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REPORT

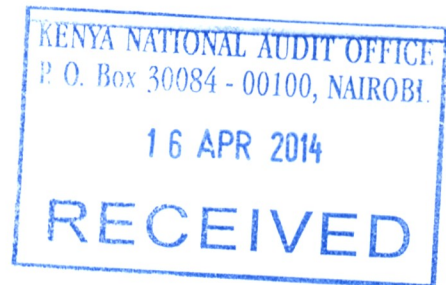
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
PYRETHRUM BOARD OF KENYA**

**FOR THE YEAR ENDED
30 JUNE 2013**



PYRETHRUM BOARD OF KENYA

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013: AMMENDED

**PYRETHRUM BOARD OF KENYA
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PYRETHRUM BOARD OF KENYA

CORPORATE INFORMATION

1. ESTABLISHMENT

Pyrethrum Board of Kenya is a State Corporation established under the Pyrethrum Act (CAP 340) of the Laws of Kenya (**now repealed**) to regulate and control the growing, processing and marketing of pyrethrum and conduct scientific and agronomic research for pyrethrum development and connected purposes. The Board is also subject to the provisions of the State Corporations Act (Cap 446) of the Laws of Kenya.

2. CORE FUNCTIONS/BUSINESS OF PBK

The core functions or business of the Pyrethrum Board of Kenya are to regulate the pyrethrum industry and carry out commercial functions of growing, processing and marketing of pyrethrum and pyrethrum products. The Board is also mandated to conduct scientific and agronomic research connected to its regulatory and commercial functions.

3. REGISTERED OFFICES

Pyrethrum Board of Kenya is situated along General Mathenge Road, Industrial Area, P.O. Box 420 20100, Nakuru Town.

4. BANKERS

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

5. AUDITORS

AUDITOR GENERAL,
Kenya National Audit Office,
P.O. BOX 30084 – 00100,
NAIROBI.

6. ADVOCATES

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

MUKITE MUSANGI & CO ADVOCATES,
Seguton building,
P.O. Box 149,
NAKURU.

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

MURIMI, NDUMIA, MBAGO & MUCHELA ADVOCATES
P.O Box 2779 - 20100
NAKURU

PYRETHRUM BOARD OF KENYA

7. MEMBERSHIP OF THE BOARD (UP TO FEBRUARY 24, 2013)

Mr. Solomon S. Boit, CBS	-	Board Chairman
Dr. William Erneo Nyakiba	-	Board Member (Resigned on 4 th Oct 2012)
Mr. Anthony Kipkorir Kimetto	-	Board Member
Col. Stephen K. Ngugi	-	Board Member
Mrs. Lucy Gitundu	-	Rep. Treasury
Mr. John Mwaniki	-	Rep. PS Agriculture
Mr. Stanley Ongeti	-	Rep. Commissioner of Co-operative
Mr. Peter Waweru	-	Rep. Inspector of State Corporations
Dr. Isaac J. W. Mulagoli	-	Managing Director

8. SENIOR MANAGEMENT

M/s. Mary Moraa Ontiri	-	General Manager/Technical Services
Dr. Kefa Sum	-	Product Development & Marketing Manager
Eng. Joash N. Osiemo	-	Factory Manager
Mr. Vincent Ouma	-	Quality Control & Assurance Manager
M/s. Caroline Imbwaga	-	Crop Research manager
Mr. Collins Psinen	-	Crop Services Manager
Mr. Peter Githendu	-	Finance Manager
M/s. Jane Kamau	-	Administration Services Manager
Mrs. Roselyne Chepng'eno Too	-	Human Resource Manager
Mr. Joel A. Nyachiro	-	Internal Auditor.
Mr. Kenneth C. Rono	-	ICT Manager
Mrs. MaryRose Kingao	-	Procurement Manager
Mrs. Lucy Komen Birir	-	Marketing & Business Development Manager
Mr. Fanuel O. Anyul	-	Planning Manager

