7	<u>(46,144)</u>	<u>(45,065)</u>
LOSS BEFORE TAXATION		<u>(264,257)</u>	<u>(147,251)</u>

PYRETHRUM PROCESSING COMPANY OF KENYA
Reports and Financial Statements
For the Period ended June 30, 2018.

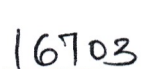
STATEMENT OF FINANCIAL POSITION

	NOTE	June 2018 Kshs'000'	June 2017 Kshs'000'
ASSETS			
Non-current Assets			
Property, plant and equipment	8	2,545,450	2,630,598
Intangible assets	9	825,650	825,650
Fixed interest investments (Euro bank Ltd)	17	150,000	150,000
Deferred Pyrethrine costs	19	814,753	860,017
Total Non-current Assets		4,335,853	4,466,265
Current Assets			
Inventories	10	204,262	209,759
Trade and Other receivables	11	183,181	182,222
Deferred Pyrethrine costs	19	45,264	45,264
Bank and cash balances	12(a)	10,937	3,573
Total Current Assets		443,644	440,818
Total assets		4,779,498	4,907,083
EQUITY AND LIABILITIES			
Capital and Reserves			
PBK Stock units	20	32,891	32,891
Levy fund	21	85	81
Accumulated Capital Fund		318,158	317,315
General Reserve		(1,126,140)	(861,884)
Revaluation reserve		3,380,104	3,380,104
Capital and Reserves		2,605,098	2,868,507
Capital and Reserves			
Non-current Liabilities			
Long term GOK loan	14(a)	863,368	863,368
Long Term Provision (Euro Bank Ltd)	17	150,000	150,000
Total Non-current Liabilities		1,013,368	1,013,368
Current Liabilities			
Trade and other payables	15	736,385	646,657
Bank Overdraft	12(b)	-	48
GOK Loan (Interest)	14(b)	424,647	378,503
Total Current Liabilities		1,161,032	1,025,208
TOTAL EQUITY AND LIABILITIES		4,779,498	4,907,083

The financial statements were agreed upon by management of PPCK - Pyrethrum Processing Company of Kenya and signed on their behalf by;


MANAGING DIRECTOR
LOLWERIKOI. C. PAUL


FINANCE MANAGER
RUFUS C. NGATHO


ICPAK M/NO

STATEMENT OF CHANGES IN EQUITY

	PBK Stock	Levy Fund	Accumulated Capital Fund	General Reserve	Revaluation reserve	Total
	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
At June 2016	32,891	70	315,468	(714,633)	3,380,104	3,013,900
Transfer of excess depreciation	-	-	-	-	-	-
Total comprehensive income (deficit)	-	-	-	(147,251)	-	(147,251)
Revaluation Surplus			1,847			1,847
Levy Charge for the year		11				11
Prior year adjustment						-
At June 30, 2017	32,891	81	317,315	(861,883)	3,380,104	2,868,507
						-
At July 1, 2017	32,891	81	317,315	(861,883)	3,380,104	2,868,508
Transfer of excess depreciation	-	-	-	-	-	-
Total comprehensive income (deficit)	-	-	-	(264,257)	-	(264,257)
Revaluation Surplus	-	-	843	-	-	843
Levy Charge for the year	-	4	-	-	-	4
Prior year adjustment	-	-	-	-	-	-
At June 30, 2018	32,891	85	318,158	(1,126,140)	3,380,104	2,605,098

PYRETHRUM PROCESSING COMPANY OF KENYA
Reports and Financial Statements
For the Period ended June 30, 2018.

