

REPUBLIC OF KENYA



*Paper laid by KOM  
Hon Aden Duale, MP  
27/9/17  
Wednesday  
Afternoon  
Sitting  
Ad*

27 SEP 2017



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**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
PYRETHRUM AND OTHER INDUSTRIAL  
CROPS DIRECTORATE**

**FOR THE YEAR ENDED  
30 JUNE 2016**



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OFFICE OF THE AUDITOR GENERAL  
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**AGRICULTURE AND FOOD AUTHORITY  
PYRETHRUM & OTHER INDUSTRIAL CROPS DIRECTORATE  
REPORTS AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
30 JUNE 2016**

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

**AFA - PYRETHRUM & OTHER INDUSTRIAL CROPS DIRECTORATE**  
**Reports and Financial Statements**  
**For The Year ended 30 June 2016**

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**AFFA - PYRETHRUM & OTHER INDUSTRIAL CROPS DIRECTORATE**  
**Reports and Financial Statements**  
**For Twelve Months Period ended June 30, 2016**

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**KEY ENTITY INFORMATION**

**Background information**

The *AFFA - Pyrethrum & Other Industrial Crops Directorate* is a Directorate under Agriculture, Fisheries and Food Authority (AFFA) which was established by the AFFA Act, 2013.

**Principal Activities**

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

**Registered Office**

AFFA - Pyrethrum & Other Industrial Crops Directorate

General Mathenge Road,

Industrial Area,

P.O. Box 420 20100,

Nakuru, KENYA

**Corporate Contacts**

Telephone: 254 51-211567/72

Fax 25451-214201/210466

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

**Bankers**

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

**AFFA - PYRETHRUM & OTHER INDUSTRIAL CROPS DIRECTORATE**  
**Reports and Financial Statements**  
**For Twelve Months Period ended June 30, 2016**

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**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**

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

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

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

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

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

**Reports and Financial Statements**

**For Twelve Months Period ended June 30, 2016**

**MANAGEMENT TEAM**

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

**STATEMENT OF MANAGEMENT RESPONSIBILITIES**

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

The Management is responsible for the preparation and presentation of the *AFFA - Pyrethrum & Other Industrial Crops Directorate* financial statements, which give a true and fair view of the state of affairs of the *AFFA - Pyrethrum & Other Industrial Crops Directorate* for and as at the end of the financial year (period) ended on June 30, 2016. 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 *AFFA - Pyrethrum & Other Industrial Crops Directorate*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Management accept responsibility for the *AFFA - Pyrethrum & Other Industrial Crops Directorate* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Management are of the opinion that the *AFFA - Pyrethrum & Other Industrial Crops Directorate* financial statements give a true and fair view of the state of *AFFA - Pyrethrum & Other Industrial Crops Directorate* transactions during the financial year ended June 30, 2016, and of the *AFFA - Pyrethrum & Other Industrial Crops Directorate* financial position as at that date. The Management further confirm the completeness of the accounting records maintained for the *AFFA - Pyrethrum & Other Industrial Crops Directorate*, which have been relied upon in the preparation of the *AFFA - Pyrethrum & Other Industrial Crops Directorate* financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the *AFFA - Pyrethrum & Other Industrial Crops Directorate* will not remain a going concern for at least the next twelve months from the date of this statement.

**AFFA - PYRETHRUM & OTHER INDUSTRIAL CROPS DIRECTORATE**  
**Reports and Financial Statements**  
**For Twelve Months Period ended June 30, 2016**

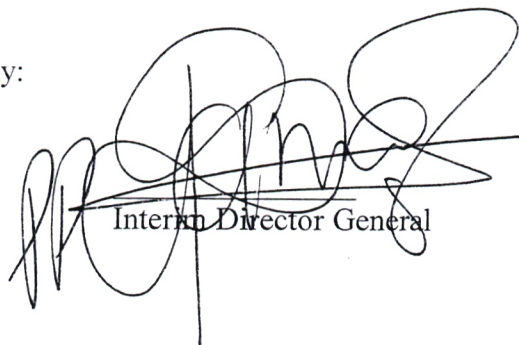
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**Approval of the financial statements**

The *AFFA - Pyrethrum & Other Industrial Crops Directorate* financial statements were approved by Management on

30/9/16 2016 and signed on its behalf by:

  
\_\_\_\_\_  
Interim Head, Finance & Administration

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

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-mail: oag@oagkenya.go.ke  
Website: www.oagkenya.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON PYRETHRUM AND OTHER INDUSTRIAL CROPS DIRECTORATE FOR THE YEAR ENDED 30 JUNE 2016

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Pyrethrum and Other Industrial Crops Directorate set out on pages 7 to 23, which comprise the statement of financial position as at 30 June 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution and Section 35 of the Public Audit Act, 2015.

