

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT


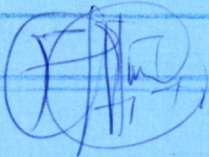
OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
POSTAL CORPORATION OF KENYA

FOR THE YEAR ENDED
30 JUNE 2018

 THE NATIONAL ASSEMBLY PAPERS LAID	
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POSTAL CORPORATION OF KENYA



ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
30 JUNE 2018**

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

POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

KEY PCK INFORMATION

1. Background information

Postal Corporation is a statutory body established by an Act of Parliament, PCK Act Number 3 of 1998 as a public Postal licensee providing Postal services, Postal financial services and any other duty as may be assigned to it.

2. Principal Activities

The principal activity of the PCK is to provide Postal services and Postal Financial services.

3. Directors

The Directors who served the PCK during the year/period were as follows:

Mr. Daniel Kagwe Chief Executive Officer/Postmaster General

Ms. Pauline Muthigani -Appointed on 24th June 2016

Mr. Munyua Waiyaki -Appointed on 31st May 2016

Rev. Symon Kiuta -Appointed on 31st May 2016

Ms. Mary Maingi -Appointed on 31st May 2016

Hon. Ibrahim Mohamed Salat -Appointed on 31st May 2016

Principal Secretary Ministry of Information, Communication and Technology

Alternate Director: Dr. Catherine Getao

Principal Secretary, National treasury

Alternate Director: Mutua Kilaka

POSTAL CORPORATION OF KENYA ...Continued

4. Corporation Secretary

Mr Julius Opini
P.O. Box 34567 - 00100
Nairobi
Kenya

5. Registered Office

Posta House
Posta Road, Off Kenyatta Avenue
P.O. Box 34567 - 00100
Nairobi,
Kenya

6. Corporate Contacts

Telephone: (254) 3242000
E-mail: info@posta.co.ke
Website: www.posta.co.ke

7. Corporate Bankers

Kenya Commercial Bank
Moi Avenue
P.O. Box 30081
GPO -00100
Nairobi, Kenya

Commercial bank of Africa
P.O.Box 30437
GPO- 00100
Nairobi
Kenya

Barclays Bank of Kenya
P.O Box 30120-00100
Nairobi
Kenya

Co-operative Bank
Co-operative House,
P.O. Box 48231 - 00100, Nairobi Kenya

KEY PCK INFORMATION ...Continued

8. Independent Auditors

Auditor- General
Anniversary Towers, University Way
P.O. Box 30084
GPO- 00100
Nairobi, Kenya

9. Principal Legal Advisers

Attorney- General
Government of Kenya
P. O Box 40112-00100
Nairobi

Robson Harris & Company,
Advocates,
6th Floor, Transnational Plaza,
City Hall Way,
P.O.Box 67845-00200,
NAIROBI.

Ameli Inyangu & Partners
Advocates,
2nd Floor, KCS House,
Mama Ngina Street,
P. O. Box 11203 – 00100,
NAIROBI.

Ogeto, Otachi & Company
Advocates,
Ambassador Court, Block C-6
Milimani Road Opp. Middle East Bank
P. O. Box 79438 – 00200,
NAIROBI.

Kipkenda & Company
Advocates,
Off Riverside Drive
Behind 9 Riverside Building
P.O. Box 56832 - 00200,
NAIROBI.

KEY PCK INFORMATION ...*Continued*

Gitonga Mureithi & Company
Advocates
3rd Floor, Diamond Plaza
4th Parklands Avenue
Masari Road
P.O.Box 76817 - 00620
NAIROBI.

Githiru & Company
Advocates,
3rd Floor, Gibcon House,
Kenyatta Avenue,
P.O.Box 12989 - 20100
NAKURU.

Adera & Company
Advocates
5th Floor, Embassy House
Harambee Avenue
P.O.Box 54556 - 00200
NAIROBI.





Morara Apiemi & Nyagito
Advocates
5th Floor, Electricity House
Harambee Avenue,
P. O. Box 6529 - 00100 – 00200,
NAIROBI.





Mose, Mose & Milimo
Co. Advocates,
Comcraft House,
3rd Floor,
P.O Box 9403--00200,
NAIROBI

Sichangi Advocates,
Hill Plaza, 10th Floor,
Ngong Road,
P.O.Box 33223 -00600,
NAIROBI.

POSTAL CORPORATION OF KENYA






BOARD OF DIRECTORS







S/N	Name	Experience
1.	 Mr. Dan Kagwe CEO & Postmaster General	<p>He has worked extensively in the private sector including the financial, courier and logistics industry in Kenya and the wider East African region for over thirty years specifically holding senior level capacities at Fedex, Henkel Kenya and Diners Club International. He is the holder of a Bachelor of Arts in Economics & Business Administration along with a Diploma in Marketing. He is an associate member of the Kenya Institute Of Management and Marketing Society Of Kenya, as an avid golfer he formerly served as the Chairman of Kampala Golf club among others.</p>
2.	 Mr. Munyua Waiyaki - Director	<p>He holds a BSc in IBA (Accounting & Finance) from United States International University. Munyua is an entrepreneur and has an extensive background in business development, innovation and change management. He has travelled by invitation, to high profile Business Process Outsourcing Units in Mumbai, New Delhi and Bangalore for the purpose of replicating and transferring the knowledge he has received to assist young Kenyans. He has also developed and implemented strategic plans by collaborating with going concerns in Eastern Europe and the Middle East. Munyua has been engaged in private business for the last 26 years.</p>
3.	 Mr. Mutua Kilaka, CBS, SS-Director	<p>He is a career civil servant since 1977, having worked in most regions in the country in the provincial administration and in the central government. In 2005 he was appointed Financial Secretary at the Ministry of Finance and is currently the Principal Administrative Secretary. Mr. Kilaka brings to the Board a wealth of experience in the public sector, finance and Administration.</p>
4.	 Ms. Mary Maingi - Director	<p>Mary Maingi is a results driven, self-motivated and resourceful business leader with over twenty five (25) years proven ability to develop and strengthen management teams in order to maximize company profitability. Mary has excellent communication skills and is able to establish sustainable and profitable relationships with the customers, suppliers and stakeholders around the world she is a seasoned technocrat in finance and marketing industry. She holds a Master of Business Administration (MBA) in Marketing Management from the Catholic University of Eastern Africa and a Bachelor of Commerce in management from the same university. She also holds a Diploma in Insurance from the College of Insurance (K) and a Diploma in Public Relations from the London Chamber of Commerce & Industry (LCC& I – UK).</p> <p>Mary has gone through various leadership programmes including:</p> <ul style="list-style-type: none"> -Corporate governance training course for directors conducted by the Center for Corporate Governance of Kenya (CCG) -Mwongozo induction programme for boards of state corporations -The female future programme conducted by Federation of Kenya Employers (FKE) -The leadership of purpose summit by the late Dr. Myles Munroe




