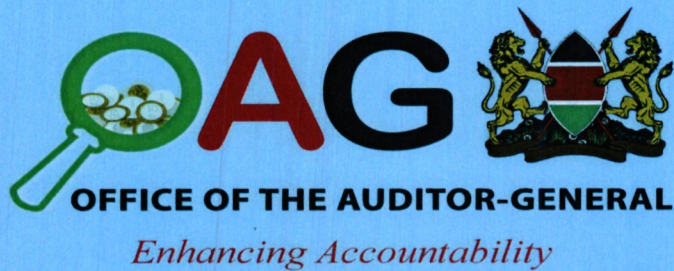


REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

**PYRETHRUM PROCESSING COMPANY OF
KENYA**

**FOR THE YEAR ENDED
30 JUNE, 2019**

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 17 NOV 2020

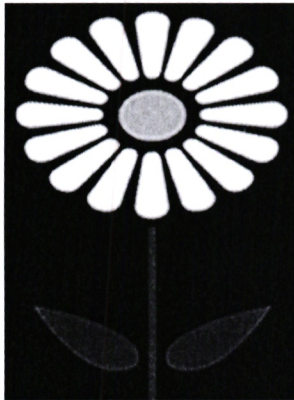
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Finlay Munira



**PYRETHRUM PROCESSING COMPANY OF KENYA
FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED
JUNE 30TH 2019**

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

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KEY ENTITY INFORMATION

Background information

The *Pyrethrum Processing Company of Kenya* (PPCK) was operationalized in 2016, following Agriculture reforms enacted through new legislations passed, Crop Act 2013 and AFA Act 2013 (amended) as of 10th May 2016. Following the enactment of the two acts the Pyrethrum Act Cap 340 was repealed together with other acts that implemented among others including Sugar Board, Coffee Board, Tea Board etc. The former Pyrethrum Board of Kenya's functions were therefore de-merged into Commercial and Regulatory functions. The pyrethrum regulatory arm was merged with other major scheduled crops under Agriculture and Food Authority (AFA) and the commercial functions were put under Pyrethrum Processing Company of Kenya (PPCK), a subsidiary parastatal under the former PBK and was registered in August 1963.

Principal Activities

The principal activity of *PPCK*, to process and market Pyrethrum and 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) Laws of Kenya.



The Head Office of the Pyrethrum Processing Company of Kenya, Nakuru

Registered office

Pyrethrum Processing Company of Kenya
Industrial Area Nakuru
Stanley Mathenge Road
P.O. BOX 420 - 20 100
NAKURU, KENYA

Corporate Headquarters

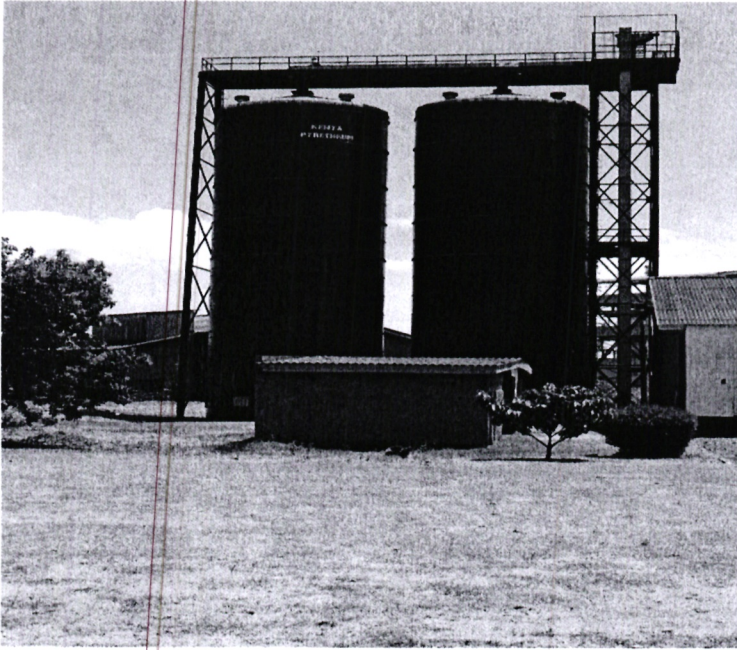
Pyrethrum Processing Company of Kenya
Industrial Area Nakuru
Stanley Mathenge Road
P.O. BOX 420 - 20 100
NAKURU, KENYA

Corporate Contacts

Pyrethrum Processing Company of Kenya
Industrial Area Nakuru
Stanley Mathenge Road
P.O. BOX 420 - 20 100
NAKURU, KENYA
Telephone: +254 2211567/82
E-mail: md@pyrethrum.co.ke




Corporate Bankers

Kenya Commercial Bank
Menengai Crater Branch
Loncom House Ground Floor
P.O. BOX 15923 - 20 100
NAKURU, KENYA
Telephone: +254- (051) 22216412
www.kcbbankgroup.com



Pyrethrum Storage Silos

MANAGEMENT TEAM

 <p>Mr. Lolwerikoi C. Paul.</p>	<p>Managing Director</p> <p>Qualifications:</p> <ul style="list-style-type: none"> • BSc in Agriculture- Kenya Methodist University • Diploma in Water and Crop Production- Galilee College Israel • Certificate in Agriculture- Bukura Agricultural College
 <p>Mrs. Lucy Birir. Komen</p>	<p>Product Development & Marketing Manager</p> <p>Qualifications:</p> <ul style="list-style-type: none"> • MBA Strategic Mgt - Egerton University • BBA in Marketing - Kenya Methodist University • Diploma in MIS - Algonquin College, Canada • Member of Marketing Society of Kenya (MSK)
 <p>CPA Edward. O. Ochele</p>	<p>Ag. Finance Manager</p> <p>Qualifications:</p> <ul style="list-style-type: none"> • BBA - Finance (On-going), St Pauls University. • CPA (K) • Member - Kenya Institute of Certified Public Accountants of Kenya (ICPAK) • Diploma - Project Management - Kenya Institute of Management.



Ms. 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



Ms. Caroline Imbwaga

Crop Research and Production 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. Vincent Ouma

Quality Control & Factory Manager

Qualifications:

- Higher Diploma in Applied Chemistry- Kenya Polytechnic

REPORT OF THE MANAGING DIRECTOR /CHIEF EXECUTIVE

PPCK is the entity that assumed the commercial functions of the former Pyrethrum Board of Kenya while AFA assumed the regulatory functions in November 2016, following the enactment of Crops Act 2013 and the AFA Act 2013 (amended) in August 2014.