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

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

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

#### Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

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*Report of the Auditor-General on the Financial Statements of Pyrethrum and Other Industrial Crops Directorate for the year ended 30 June 2016*

preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

## **Basis for Disclaimer of Opinion**

### **1. Going Concern**

During the year under review, the Directorate recorded a deficit of KShs.273,687,000 (2014/2015 – a deficit of Kshs.101,452,000) which increased its general reserve to a negative balance of Kshs.714,633,000 (2014/2015 - negative Kshs.440,946,000). In view of the negative general reserve balance, the Directorate is technically insolvent and its continued existence as a going-concern is dependent upon the financial support of its creditors and the Government.

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

- (i) As reported in the previous year, property, plant and equipment balance of Kshs.2,715,988,000 as at 30 June 2016 includes balances from a revaluation report dated 12 July 2012 which has not been adopted/approved by any authority or the board of directors.
- (ii) Further, included in the property, plant and equipment balance is a sum of Kshs.354,340,000 in respect of 18 parcels of land which, however, are not registered in the name of the Directorate. Further, the balances includes two (2) parcels of land situated in Nakuru Municipality (Block 7/138) and Nyandarua County (Oljororok farm Block 11322/1/2/3) valued at Kshs.7,500,000 and Kshs.45,800,000 respectively, but whose ownership is 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) As reported also in the previous year, documents relating to the procurement of property, plant machinery equipment and furniture costing Kshs.477,104 were not presented for verification. Further, out of a total of fifty eight (58) motor vehicles and heavy machinery owned by the Directorate, thirty (30) were grounded and unserviceable at the time of audit.

- (iv) As disclosed under Note 8 to the financial statements, capital works in progress balance of Kshs.455,663,000 as at 30 June 2016 relates to a new retraction plant purchased and installed in 2006 but which has never been commissioned. Although management has explained that the machine was purchased in anticipation of an increase in flower deliveries to the factory and that the plant will be commissioned in future once the industry is revived, no evidence has been presented for audit to show the steps taken to revive the industry. Further, technological changes and wear and tear are bound to affect the idle machines adversely and may result in the loss of Kshs.455,663,000 in taxpayers' funds invested in the assets.

In view of the above, it has not been possible to confirm whether property, plant and equipment balance of Kshs.2,715,988,000 as at 30 June 2016 is fairly stated.

### **3. Intangible Assets**

As previously reported, the statement of financial position reflects intangible assets balance of Kshs.825,650,000 relating to an amount incurred on the cost of registering licences 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 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 Directorate 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 Interest Investments (Euro Bank Ltd)**

As reported during the 2014/2015 financial year, the statement of financial position reflects under Non-current Liabilities, Long Term Provision (Euro Bank Ltd), 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 Directorate to clear the unrecoverable amount of Kshs.150,000,000 from the books of account.

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

#### **5.1 Unsupported Cash Balances**

Cash and bank balance of Kshs.564,000 disclosed under Note 12(a) to the financial statements, is not supported with cash survey reports. The management has also

not provided bank confirmation certificates for Stanbic Bank – Mombasa Branch Account No.014/00/300349/01 and Euro KCB Bank Account No.1153032422 balances of Kshs.33,442 and Kshs.23,067 respectively for verification. In addition, the Directorate had overdrawn balances in three of its operational accounts as disclosed under Note 12(b) to the financial statements. No authority was sought to overdraw the amounts as the Directorate does not operate any overdraft facility. The Bank overdraft balance of Kshs.9,665,000 reflected in the statement of financial position also differs with the amount of Kshs.8,251,000 disclosed under Note 12(b) and no explanation has been provided for this anomaly. Consequently, the accuracy and validity of bank and cash balances as well as the overdraft cannot be ascertained.

