

# **REPORT OF THE AUDITOR-GENERAL ON PYRETHRUM PROCESSING COMPANY OF KENYA FOR THE YEAR ENDED 30 JUNE, 2021**

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## **PREAMBLE**

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Pyrethrum Processing Company of Kenya set out on pages 1 to 29, which comprise of the statement of financial position as at 30 June, 2021, and the statement of profit or loss and other 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.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material

respects, the financial position of the Pyrethrum Processing Company of Kenya as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Public Finance Management Act, 2012

## **Basis for Qualified Opinion**

### **1. Unsupported Bank Balance**

As disclosed in Note 16 to the financial statements, the statement of financial position reflects bank and cash balance of Kshs.130,343,000. Included in the balance is an amount of Kshs.33,000 held in CFC Stanbic account. However, the balance was not supported with certificate of bank balance, cash book and bank reconciliation statements.

In the circumstances, the existence, accuracy and completeness of the bank balance of Kshs.33,000 included in cash and cash equivalent could not be confirmed.

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

As disclosed in Note 11 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.5,520,651,000. As previously reported, examination of records revealed the following unsatisfactory matters:

#### **2.1. Land without Legal Ownership Documents**

Included in property plant and equipment balance is net book value for land of Kshs.4,535,050,000 which further includes eighteen (18) parcels of land with a net book value of Kshs.354,340,000 which are not registered in the name of the Company. Further, the balance includes Nyandarua/Mawingu farm measuring 35 acres, leased out to Agricultural Food Authority (AFA). However, documents indicating the terms of the lease were not provided for audit verification.

#### **2.2. Idle Extraction Plant**

Included in the property, plant and equipment is an extraction plant purchased and installed in the year 2006 at a cost of Kshs.305,872,000 that has never been commissioned. Although the 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, evidence to indicate the steps taken to revive the industry was not provided. Further, technological changes and wear and tear are bound to adversely affect the idle machines and may result in the loss of funds invested in the asset.

#### **2.3. Dilapidated Buildings**

Included in the property, plant and equipment balance of Kshs.5,520,651,000 are rental houses and offices with a net book value of Kshs.640,747,000. However, physical verification revealed that the rental houses and offices were dilapidated.

In the circumstances, the accuracy, completeness and ownership of property, plant and equipment, balance of Kshs.5,520,651,000 could not be confirmed.

### **3. Trade and Other Receivables**

As disclosed in Note 15 to the financial statements, the statement of financial position reflects trade and other receivables totalling Kshs.222,905,000. It was however noted that was a material increase of Kshs.4,433,000 in growers' debtors from Kshs.37,710,000 as at 30 June, 2020 to Kshs.42,143,000 as at 30 June, 2021. Although the Management attributed the increase to advances paid to the farmers before delivering their produce, it lacks a documented credit policy to manage the debts. Further, the balance includes other debtors amount of Kshs.118,357,000 which further includes rent arrears of Kshs.29,157,310 that had been outstanding for more than one year. The Management has not explained any effort taken to recover the rent arrears.

In addition, Management made a provision for bad debts of Kshs.56,241,000. However; it is not clear how the provision was arrived at as the Company's policy for provision for bad debts was not disclosed under significant accounting policies.

In the circumstances, the accuracy, completeness and recoverability of the receivables balance of Kshs.222,905,000 could not be confirmed.

### **4. Long Outstanding Trade Payables and Provisions**

The statement of financial position reflects trade and other payables balance of Kshs.1,300,741,000 as disclosed in Note 18 to the financial statements. Included in the balance is trade payables and provisions amount of Kshs.998,162,000 which further includes long outstanding unremitted PAYE deductions of Kshs.155,727,146 and other salary clearances of Kshs.13,262,968. Unremitted PAYE 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. The balance also includes other payables to Agriculture and Food Authority of Kshs.223,127,000, Sugar Directorate of Kshs.41,493,000 and Tea Directorate of Kshs.16,030,000. Further, the Company has not made any provision for penalties and interest chargeable as a result of failure to remit the deductions to the relevant authorities on time.

In the circumstances, failure to meet obligations relating to trade and other payables exposes the Company to litigations and increased costs of penalties and interest.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **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**

### **Unresolved Prior Year Matters**

In the audit report for 2019/2020 financial year, several issues were raised and which have remained unresolved. However, contrary to the guidelines and templates prescribed by the Public Sector Accounting Standards Board template for Public Sector Entities reporting under International Financial Reporting Standards (IFRS) Framework, the Management did not attach an appendix to the financial statements indicating the action taken on the auditor's recommendations.

## **Other Information**

The Directors are responsible for the other information, which comprises the chairman's report, directors' report, the statement of corporate governance, management discussions and analysis, statement of environmental and sustainability reporting, corporate social responsibility statement and the statement of directors' responsibilities.

The other information does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

## **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 matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else 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**

#### **Non-Compliance with the Law on Ethnic Composition**

Review of the Company employees' ethnic composition as at 30 June, 2021 revealed that a single ethnic community had a 38% representation in the staff composition of the

Company. This is contrary to Section 7(2) of National Cohesion and Integration Act, 2008 which stipulates that, “No public establishment shall have more than one third of its staff from the same ethnic community.”

In the circumstances, Management was in breach of the law.

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 matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **1. Lack of Human Resource Policy**

Review of records revealed that the Pyrethrum Processing Company of Kenya had not developed new human resource policy but relied on the human resource policy developed in the year 2010 of the defunct Pyrethrum Board of Kenya.

In the circumstances, Management may not be able to prepare and manage its human resource needs in a changing business environment or successfully achieve its core mandate.

#### **2. Lack of Approved ICT Strategic and Disaster Recovery Plans**

Review of the Company’s information technology systems revealed that it uses an accounting software to manage its accounting functions. However, the operating system and accounting software are outdated and user support from the patent holders of both operating system and accounting software ceased in the years 2002 and 2006 respectively. Further, the Company did not have approved ICT Strategic and Disaster Recovery Plans. Its ICT interventions were therefore not aligned with the Company’s strategic needs.

In the circumstances, the Company may be exposed to risk of errors, fraud and the loss of data confidentiality, integrity and availability.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires 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.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Company's Act, I report based on my audit, that:

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- (ii) In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- (iii) The Company's financial statements are in agreement with the accounting records and returns.

### **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 the Kenyan's Companies Act 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 the 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 Company's financial reporting process, reviewing the effectiveness of how Management 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 governance

and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems 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. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Company's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a

basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**01 September, 2022**