In an effort to revive the industry, PPCK has developed strategies to turnaround the industry from its down-trend. Immediately, PPCK embarked on paying out all farmers' arrears, the management also put in place strategies to ensure clean high quality planting materials are developed for the farmers, in a bid to ensure that a reliable and sustainable source of dry flowers (raw materials) to the factory is established in order to sustain future business operations. One of the main activities in the production strategy was to increase pyrethrum crop acreage and 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. These campaigns were aimed at increasing the flower deliveries to the factory and an increase by 550 acres, PPCK also started paying an advance of Ksh 100.00 per kg on delivery of dry flowers and pay the balance after analysis to determine the pyrethrin content and therefore the applicable price.

Other turnaround strategies employed include contracting tissue culture laboratories to generate guaranteed high quality and improved yield per unit area, PPCK also budgeted to purchase a smaller extraction plant to improve factory processing efficiency and ensure that the pyrethrin content in the flowers is maximized, however, this plan was not achieved and has been proposed and budgeted in the 2019/20 financial year. PPCK was also registered as a Seed merchant by KEPHIS. This meant that the company will increase internal revenue from the sales of certified Pyrethrum seeds to farmers and other pyrethrum players.

CORPORATE GOVERNANCE STATEMENT

The company doesn't have a board and if it was supposed to be guided by Memorandum and Articles of Association as per the Company's Act on how the board should be appointed through in consultation with the Ministry of Agriculture.

The establishment of the board of PPCK was dependent upon the appointment of the AFA Board.

MANAGEMENT DISCUSSION AND ANALYSIS

PPCK operates two tissue culture laboratories, one in Muguga within the KEPHIS complex and the other in Molo, which also houses two greenhouses within the KARLO complex. The Molo Pyrethrum Nursery is in a 35-acre land Centre of excellence managed by the PPCK. Within the Head office PPCK operates two Laboratories, an Entomology laboratory and a Bioassay laboratory. PPCK has been licenced by Kenya Plant Health Inspectorate Service (KEPHIS) as a registered seed merchant. Seed production, processing and sale will be as per the acts governing seed production as envisaged in the Seed and Plant Varieties Act CAP 326.

The company's current working processing facility has a capacity to process 25MT of dry flowers per day. It also has a plant with processing capacity of 50MT of dry flowers per day but has not been commissioned yet. Due to low flower deliveries of less than 200MT annually the capacity is idle as it is being utilized for only 12% of its capacity. To ensure that flower deliveries retain the pyrethrin content and that processing continues albeit the low availability of pyrethrum dry flowers, the institution budgeted to purchase a smaller extraction plant, which will process between 5-10MT/day, this machine has however not been purchased.

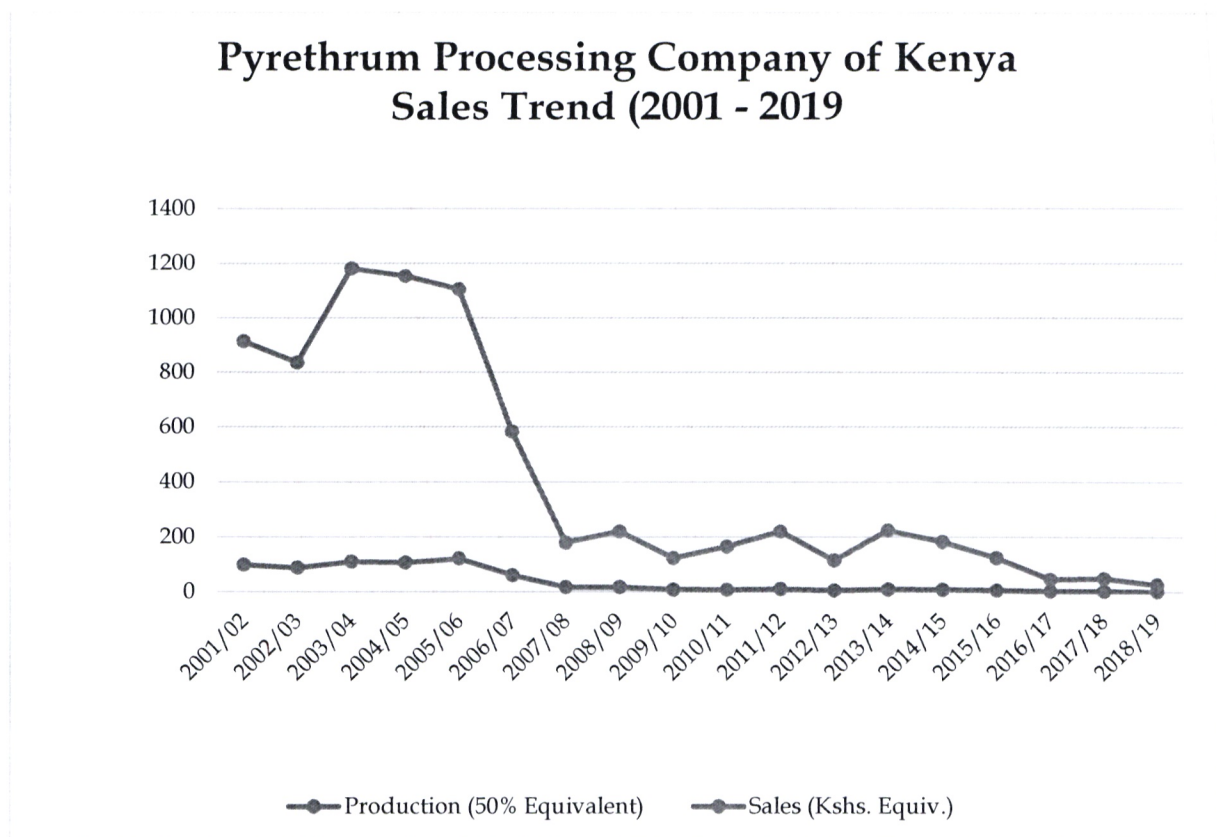
PPCK, as the successor of the former PBK has inherited its market intellectual property rights in the various market segments. PPCK continues to develop both the technical and end-use markets for the Kenya Pyrethrum Brand, to which it has registered and maintains the brand. PPCK inherited registration in the major market segments from the defunct Pyrethrum Board of Kenya (PBK). These include the Europe Market- EU-Listing. Article 95(2) of the Biocidal Products Regulation (BPR Regulation (EU) No.528/2012) - stated that as of September 2015, a biocide product (pyrethrum included) will not be placed in the EU market if the substance supplier is not listed by the European Chemical Agency (ECHA). The deadline was revised to 2019.