## **5.2 Statement of Cash flows**

The statement of cash flows reflects an amount of Kshs.2,757,000 being amounts (net) generated from operations. As disclosed in Note 16 to the financial statements, the amount is net of depreciation and amortization charges in the year. It is, however, observed that there were no amortization charges on intangible assets in the year. In addition, the cash and cash equivalents net balance of Kshs.9,101,000 includes an overdraft amount of Kshs.9,665,000 that should have been accounted for under financing activities. Consequently, the accuracy of the statement of cash flow as presented and the balance of cash and cash equivalents cannot be confirmed.

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

- (i) As reported also in the previous year, included in the trade and other payables figure of KShs.671,381,000 as at 30 June 2016 are outstanding statutory deductions of KShs.102,136,387 and Kshs.1,002,000 relating to Pay As You Earn (PAYE) for employees and board members respectively that have remained unpaid, and thus attract interest and penalties in line with the provisions of Section 37 (2) of the Income Tax Act Cap 470 of the Laws of Kenya.
- (ii) Similarly, the trade and other payables balance of Kshs.671,381,000 includes balances of Kshs.138,301,533, Kshs.73,490,236 Kshs.14,588,438, Kshs.11,650,83, Kshs.28,823,253 and Kshs.896,012 described as sundry creditors control provisions, pension fund control, salaries clearing, wages clearing Pareto Saving Scheme and provision on cashier's fraud, respectively whose analyses and supporting documents have not been provided for verification. In addition, a provision for audit fee of Kshs.580,000 (2014/2015-Kshs.580,000) has not been made in these financial statements.

Under the circumstances, it has not been possible to confirm the validity and accuracy of trade and other payables balance of Kshs.671,381,000 as at 30 June 2016.

## **7. Inventories**

The statement of financial position as at 30 June 2016 reflects inventories balance of KShs.215,237,000. This figure, however, includes other pyrethrin products valued at KShs.104,168,000 brought forward from previous years. In addition, the value of the total inventories balance of Kshs.215,237,000 has not been supported with any documentary evidence. Consequently, it has not been possible to confirm the method under which stock was valued and whether in valuation, adequate provisions for obsolescence were made since the quality of the unprocessed stock could deteriorate and eventually lose some or all its value.

## **8. Trade and Other Receivables**

- (i) Trade and other receivables balance of KShs.164,192,000 as at 30 June 2016 include, 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 balance.
- (ii) Similarly, the trade and other receivables balance of Kshs.164,192,000 includes trade debtors amounting to Kshs.103,913,000 which have been outstanding for long and whose recoverability remain doubtful. In addition, the management has not provided documentary evidence in support of this figure. The balance in addition, includes a sum of Kshs.41,021,000 owed by former staff for more than 14 years. Provisions for bad and doubtful debts necessary in relation to these uncertain debts have not been incorporated in these financial statements.

## **9. Deferred Pyrethrin Costs**

The statement of financial position reflects deferred pyrethrum costs balance of Kshs.950,546,000 as at 30 June 2016. As disclosed under Note 19 to the financial statements, 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

Included in the statement of financial performance and as disclosed under Note 4 to the financial statements is an amount of KShs.19,363,000 in respect of other income. This figure includes Kshs.2,527,168 referred to as profit on forex translation. The management has, however, not provided documentary analysis to support the profit on forex translation figure.

## 11. Variances between the financial statements and records

The following variances have been observed between the financial statements and the records provided for audit verification:

Item	Figures in the financial Statements Kshs.000	Figures as per Records Kshs.000	Variance Kshs.000
• Administration Costs	303,353	303,477	(124)
• Finance Costs	43,115	44,003	(888)
• Non-current Assets - Deferred Pyrethrin Costs	-	905,281	(905,281)
• Current Assets - Deferred Pyrethrin Costs	950,546	45,264	905,283
• General Reserve	(714,633)	(715,644)	1,011
• Long-Term GOK Loan	863,368	1,057,089	(193,721)
• Accrued Interest On GOK Loan	333,438	140,606	(192,832)
• Bank overdraft	9,665	9,703	(38)

The management has not provided reconciliations and explanations for the variances. Consequently the completeness and accuracy of the balances cannot be confirmed.

### Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit

evidence to provide a basis for an audit opinion on the financial statements. Accordingly, I do not express an opinion on the financial statements.

**Other Matter**

The Statute Law (Miscellaneous Amendments) Act No.7 of 2016 amended Agriculture, Fisheries and Food Authority (AFFA) Act No.13 of 2013 and placed the Pyrethrum Regulatory Authority among the other institutions repealed under the Second Schedule of the Crops Act No.16 of 2013. However, the Pyrethrum and Other industrial Crops Directorate continues to prepare its financial statements separate from the legal authority (AFFA). Technically, Pyrethrum and Other Industrial Crops Directorate does not exist in law.