PYRETHRUM BOARD OF KENYA

STATEMENT OF BOARD RESPONSIBILITIES FOR THE YEAR ENDED 30th JUNE 2013

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

The Board Management prepared the annual financial statements for the year ended 30th June 2013, using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the requirement of the Pyrethrum Act. The Management is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Board and of its deficit. The Board Management further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Government granted Ksh 200 M to the Board during the year under review and another Ksh. 21 M carried forward from the 2011/12 FY. This reduced the operating deficit to Ksh. 25 M down from Ksh. 87 M (2011/12 FY). Despite the reduction in the operating deficit, there was a decrease in sales revenue to Ksh. 114 M down from Ksh. 219 M (2011/12 FY). This was because most of the grant was used to clear debts such as the historical farmers’ arrears. Following the Government allocation of Ksh. 300 M to the Board, there is expected increase in the sales revenue in the next financial year. This will form the initial working capital to invest in flower receipts, commissioning of the new extraction plant, formulation of end use products, all geared towards increasing operational efficiencies. Thus, the Board anticipates to post a surplus of Ksh. 15 M in the 2013/14 FY.

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

Signed: .....
MANAGING DIRECTOR

Signed: .....
FINANCE MANAGER

Nakuru.....2013

REPUBLIC OF KENYA



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NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON PYRETHRUM BOARD OF KENYA FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Pyrethrum Board of Kenya set out on pages 6 to 16, which comprise the consolidated statement of financial position as at June 30, 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in reserves and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003.

Responsibility of Management for the Financial Statements

Management of Pyrethrum Board of Kenya 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 misstatements, whether due to fraud or error.

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

Auditor-General's Responsibility

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

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

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

Because of the significance 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. Financial Performance

During the period under review, the Board recorded a deficit of Kshs.25,061,000 compared to a deficit of Kshs.86,971,000 in the previous year. In addition, the Board did not remit statutory deductions of Kshs.135,200,729, owed farmers Kshs.66,951,000, had a Bank Overdraft balance of Kshs.7,207,000 and had failed to honour the terms of a Government loan which stood at Kshs.1,009,835,270 inclusive of the principal and accumulated interest as at 30 June 2013.

Consequently, as noted in the previous year, the continued operations of the Board depend on the support from creditors and the National Government.

2. Non-current Assets

- (i) The Property, Plant and Equipment balance of Kshs.2,999,649,000 as at 30 June 2013 incorporated figures of a revaluation report dated 12 July 2012 which had not been adopted/approved by the Board of Directors. The validity of the revaluation balances used in these financial statements could therefore not be confirmed.
- (ii) The balance includes eighteen (18) parcels of land with a combined market value of Kshs.354,340,000 which has not been registered in the name of the Board. The balance also includes two parcels of land situated at Nakuru Municipality block 7/138 and Nyandarua11322/1/2/3 (Oljororok farm) valued at Kshs.7,500,000 and Kshs.45,800,000 respectively, whose ownership is in dispute. Available information indicates that the land in Nyandarua has since been sold to a private developer at a cost of Kshs.30,050,000 and the matter is still in court.
- (iii) Further, Plant, Machinery Equipment and Furniture costing Kshs.477,104.25 purchased during the period was not verified due to lack of adequate supporting schedules and procurement documentation. In addition, out of a total of fifty three (53) motor vehicles and heavy machinery owned by the Board, twenty three (23) were grounded at the time of the audit.

In the circumstances, it has not been possible to confirm that the Property, Plant and Equipment balance of Kshs. 2,999,649,000 as at 30 June 2013 is fairly stated.

3. Inventory

As similarly reported in the previous year, the statement of financial position as at 30 June 2013 reflects inventories balance of Kshs.220,371,000 which includes inventories described as other pyrethrum products of Kshs.104,168,000 relating to stock of goods which have remained unprocessed into final products for many years. The stock has continued to deteriorate thus undermining the quality which may eventually render the whole stock obsolete and therefore valueless.

Under the circumstances, it is not possible to confirm that the inventories balance of Kshs.220,371,000 as at 30 June 2013 is fairly stated.