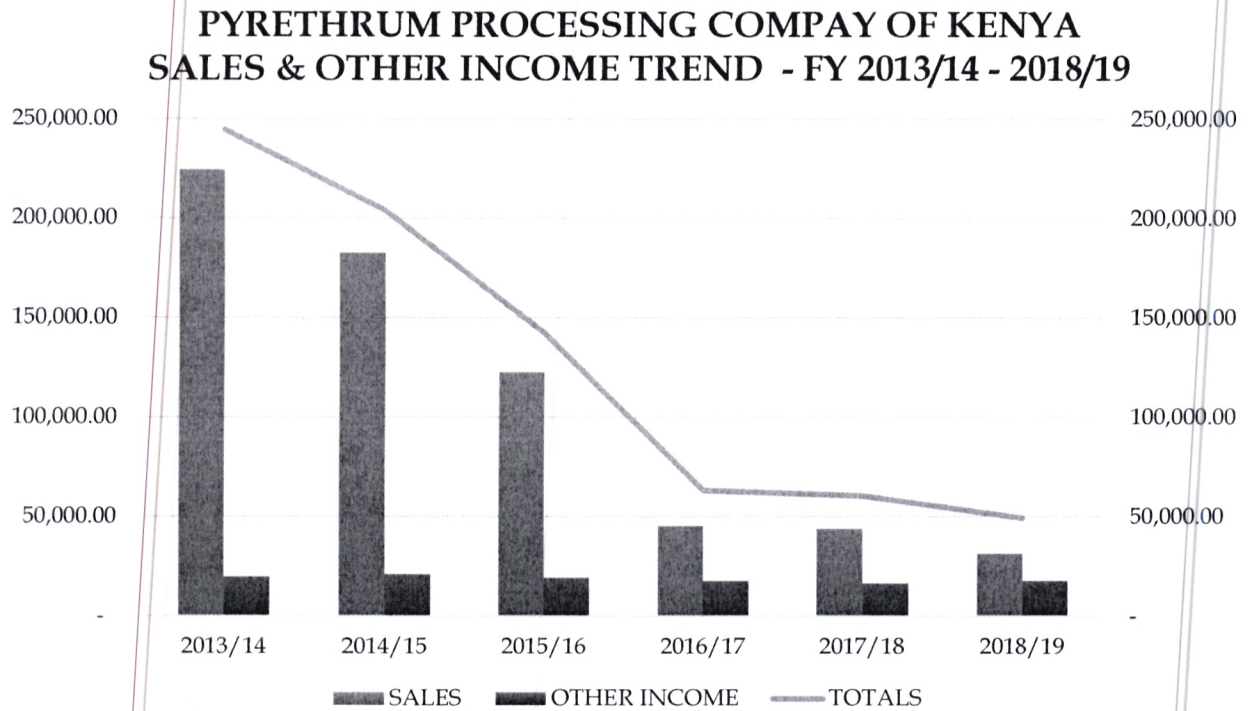
Agriculture and Food Authority in partnership with PPCK is in the process of appointing a Kenyan agent to develop a dossier and facilitate registration of the Kenya pyrethrum in the European market. Meanwhile, the Office of the Attorney General is handling a case against Kenya Pyrethrum Information Centre (KPIC) to secure Kenyan pyrethrum data in the European market. In the USA Market, PPCK is now full member of Pyrethrum Joint Venture (PJV). However, the company is required to appoint an agent in the USA to submit PPCK's label in order to meet the full requirements of the Environmental Protection Agency (US-EPA), FDA and Federal Insecticide, Fungicide & Rodenticide Act (FIFRA). Currently, PPCK's pyrethrum products cannot be sold to the US market since it is not registered with the United US EPA under the Federal Insecticide, Fungicide & Rodenticide Act, the principal federal pesticide law in the United States. Additionally, it must also register with the appropriate state-level agency before the pesticide may be used in a particular state.

Meanwhile, PPCK has registrations in various African markets. It should be noted that with certification from the Kenyan Pest Control and Products Board; it is easier to access other African markets.

In addition to the technical grade products, PPCK has registered 5 value-added products and in the process registering an additional 2 products. The department has also embarked on an ambitious program to extend the labels of the already registered products and secure daughter registrations.

Sales in PPCK have been on a downward trajectory. This is mainly attributed to low flower production. The company has been able to sell all pyrethrum extract produced since 2001. The sales, Financial Performance & Challenges are as follows:





PYRETHRUM PROCESSING COMPANY 5 YEARS FINANCIAL PERFORMANCE

Description	2017/18	2017/18	2016/17	2015/16	2014/15
Income	KES 000'	KES 000'	KES 000'	KES 000'	KES 000'
Pyrethrum Products Sales	31,382	43,885	45,295	122,882	182,519
Cost of Sales	(30,135)	(146,210)	(187,816)	(224,923)	(298,016)
Gross Deficit	1,247	(102,325)	(142,521)	(102,041)	(115,497)
Rent	16,395	15,309	14,860	14,052	19,176
Farms	497	1,011	1,819	1,909	1,193
Other Income	953	201	1,149	3,402	784
Total Income Before Gok Grants	19,090	(85,804)	(124,693)	(82,678)	(94,344)
Government Grants	30,000	99,000	244,000	169,069	300,000
Total Income with Gok Grants	49,090	13,196	119,307	86,391	205,656
Expenditure					
Operating Expenses	(275,012)	(231,309)	(221,493)	(317,085)	(267,585)
Financial costs	-	(46,144)	(45,065)	(44,003)	(39,522)
Total Expenses	(275,012)	(277,453)	(266,558)	(361,088)	(307,107)
Net Profit/ (Loss)	(225,922)	(264,257)	(147,251)	(274,697)	(101,451)

Going Concern Challenge

Without financial injection by the government, the above performance suggests a challenge on the going concern of the company. However, if the government provides the funds necessary for the revival of the sector and for settling the heavy debt burden facing the company, the company has great potential to operate profitably within a short spurn

CHALLENGES FACING THE COMPANY

- a. Underfunding from the exchequer
- b. Inadequate raw materials (Pyrethrum Flowers) due to low production
- c. Historical liabilities, court cases & court awards
- d. Emerging competition from other Players in the Industry
- e. Slow separation Process.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

For the financial year 2018/2019 the company did a planting material distribution in all the eighteen pyrethrum growing counties. From the distribution the company had earmarked in its CSR activities by improving the livelihood of the farmers by having disposable income.