STATEMENT OF CASH FLOWS

		June	June
	NOTES	2018	2017
		Kshs'000'	Kshs'000'
Cash generated from operations			
Surplus for the year before tax			
Adjusted for:		(264,257)	(147,251)
Depreciation	8	85,918	85,437
Impairment			
Gains and losses on disposal of assets/ foreign exchange			
Deffered Pyrethrine costs		45,264	45,265
Transfers to/from accumulated surplus			
Finance income			-
Finance cost			
Working capital adjustments:			
Increase/Decrease in inventory		5,498	5,478
Increase/Decrease in receivables		(959)	1,039
Increase/Decrease in deferred income			
Increase/Decrease in payables		89,680	(28,489)
Increase/Decrease in payments received in advance			
Net cash flows from operating activities	16	(38,857)	(38,521)
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	8	(1,514)	(47)
Proceeds from sale of property, plant and equipment	8	744	
Gains and losses on disposal of assets/ foreign exchange			
Finance income			-
Net cash flows used in investing activities		(770)	(47)
Cash flows from financing activities			
Levy fund		4	11
Accumulated Capital Fund		843	2,354
Increase in GOK loan		46,144	39,212
Net cash flows used in financing activities		46,991	41,577
Net increase/(decrease) in cash and cash equivalents		7,364	3,009
Cash and cash equivalents at 1 July 2017		3,573	564
Cash and cash equivalents at 30 June 2018	16	10,937	3,573

PYRETHRUM PROCESSING COMPANY OF KENYA
 Reports and Financial Statements
 For the Period ended June 30, 2018.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED JUNE 30, 2018

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue	000'	000'	000'	000'	000'
Sale of goods	297,650	-	297,650	43,885	253,765
Sale of services			0		0
Transfers from the Government	90,000	-	90,000	99,000	(9,000)
Donations in kind			0		0
Finance Income			0		0
Other income	35,618	-	35,618	16,521	19,097
Total income	423,268	-	423,268	159,406	263,862
Expenses					
Compensation of employees	156,000	-	156,000	148,663	7,337
Use of goods and services	-	-	-	-	
Finance cost	46,634	-	46,634	46,144	490
Rent paid	-	-	-	-	
Taxation paid	-	-	-	-	
Other payments	559,624	-	559,624	228,857	330,767
Grants and subsidies paid	-	-	-	-	
Total expenditure	762,258	-	762,258	423,664	338,594
Surplus for the period	(338,990)	-	(338,990)	(264,258)	(74,732)
CAPITAL EXPENDITURE					
Capital Grant	370,000		370,000	-	370,000

NOTES TO THE FINANCIAL STATEMENTS

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

Statement of compliance and basis of preparation

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Revenue recognition

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

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

II. Property, plant and equipment

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

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

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

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

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

III. Depreciation and impairment of property, plant and equipment

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

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

Long Leasehold properties and Buildings	
On freehold property	2%
Short Leasehold property	over the unexpired lease period
Plant, machinery, equipment & furniture	12.5%
Motor vehicles	25%
Computers and related equipment	3 years
A full year's depreciation charge is recognised in the year of asset purchase and no depreciation charge is recognized in the year of asset disposal.	

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

IV. Intangible assets

Intangible assets include Licenses, Regulations information, registrations, information software and Data relating to PPCK- Pyrethrum Processing Company of Kenya.

V. Amortisation and impairment of intangible assets

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

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

VI. Inventories

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

VII. Trade and other receivables

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

VIII. Cash and cash equivalents

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

IX. Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are

measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

X. Trade and other payables

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

XI. Retirement benefit obligations

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

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

XII. Provision for staff leave pay

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

XIII. Exchange rate differences

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

XIV. Comparative figures

In accordance with IAS 8 "*Presentation of Financial Statements*", comparative information in respect of the previous period (i.e. 2016-2017) for all amounts reported in the financial statements has been disclosed.

XV. Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

XVI. Financial risk management

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

Foreign exchange risk is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the company. The risk is that there may be an adverse movement in the exchange rate of the denomination currency in relation to the base currency before the date when the transaction is completed. The Company therefore has foreign currency accounts i.e. Euro and Dollar accounts which are the main currencies used in transactions. This enables holding of the currency until the exchange rates are favourable.

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

The Company has a number of court awards against it and other cases that are pending in court. To minimise this risk, the Company made a provision in its annual 2016-17 budget to cater for legal expenses.

Commodity risk

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

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

PYRETHRUM PROCESSING COMPANY OF KENYA
Reports and Financial Statements
For the Period ended June 30, 2018.