4. Trade and Other Receivables

- (i) The trade and other receivables balance of Kshs.151,065,000 as at 30 June 2013 include trade debtors amounting to Kshs 29,468,745 which are long outstanding. The recoverability of these debts is doubtful and the management has not made any provision in the financial statements.
- (ii) The trade and other receivables balance also includes Kshs.7,180,000 relating to abortive purchase of Nairobi International A.S.K Show stand. No evidence was however provided to show that the vendor received the amount.
- (iii) The trade and other receivables balance also includes Kshs.41,021,000 owed by staff who have since left the Board and most of these debts have remained outstanding for more than twelve (12) years. The recoverability of these debts is doubtful as no provision has been made in the financial statements.

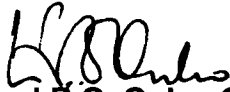
In the circumstances, it has not possible to confirm that the trade and other receivables balance of Kshs.151,065,000 is fairly stated as at 30 June 2013.

5. Fixed Deposit

The statement of financial position reflects Fixed Deposit balance of Kshs.150,000,000 relating to an amount deposited with Euro Bank in 2001. The bank was placed under receivership and finally dissolved in 2003. In the circumstances, it is not possible to confirm the recoverability of the fixed deposit balance of Kshs.150,000,000.

Disclaimer of Opinion

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



Edward R.O. Ouko, C.B.S
AUDITOR-GENERAL

Nairobi

7 April 2014

**PYRETHRUM BOARD OF KENYA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2013**

<u>ASSETS</u>	Note	2013 <u>KSHS'000'</u>	2012 <u>KSHS'000'</u>
<u>Non-current assets</u>			
Property, plant and equipment	2(a)	2,999,649	1,486,957
Intangible Assets	2(c)	825,650	625,000
Investment –			
<u>Fixed deposit in:-</u>			
Euro Bank Ltd.	3(a)	150,000	150,000
		<u>3,975,299</u>	<u>2,261,597</u>
<u>Current Assets</u>			
Inventories	4 (a)	220,371	230,255
Trade and other receivables	4 (b)	151,065	143,390
Cash in hand and at bank	4 (c)	2,025	3,820
Deferred Pyrethrins Costs	4 (d)	1,086,338	1,131,602
		<u>1,459,799</u>	<u>1,509,768</u>
TOTAL ASSETS		<u>5,435,098</u>	<u>3,771,024</u>
<u>EQUITY, RESERVES AND LIABILITIES</u>			
<u>Capital and Reserves</u>			
Stock units issued PBK	5	32,891	32,847
Levy fund	6	3	25
Accumulated capital fund	7	593,461	332,572
General reserve	8	18,386	18,386
Revaluation reserve	9	2,961,900	1,654,714
		<u>3,606,641</u>	<u>2,038,544</u>
<u>Non-current liabilities</u>			
Long-term GOK loan	10	863,368	863,368
Long-term provision	3	150,000	150,000
		<u>1,013,368</u>	<u>1,013,368</u>
<u>Current liabilities</u>			
Trade and other payables	11(a)	807,882	702,296
Bank Overdraft	11(b)	7,207	16,816
		<u>815,089</u>	<u>719,112</u>
TOTAL RESERVES AND LIABILITIES		<u>5,435,098</u>	<u>3,771,024</u>

These financial statements were agreed upon by the Senior Managers of the Board at a meeting held on 24th September 2013 and were signed on their behalf by:-

Signed.....
MANAGING DIRECTOR

Signed.....
FINANCE MANAGER

**PYRETHRUM BOARD OF KENYA
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30TH JUNE 2013**

	Note	2013 KSHS., '000'	2012 KSHS''000''
Revenue	12	114,149	219,114
Cost of sales	13	(165,659)	(214,004)
Gross surplus/(deficit)		(51,510)	5,110
GOK Grant	14	221,963	4,037
Other income	14	16,133	25,290
Distribution costs	15	(1,915)	(705)
Administrative expenses	16	(147,342)	(80,464)
Other operating expenses	17	(43,488)	(17,971)
Surplus/ (deficit) from operations		(6,159)	(64,703)
Finance costs	18	(18,902)	(22,268)
Net surplus/(deficit) for the year		(25,061)	(86,971)