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

**Nairobi**

**05 July 2017**

**AFFA - PYRETHRUM & OTHER INDUSTRIAL CROPS DIRECTORATE**  
**Reports and Financial Statements**  
**For Twelve Months Period ended June 30, 2016**

**STATEMENT OF COMPREHENSIVE INCOME**

	Note	June 2016 Kshs '000'	July 2015 Kshs '000'
<b>REVENUES</b>			
Sales			
Cost of sales	2	122,882 <u>(224,923)</u>	182,519 <u>(298,016)</u>
<b>Gross Surplus/ (deficit)</b>		<b><u>(102,041)</u></b>	<b><u>(115,497)</u></b>
<b>OPERATING EXPENSES</b>			
Administration Costs	16	(303,353)	(255,496)
Selling and Distribution Costs	6	(13,608)	(12,090)
<b>TOTAL OPERATING EXPENSES</b>		<b><u>(316,962)</u></b>	<b><u>(267,585)</u></b>
<b>OPERATING PROFIT/(LOSS)</b>		<b><u>(419,003)</u></b>	<b><u>(383,082)</u></b>
Finance Costs	7	(43,115)	(39,522)
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		<b><u>(462,119)</u></b>	<b><u>(422,605)</u></b>
<b>Other comprehensive income</b>			
Grants from National Government	3	169,069	300,000
Other Income	4	19,363	21,153
<b>Total comprehensive loss/income</b>		<b><u><u>(273,687)</u></u></b>	<b><u><u>(101,452)</u></u></b>

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

**Reports and Financial Statements**

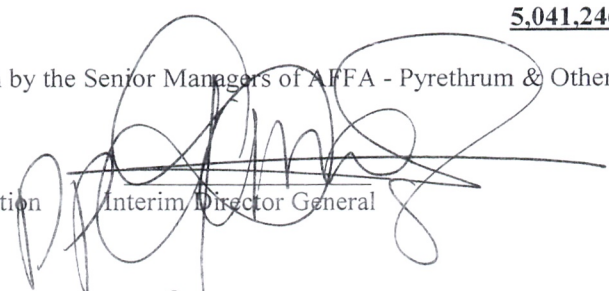
**For Twelve Months Period ended June 30, 2016**

**STATEMENT OF FINANCIAL POSITION**

	Note	June 2016 Kshs '000'	July 2015 Kshs '000'
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	8	2,715,988	2,811,596
Intangible assets	9	825,650	825,650
Fixed interest investments (Euro bank Ltd)	17	150,000	150,000
<b>Total Non-Current Assets</b>		<b>3,691,638</b>	<b>3,787,246</b>
<b>Current Assets</b>			
Inventories	10	215,237	232,241
Trade and other receivables	11	164,192	220,816
Deferred pyrethrin costs	19	950,546	995,810
GOK Grants Receivables		19,069	75,200
Bank and cash balances	12(a)	564	2,831
<b>Total Current Assets</b>		<b>1,349,608</b>	<b>1,526,898</b>
<b>Total assets</b>		<b><u>5,041,246</u></b>	<b><u>5,314,144</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
PBK Stock units	20	32,891	32,891
Levy Fund	21	70	49
Accumulated Capital Fund		314,961	322,622
General Reserve		(714,633)	(440,946)
Revaluation reserve		3,380,104	3,380,104
<b>Capital and Reserves</b>		<b>3,013,393</b>	<b>3,294,720</b>
<b>Non-Current Liabilities</b>			
Long term GOK Loan	14	863,368	863,368
Long Term Provision (Euro Bank Ltd)	17	150,000	150,000
<b>Total Non-Current Liabilities</b>		<b>1,013,368</b>	<b>1,013,368</b>
<b>Current Liabilities</b>			
Trade and other payables	15	671,381	712,960
Accrued Interest on GOK Loan	14	333,438	290,323
Bank Overdraft	12(b)	9,665	2,773
<b>Total Current Liabilities</b>		<b>1,014,484</b>	<b>1,006,056</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>5,041,246</u></b>	<b><u>5,314,144</u></b>

The financial statements were agreed upon by the Senior Managers of AFFA - Pyrethrum & Other Industrial Crops Directorate and signed on their behalf by:

  
The Interim Head - Finance & Administration

  
Interim Director General

**AFFA - PYRETHRUM & OTHER INDUSTRIAL CROPS DIRECTORATE**  
**Reports and Financial Statements**  
**For Twelve Months Period ended June 30, 2016**

**STATEMENT OF CASH FLOWS**

	Note	June 2015 Kshs '000'	July 2014 Kshs '000'
<b>OPERATING ACTIVITIES</b>			
Cash generated from/(used in) operations	16	2,757	(22,247)
Adjustments for:			
<b>INVESTING ACTIVITIES</b>			
Purchase of fixed asset	8	(4,276)	(6,885)
<b>Net cash generated from/(used in) investing activities</b>		<b>(4,276)</b>	<b>(6,885)</b>
<b>FINANCING ACTIVITIES</b>			
Levy Fund		22	18
Accumulated Capital Fund		(7,661)	(3,449)
Prior year adjustments			
<b>Net cash generated from/(used in) financing activities</b>		<b>(7,639)</b>	<b>(3,431)</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(9,159)</b>	<b>(32,563)</b>
<b>CASH AND CASHEQUIVALENTS AT BEGINNING OF YEAR</b>		<b>58</b>	<b>32,621</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b><u>(9,101)</u></b>	<b><u>58</u></b>

**STATEMENT OF CHANGES IN EQUITY**

	PBK Stock	Levy Fund	Accumulated Capital Fund	General Reserve	Revaluation reserve	Total
<b>At July 1, 2014</b>	<b>32,891</b>	<b>31</b>	<b>326,081</b>	<b>(339,494)</b>	<b>3,380,104</b>	<b>3,399,603</b>
Transfer of excess depreciation	-	-	-	-	-	-
Total comprehensive income (deficit)	-	-	-	(101,452)	-	(101,452)
Revaluation Surplus	-	-	(3,449)	-	-	(3,449)
Levy Charge for the year	-	18	-	-	-	18
Prior year adjustment	-	-	-	-	-	-
<b>At June 30, 2015</b>	<b>32,891</b>	<b>49</b>	<b>322,622</b>	<b>(440,946)</b>	<b>3,380,104</b>	<b>3,294,720</b>
<b>At July 1, 2016</b>	<b>32,891</b>	<b>49</b>	<b>322,622</b>	<b>(440,946)</b>	<b>3,380,104</b>	<b>3,294,720</b>
Transfer of excess depreciation	-	-	-	-	-	-
Total comprehensive income (deficit)	-	-	-	(273,687)	-	(273,687)
Revaluation Surplus	-	-	(7,154)	-	-	(7,154)
Levy Charge for the year	-	21	-	-	-	21
Prior year adjustment	-	-	-	-	-	-
<b>At June 30, 2016</b>	<b>32,891</b>	<b>70</b>	<b>315,468</b>	<b>(714,633)</b>	<b>3,380,104</b>	<b>3,013,900</b>

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

**Statement of compliance and basis of preparation**

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

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *AFFA - Pyrethrum & Other Industrial Crops Directorate* 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 *AFFA - Pyrethrum & Other Industrial Crops Directorate* 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 *AFFA - Pyrethrum & Other Industrial Crops Directorate* activities, and when specific criteria have been met for each of the *AFFA - Pyrethrum & Other Industrial Crops Directorate* activities as described below.

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

**II. Property, plant and equipment**

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

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

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

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

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

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

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

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

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

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

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

### **IV. Intangible assets**

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

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

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

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

**VI. Inventories**

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

**VII. Trade and other receivables**

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

**VIII. Cash and cash equivalents**

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

**IX. Borrowings**

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

**X. Trade and other payables**

Trade and other payables are non-interest bearing and are carried at amortised cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the *AFFA - Pyrethrum & Other Industrial Crops Directorate* 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 *AFFA - Pyrethrum & Other Industrial Crops Directorate* operates, Kenya Shillings. Transactions in foreign currencies during the year/period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

**XIV. Comparative figures**

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

**XV. Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2016.

**XVI. Financial risk management**

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

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

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

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

The Directorate has a number of court awards against it and other cases that are pending in court. To minimise this risk the Directorate made a provision in its annual 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 Directorate is focusing on the diversification of products and production of end use products that are to be sold in the local market. This would help reduce risk that are caused by fluctuations in the world prices of its products.