As part of the planned activities during this financial year the crops department did an expansion of tree and bamboo planting exercise in Olenguruone farm to increase the land acreage towards achieving the 10% forest cover.

STATEMENT OF DIRECTORS' 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, 2019. 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, 2019, 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 22nd / 06 / 2020 and signed on its behalf by:



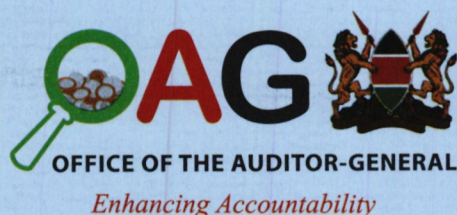
MANAGING DIRECTOR



FINANCE MANAGER
CPA EDWARD. O. OCHELE

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON PYRETHRUM PROCESSING COMPANY OF KENYA FOR THE YEAR ENDED 30 JUNE, 2019

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 16 to 35, which comprise the statement of financial position as at 30 June, 2019, statement of comprehensive income, statement of changes in equity, statement of cash flows and the 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 reflects a loss of Kshs.225,922,000 (2018: loss of Kshs.264,257,000). In addition, the statement of financial position reflects total current assets of Kshs.376,039,000 against total current liabilities of Kshs.857,385,000 resulting in a negative working capital of Kshs.481,346,000 as at 30 June, 2019. 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. Unsupported Property, Plant and Equipment

As disclosed under Note 11 to the financial statements, the statement of financial position reflects property, plant and equipment of Kshs.5,698,451,000. Examination of available records revealed the following unsatisfactory matters: -

- (i) In the previous year, the Management revalued its assets and the revaluation was adopted in the year under review. However, the revaluation has not been disclosed in the financial statements and approval for the revaluation was not availed. In addition, out of a total of fifty-eight (58) motor vehicles and heavy machinery, only six (6) motor vehicles were valued, while there was no evidence that thirty-five (35) motor vehicles although serviceable were valued. This is contrary to the International Accounting Standard (IAS) 16 which states that if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.
- (ii) Physical verification of the Company vehicles revealed that eight (8) vehicles, purchased at Kshs.11,560,472.42, were impounded and auctioned on 19 May, 2018 due to outstanding payments to a merchant. The disposal of the vehicles has not been recorded in the financial statements. In addition, out of the existing fifty (50) vehicles, logbooks for ten (10) vehicles were not provided for audit review.
- (iii) Included in the balance of Kshs.5,698,451,000 for property, plant and equipment are eighteen (18) parcels of land with a total book value of Kshs.354,340,000 whose ownership documents, were not availed for audit review. Further, the balance includes two (2) parcels of land situated in Nakuru Municipality valued at Kshs.7,500,000 and Nyandarua County valued at Kshs.45,800,000. Audit verification conducted on the Nakuru property in January, 2019 indicated that a perimeter wall fence was being erected around the house block. No explanation was provided for the construction of perimeter wall. Available information indicates that the Nyahururu land, had been sold to a private developer and the matter is in court.

Consequently, the ownership, accuracy and completeness of the of property, plant and equipment balance of Kshs.5,698,451,000 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

3. Unsupported Intangible Assets

As disclosed under Note 12 to the financial statements, the statement of financial position reflects intangible assets of Kshs.525,000,000 . The balance differs with the opening balance of Kshs.825,650,000 by Kshs.300,650,000. Although Management has explained that the difference was due to revaluation of the assets during the year, the revaluation was not disclosed in the financial statements. Further, under summary of significant accounting policies Note. V, amortization and impairment of intangible assets is calculated on straight line basis over the estimated useful life. Over the years, the intangible assets were not subjected to amortization. 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 assets hence the need to amortize them over time. The disclosure of intangible assets did not conform to the prescribed format issued by Public Sector Accounting Standards Board (PSASB).

Consequently, the accuracy and completeness of intangible assets of Kshs.525,000,000 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

4. Irrecoverable Fixed Deposit

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 full provision for bad and doubtful debts for this deposit, no evidence has been presented to show steps taken by the Company to write off, the unrecoverable amount of Kshs.150,000,000 from the books of account.

Consequently, the validity of Kshs.150,000,000 reflected as a non-current liability in statement of financial position could not be confirmed as at 30 June, 2019.

5. Unsupported Trade and Other Payables

As disclosed under Note 19 to the financial statements, the statement of financial position reflects trade and other payables balance of Kshs.857,385,000. However, supporting documents and age analysis in support of the trade payables were not provided for audit review. Further, as reported in the previous year, the balance includes outstanding statutory deductions of Kshs.155,717,986.64 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 attracting interest and penalties in line with the provisions of Section 37(2) of the Income Tax Act Cap 470 of the Laws of Kenya.

In view of the foregoing, the rights and obligations of trade and other payables figure of Kshs.857,385,000 reflected in the statement of financial position could not be ascertained.

6. Unsupported Inventories

As disclosed under Note 13 to the financial statements, the statement of financial position reflects inventories of Kshs.180,846,000 . However, the figure has not been supported by way of documentary evidence and the method under which the stock was valued. Further, the balance 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 0.3% of pyrethrin. It was indicated that it has been difficult to either sell the inventories because of value and environmental hazards concerns due to its hazardous nature.

Consequently, the existence and accuracy of the inventories balance of Kshs.186,182,000 reflected in the statement of financial position could not be confirmed.

