

REPORT OF THE AUDITOR-GENERAL ON PYRETHRUM PROCESSING COMPANY OF KENYA FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Pyrethrum Processing Company of Kenya set out on pages 11 to 30, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

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

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1. Undisclosed Material Uncertainty Related to Going Concern

The statement of comprehensive income for the year ended 30 June, 2017 reflects a deficit of Kshs.147,251,000 (2016 – 274,697,000 which differs with the audited figure of Kshs.273,687,000). This led to an increase in the general reserve to a negative balance of Kshs.861,884,000 as at 30 June 2017 (2016 - Kshs.715,644,000, which differs with the audited amount of Kshs.714,633,000). In addition, the statement of financial position as at 30 June, 2017, reflects total current assets of Kshs.440,818,000 and total current liabilities of Kshs.792,275,000 resulting in a negative working capital of Kshs.351,457,000 as at that date. The Company is, therefore, technically insolvent and its continued existence is dependent upon the financial support of the Government and its creditors. This material uncertainty that casts doubts on the Company's ability to continue as a going concern has, however, not been disclosed in the financial statements by the management.

2. Operating Performance

The statement of comprehensive income for the year ended 30 June 2017 reflects an amount of Kshs.45,295,000 in respect of sales, which is a drop from the previous year's amount of Kshs.122,882,000 and representing a 63% decline in sales. The cost of sales,

however, decreased by 16% only from Kshs.224,923,000 in 2015/2016 to Kshs.187,816,000 in 2016/2017, while selling and distribution costs and volume of products sold remained more or less the same over the previous year. Management has not explained the sharp decrease in sales without a corresponding decrease in cost of sales. The authenticity of the disclosed sales and cost of sales figures cannot be confirmed under the circumstances.

3. Property, Plant and Equipment

- (i) As reported in the previous year, property, plant and equipment balance of Kshs.2,630,598,000 as at 30 June 2017 includes balances from a revaluation report dated 12 July 2012 which has not been adopted/approved by any authority or the board of directors.
- (ii) Included in the property, plant and equipment balance is a sum of Kshs.354,340,000 in respect of eighteen parcels of land which, however, are not registered in the name of the Company. Further, the balances include two parcels of land situated in Nakuru Municipality (Block 7/138) and Nyandarua County (Oljororok farm Block 11322/1/2/3) valued at Kshs.7,500,000 and Kshs.45,800,000 respectively, but whose ownership is in dispute. Available information indicates that the land in Nyandarua was sold to a private developer at a cost of Kshs.30,050,000 and the matter has since been taken to court.
- (iii) As reported also in the previous years, documents relating to the procurement of property, plant machinery equipment and furniture costing Kshs.477,104 were still not presented for verification during the year under review. Further, out of a total of fifty-eight motor vehicles and heavy machinery owned by the Company, thirty (30) were grounded and unserviceable at the time of audit.
- (iv) As disclosed under Note 8 to the financial statements, capital works in progress balance of Kshs.455,663,000 as at 30 June 2017 relates to a new retraction plant purchased and installed in 2006 but which has never been commissioned. Although management has explained that the machine was purchased in anticipation of an increase in flower deliveries to the factory and that the plant will be commissioned in future once the industry is revived, no evidence has been presented for audit to show the steps taken to revive the industry. Further, technological changes and wear and tear are bound to affect the idle machines adversely and may result in the loss of Kshs.455,663,000 in taxpayers' funds invested in the assets.

In view of the above, it has not been possible to confirm whether, plant and equipment balance of Kshs.2,630,598,000 as at 30 June, 2017 is fairly stated.

4. Intangible Assets

As previously reported, the statement of financial position as at 30 June, 2017 reflects intangible assets balance of Kshs.825,650,000 relating to an amount incurred on the cost of registering licenses and studies undertaken on impact of pyrethrum on the environment

and human life. However, the management has not explained how the balance was determined.

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

5. Fixed Deposit in Euro Bank Ltd

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

6. Bank and Cash Balances

Unsupported Cash balances

The statement of financial position reflects bank and cash balances of Kshs.3,573,000 as at 30 June, 2017. The cash balance of Kshs.124,000 as disclosed under Note 12(a) to the financial statements, was not supported with cash survey reports.