**AFFA - PYRETHRUM & OTHER INDUSTRIAL CROPS DIRECTORATE****Reports and Financial Statements****For Twelve Months Period ended June 30, 2016**

	2016 Kshs '000'	2015 Kshs '000'
<b>2. COST OF SALES</b>		
Opening inventories	133,189	158,345
<b>Add:</b> Purchase/Manufacturing costs		
Purchase of pyrethrins	59,267	101,748
Processing and refining costs	110,917	125,848
Crop production and flower reception costs	45,264	45,264
<b>Total</b>	<b>348,637</b>	<b>431,205</b>
<b>Less:</b> Closing inventories	(123,714)	(133,189)
<b>Cost of sales</b>	<b>224,923</b>	<b>298,016</b>
<b>3. GRANTS FROM NATIONAL GOVERNMENT</b>		
Current grants received	169,069	300,000
Capital grants received	-	-
	<u>169,069</u>	<u>300,000</u>
<b>4. OTHER INCOME</b>		
Rent	14,052	19,176
Farms	1,909	1,193
Others (Sale of seeds, Comm from FCC, Drying Charges etc)	3,402	784
	<u>19,363</u>	<u>21,153</u>
<b>5(a) ADMINISTRATION COSTS</b>		
Staff costs (note5b)	71,249	75,294
Utilities	85	2,469
Maintenance	3,179	5,509
Security	412	953
Local travel	14,757	10,594
Audit fees	500	500
Restructure/rightsizing	973	30,000
Rent, rates and insurance	6,239	3,534
Depreciation	99,884	88,823
Entomology expenses	47	274
Legal fees and Court Awards	67,521	1,894
Purchase of Planting Materials	20,924	36
Other operating expenses	17,585	12,405
Provision for bad and doubtful debts	-	23,211
	<u>303,353</u>	<u>255,496</u>
	2016	2015

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	Kshs '000'	Kshs '000'
<b>5(b) STAFF COSTS</b>		
Salaries and allowances of permanent employees	36,149	42,035
Wages of unionisable employees	24,423	24,483
Overtime	-	-
Casuals	10,676	8,777
	<u>71,248</u>	<u>75,294</u>
<b>6. SELLING AND DISTRIBUTION COSTS</b>		
Salaries and wages of sales personnel	3,500	2,096
Shows & exhibitions	1,053	1,731
Local travel	1,892	1,699
Sales promotions	359	2,265
Other selling and distribution costs	5,053	3,135
Distributions	1,751	1,164
	<u>13,608</u>	<u>12,090</u>
<b>7. FINANCE COSTS</b>		
Interest expense on loans	43,115	39,522
	<u>43,115</u>	<u>39,522</u>

8. PROPERTY, PLANT AND EQUIPMENT

ITEM	LAND	BUILDINGS	PLANT AND MACHINERY	C WIP	MOTOR VEHICLES	FURNITURE	EQUIPMENT	COMPUTERS	TOTAL
	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'	Kshs '000'
COST									
1ST AUGUST 2014	1,493,940	525,920	537,928	455,663	56,604	5,821	12,932	2,536	3,091,343
Additions	-	-	-	-	6,810	-	-	75	6,885
Disposals	-	-	-	-	-	-	-	-	-
As at 30 <sup>th</sup> June 2015	1,493,940	525,920	537,928	455,663	63,414	5,821	12,932	2,610	3,098,228
1ST JULY 2015	1,493,940	525,920	537,928	455,663	63,414	5,821	12,932	2,610	3,098,228
Additions	-	-	-	-	3,313	-	963	-	4,276
Disposals	-	-	-	-	-	-	-	-	-
As at 30 June 2016	1,493,940	525,920	537,928	455,663	66,728	5,821	13,894	2,610	3,102,504
DEPRECIATION									
1ST AUGUST 2014	-	21,913	140,085	-	29,481	1,512	3,355	1,461	94,865
Charge for the Year	-	9,642	61,638	-	14,674	667	1,482	721	88,823
Disposal	-	-	-	-	-	-	-	-	-
As at 30th June 2015	-	31,555	201,723	-	44,155	2,179	4,837	2,182	286,631
1ST JULY 2015	-	31,555	201,723	-	44,155	2,179	4,837	2,182	286,631
Charge for the Year	-	13,148	67,241	-	16,681	728	1,737	349	99,884
Disposal	-	-	-	-	-	-	-	-	-
As at 30th June 2016	-	44,703	268,964	-	60,837	2,907	6,574	2,530	386,515
NET BOOK VALUES									
30 <sup>TH</sup> JUNE 2016	1,493,940	481,217	268,964	455,663	5,890	2,914	7,321	80	2,715,988
30 <sup>TH</sup> JUNE 2015	1,493,940	494,365	336,205	455,663	19,259	3,642	8,095	429	2,811,596