NOTES TO THE FINANCIAL STATEMENTS

	2018 Kshs '000'	2017 Kshs '000'
2. COST OF SALES		
Opening inventories	109,696	123,714
Add: Purchase/Manufacturing costs		
Purchase of Pyrethrins	8,979	30,250
Processing and refining costs	99,355	98,285
Crop production and flower reception costs	45,264	45,264
Total	263,294	297,512
Less: Closing inventories	(117,084)	(109,696)
Cost of sales	146,210	187,816
	=====	=====
3. GRANTS FROM NATIONAL GOVERNMENT		
Recurrent grants received	74,000	244,000
Capital grants received	25,000	-
	99,000	244,000
	=====	=====

Analysis of Grant Received during the Year 2017/18

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund. KShs	Total grant income during the year	
				2017-2018	2016-2017
				KShs	KShs
State Department of Agriculture	99,000	-	-	99,000	244,000
Total	99,000	-	-	99,000	244,000

4. OTHER INCOME		
Rent	15,309	14,860
Farms	1,011	1,819
Others (Sale of seeds, Comm from FCC, Drying Charges etc.)	201	1,149
	16,521	17,828
	=====	=====

PYRETHRUM PROCESSING COMPANY OF KENYA
Reports and Financial Statements
For the Period ended June 30, 2018.

	2018 Kshs '000'	2017 Kshs '000'
5(a) ADMINISTRATION COSTS		
Staff costs (Note 5b)	68,691	71,805
Utilities	79	39
Maintenance	5,055	3,466
Security	1,809	653
Local travel	21,622	8,855
Audit fees	1,255	580
Restructure/rightsizing	-	586
Rent, rates and insurance	2,628	934
Depreciation	85,918	85,437
Entomology expenses	49	140
Legal fees & Court Awards	5,503	20,094
Purchase & Distribution of Planting materials	-	63
Other operating expenses	26,863	15,786
Provision for bad and doubtful debts	-	-
	219,474 =====	208,438 =====
5(b) STAFF COSTS		
Salaries and allowances of permanent employees	25,835	35,242
Wages of Unionisable employees	22,766	24,431
Casuals employees	20,090	12,132
	68,691 =====	71,805 =====
6. SELLING AND DISTRIBUTION COSTS		
Salaries and wages of sales personnel	850	1,773
Shows & exhibitions	3,254	1,919
Local travel	820	864
Sales promotions	291	1,483
Other selling and distribution costs	5,437	6,413
Distributions	1,184	603
	11,836 =====	13,055 =====
7. FINANCE COSTS		
Interest expense on loans	46,144	44,065
	46,144 =====	44,065 =====

8. PROPERTY PLANT AND EQUIPMENT.

ITEM	LAND	BUILDINGS	PLANT AND MACHINERY	CWIP	MOTOR VEHICLES	FURNITURE	EQUIPMENT	COMPUTERS	TOTAL
COST									
1ST JULY 2016	1,493,940	525,920	537,928	455,663	66,728	5,821	13,894	2,610	3,102,504
Additions	-	-	-	-	-	-	-	47	47
Disposals	-	-	-	-	-	-	-	-	-
As at 30 June 2017	1,493,940	525,920	537,928	455,663	66,728	5,821	13,894	2,657	3,102,551
1ST JULY 2017	1,493,940	525,920	537,928	455,663	66,728	5,821	13,894	2,657	3,102,551
Additions	-	-	-	-	-	403	-	1,111	1,514
Disposals	-	-	-	-	-	(182)	(562)	-	(744)
As at 30 June 2018	1,493,940	525,920	537,928	455,663	66,728	6,042	13,332	3,768	3,103,321
DEPRECIATION									
1ST JULY 2016	-	44,703	268,964	-	60,837	2,907	6,574	2,531	386,516
Charge for the Year	-	13,148	67,241	-	2,531	728	1,737	36	85,437
Disposal	-	-	-	-	-	-	-	-	-
As at 30th June 2017	-	57,851	336,205	-	63,368	3,635	8,311	2,567	471,953
1ST JULY 2017	-	57,851	336,205	-	63,368	3,635	8,311	2,567	471,953
Charge for the Year	-	13,148	67,606	-	2,531	772	1,617	244	85,918
Disposal	-	-	-	-	-	-	-	-	-
As at 30th June 2018	-	70,999	403,811	-	65,899	4,407	9,928	2,811	557,871
NET BOOK VALUES									
30TH JUNE 2018	1,493,940	454,921	134,117	455,663	829	1,635	3,404	957	2,545,450
30TH JUNE 2017	1,493,940	468,069	201,723	455,663	3,360	2,186	5,583	90	2,630,598