8. Unsupported Trade and Other Receivables

As disclosed under Note 15 to the financial statements, the statement of financial position as at 30 June, 2019 reflects trade and other receivables balance of Kshs.192,284,000. Examination of available records revealed the following unsatisfactory matters: -

- (i) As reported in the previous year, the balance of Kshs.192,284,000 includes a sum of Kshs.7,180,000 relating to purchase of a stand at the Nairobi International Show Grounds. However, no documentary evidence has been provided to support the amount.
- (ii) The balance includes unsupported trade debtors of Kshs.61,853,000 which have been outstanding for long and whose accuracy and recoverability remain doubtful.
- (iii) Staff debtors totalling Kshs.42,066,000 includes unanalyzed debts of Kshs.36,798,000 owed by former staff members and which have been outstanding for more than fifteen (15) years. The Management has not supported the increase from Kshs.41,951,000 in 2013/2014 to Kshs.42,066,000 in 2018/2019. Further, provisions for bad and doubtful debts necessary in relation to these uncertain debts have not been incorporated in these financial statements.
- (iv) The balance of Kshs.178,530,000 which comprises of unsupported other debtors, growers' debtors, staff debtors and deposits held by courts all amounting to Kshs.90,434,000, Kshs.40,038,000, Kshs.43,604,000 and Kshs.4,454,000 respectively.
- (v) The figure is net of provision for bad debts for the year, of Kshs.56,241,000, which differs with the trial balance figure of Kshs.52,680,159 resulting in unreconciled variance 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 four (4) 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 determined.

Under the circumstances, the completeness, accuracy and validity of the trade and other receivables of Kshs.192,284,000 reflected in the statement of financial position as at 30 June, 2019 could not be confirmed.

9. Unsupported Rent Income

As disclosed under Note 7 to the financial statements, the statement of comprehensive income reflects other income amounting to Kshs.17,843,000. The figure includes rent income of Kshs.16,395,000 while the ledger reflected rent collection of Kshs.29,493,216 during the year, resulting to an unreconciled variance of Kshs.13,098,216. In addition, the Management did not provide supporting documents by way of lease agreements and a list of all rented properties. Under the circumstances, the completeness, accuracy and validity of other income of Kshs.17,843,000 reflected in the statement of comprehensive income for the year ended 30 June, 2019 could not be confirmed.

10. Accuracy of the Financial Statements

The statement of cash flows reflects a negative amount of Kshs.5,824,000 being net cash flows from operating activities. However, the cash and cash equivalents balance of Kshs.2,909,000 could not be confirmed as the effects of the loan written off by the Government of Kshs.1,288,015,000 and the effects of revaluation of assets in the year of Kshs.2,835,042,000 have not been disclosed in the financial statements.

Consequently, the accuracy of the statement of cash flows as presented and the cash and cash equivalents balance of Kshs.2,909,000 as at 30 June, 2019 could not be confirmed.

Key Audit Matters

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

Other Matter

1. Budget Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2019 reflects an actual collection of revenue of Kshs.79,226,000 against an approved budget of Kshs.525,430,000 thereby resulting to under collection by Kshs.446,204,000. This represents 85% of the gross estimates of Kshs.525,430,000. The under collection of revenue was attributed to failure to attain sales targets, other income and Government transfers of Kshs.219,247,000, Kshs.56,957,000 and Kshs.170,000,000 respectively.

Further, the Company spent an amount of Kshs.305,148,000 against an approved budget of Kshs.515,242,000 exceeding the available revenue of Kshs.76,226,000 by Kshs.225,922,000.

The Management has not given any reasons for the failure to achieve the set targets.

2. Prior Year Matters

2.1. 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 6 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.

Further an amount of Kshs.100,000,000 had been transferred to Agriculture and Food Authority. However, no documentary evidence was provided for audit verification to show how the balance of Kshs.144,000,000 was utilized.

In addition, the Company received funds from Agriculture and Food Authority amounting Kshs.50,000,000 during the same period. However, no records were provided to show how the two transactions were effected and recorded in the books of account of the two parties.

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 Agriculture and Food Authority could not be ascertained.

3. Legal Fees

The statement of comprehensive income for the year ended 30 June, 2017 had 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 against the defunct Pyrethrum Board of Kenya. The court awarded the plaintiffs Kshs.61,919,493. A review of documents had revealed that 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 or the method used to compute the interest. No explanation had been provided as at 30 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and the Basis for Disclaimer of Opinion sections of my report, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Legal Status

The Company uses three (3) different names in its operations including; Pyrethrum Processing Company of Kenya in the financial statements, Pyrethrum Regulatory Authority in bank statements and Pyrethrum & Other Industrial Crops Company in the 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 Agriculture and Food Authority.
- (ii) The commercial function transforms into 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 which was registered in August, 1963 instead of registering the company under the Companies Act, 2015 as required under the new legislative framework.

2. Lack of Board of Directors

The Company has been operating without a substantive Board of Directors. As a result, the budget for the year 2018/2019 was not approved and the basis for collecting revenue and incurring expenditure could not be authenticated.

Consequently, the Company is in breach of Section 6(1) of the State Corporations Act.

3. Uncommissioned Plant

Capital works in progress balance of Kshs.305,872,000 relates to an 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.305,872,000 in taxpayers' funds invested in the assets.

Consequently, I am unable to confirm whether citizens obtained value for money on the purchase of the plant.

4. Irregular Rent Agent Contract

The Management contracted an agent to collect rent on its behalf. However, the required relevant documents for the firm that won the tender such as certificate of incorporation, PIN certificate, tax compliance certificate, certificate of registration for youth, woman or disabled, and certificate of registration as an estate agent and trade or business license were not provided for audit review.

The agency contract had expired as at 30 June, 2019 and no evidence was provided that the contract had been renewed.

Under the circumstances, the validity of the award and contract for rent collection cannot be confirmed.

5. Non-Remittance of Statutory Deductions

The Management received Kshs.144,000,000 from the parent Ministry on 5 April, 2017 towards settlement of statutory obligations. However, examination of the payroll and payment vouchers revealed that the Management 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. No progress has been made as the date of this report.

Consequently, the effective use of the funds from the Ministry could not be confirmed.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance and Basis for Disclaimer of Opinion sections of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Dormant Bank Accounts

As disclosed under Note 16(a) to the financial statements, the statement of financial position reflects bank and cash balance of Kshs.2,909,000. Examination of bank reconciliation statements and cash book reflects that the two (2) bank accounts with bank balances of Kshs.15,976 and Kshs.154 respectively have been dormant. No reason has been given for failure to close the accounts.

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

Responsibilities of Management and The Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal 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 overall governance.

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

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Company 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

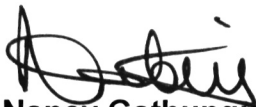
Auditor-General's Responsibilities for the Audit

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 overall governance processes and systems in order to give an assurance on the effectiveness

of internal controls, risk management and overall 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 Management in accordance with ISSAI 130 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

23 October, 2020

PYRETHRUM PROCESSING COMPANY OF KENYA
Reports and Financial Statements
For the year ended June 30, 2019.