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

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	2016 Kshs '000'	2015 Kshs '000'
<b>9. INTANGIBLE ASSETS</b>		
<b>COST</b>		
At July 1		
Registrations/licences & studies	79	78
Valuation	747	747
At June 30	<u>826</u>	<u>826</u>

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

**10. INVENTORIES**

Dry pyrethrin flowers	7,041	10,454
Pyrethrum grist & powder	-	-
Pymarc	-	-
Crude pyrethrum extract (OR)	1,118	1,659
Pale pyrethrum extract	10,999	16,337
End use products	388	577
Other pyrethrum products	104,168	104,168
<b>Subtotal</b>	<u>123,714</u>	<u>133,190</u>
Engineering spares & accessories	83,667	91,100
Livestock	1,633	1,950
Tea bushes	6,223	6,001
	<u>215,237</u>	<u>232,241</u>

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**11. TRADE AND OTHER RECEIVABLES**

	2016 Kshs '000'	2015 Kshs '000'
Trade receivables	61,853	103,913
Kenya power deposit	2,500	2,500
Abortive Nairobi show	7,180	7,180
Deposit held by courts	4,454	4,454
Growers debtors	32,841	32,761
Staff debts	32,232	44,223
Other debtors	79,374	82,022
Gross trade and other receivables	<u>220,434</u>	<u>244,023</u>
Provision for bad and doubtful receivables	(56,241)	(56,241)
Net trade and other receivables	<u><b>164,193</b></u>	<u><b>220,817</b></u>

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

Float	40	78
Current Bank Accounts	425	615
Growers Bank Account	-	150
Assets Disposal Bank Account	38	565
Foreign currency bank accounts	5	50
Other Bank Accounts	33	1,374
	<u><b>541</b></u>	<u><b>2,831</b></u>

**(b) BANK OVERDRAFT**

Current Bank Accounts	(8,196)	(953)
Growers Bank Account	(0)	(0)
Foreign currency bank accounts	(0)	(2)
Other Bank Accounts	(55)	(1,820)
	<u><b>(8,251)</b></u>	<u><b>(2,773)</b></u>

**13. REVALUATION RESERVE**

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

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**14. LONG TERM GOK LOAN**

	2016 Kshs '000'	2015 Kshs '000'
Principal Amount	863,368	863,368
Accumulated Interest Provision	333,438	290,323
	<u><b>1,196,807</b></u>	<u><b>1,153,691</b></u>

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

**15. TRADE AND OTHER PAYABLES**

Trade payables and provisions	581,556	675,598
Payables to Tea Directorate	19,850	6,000
Payables to Sugar Directorate	41,493	11,900
Amounts due to Growers	28,647	19,462
	<u><b>671,381</b></u>	<u><b>712,960</b></u>

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	2016 Kshs '000'	2015 Kshs '000'
<b>NOTES TO THE STATEMENT OF CASH FLOWS</b>		
<b>16. (a) Reconciliation of operating profit/(loss) to Cash generated from/(used in) operations</b>		
Operating profit/(loss)	(273,687)	(101,452)
Depreciation	99,884	88,823
Amortisation	45,264	45,264
Provision for bad and doubtful debts	-	-
Operating profit/(loss) before working capital changes	<u>(128,539)</u>	<u>(32,636)</u>
(Increase)/decrease in inventories	17,004	27,761
(Increase)/decrease in trade and other receivables	112,755	(141,858)
Increase/(decrease) in trade and other payables	1,537	59,215
Cash generated from/(used in) operations	<u><u>2,757</u></u>	<u><u>(22,247)</u></u>

**17. INVESTMENT IN EURO BANK**

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

**18. INCOPORATION**

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

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

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**19. Deferred Pyrethrins Costs**

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

	2016	2015
	Kshs	Kshs
	'000'	'000'
Balance at beginning of the year	995,810	1,041,074
Amortization for the year	45,264	45,264
Balance at end of the year	<u>950,546</u>	<u>995,810</u>

**20. PBK stock units issued**

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

**21. Levy fund**

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