In addition, the management has not provided bank confirmation certificate for Stanbic Bank – Mombasa Branch Account No. 014/00/300349/01 balance of Kshs.33,442. The Company also had overdrawn its operation account as disclosed under Note 12(b) to the financial statements by Kshs.48,000, an amount which was not supported by any authority to overdraw or operate an overdraft facility.

Furthermore, the closing balance of the overdraft as per the audited financial statements for 2015/2016 was Kshs.9,665,000, while the comparative figure for the same is reflected in Note 12(b) to the financial statements as Kshs.9,703,000 resulting in a difference of Kshs.38,000 that has not been explained or reconciled.

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

7. Trade and Other Payables

- (i) As reported also in the previous year, included in the trade and other payables balance of KShs.646,657,000 as at 30 June 2017 are outstanding statutory deductions of KShs.125,572,360 and Kshs.1,002,000 relating to pay as you earn

(PAYE) for employees and board members respectively that have remained unpaid, and thus continue to attract interest and penalties in line with the provisions of Section 37 (2) of the Income Tax Act Cap 470 of the Laws of Kenya.

- (ii) Similarly, the trade and other payables balance of Kshs.646,657,000 includes balances whose analyses and supporting documents have not been provided for verification as shown below.

ITEM	Amount (Kshs.)
sundry creditors control provisions	138,836,542
Pension fund control	85,497,982
Trade creditors control	61,135,615
County council cess	44,050,907
Pareto saving scheme	29,888,993
Growers cash control	22,547,865
Growers Pbk transport	13,403,947
wages clearing	12,055,087
Prepayment by debtors	9,894,303
salaries clearing	9,817,637
Total-Kshs.	427,128,878

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

In view of the foregoing, the validity and accuracy of trade and other payables figure of Kshs.646,657,000 cannot be ascertained.

8. Inventories

The statement of financial position as at 30 June 2017 reflects inventories balance of Kshs.209,759,000. This figure, however, includes other pyrethrin products valued at Kshs.104,168,000 brought forward from previous years. In addition, the value of the total inventories balance of Kshs.209,759,000 has not been supported with any documentary evidence. Further, it has not been possible to confirm the method under which stock was valued and whether in the valuation, adequate provisions for obsolescence were made since the quality of the unprocessed stock could deteriorate and eventually lose some or all its value. Consequently, the existence and accuracy of inventories balance of Kshs.209,759,000 as at 30 June 2017 can not be confirmed.

9. Trade and Other Receivables

9.1 Unsupported balances

- (i) Trade and other receivables balance of Kshs.182,222,000 as at 30 June 2017 include, as reported in the previous year, a sum of Kshs.7,180,000 relating to an abortive purchase of a stand at the Nairobi International Show Grounds. However, no documentary evidence has been provided to date to confirm the balance.
- (ii) Similarly, the trade and other receivables balance of Kshs.182,222,000 includes trade debtors amounting to Kshs.103,913,000 which have been outstanding for long and whose recoverability remain doubtful. Further, the management has not provided documentary evidence in support of this figure. The balance also includes unanalyzed amount of Kshs.36,798,000 owed by former staff members and which has been outstanding for more than fifteen years. The management has also not explained how the amount moved from Kshs.41,951,000 in 2013/2014 to Kshs.36,798,000 in 2016/2017. Provisions for bad and doubtful debts necessary in relation to these uncertain debts have not been incorporated in these financial statements.
- (iii) Included in the trade and other receivables of Kshs.182,222,000 are trade receivables, grower's debtors, staff debtors and other debtors whose analysis and supporting documents have not been provided as shown below:

Item	Amount – Kshs.
Growers Plants/Seed Debits	827,646
Growers Net Debit balances	21,255,656
Growers General Debtors	6,548,238
Growers Suspense Debits	1,923,143
Staff Debt	3,075,484
Non Staff Debt	4,402,289
Staff Gas Control	1,159,863
Leavers Debt Control	21,264,042
Sundry Debtors Housing Rent arrears	19,821,700
Sundry Debtors Control	3,561,331
Receivable MV Disposal Transfers made to Acc 2504	5,111,110
Advance Payment Pyrethrum Seedlings Growers	15,918,776
N.S.S.F Clearing	931,270
Salaries Clearing	9,817,637
With holding VAT	1,303,872
F C C Commission Rec.	7,695,345
Total – Kshs.	124,617,402

The accuracy, existence and validity of the balances cannot be confirmed under the circumstances.

