

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

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## **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**