STATEMENT OF COMPREHENSIVE INCOME			
		JUNE	JUNE
	NOTE	2019	2018
REVENUES		Kshs	Kshs
		'000'	'000'
Sales	4	31,382	43,885
Cost of sales	5	<u>(30,135)</u>	<u>(146,210)</u>
GROSS SURPLUS/(DEFICIT)		1,247	(102,325)
Grants from National Government	6	30,000	99,000
Other Income	7	<u>17,843</u>	<u>16,521</u>
TOTAL REVENUES		49,090	88,608
OPERATING EXPENSES			
Administration costs	8(a)	(271,950)	(219,474)
Selling & distribution costs	9	<u>(3,062)</u>	<u>(11,836)</u>
TOTAL OPERATING EXPENSES		<u>(275,012)</u>	<u>(231,309)</u>
OPERATING LOSS		<u>(225,922)</u>	<u>(218,113)</u>
Finance costs	10	-	(46,144)
LOSS BEFORE TAXATION		<u>(225,922)</u>	<u>(264,257)</u>

PYRETHRUM PROCESSING COMPANY OF KENYA

Reports and Financial Statements

For the Period ended June 30, 2019.

STATEMENT OF FINANCIAL POSITION	NOTE	JUNE 2019 KSHS '000'	JUNE 2018 KSHS '000'
ASSETS			
Non-current Assets			
Property, Plant and equipment	11	5,698,451	2,545,450
Intangible assets	12	525,000	825,650
Fixed interest investments (Euro bank Ltd)	21	150,000	150,000
Deferred Pyrethrin costs	23	814,753	860,017
Biological Assets	14	5,336	7,528
Total Non-current Assets		7,193,540	4,388,645
Current Assets			
Inventories	13	180,846	196,734
Trade and Other receivables	15	192,284	183,181
Bank and Cash balances	16(a)	2,909	10,937
Total Current Assets		376,039	390,853
Total assets		7,569,579	4,779,498
EQUITY AND LIABILITIES			
Capital and Reserves			
PBK Stock units	24	32,891	32,891
Levy fund	25	87	85
Accumulated Capital Fund		318,158	318,158
General Reserve		446,367	(1,126,141)
Revaluation reserve		5,764,691	3,380,104
Capital and Reserves		6,562,194	2,605,098
Capital and Reserves			
Non-current Liabilities			
Long term GOK loan	18	-	863,368
Long Term Provision (Euro Bank Ltd)	21	150,000	150,000
Total Non-current Liabilities		150,000	1,013,368
Current Liabilities			
Trade and other payables	19	857,385	736,385
GOK Loan (Interest)	18	-	424,647
Total Current Liabilities		857,385	1,161,032
TOTAL EQUITY AND LIABILITIES		7,569,579	4,779,498

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



MANAGING DIRECTOR



FINANCE MANAGER
CPA EDWARD OCHELE

16703
ICPAK M/NO

STATEMENT OF CHANGES IN EQUITY

	PBK Stock	Levy Fund	Accumulated Capital Fund	General Reserve	Revaluation reserve	Total
	"000"	"000"	"000"	"000"	"000"	"000"
At June 2017	32,891	81	317,315	(861,884)	3,380,104	2,868,507
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	(1,126,141)	3,380,104	2,605,098
						-
At July 1, 2018	32,891	85	318,158	(1,126,141)	3,380,104	2,605,098
Transfer of excess depreciation	-		-	-	-	-
Total comprehensive income (deficit)	-		-	(225,922)	-	(225,922)
Amortisation of Differed Pyrethrine Cost				(45,264)		(45,264)
Loss on value of tea Bushes				(2,192)		(2,192)
Accumulated Depreciation W/off				557,871		557,871
Revaluation Surplus	-	-			2,384,587	2,384,587
Levy Charge for the year	-	2	-	-	-	2
Prior year adjustment	-	-	-	-		-
Gok Loan & Interest W/ off				1,288,015		1,288,015
At June 30, 2019	32,891	87	318,158	446,367	5,764,691	6,562,194

STATEMENT OF CASH FLOWS

	NOTES	JUNE 2019 '000'	JUNE 2018 '000'
Cash generated from operations			
Surplus for the year before tax		(225,922)	(264,257)
Adjusted for:			
Depreciation	11	90,122	85,918
Differed Pyrethrin costs		-	45,264
Working capital adjustments:			
Increase/Decrease in inventory		15,888	5,498
Increase/Decrease in receivables		(9,102)	(959)
Increase/Decrease in payables		121,000	89,680
Net cash flows from operating activities	20	(8,015)	(38,857)
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	11	(15)	(1,514)
Proceeds from sale of property, plant and equipment	11		744
Net cash flows used in investing activities		(15)	(770)
Cash flows from financing activities			
Levy fund		2	4
Accumulated Capital Fund		-	843
Increase in GOK loan		-	46,144
Net cash flows used in financing activities		2	46,991
Net increase/(decrease) in cash and cash equivalents		(8,028)	7,364
Cash and cash equivalents at 1 July 2018		10,937	3,573
Cash and cash equivalents at 30 June 2019	16	2,909	10,937

PYRETHRUM PROCESSING COMPANY OF KENYA
 Reports and Financial Statements
 For the Period ended June 30, 2019.

STATEMENT OF BUDGET COMPARISON.

	Original Budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2018-2019	2018-2019	2018-2019	2018-2019	2018-2019
Revenue	'000'	''000'	'000'	'000'	'000'
Sale of goods	250,630	-	250,630	31,383	219,247
Sale of services			-		-
Transfers from the Government	200,000	-	200,000	30,000	170,000
Donations in kind			-		-
Finance Income			-		-
Other income	74,800	-	74,800	17,843	56,957
Total income	525,430	-	525,430	79,226	446,204
Expenses					
Compensation of employees	156,020	-	156,020	134,375	21,645
Use of goods and services	-	-	-	-	
Taxation paid	-	-	-	-	
Other payments	359,222	-	359,222	170,773	188,449
Grants and subsidies paid		-	-	-	
Total expenditure	515,242		515,242	305,148	210,094
Surplus/Deficit	10,188	-	10,188	(225,922)	236,110

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Pyrethrum Processing Company of Kenya Ltd entity is established by and derives its authority and accountability from Crop Act 2013. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to Process and market Pyrethrum and Products, conduct scientific & Agronomic research, promote and facilitate production of high yielding planting material & quality certified seeds of Pyrethrum.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

2. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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, net of value-added tax (VAT), where applicable, 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 in the year in which Pyrethrum Processing Company of Kenya actually receives such Grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- 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.