5.	 <p>Pauline Muthigani W. – Director</p>	<p>Pauline Muthigani is an all round telecommunications professional and a holder of an Executive MBA (New Media and Communications Management), with a bias in Telecommunications and ICT from the University Of St. Gallen, Switzerland. She has also undertaken International Communication law course covering Internet and Communications in University of Luxembourg, and Executive Development course in Advance Management from Haas Business School, Berkeley- University of California USA. Postal and Telecom business is her passion and her vision is to offer the most valuable intelligence and strategic direction to organizations in these sectors.</p> <p>Born in 1971. She is also a Director at Savanna East Africa Ltd. Previously worked with KEMRI, Commonwealth Telecommunication Organization (CTO), London UK amongst others.</p>
6.	 <p>Ibrahim Salat- Director</p>	<p>Born in 1960 is a Banker, politician and entrepreneur with over 30 years of experience.</p> <p>He is a graduate of Washington International University (Bachelors in Business Management in Accounting). Having served in various capacities in the banking career, spanning to over 10 year, he joined politics in 1988 and served two consecutive terms (10 years) as the Member of Parliament for Fafi constituency in Garissa County till 1997 when he quit politics to concentrate on family business. He sat as a Director in various boards of parastatals including Tana catchment Board, Northern water services Board and Kenya Dairy Board. Mr.Salat is trained in Corporate Governance, Finance and Accounting</p>
7.	 <p>Dr. Katherine Wanjiru Getao, EBS</p>	<p>Dr. Dr. Katherine W. Getao serves the Government of Kenya as the ICT Secretary, the strategic head of ICT in Kenya. From 2001 to 2007 Katherine was the Director of the School of Computing and Informatics, University of Nairobi, Kenya. During her tenure the School expanded its undergraduate and postgraduate programmes in Computer Science and became the first East African University to graduate doctoral students in Computer Science .She has served as a project manager in the NEPAD e-Schools Initiative , an active member of the United Nations Group of Governmental Experts in the field of security , Non-executive director at Centum (retired 2008) and international Leadership Foundation, Kenya Chapter (active.)</p> <p>Katherine holds a B.Sc. (Hons) in Combined Sciences (Chemistry and Computer Studies) from Brighton Polytechnic, U.K. an M.Sc. in Intelligent Knowledge-based Systems from the University of Essex, U.K. and a Ph.D. in Computing from Lancaster University, U.K. She is a Commonwealth Research Fellow (2005.)</p>
8.		<p>Julius Opini- Corporation Secretary</p> <p>He holds Bachelors of Law, Bachelors in Economics and Postgraduate diploma in Law</p>

POSTAL CORPORATION OF KENYA

EXECUTIVE MANAGEMENT TEAM

S/N	Name	Post held
1.	 <p>Mr. Dan Kagwe</p>	Postmaster General of Postal Corporation of Kenya
2.	 <p>Julius Opini Bachelors of Law, Bachelors in Economics Postgraduate diploma in Law</p>	Corporation Secretary
3.	 <p>B. Murerwa MBA (Entrepreneurship) Bachelor of Arts (Economics), CPA (K), CISA.</p>	GM / Business Development.
4.	 <p>Eliud Lell Bachelor of Arts</p>	GM/ mails
5.	 <p>T. E Juma Executive MBA , Bachelor of Commerce</p>	GM/ Operations

6.	 E. Mwaura - MBA , BSC in FSM, Diploma Institutional Management.	GM Courier Services
7.	 J.K Tonui - MBA, Bachelor of Arts, Diploma in HRM	GM Human Resource Development & Administration
8.	 P.N. Gichuki Bachelor of Arts	Manager Corporate Communications & Public Affairs.
9.	 M Masinde – MSC in Strategic Management, BBM -Supply Chain	Manager Supply Chain Management
10.	 George Makori MBA Executive, Bachelors in Computer Science CIM Postgraduate, Diploma in Marketing	AGM / ICT
11.	 David Fundia MBA Strategic Mgt CPA(K)	AGM /Audit and Risk management

12.	 <p>James Kahonge MSc in Business with IT, BCom Marketing</p>	GM/PAYMENTS
13.	 <p>K Bosire Bachelor of Arts</p>	AGM Security & Compliance
14.	 <p>Peter Korir Exec. MBA CPA(K)</p>	GM/Finance

POSTAL CORPORATION OF KENYA

THE CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am honored to present to you the Annual Report and Financial Statements of the Postal Corporation of Kenya (PCK) for the Fiscal Year ended 30th June, 2018. Though the reported performance is still in deficit, the Company registered an improved position compared to last year.