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	2018	2017
	Kshs	Kshs
	'000'	'000'
9. INTANGIBLE ASSETS		
COST		
At July 1		
Registrations/licences & studies	78,583	78,583
Valuation	747,067	747,067
At June 30	<u>825,650</u>	<u>825,650</u>
	=====	=====

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

	2018	2017
	Kshs	Kshs
	'000'	'000'
10. INVENTORIES		
Dry Pyrethrine flowers	8,983	3,674
Pyrethrum grist & powder	55	-
Pymarc	-	51
Crude pyrethrum extract (OR)	1,799	330
Pale pyrethrum extract	552	-
End use products	1,527	1,472
Other pyrethrum products	104,168	104,168
Subtotal	<u>117,084</u>	<u>109,695</u>
Engineering spares & accessories	79,650	92,413
Livestock	630	1,440
Tea bushes	6,898	6,210
	<u>204,262</u>	<u>209,758</u>
	=====	=====

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11. TRADE AND OTHER RECEIVABLES

	2018	2017
	Kshs	Kshs
	'000'	'000'
Trade receivables	61,853	61,853
Kenya power deposit	2,500	2,500
Abortive Nairobi show	7,180	7,180
Deposit held by courts	4,454	4,454
Growers debtors	33,593	32,372
Staff debts	43,604	36,798
Other debtors	86,238	93,306
	<u>239,374</u>	<u>238,463</u>
Gross trade and other receivables		
Provision for bad and doubtful receivables	(56,241)	(56,241)
	<u>183,181</u>	<u>182,222</u>
Net trade and other receivables	<u><u>183,181</u></u>	<u><u>182,222</u></u>

12. (a) CASH AND CASH EQUIVALENTS

Float	32	124
Rent Account	705	814
Operation Account	9,202	-
Growers Account	896	1,411
Assets Disposal Account	-	6
Foreign Account	28	1,185
CFC Stanbic Account	33	33
Other Bank Account	41	-
	<u>10,937</u>	<u>3,573</u>

(b) BANK OVERDRAFT

Operation Account	-	(48)
	<u>-</u>	<u>(48)</u>

Detailed analysis of the cash and cash equivalents

The make – up of bank balances is as follows:

Financial institution	Account number	2017-2018 KShs '000'	2016-2017 KShs '000'
a) Current account			
Kenya Commercial bank			
Float			
Rent Account	1153031779	705	814
Growers Account	1153031493	896	1,411
Asset Disposal Account	1153031930	-	6
USD Account	1153032171	22	11
EUR Account	1153032422	6	1,174
Operation Account	1153031337	9,202	(48)
Other bank Account		73	124
Other Bank Account			
Cfc Stanbic Bank Account	014/00/300349/01	33	33
Sub- total		10,937	3,525
Grand total		10,937	3,525

13. REVALUATION RESERVE

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

14. LONG TERM GOK LOAN

	2018 Kshs '000'	2017 Kshs '000'
Principal Amount	863,368	863,368
Accumulated Interest Provision	424,647	378,503
	1,288,015	1,241,871

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

15. TRADE AND OTHER PAYABLES

Trade payables and provisions	641,884	624,109
Payables to Tea Directorate (AFA)	77,414	-
Payables to Sugar Directorate (AFA)	-	-
Amounts due to Growers	17,087	22,548
	736,385	646,657
	=====	=====