PYRETHRUM BOARD OF KENYA

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 30 JUNE 2013

	P.B.K Stock KSHS."000"	Levy Fund KSHS."000"	Accumulated Capital fund KSHS."000"	General Reserve KSHS."000"	Revaluation Reserve KSHS."000"	Totals
Balance as at 1 July 2011	32,821	23	348,582	183,366	1,700,137	2,232,184
Net Deficit for the year	-	-	-	(86,971)	-	(86,971)
Valuation-livestock/Tea bushes-	-	-	(14,099)	-	-	(14,099)
Revaluation surplus for the year	-	-	-	-	-	-
Depreciation	-	-	-	-	(45,423)	(45,423)
Amortization of deferred						
Pyrethrins expenses-	-	-	-	(45,264)	-	(45,264)
Levy Charged for the Year -		28	-	-	-	28
Asset Realization	-	-	-	-	-	-
Stocks issued	26	(26)	-	-	-	-
Prior year Adjustment	-	-	(1,911)			
Balance as at30 June 2012	<u>32,847</u>	<u>25</u>	<u>332,572</u>	<u>18,386</u>	<u>1,654,714</u>	<u>2,038,544</u>
Balance as at 1 July 2012	32,847	25	332,572	18,386	1,654,714	2,038,544
Net Deficit for the Year	-	-	-	-	(25,061)	(25,061)
Valuation: Livestock/tea bushes	-	-	2,627	-	-	2,627
Revaluation Surplus	-	-	-	-	1,449,558	1,449,558
Depreciation	-	-	-	-	(72,047)	(72,047)
Amortization of deferred Pyre Expng	-	-	-	-	(45,264)	(45,264)
Levy Charges for the Year	<u>-</u>	<u>22</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22</u>
Assets Realisation	-	-	-	-	-	-
Stocks Issued	44	(44)	-	-	-	-
Prior Year Adjustment	-	-	258,262	-	-	258,262
	32,891	3	593,461	18,386	2,961,900	3,606,641
Balance as at 30th June 2013	<u>32,891</u>	<u>3</u>	<u>593,461</u>	<u>18,386</u>	<u>2,961,900</u>	<u>3,606,641</u>

PYRETHRUM BOARD OF KENYA**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2013**

	2013 <u>KSHS `000'</u>	2012 <u>KSHS `000'</u>
Cash flow from operating activities		
Net (deficit)/surplus for the year	(25,061)	(86,971)
Adjustment for:		
Depreciation	11,291	12,898
Exchange gain on foreign currency translations	-	(361)
Levy	22	28
Valuation of Livestock/Tea bushes	2,627	13,828
Prior year adjustment	(40,609)	-
Net cash from operating activities	(51,730)	(74,406)
(Increase)/decrease in inventories	9,884	17,040
(Increase)/decrease in trade and other receivable	(7,675)	18,013
Increase/(decrease) in trade and other payables	<u>105,586</u>	<u>62,754</u>
	<u>107,795</u>	<u>97,807</u>
Cash generated from operations	56,065	23,401
Cash flows from financing activities		
Cash flows from Investing Activities		
Purchase of fixed assets	(1,746)	(250)
Interest income from investing activities		
Investment in fixed assets		-
Proceeds from disposal of fixed assets		
Net increase/(decrease) in cash	54,319	24,344
Cash and cash equivalents as at 1 July 2013	(59,501)	(83,845)
Cash and cash equivalents as at 30 June 2013	(5,182)	(59,501)

PYRETHRUM BOARD OF KENYA
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2013

1. ACCOUNTING POLICIES

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

(a) Basis of preparation

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

(b) Basis of consolidation

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

(c) Property Plant and Equipment

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

d) Depreciation

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

Depreciation charges are apportioned directly to user departments.

Depreciation on other property and equipment is calculated to write off their cost or valuation in equal annual installments over their estimated useful lives. The annual depreciation rates in use are:

Long leasehold properties and buildings on freehold property	2%
Short leasehold property:-	over the unexpired period of lease
Plant, machinery, equipment & furniture:-	12.5%
Motor vehicles:-	25%

(e) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of dry pyrethrum flowers, grist, extracts and end use products comprise direct materials cost and, where applicable, direct labour costs and those overheads and 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.