Performance

During the period under review, Kenya registered an economic growth, averaging 4.9%. The company recorded a net deficit of Kshs. 84.534 million compared to Kshs.1.243 billion in the previous period.

Growth Strategy

PCK strategic plan 2016-2019. define the organization's strategic direction with the following agendas:-

- Return PCK to profitability
- Enhance human resources capacity building and change management
- Institutionalize enterprise risk management

This pillar recognizes PCK's unique positioning to pursue growth, expansion and diversification based on the platform of its existing business. Key strategies to drive this agenda include

Implementation of financial improvement plan by; implementing the revenue and cost management, managing operational efficiencies (actualization and optimization of business solutions e.g ERP, and Debt payment and collections

Implement a marketing plan/business plans by;

-Identifying and tapping business opportunities in -Growing customer retention, Innovating and adopting, development of Mobile Virtual Network Operator, Public Key infrastructure, E-business solutions, grow e-commerce) and Asset management optimization

Develop work plans to ensure the implementation of the Corporation Strategic plan by;

Developing and implementing performance contract that enhances human resources capacity in line with the work plans and developing and implementing mentorship and succession planning programs

Competency development and knowledge management by; Developing and promoting continuous progress development programs internally and nationally

Optimize human resources by; Staff rationalization/placement/voluntary early retirement

Develop, implement and monitor enterprise risk management (ERM) frame work by;

Establishing of ERM framework (risk log), Monitoring, evaluating and reviewing ERM framework and Revising security policy

-Develop and implement a business continuity plan (BCP) framework by; Establishing BCPs, Implementation of enterprise resource planning (ERP) Posta Wallet, Migration of ISO 9001: 2008 TO 9001:9015 and enforcement of compliance, implement marketing plan and business plans by identifying tap new business opportunities

iii. People

Human resources remain an important asset to the achievement of PCK's mandate and objectives. With a highly skilled workforce as the backbone, PCK will be well placed to effectively respond to business opportunities and challenges.

It is therefore expected that PCK will address this human resources issue by reviewing the organizational structure; reviewing the career progression policy; developing and implementing a competitive compensation and reward system and transformation of corporate culture in line with the set strategic objectives as per PCK Strategic plan 2016-2019.

iv. Systems and Processes


PCK will continuously adopt modern ICT practices and seek leverage on the latest and most competitive strategy of enhancing the application of modern technology as a business driver. In this regard, we will continue pursuing the integration and optimization of different information application systems and technology platforms currently being implemented by the Corporation to improve on the performance.

Appreciation

On behalf of the Board, Management and staff, May I, start by thanking our customers. You are the reason for our existence. Since we are aware of this, and we will continue to strive for excellence in services we offer to you. Next, to our shareholder, Government of Kenya (GOK), we are grateful for the support and opportunities given to the Board and management to enable PCK meet its mandate to Kenyans.

In closing, let me express my heartfelt appreciation to all my directors for their commitment to the Corporation throughout the year. I am very grateful for having a dynamic and interested Board whose work, through the Main Board and the various Committees, is important in the effort to achieve PCK's Vision and Mission. May I also express the Board's thanks to the dedicated employees.

Chairperson



24th September 2018

POSTAL CORPORATION OF KENYA

POSTMASTER GENERAL REPORT

It gives me great honor and pleasure to present to you the Postal Corporation of Kenya Annual Report and Financial Statements for the year ended 30th June, 2018. I am happy to report that PCK has recorded an improved financial performance.

The improved performance captured in this report is attributed to prudent financial management, dedicated staff and effective guidance from the Board of Directors. The Company also took a deliberate route to partner with our customers and other stakeholders to not only become more customer focused but also be more efficient in our operations in order to ensure that services are provided effectively and timely. In 2017-2018, our commitment to operational excellence which includes cost cutting measures, gave forth to this improved set of financial results. Below are some of the highlights of the key performance indicators that capture the year under review:

Financial Performance

The Corporation posted a deficit of Kshs 84. 50 million for the financial year ended 30th June 2018 compared to Kshs 1.243 billion achieved in the Financial Year 2016/17.

Operational Revenue

Revenue increased to Kshs 3.523 billion in the year under review from Kshs 2.552 billion recorded in FY 2016/17 equivalent to a 37.85% increase.

Operating Expenditure

Whereas the Corporation operated within the budgeted expenditure during the year, total operating expenditure increased by 9.19% to Kshs 4.163 billion from the previous year's Kshs 3.806 billion. The increase in the operating expenditure is as a result of increase in revenues which triggered high levels of operating and administration costs.

Key Projects


During the period under review, the Company laid firm measures for the implementation of key projects whose status is given below:

1. Implementation of enterprise resource planning(ERP) is almost complete
This has assisted the Corporation in managing and integrating the important parts of our business in areas such Finance, Human resources and Procurement
2. Introduction of new Financial and Agency services including agency banking.
3. Kisumu post office Building which is still ongoing.
4. EMS center Building in industrial area which is still on going.

The Corporation is gearing up to realize its vision of becoming the leading provider of innovative Postal and related services. Our commitment to touch people's lives through efficient provision of quality services remains strong, we are confident that we shall continue creating value for our shareholders.

Appreciation

On behalf of the Management, I wish to extend our gratitude to the Board of Directors for the guidance and support throughout the year and members of staff for their commitment in serving our customers.



Postmaster General

September 2018

POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

PERFORMANCE HIGHLIGHTS

1. Introduction

2. Statutory Provision

(a) Audit

In accordance with the provisions of Section 20 Subsection 2 of Postal Corporation of Kenya Act, the Corporation is required to prepare and submit Annual Accounts to Auditor-General by 30 September each year.