B 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 June 2018 and this has formed the new basis of depreciation of the assets.

The revaluation was done by Ebony Estates. 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.

C 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:

Buildings and civil works	25 Years or the unexpired lease period
Plant, & Machinery,	12.5%
Motor vehicles including motor cycles	4 years
Computers and related equipment	3 years
Office Equipment furniture & Fittings	12.5 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.

D Intangible assets

Intangible assets include Licenses, Registrations, Patents, Brands, trademarks and data relating to PPCK- Pyrethrum Processing Company of Kenya.

E 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.

F 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.

G 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.

H 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.

I 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.

J 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.

K 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.

L 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.

M. 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.

N. Budget information

The original budget for FY 2018-2019 was approved by the National Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Pyrethrum Processing Company upon receiving the respective approvals in order to conclude the final budget.

The *Pyrethrum Processing Company* budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

N. Comparative figures

In accordance with IAS 8 "*Presentation of Financial Statements*", comparative information in respect of the previous period (i.e. 2017-2018) for all amounts reported in the financial statements has been disclosed.

O. Subsequent events

Pyrethrum Processing Company of Kenya undertook valuation of its assets which has a significant impact on financial year ended June 30, 2019.

P. 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 2018-19 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)	JUNE 2019 Kshs '000'	JUNE 2018 Kshs '000'
4 REVENUE		
Powder local	7	10
O.R Extracts Local	33	-
Pale Exports 50%	13,952	27,711
Pale Local 25%	14,918	11,544
Marc Local	1,540	2,930
Product Development General	<u>932</u>	<u>1,690</u>
Total	<u>31,382</u>	<u>43,885</u>

There is a drop of sales in the current Financial Year due to Low quality of pyrethrum flowers processed in the year which made the company not achieve 50% Pale Extract for export. The quantity of flowers processed was also low at 78Metric tonnes as minimum requirement for processing is 100Metric Tonnes.

5 COST OF SALES		
Opening inventories	117,084	109,696
Add: Manufacturing costs		
Purchase of Pyrethrin	4,852	8,979
Processing and refining costs	15,272	99,355
Crop production & flower reception costs	<u>-</u>	<u>45,264</u>
Total	<u>137,208</u>	<u>263,294</u>
Less: Closing inventories	(107,073)	(117,084)
 Cost of sales	 <u>30,135</u>	 <u>146,240</u>

The movement in cost of sales is due to reclassification of Staff costs directly related to Production, differed Pyrethrin expense has been reclassified to statement of changes in Equity where it has been expensed.

6. GRANTS FROM NATIONAL GOVERNMENT		
Recurrent grants received	-	74,000
Capital grants received	<u>30,000</u>	25,000
	<u>30,000</u>	<u>99,000</u>

PYRETHRUM PROCESSING COMPANY OF KENYA

Reports and Financial Statements

For the Period ended June 30, 2019.

Analysis of Grant Received during the Year 2018/19

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income	Amount deferred under deferred income	Amount recognised in capital fund.	Total grant income during the year	
	KShs	KShs	KShs	2018-2019	2017-2018
				KShs	KShs
Ministry of Agriculture State Department of Crops Development	30,000	-	-	30,000	99,000
Total	30,000	-	-	30,000	99,000

	JUNE 2019 Kshs '000'	JUNE 2018 Kshs '000'
7. OTHER INCOME		
Rent Farms	16,395	15,309
Others (Sale of seeds, Drying Charges etc.)	497	1,011
	<u>951</u>	<u>201</u>
	<u>17,843</u>	<u>16,521</u>
8(a) ADMINISTRATION COSTS		
Staff Costs (Note 8b)	133,548	68,961
Utilities	9	79
Maintenance	3,648	5,055
Security	12	1,809
Local travel	15,184	21,622
Audit fees	580	1,255
Rent, rates and insurance	1,095	2,628
Depreciation	90,122	85,918
Entomology expenses	55	49
Legal fees & Court Awards	13,346	5,503
Other operating expenses	<u>14,351</u>	<u>26,863</u>
	<u>271,950</u>	<u>219,474</u>
8(b) STAFF COSTS		
Salaries for Permanent & Pensionable employees	115,532	48,601
Salaries Staff on Contract	15,112	20,090
Overtime Hrs	<u>2,904</u>	-
	<u>133,548</u>	<u>68,961</u>

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	JUNE 2019 Kshs '000'	JUNE 2018 Kshs "000"
AVERAGE NUMBER OF EMPLOYEES		
Permanent Employees -Management	56	57
Permanent Employees-Unionisable	114	120
Temporary and Contracted Employees	<u>107</u>	<u>107</u>
	<u>277</u>	<u>284</u>
9. SELLING AND DISTRIBUTION COSTS		
Salaries and wages of sales personnel	-	850
Shows & exhibitions	2,111	3,254
Local travel	374	820
Sales promotions	333	291
Other selling and distribution costs	233	5,437
Distributions	<u>12</u>	<u>1,184</u>
	<u>3,062</u>	<u>11,836</u>
10. FINANCE COSTS		
Interest expense on loans	<u>-</u>	<u>46,144</u>
		<u>46,144</u>

11. PROPERTY PLANT AND EQUIPMENT

ITEM	LAND	BUILDINGS	PLANT AND MACHINERY	C WIP	MOTOR VEHICLES	FURNITURE	EQUIPMENT	COMPUTERS	TOTAL
	'000'	'000'	'000'	'000'	'000'	'000'	'000'	'000'	'000'
COST/VALUATION									
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
1ST JULY 2018	1,493,940	525,920	537,928	455,663	66,728	6,042	13,332	3,768	3,103,321
Additions	-	-	-	-	-	15	-	-	-
Disposals	-	-	-	-	-	-	-	-	-
Adjustment on Revaluation	3,041,110	166,780	(313,922)	-	(46,977)	(2,493)	(6,602)	(2,854)	2,835,042
Adjustment Capitalisation (WIP)	-	-	305,872	-	-	-	-	-	305,872
As at 30 June 2019	4,535,050	692,700	529,879	-	19,751	3,549	6,730	914	5,788,573
DEPRECIATION									
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
1ST JULY 2018	-	70,999	403,811	-	65,899	4,407	9,928	2,811	557,871
Charge for the Year	-	17,318	66,309	-	4,938	442	841	274	90,122
Disposal	-	-	-	-	-	-	-	-	-
Adjustment on Revaluation	-	(70,999)	(403,811)	-	(65,899)	(4,407)	(9,928)	(2,811)	(557,871)
As at 30th June 2019	-	17,318	66,309	-	4,938	442	841	274	90,122
NET BOOK VALUES									
30TH JUNE 2019	4,535,050	675,382	463,570	-	14,813	3,107	5,889	640	5,698,451
30TH JUNE 2018	1,493,940	454,921	134,117	455,663	829	1,635	3,404	957	2,545,450

The adjustments in PPE has been due to revaluation of assets which were carried out by Ebony Estates Limited Certified Valuers. This had an impact and fair presentation of the assets in accordance to IAS 16 which has an impact on the costs of assets and the accumulated depreciation.