(f) Trade and Other receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

(g) Retirement benefits obligations

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

(h) Revenue recognition

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

**PYRETHRUM BOARD OF KENYA
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30TH JUNE 2013**

(i) Foreign currency translation

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

(j) Amortization of Deferred pyrethrins`

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

(k) GOK Grants

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

2 NON-CURRENT ASSETS

(a) Property, plant, and equipment as at 30th June 2013

	Land & Buildings	Plant Machinery Equipment & Furniture	Motor Vehicles	Capital Intangible Assets	work in Progress	Totals
	<u>KSHS. KSHS"000</u>	<u>KSHS.'000'</u>	<u>KSHS"000"</u>	<u>KSHS"000"</u>	<u>KSHS."000"</u>	<u>KSHS, "000"</u>
Cost/Rev. beginning of year	1,057,055	464,423	28,591	625,000	281,180	2,457,333
Additions	-	1,746	-	-	-	1,746
Disposals	-	-	-	-	-	-
Revaluation	962,805	84,658	28,013	200,650	174,516	1,450,642
As at 30 June 2013	<u>2,019,860</u>	<u>550,827</u>	<u>56,604</u>	<u>825,650</u>	<u>455,696</u>	<u>3,908,637</u>
DEPRECIATION						
Year's charge	1,655	9,636	-	-	-	11,291
Year's charge to revaluation reserve	18,824	38,980	14,243	-	-	72,047
As at June 2013	<u>20,479</u>	<u>48,616</u>	<u>14,243</u>	<u>-</u>	<u>-</u>	<u>83,338</u>
NET BOOK VALUE						
As at 30 June 2013	<u>1,999,381</u>	<u>502,211</u>	<u>42,361</u>	<u>825,650</u>	<u>455,696</u>	<u>3,825,299</u>
As at 30 June 2012	<u>1,009,447</u>	<u>189,459</u>	<u>6,871</u>	<u>625,000</u>	<u>281,180</u>	<u>2,111,957</u>

(b) Capital Work-in-Progress

	2013 <u>KSHS"000"</u>	2012 <u>KSHS "000"</u>
Igloo godown (consultancy)	8,563	5,284
Factory Modernization (consultancy)	4,384	2,705
New extraction plant	436,352	269,244
Filtration Machine	5,094	3,143
Entomology block	909	561
Prefabricated Houses	394	243
	<u>455,696</u>	<u>281,180</u>

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

(c) Intangible Assets

	2013 <u>KSHS. "000"</u>	2012 <u>KSHS"000"</u>
Registrations/Licences and Studies	78,583	35,095
Valuation	747,067	589,905
Total	<u>825,650</u>	<u>625,000</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.

PYRETHRUM BOARD OF KENYA
NOTES TO FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 30TH JUNE 2013

3. INVESTMENTS
EURO BANK

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

4. CURRENT ASSETS

(a) Inventories

These comprised the following:-

	2013 <u>KSHS "000"</u>	2012 <u>KSHS "000"</u>
Trade Stocks		
Dry pyrethrum flowers	4,503	7,918
Pyrethrum grist & powder	-	9,977
Pymarc	4	-
Crude pyrethrum extract (OR)	438	51
Pale pyrethrum extract	7,260	250
End use products	676	776
Other pyrethrum products	<u>104,168</u>	<u>104,168</u>
Sub total	117,049	123,140
Engineering spares and accessories	94,359	100,780
Livestock	1,353	1,353
Tea Bushes	<u>7,610</u>	<u>4,982</u>
	<u>220,371</u>	<u>230,255</u>
<u>Biological assets</u>		

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

(b) Trade and other receivables

	2013 <u>KSHS"000"</u>	2012 <u>KSHS"000"</u>
Trade debtors	29,469	29,469
Abortive purchase of Nairobi Show	7,180	7,180
Kenya Power Deposit	2,500	
Deposit held by Courts	4,454	454
Growers debtors	47,848	50,156
Staff Debts	41,021	41,102
Other debtors	<u>18,593</u>	<u>15,019</u>
	<u>151,065</u>	<u>143,390</u>

Trade debtors relate to amounts due mainly from overseas customers.