3. Economic review

The Kenyan economy registered a GDP growth rate of 4.9% in 2017 compared to 5.8% (*Revised*) in 2016. Inflation increased to 6.3% in 2017 from 8% in 2016 - *Kenyan economic survey 2018*

4. The overall financial position of year 2017/2018 is a net loss of KShs (84.5 million) before tax.

Table 1- Financial performance Trend in Kshs millions

Particulars	2017/2018	2016/2017	2015/2016	Variance
Revenue	4,099	2,552	2,617	60%
Expenditure before exceptional items	4163	3,806	5,921	10%
Net deficit / before tax	(84.5)	(1,242)	(3,285)	
Net deficit/ after tax	(84.5)	(1,242)	(3,283)	

POSTAL CORPORATION OF KENYA

PERFORMANCE HIGHLIGHTS ..Continued

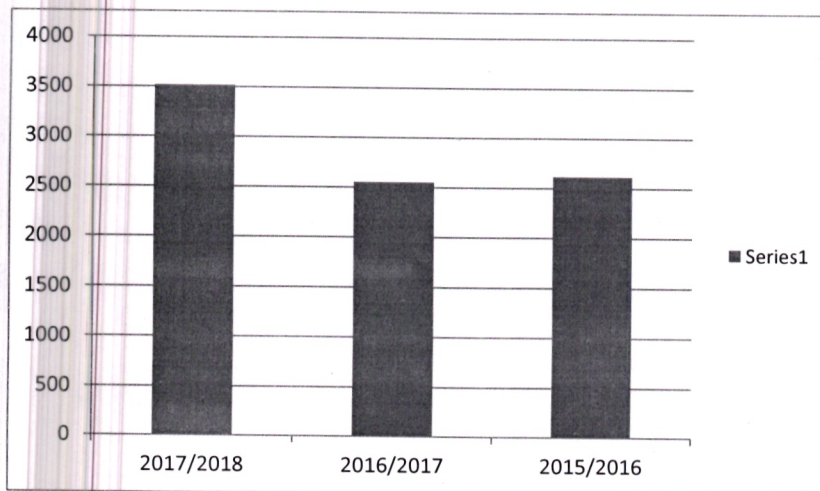
5. Financial performance

(a) Revenue

The overall Corporation Revenue registered an increase of 60% in 2017/2018 compared to 2016/2017. This is attributable to Courier (IEBC) and Recovery of Telkom debt .

Significant decreases were noted in Postage in bulk and Parcels while increases in Box rentals and Courier business.