9.2 Provision for bad debts

- (i) The statement of financial position's trade and other receivables balance of Kshs.182,222,000 is net of provision for bad debts for the year of Kshs.56,241,000. Although the management has been making a general provision for bad debts of Kshs.56,241,000 per year over the last three years, no policy on provision for doubtful debts was provided for audit scrutiny. It is, therefore, not clear how the accumulated provision for bad and doubtful debts amount of Kshs.68,723,000 was arrived at.
- (ii) It is also not clear how the provision was accounted for in the statement of financial performance as the accumulated amount of Kshs.168,723,000 could not be traced to the cost of sales, administration costs or other costs in the statement of financial performance. The total comprehensive loss/income for the year ending 30 June, 2017 and the general reserve figure in the statement of changes in equity could be understated by Kshs.56,241,000 and 168,723,000 respectively.
- iii)The figure for trade and other receivables could be understated by Kshs.168,723,000 being provision amount netted off during the three financial years.

In the circumstances, it has not been possible to confirm the validity and accuracy of the provision for bad debts, trade and other receivables balances and the total comprehensive loss/income for the year.

10. Deferred Pyrethrin Costs – Irregular Charge of Amortization Cost

The statement of financial position reflects deferred pyrethrum costs balance of Kshs.860,017,000 as at 30 June 2017 which differs with the balance of Kshs.905,282,000 disclosed under Note 19 to the financial statements. The resulting difference of Kshs.45,265,000 has not been explained.

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

11. Other Income

Rent Income

The statement of comprehensive income reflects an amount of Kshs.17,828,000 under Other Income and as disclosed in Note 4 to the financial statements, the amount includes rent income of Kshs.14,860,000. However, the following documents were not provided or audit scrutiny:

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

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

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

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

12. Legal Fees

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

13. Grants from National Government

The statement of statement of comprehensive income reflects an amount of Kshs.244,000,000 under grants from National Government. As disclosed in Note 3 to the financial statements, these were capital grants. It is, however, not clear how the amount was to be expended as no supporting documents were provided regarding the same. Out of the amount, Kshs.100,000,000 was transferred to Agriculture and Food Authority (AFA). No documentary evidence was provided for audit verification to show how the balance of Kshs.144,000,000 was utilized.

It was indicated that the Company received funds from Agriculture and Food Authority (AFA) 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 entities.

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

14. Government of Kenya Loan

The statement of financial position as at 30 June 2017, reflects a long term Government of Kenya loan of Kshs.1,096,301,000 and current portion of Kshs.145,570,000. This refers to a loan given by the Government of Kenya through the National Treasury in the 2006/2007 financial year and was to be repaid within 10 years. It was, however, noted that the principal amount of Kshs.863,368,720 has not been repaid and has attracted accumulated interest of Kshs.191,611,919 and accumulated penalty of Kshs.195,448,022. In addition, although the loan balance has been categorized into a long term and a current portion, the total amount of Kshs.1,241,871,000 is now due and payable as the full sum ought to have been settled in full by the end of 30 June 2017.

15. Un-explained Under Collection of Revenue

The statement of comparison of budget and actual amounts for the year ended 30 June 2017 reflects an under collection of revenue by Kshs.301,957,000. This represents 49.5% of the gross estimates of Kshs.609,080,000. The under collection of revenue was attributed to failure on company's sales targets by Kshs.197,135,000 and other income by Kshs.258,822,000. No reasons were given by the Company for failure to achieve the set targets.

16. Inaccurate Statement of Cash Flows

The statement of cash flows reflects a negative amount of Kshs.38,521,000 being net cash flows from operations activities. However, the cash and cash equivalents balance of Kshs.3,573,000 cannot be confirmed as decrease in trade and other payables figure of Kshs.28,489,000 differs with the calculated figure of Kshs.29,415,000 by Kshs.926,000, which has not been reconciled or explained. In addition, the comparative figures for the statement of financial position's assets and liabilities balances are out of balance by Kshs.85,000 and thus affecting the statement of cash flows.

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

17. Legal Status

17.1 Name of Entity

During the audit of 2016/2017 financial statements, it was noted that the Company uses three different names in its operations as indicated below:

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

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

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

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

The management of the Company has presented the financial statements for 2016/2017 under the name Pyrethrum Processing Company of Kenya (PPCK) without taking cognizance of the new legislative framework.

17.2. Company Operating without a Substantive Board

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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 applicable basis of accounting unless the management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Company's 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.

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



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

Nairobi

13 July 2018