The new extraction plant which has not been commissioned for use has been capitalised in plant and equipment and depreciated in conformity with IAS 16 (Property Plant and Equipment)

12. INTANGIBLE ASSETS

	2018-19	2017-2018
COST	"000'	"000"
At July 1	825,650	825,650
Additions	-	-
Disposals	-	-
At June 30 2018	825,650	825,650
REVALUATION		
At July 1		
Charge for the year		-
Loss on Valuation		-
Impairment loss	-	-
Adjustment	(300,650)	
NET BOOK VALUE		
AS at June 30 2019	525,000	825,650

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.

13. INVENTORIES

Dry Pyrethrin flowers	696	8,983
Pyrethrum grist & powder	40	55
Pymarc	46	-
Crude pyrethrum extract (OR)	173	1,799
Pale pyrethrum extract	1,304	552
End use products	646	1,527
Other pyrethrum products	<u>104,168</u>	<u>104,168</u>
Sub-total	107,073	117,084
Engineering spares & accessories	<u>73,773</u>	<u>79,650</u>
	<u>180,846</u>	<u>196,734</u>

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14. BIOLOGICAL ASSETS		
Livestock	521	630
Tea Bushes	<u>4,816</u>	<u>6,898</u>
	<u>5,336</u>	<u>7,528</u>

The valuation of biological assets was carried out by County Government of Nakuru Ministry of Agriculture Livestock & Fisheries and report issued for the purpose of incorporating in the current year Financial Statements' FY 2018/2019.

15. TRADE AND OTHER RECEIVABLES

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	40,038	33,593
Staff debts	42,066	43,604
Other debtors	90,434	86,238
	<u>248,525</u>	<u>239,374</u>
Gross trade and other receivables	248,525	239,374
Provision for bad and doubtful receivables	(56,241)	(56,241)
	<u>192,284</u>	<u>183,181</u>
Net trade and other receivables	<u>192,284</u>	<u>183,181</u>

16 (a) CASH AND CASH EQUIVALENTS

Float	14	32
Rent Account	486	705
Operation Account	1,055	9,202
Growers Account	13	896
Assets Disposal Account	16	-
Foreign Account	1,276	28
CFC Stanbic Account	33	33
Other Bank Account	16	41
	<u>2,909</u>	<u>10,937</u>

16 (b) Detailed analysis of the cash and cash equivalents

The make - up of bank balances is as follows:

		2018-2019	2017-2018
Financial institution	Account number	Kshs	Kshs
Kenya Commercial bank		'000'	'000'
a) Current account			
Rent Account	1153031779	486	705
Growers Account	1153031493	13	896
Asset Disposal Account	1153031930	16	0
USD Account	1153032171	117	22
EUR Account	1153032422	1,159	6
Operation Account	1153031337	1,055	9,202
Other bank Account		30	73
Other Bank Account			
Cfc Stanbic Bank Account	014/00/300349/01	33	33
Sub- Total		2,909	10,937
Grand Total		2,909	10,937

17. REVALUATION RESERVE

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment which was done in June 2018. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation. Revaluation surpluses are not distributable.

18. LONG TERM GOK LOAN

	2019	2018
	Kshs	Kshs
	'000'	'000'
Principal Amount	-	863,368
Accumulated Interest Provision	-	424,647
	<u>-</u>	<u>1,288,015</u>

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. Due to inability of the company to repay the loan, The National treasury got a Cabinet approval to Write-off of the loan and waiver of accrued Interest, REF DGIPE/LOANS/126 Dated 27th November, 2018

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19. TRADE AND OTHER PAYABLES

Trade payables and provisions	675,804	641,884
Payables to Tea Directorate (AFA)	165,610	77,414
Amounts due to Growers	<u>15,971</u>	<u>17,087</u>
	<u>857,385</u>	<u>736,385</u>

20. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of operating profit/(loss) to
Cash generated from/ (used in) operations

Operating profit/ (loss)	(225,922)	(264,257)
Depreciation	90,122	85,918
Amortisation	<u>-</u>	<u>45,264</u>
Operating profit/ (loss) before working capital changes	(135,801)	(133,075)
(Increase)/Decrease in inventories	15,888	5,498
(Increase)/Decrease in trade and other receivables	(9,103)	(959)
Increase/ (Decrease) in trade and other payable	<u>121,000</u>	<u>89,680</u>
	<u>(8,015)</u>	<u>(38,857)</u>

21. INVESTMENT IN EURO BANK

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

22. INCOPORATION

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

23. 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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Balance at beginning of the year	860,017	905,281
Write off for the year	<u>45,264</u>	<u>45,264</u>
Balance at end of the year	<u>814,753</u>	<u>860,017</u>

24. 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**

25. 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 86,969.85 FY 2018/19** is held as fund pending issuance of PPCK units thereof.

APPENDIX 1: INTER-ENTITY TRANSFERS

ENTITY NAME:				
BREAK DOWN OF TRANSFERS FROM THE MINISTRY OF AGRICULTURE, STATE DEPARTMENT OF CROP DEVELOPMENT AND AGRICULTURE AND FOOD AUTHORITY				
FY 2018/19				
1	STATE DEPARTMENT OF CROP DEVELOPMENT			
a.	RECURRENT GRANTS			
		Bank Statement Date	Amount (KShs '000')	
		-	-	
			-	FY -2018/19
b.	DEVELOPMENT GRANTS	<u>Bank Statement Date</u>		
		08/11/2018	10,000	
		18/03/2019	10,000	
		12/04/2019	10,000	FY- 2018/19
		TOTAL	30,000	