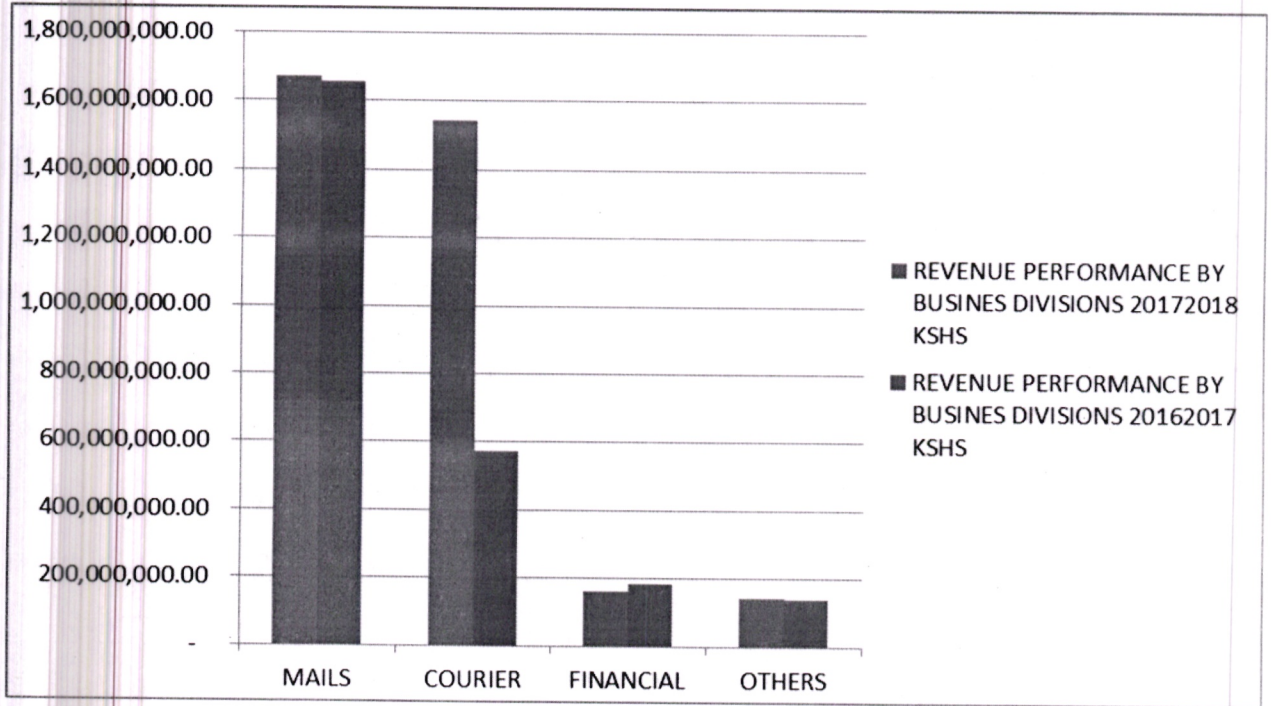
Revenue comparatives in millions



POSTAL CORPORATION OF KENYA

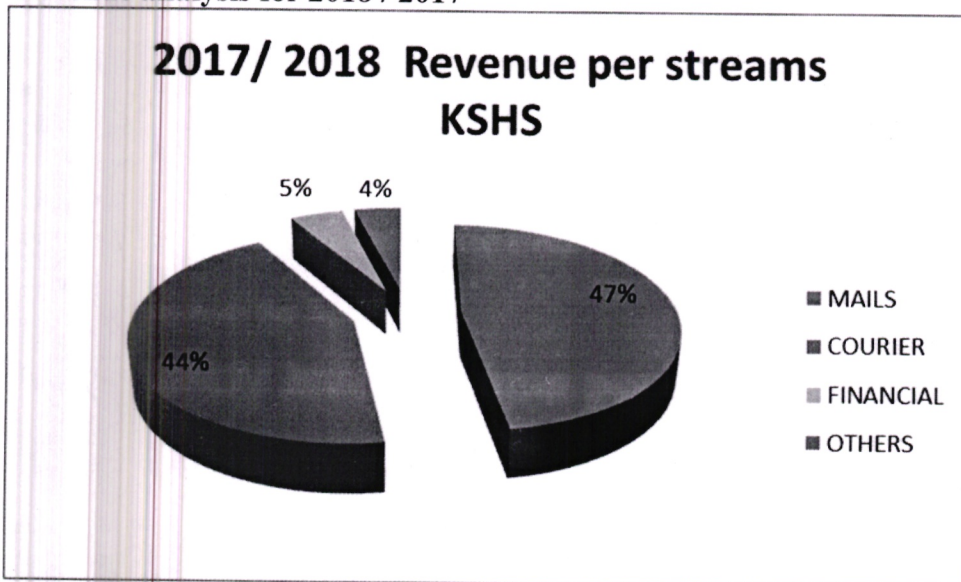
PERFORMANCE HIGHLIGHTS ..Continued

The graph below shows financial performance trend from 2016/2017 to 2017/2018



REVENUE PERFORMANCE PER STREAMS

Revenue analysis for 2018 / 2017



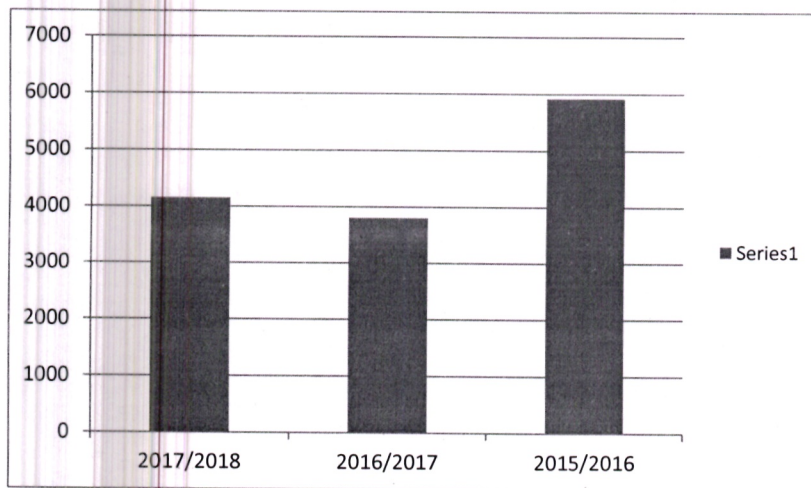
POSTAL CORPORATION OF KENYA

PERFORMANCE HIGHLIGHTS ..Continued

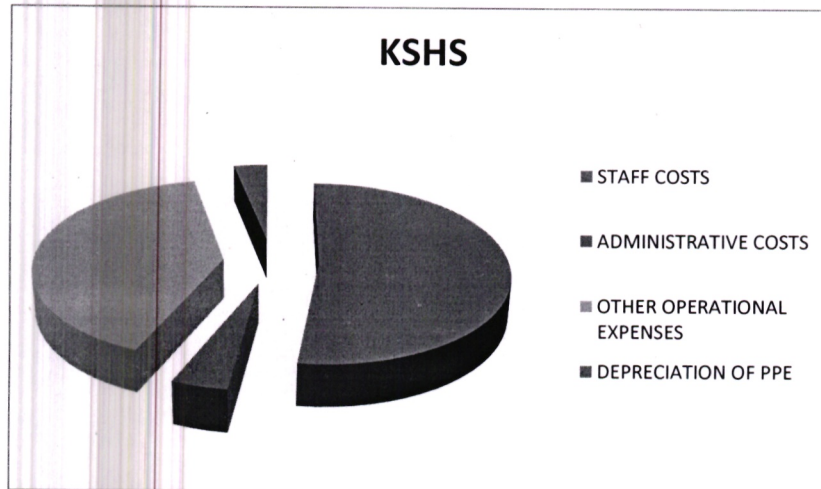
(b) Operating Expenditure

Operating expenditure reflected an increase of KShs 350 million in 2017/2018 financial year compared to 2016/2017. This was as a result of increased expenditure in IEBC business. Expenditure increases were noted in Operational, Maintenance and Administration costs with decreases in Staff and International costs.

Expenditure comparatives in millions



Expenditure Analysis



POSTAL CORPORATION OF KENYA

PERFORMANCE HIGHLIGHTS *..Continued*

(c) Financial Results

The financial results reflected an operating loss of KShs. 84.534 million compared to a loss of Kshs. 1,242 million in 2016/2017

(d) Ratios

	<u>2018/2017</u>	<u>2016/2017</u>	
Liquidity ratio: Current ratio =	0.21	0.29	Current Assets / Current liabilities
Gearing ratio =	0.68	0.68	Total liabilities/ Total Assets
Return on investment	- 0.89	-13.10	Net Profit /loss before tax/Total Assets

POSTAL CORPORATION OF KENYA

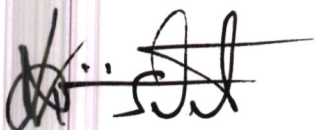
ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Corporate social responsibility Statement (CSR)

Our obligation in improving the quality of lives of our customers is important to our corporate identity. We have always strived to have a positive impact on society through improving the lives of communities who are our customers, while at the same time improving our corporate image and brand. Reaching out to the communities by contributing to their socio-economic development constitutes our core agenda through the corporate social responsibility (CSR) program. The corporation is alive to this fact and over the years, we have supported communities by alleviating their burden and assisting them lead a better life.