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	2018 Kshs '000'	2017 Kshs '000'
NOTES TO THE STATEMENT OF CASH FLOWS		
16. (a) Reconciliation of operating profit/(loss) to Cash generated from/ (used in) operations		
Operating profit/ (loss)	(264,257)	(147,251)
Depreciation	85,918	85,437
Amortisation	45,264	45,264
Provision for bad and doubtful debts	-	-
Operating profit/ (loss) before working capital changes	(133,075)	(16,549)
(Increase)/decrease in inventories	5,498	5,478
(Increase)/decrease in trade and other receivables	(959)	1,039
Increase/ (decrease) in trade and other payables	<u>89,680</u>	<u>(28,489)</u>
	(38,857)	(38,521)
	=====	=====
17. INVESTMENT IN EURO BANK		
The Company invested Kshs.150 million in Euro Bank Limited on 17 th October 2001. Euro Bank collapsed on 20 th February 2003 without significant assets. The Company made a provision in the year 2002/2003 and is awaiting the outcome of the case.		
18. INCORPORATION		
The entity is a Company under State Corporation Agriculture and Food Authority (AFA) formed under the AFA Act, 2013 and is domiciled in Kenya.		
19. DEFERRED PYRETHRINS COSTS		
These costs relate to unaccounted for Pyrethrins received in between 1999-2003 valued at Kshs. 1,357,922,110/=. The Pyrethrum Act Cap 340 (now repealed) Section 18 provides that the total amount realised from the operations of the Company ought to be paid based on performance and surplus or losses passed to the growers. Between the years 1999-2003, trade stocks were held mainly in Crude Pyrethrum Extract (OR). The Pyrethrins reconciliation was then impossible. It was realised in the year 2005/2006 that quite substantial quantities of Pyrethrins of 180,859.71 kg pys valued at Kshs. 1,357,922,110/= could not be accounted for. Growers had therefore been paid an element that should have been adjusted to reflect the process losses. The necessary adjustment for the prior period error was therefore made in the financial statements to reflect a fair view of the financial statements. The Company noted the losses requested for a thorough investigation. They recommended for the adjustment of the prior period error to reflect the correct status in the books of account thereby accommodating the amount of Kshs. 1,357,922,110/= in the general reserve account which will be amortised over a period of 30 years starting financial year 2007/2008.		

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	2018	2017
	Kshs	Kshs
	'000'	'000'
Balance at beginning of the year	905,282	950,546
Amortization for the year	45,264	45,264
Balance at end of the year	860,018	905,282
	=====	=====
20. PBK stock units issued		
In return for levy paid by pyrethrum growers the Company issues one unit of stock to each licensed grower for every amount of twenty shillings paid to it by way of levy, for this Financial Year the stock units amount to KShs 32,891,260.00		
21. Levy fund		
Under the provisions of the Pyrethrum Act the Minister of Agriculture imposed a levy on all pyrethrum grown or cultivated in Kenya. The levy is at the rate of 6.6 cents per kilogram of dry pyrethrum flowers delivered to the Company. The levy valued at KShs 85,001.50 FY 2017/18 is held as fund pending issuance of PPCK units thereof.		

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Appendix 1: INTER-ENTITY TRANSFERS

ENTITY NAME:			
BREAK DOWN OF TRANSFERS FROM THE STATE DEPARTMENT OF AGRICULTURE AND AGRICULTURE AND FOOD AUTHORITY			
FY 17/18			
a.	Recurrent Grants		
		<u>Bank Statement Date</u>	<u>Amount (KShs '000')</u>
			<u>Indicate the FY to which the amounts relate</u>
		02-02-2018	74,000
			FY -17/18
		Total	74,000
b.	Development Grants		
		<u>Bank Statement Date</u>	<u>Amount (KShs'000')</u>
			<u>Indicate the FY to which the amounts relate</u>
		01-09-2017	25,000
			FY- 17/18
		Total	25,000
AGRICULTURE AND FOOD AUTHORITY			
		<u>Bank Statement Date</u>	<u>Amount (KShs'000')</u>
			<u>Indicate the FY to which the amounts relate</u>
		24/07/2017	60,000
		05/01/2018	10,000
		02/02/2018	1,784
		12/02/2018	6,713
		31/05/2018	35,607
		Total	114,104