The deposit held by courts relate to cash bail paid for a court case between NSSF and PBK and another case Nku CMCC – 859 of 2006 where judgment was passed against PBK. Growers' debtors relate to recoverable amounts from growers for advance, transport, commission, planting materials etc. Other debtors include rent receivable from Board's houses, VAT refunds, DIT reimbursements, deposits etc.

**PYRETHRUM BOARD OF KENYA
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30TH JUNE 2013**

(c) Cash in hand and at bank

	2013 KSHS "000"	2012 KSHS "000"
Cash in hand	337	1
Current Bank Accounts	1,017	2,343
Growers Bank Account	-	-
Assets Disposal Bank Account	-	41
Growers Regional Bank Accounts	25	1,396
Foreign Currency Bank Accounts	646	39
	<u>2,025</u>	<u>3,820</u>

Growers Regional Bank Accounts(growers cash-in-transit)

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

(d) Deferred Pyrethrins Costs

These costs relate to unaccounted for pyrethrins received between 1999-2003 valued at Kshs.1,357,922,110/=. The Pyrethrum Act Cap 340 (now repealed) Section 18 provides that the total amount realised from the operations of the Board ought to be paid based on performance and surplus or losses passed to the growers. Between the years 1999-2003, trade stocks were held mainly in Crude Pyrethrum Extract (OR). The pyrethrins reconciliation was then impossible. It was 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 Board noted the losses requested for a thorough investigation. They recommended for the adjustment of the prior period error to reflect the correct status in the books of account thereby accommodating the amount of Kshs.1,357,922,110/= in the general reserve account which will be amortised over a period of 30 years starting financial year 2007/2008.

5. PBK stock units issued

In return for levy paid by pyrethrum growers the Board issues one unit of stock to each licensed grower for every amount of twenty shillings paid to it by way of levy. During the year stock units worth Ksh. 44,000 were issued.

6. 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 Board. The levy is held as fund pending issuance of PBK units thereof.

7. Accumulated Capital fund

During the year the fund increased by ksh.2,627,000 comprising the increase in value of tea bushes.

8. General Reserves

During the current year the deficit of of kshs. 25M was not charged due to insufficient funds, the same will be charged to revaluation reserve.

9. REVALUATION RESERVE

(a) Basis of valuation

This comprises of incremental value of Board's properties following revaluation done during the year 2013 by Sec & M Co. Ltd, Registered Valuers. The assets have been valued based on the Open Market Value approach.

(b) During the year the deficit of 25m was charged in the reserve due to insufficient funds in the general reserve.

**PYRETHRUM BOARD OF KENYA
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30TH JUNE 2013**

10. LONG-TERM GOK LOAN

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

11. CURRENT LIABILITIES

(a) Trade and other payables

	2013 KSHS `000`	2012 KSHS `000`
Trade payables and provisions	594,464	438,017
GoK loan interest provision	146,467	127,565
Amount due to growers	<u>66,951</u>	<u>136,714</u>
	<u>807,882</u>	<u>702,296</u>

The trade payables represent amounts due to suppliers of processing inputs, unremitted deductions etc. The GoK loan interest provision relate to the accrued interest for the period up to 30th June 2013.

(b) Overdraft

	2013 KSHS. `000`	2012 KSHS. `000`
Co-operative Bank Account	(7,207)	(16,816)

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

12. REVENUE

	2013 KSHS "000"	2012 KSHS"000"
Sale of pyrethrum products	114,149	218,753
Trade discounts	-	-
Gain/(Loss) on foreign currency translations	<u>-</u>	<u>361</u>
	<u>114,149</u>	<u>219,114</u>

13. COST OF SALES

	2013 KSHS. "000"	2012 KSHS "000"
Opening inventories	123,140	131,335
Add: Purchase/manufacturing costs:		
Purchase of pyrethrins	55,033	76,352
Processing and refining costs	53,493	80,486
Crop production & flower reception costs	46,815	43,071
Scientific services costs	4,226	5,900
Total Purchase/manufacturing costs	282,709	337,144
Less: Closing inventories	<u>(117,049)</u>	<u>(123,140)</u>
Cost of sales	<u>165,659</u>	<u>214,004</u>

Purchase of pyrethrins relates to flower deliveries from growers. Processing and refining costs comprise of Factory department expenses. Crop Production and Flower Reception costs are expenses relating to flower collection and extension services. Scientific services costs are Quality Control expenses.