Our CSR program focuses on improvement of health and sanitation; provision of clean water, sports and emergencies. The PCK fraternity continues to volunteer their skills, time and funds towards community projects as a way of investing in the communities. To this end, PCK was able to construct a pediatric care services waiting bay at Kenyatta National Hospital in Nairobi County at a cost of Kshs 2,006,623.68 within the current financial period. The PCK's Posta rangers football team remains the corporation's signature CSR project. The football team has helped to place the corporation on the Kenyan sports map through their various achievements in the national football league.

Chairperson



24th September 2018

Postmaster General



POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

CORPORATE GOVERNANCE STATEMENT

Corporate Governance deals with the way companies are led and managed, the role of the Board of Directors and a framework of internal controls. The Board of Postal Corporation of Kenya is committed to upholding high standards of corporate governance.

The Board of Directors

The Board is made up of 6 non-executive Directors and the Postmaster General (PMG). The Directors are provided with appropriate and timely information so that they can maintain full and effective control over the strategic financial, operational and compliance issues of the Corporation.

The day-to-day running of the business of the company's system of internal control is bestowed on the Postmaster General who is the Chief Executive Officer.

The role of the Board includes to:

- a) Exercise leadership, enterprise, integrity and sound judgment in directing PCK to achieve continued prosperity;
- b) Approve and review strategic business and operational plans and ensure that PCK has sufficient and appropriate resources to achieve its goals;
- c) Ensure that effective systems of control are in place to manage major risks faced by PCK and to safeguard its assets;
- d) Provide oversight and guidance to Senior Management so as to enhance efficiency and effectiveness of the Corporation;
- e) Ensure that the Corporation complies with all statutory and legal requirements including prescribed codes of best practice;
- f) Monitor and evaluate organization performance through quarterly reports and agreed key performance indicators.
- g) Ensure effective accountability to the Government through the Ministry of Information and Communications in proper management of the affairs of the Corporation.
- h) Adhere to the principles and virtues of good corporate governance.

POSTAL CORPORATION OF KENYA

CORPORATE GOVERNANCE STATEMENT... *Continued*

Board Committees

The Board discharges its functions through committees. Postal Corporation of Kenya has 3 committees as listed below.

i. Audit and risk management committee

The mandate of the Committee includes:

- a) Establishment and review of internal control systems, risk management issues and internal audit procedures for the Corporation.
- b) Establish the scope, nature and priorities of internal audit. Review the internal audit programs relating to all operational aspects of the corporation.
- c) Review major findings on internal audit, investigations and recommend to the Board reasoned responses and/or contemplated actions thereto.
- d) Liaise with external auditors for audit programs, coordinating management responses to management letters thereto prior to issuance of the audit certificate.
- e) Review the external auditors' findings, issues and recommendations arising in the course of audit.
- f) Undertake such other duties or functions as may be assigned by the Board which are relevant to audit and risk management.

ii. Human Resource Committee

The duties of the Committee include:

- a) Human resource management and development – policies and their implementation.
- b) Review succession planning at senior level and make appropriate recommendations for consideration by the Board.
- c) Review the remuneration of staff for consideration by the Board.
- d) Monitor the implementation of corporate governance policies after Board approval.

iii. Finance and Technical Committee

The functions of the Committee include to:

- a) Review the Corporation's financial statements and budget before submission to the Board.
- b) Approval of procurement plans.

POSTAL CORPORATION OF KENYA

CORPORATE GOVERNANCE STATEMENT... *Continued*

- c) Review quarterly reports on tenders that have been awarded by the Tender Committee.
- d) Monitor customer service standards and productivity of resources.
- e) Review the Corporation's corporate business strategy and market research development.
- f) Review postal operations, UPU standards and compliance with Universal Service Obligations.

iv. **Business development and Innovation committee**

The mandate of the Committee includes:

- (a) Oversee the strategic direction of the Corporation's technology, innovation, research and product development programs, management issues, priorities and resource allocation in terms of responding to the Corporation's agreed corporate strategy
- (b) Advise the Board on the principal issues arising that require consideration by the full Board.

The Committee will also receive from time to time briefings on external developments in relevant technologies and research fields.

Board/Committee meetings

The following is the record of the Board and Committee meetings held during the year ended 30 June 2018

	<u>2017/2018</u>	<u>2016/2017</u>
Main / Special Board	14	20
Audit and risk management	3	4
Human Resource	5	7
Finance	9	9
Business development, and Innovation	6	8

POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

REPORT OF THE DIRECTORS

The directors of Postal Corporation of Kenya (PCK) wish to submit their report together with the financial statements for the financial year ended 30 June 2018.

1. Principal Activities

Postal Corporation of Kenya, a Public Corporation set up in 1999 under Postal Corporation of Kenya Act Number 3 of 1998 Laws of Kenya, is fully owned by the Government of Kenya. Its principal activities are provision of Postal services and Postal financial services.

2. Results

Loss before Tax	<u>KShs</u>
Less Corporation Tax	(84,534,739)
Net Profit/ (Loss) after Tax for the Year	<u>-</u> (84,534,739)

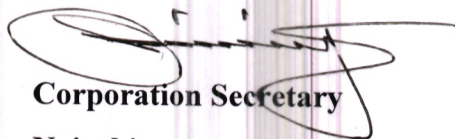
3. Directors

Directors who served are set out on page **iii**.

4. Auditors

The Auditors for the Corporation are as reported on page **v** and will continue being in office in the coming financial year 2017/2018

By Order of the Board



Corporation Secretary

Nairobi

September 2018

POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

PCK Act Number 3 of 1998 require that the Directors prepare financial statements in respect of the Corporation, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year/period and the operating results of the Corporation for that year/period. The Directors are also required to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of the Corporation.

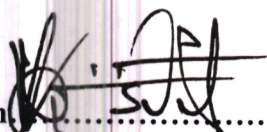
The Directors are responsible for the preparation and presentation of financial statements, which give a true and fair view of the state of affairs of Corporation for and as at the end of the financial year (period) ended on 30 June 2018. This responsibility includes: (i) maintaining adequate financial 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 PCK; (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 Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

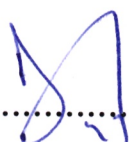
The Directors accept responsibility for Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the public management Act and the State Corporations Act. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended 30 June 2018, and of Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained by the Corporation, which have been relied upon in the preparation of Corporation's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

PCK's financial statements were approved by the Board on 24th September 2018 and signed on its behalf by:

Chairperson 

Postmaster General 

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON POSTAL CORPORATION OF KENYA FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Postal Corporation of Kenya set out on pages 1 to 32, which comprise the statement of financial position as at 30 June 2018 and the statement of profit and loss statement of changes in reserves, 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 have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters described in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with the Postal Corporation Act of 1998 of the Laws of Kenya.

Basis for Adverse Opinion

1. Property, plant and equipment

1.1 Lack of fixed asset register

The statement of financial position reflects a figure of Kshs.7,736,114,740 as Property, plant and equipment, however, no detailed fixed assets register was availed for audit verification.

Consequently, It was not possible to confirm the accuracy of Kshs.7,736,114,740 as at 30 June 2018 in respect of property, plant and equipment.

1.2 Properties not registered in the name of the Corporation

The statement of financial position reflects a figure of Kshs.7,736,114,740 as property, plant and equipment. This includes twenty-three (23) properties measuring 1.3794

Report of the Auditor-General on the Financial Statements of the Postal Corporation of Kenya for the year ended 30 June 2018

hectares of Kshs.130,150,000 which are not registered in the name of the Corporation as detailed below:

No.	Name of property	Land Registration number	Year of allocation by government	Year of vesting to PCK	Area in ha/acres	Ownership documents	Current market value (Kshs)
1	Burnt Forest	Parcel No.75	1999	Vested 2006	0.62 HA	KPTC LOA(Letter of Allotment)	1,600,000
2	Lumakanda	Parcel No.32	1999	Vested 2006	0.045 HA	KPTC LOA	3,000,000
3	Siyoi	Parcel No.41	1998	Vested 2006	0.1642	KPTC LOA	300,000
4	Garissa Post Office	Garissa Plot 111303/Temp. /45	1986	Vested 1999	0.3583(0.88537)	KPTC LOA	14,400,000
5	Homa Bay Plot LR 1432/315	Homa Bay Plot LR 1432/315	1990	vested 1999	0.33(0.81543)	KPTC LOA	3,000,000
6	Nairobi West	LR NO.37/272/5	1991	Approved for vesting to PCK by TMC in 2015. Gazettement in progress.	0.1148(0.28367)	KPTC LOA	35,000,000
7	Jogoo RD.	209/11121	1979	Vested 1999	0.160(0.39536)	KPTC LOA	25,700,000
8	Homa Bay Plot	Homa Bay Plot	2001	Approved for vesting to PCK by TMC in 2015. Gazettement in progress.	0.1352	KPTC LOA	3,200,000
9	Kandara	Unsurveyed Plot Kandara	1979	Approved for vesting to PCK by TMC in 2015. Gazettement in progress.	0.09(0.22239)	KPTC LOA	2,500,000
10	Kipsaos	Unsurveyed Plot Kipsaos	1999	Approved for vesting to PCK by TMC in 2015. Gazettement in progress.	0.036(0.8896)	KPTC LOA	150,000
11	Busia	Unsurveyed		Approved for vesting to PCK by TMC in 2015. Gazettement in progress.			1,500,000
12	Machakos post office extension	Unsurveyed	1984	Approved for vesting to PCK by TMC in 2015. Gazettement in progress.	0.74HA	KPTC LOA	39,800,000
13	Lamuria Plot	Lamuria		Vested 1999	0.5		Does not exist
14	Mgange Post Office	Mgange		Vested 1999	-		Unvalued
15	Mosoriot Trading Centre - Plot	Mosoriot Trading Centre - Plot	1998	Vested 1999	0.18	KPTC LOA	Does not exit
16	Ortum	Unsurveyed Plot Ortum	2000		0.29(0.71659)	KPTC LOA	Unvalued
17	Nairobi Hill community Area	Nairobi 209/11921	1996	Vested1999	0.4	KPTC LOA	Encroached

No.	Name of property	Land Registration number	Year of allocation by government	Year of vesting to PCK	Area in ha/acres	Ownership documents	Current market value (Kshs)
18	Rhamu	Unsurveyed		Approved for vesting to PCK by TMC in 2015. Gazettement in progress.			Unvalued
19	Bomet	Unsurveyed		Approved for vesting to PCK by TMC in 2015. Gazettement in progress.		PDP	Unvalued
20	Wajir post office plot	Unsurveyed		Approved for vesting to PCK by TMC in 2015. Gazettement in progress.			Unvalued
21	Wamba	Unsurveyed		Application for Proposal for vesting to PCK by TMC done in 2018.			Unvalued
22	Othaya	Unsurveyed		Application for Proposal for vesting to PCK by TMC done in 2018.			Unvalued
23	Rongo	Unsurveyed		Application for Proposal for vesting to PCK by TMC done in 2018.			Unvalued
Total					1.3794		130,150,000