**PYRETHRUM BOARD OF KENYA
NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30TH JUNE 2013**

14. OTHER INCOME

	2013 <u>KSHS "000"</u>	2012 <u>KSHS "000"</u>
Other Income	16,133	25,290
GoK Grants	<u>221,963</u>	<u>4,037</u>
	<u>238,096</u>	<u>29,327</u>

Other income relates to income from rent on Board houses, receipts from farms, commissions from flower collection centers. GoK Grants were disbursed through Ministry of Agriculture.

15. DISTRIBUTION COSTS

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

16. ADMINISTRATIVE EXPENSES

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

	2013 <u>KSHS "000"</u>	2012 <u>KSHS "000"</u>
Staff Costs	50,419	50,760
Other Expenses	93,638	27,423
Board Expenses	<u>3,285</u>	<u>2,281</u>
	<u>147,342</u>	<u>80,464</u>

17. OTHER OPERATING EXPENSES

This relates to registration/licences and studies undertaken in foreign markets amounting to 43,487,748.50 notes and breakdown

18. FINANCE COSTS

The finance costs relate to interest charged on the Kshs.863 million loan from GOK amounting to Kshs.18,902,000 for the year.

19. CONTINGENT LIABILITIES

- (a) A claim of Ksh.612,869,819 in respect of tax deducted from terminal benefits and pension dues of employees who voluntarily left the Board's employment in 2001 was filed against the Board. No provision has been made in the financial statement. The pension claim was dismissed on 20th September 2013 but the tax of Ksh. 37 M was awarded them, which the Board will appeal against to have the whole case dismissed.
- (b) Inter-Arch Consultants filed a case against the Board for an amount of Kshs4,870,015.00 allegedly due to them on account of consultancy services allegedly rendered in respect of drawings for modernization of igloo store that never was. The judgment was entered in favour of the plaintiff but the Board has lodged an appeal against the judgment in the High Court, Nakuru towards which it has deposited Ksh. 4 M in court and another deposit of Ksh. 400,000 on appeal against judgment in favour of Bunda Feeds.
- (c) The Pyrethrum Board of Kenya Staff Superannuation Scheme is currently under- funded to the tune of over Ksh.717 M, which is not provided for in the statements. The Board of Trustees of the scheme has prepared and submitted a remedial action plan to the Retirement Benefits Authority (RBA) to facilitate conversion from Direct Benefits (DB) to Direct Contribution (DC) scheme and, thus effectively close the current scheme to stop further increase in the deficit. The Board of the Pyrethrum Board Kenya accepted the remedial action plan and directed the management to remit house rent income to the pension

scheme to pay monthly pension to bonafide pensioners. The RBA has filed for the winding up of the scheme but the hearing has not proceeded.

The Inspectorate of State Corporations has since investigated the scheme and made recommendations that include closure of the scheme and facilitation by RBA to open the DC scheme. The report directs the RBA to withdraw the winding up case and do away with the Ksh. 717 M deficit, which the investigation found to have been artificially created by former employees of the Board. The investigation report also recommended stoppage of monthly pension payments to pensioners who irregularly and illegally received accrued benefits from the former Provident Fund but remained in employment and thereafter were again paid pension lump sums on exit upon normal retirement and again became registered pensioners. The report further recommends that legal proceedings be instituted to recover monthly pension that was irregularly paid to the retirees who were not eligible.

d) A claim of Ksh.129 M in respect of computation of terminal benefits of employees who were retrenched in 2009 was placed in court. No provision has been made in the financial statement for this amount. The judgment was weird in awarding the un-remitted deductions to claimants instead of to respective institutions. The actual award ranges from Ksh. 55 M to Ksh. 62 M as computation was still going on. The award is not provided for. The other claim arises from one of the retrenchees of the same group who separately sued the Board and the Attorney General. Judgment was delivered in his favour and proclamation served to the Board for Ksh. 1.2 M, including taxed costs and auctioneers' fees. The Board has requested the Ministry to clear the debt as part of the sponsorship and financing of the reforms in the Board.

20 TAXATION

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

21. CURRENCY

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