1.3 Expired lease

The statement of financial position reflects a balance of Kshs.7,736,114,740 as Property, plant and equipment, which includes six (6) properties measuring 2.7537 hectares of Kshs.197,300,000 with expired lease as detailed below:

Name	LR No	Acreage as per title/LOA	Current market value (Kshs)	Lease term in years	Year of allocation	Lease expiry date	Years operating without lease
Kitui General Post Office	Kitui LR NO 4096/214	0.224	57,800,000	33	1 st October 1970	2003	16
Marsabit Post Office	Marsabit 19870/111/151	0.866	300,000	33	1 st August 1967	2000	19
Tom Mboya Post Office	NRN 209/2359	0.0417	110,000,000	70	1 st March 1933	2003	13
Yala Post Office	LR.No.1437/93	0.478	7,600,000	33	1 st December 1965	1998	21
Kajiado Post Office	LR.No.9923/60	0.635	15,000,000	33	1 March 1967	2000	19
Wundanyi Post Office	LR.No.11753	0.509	6,600,000				
Total		2.7537 Ha	197,300,000				

2. Going concern

During the year under review, the Corporation recorded a deficit of Kshs.84,534,739 (2016/2017 a deficit of Kshs.1,242,483,391) thereby reducing the accumulated reserves from negative Kshs.4,107,420,465 as at 30 June 2017 to negative Kshs.4,191,955,204 as at 30 June 2018. Further, the current liabilities of Kshs.6,446,942,721 exceeds current assets of Kshs.1,379,938,247 resulting to a negative working capital of Kshs.5,067,004.474 as at the same date.

The Corporation is therefore unable to meet its financial obligations as and when they fall due. The Corporation is technically insolvent and its financial statements have been prepared on going concern basis with the assumption of continued financial support from the Government, its bankers and creditors.

3. Cash and Bank

The statement of financial position as at 30 June 2018 reflects cash and bank balance of Kshs.311,883,958. Included in this figure as reflected under note 12 to the financial statements is bank balance of Kshs.181,922,771. However, examination of bank reconciliation statements for the period ended 30 June 2018 revealed the following;

- (i) that unpresented cheques amounting to kshs.6,599,207.27 were stale and had not been reversed in the bank reconciliation statement and cash book,
- (ii) credits in the bank statement that had not been recorded in the cashbook for a long period amounted to Kshs.988,584.00,
- (iii) there were cash deposits in the cashbook not recorded in the bank statement of Kshs.980,282.20
- (iv) and debits in the bank statement not recorded in the cashbook of Kshs.12,269,849.34.

No explanations were provided for these anomalies.

In the circumstances, it was not possible to confirm the accuracy and validity of the balance of cash and bank balance of Kshs.311,883,958 as at 30 June 2018.

4. Trade and other receivables

The statement of financial position as at 30 June 2018 reflects an amount of Kshs.1,068,054,288 as trade and other receivables. However,

4.1 Service debtors

A detailed schedules of service debtors with an analysis for the following figures was not provided;

Service Debtor`s Particulars	Amount Owing Kshs.	Remarks
Postapay	177,695,268	long overdue
Rent Receivables	62,768,276	
Rent Deposits	436,920	
Total	240,900,464	

4.2 Agency debtors

4.2.1 Telkom Kenya Ltd

As previously reported, trade and other receivables balance of Kshs.1,068,054,288 as at 30 June 2018 includes debts on account of Telkom Kenya Limited of Kshs.127,972,677 in respect of service debts which have been owing since 1999. Further, debts in respect of money order inter-state of Kshs.60,395,648, Postapay of Kshs.177,695,268 and rent receivable of Kshs.62,768,276 which have remained uncollected over the years and therefore their full recoverability is doubtful.

4.2.2 Kenya Post Office Savings Bank

As previously reported the trade and other receivables balance of Kshs.1,068,054,288 includes an amount of Kshs.1,397,759,545 in respect of uncollected agency charges accumulated over a period of seventeen (17) years on account of Kenya Post Office Savings Bank. A review of the matter as at the time of audit showed that no confirmation of the balance had been received from the Bank as at 30 June 2018.

4.2.3 Other Agency Debtors

Other agency debtors schedule availed for audit reflects a figure of Kshs.67,264,132 while the financial statements reflects a figure of Kshs.55,049,722 resulting in an unexplained understatement of Kshs.12,214,410. Further, the schedule of other agency debtors provided of Kshs.67,264,132 included an amount of Kshs.35,180,0896.87 for the financial year 2017/2018 whose analysis was not provided for audit verification.

Consequently, the validity, accuracy and full recoverability of the trade and other receivable balance of Kshs.1,068,054,288 as at 30 June 2018 could not be confirmed.

4.3 Other Debtors

4.3.1 Staff Advances-Loss of Cash.

The other debtors figure of Kshs.319,884,520 at note 11 to the financial statements includes Kshs.72,889,717 indicated as staff advances. The figure of Kshs.72,889,717 includes an amount of Kshs.26,787,970 being cash stolen by staff at various stations on diverse dates. Although management has made full provision for the losses in the

financial statements and the staff involved dismissed from service, no evidence of any steps being taken to recover the amount was provided for audit review.

4.3.2 Tax Recoverable

Included in the trade and other receivables balance of Kshs.1,068,054,288 as at 30 June 2018 is Kshs.319,884,520 in respect of other debtors. The amount of Kshs.319,884,520 includes an amount of Kshs.201,041,139 in respect of tax recoverable from the Kenya Revenue Authority (KRA) some of which date back to 2013. It is not clear and management has not been able to explain why a claim has not been lodged to recover the outstanding amount from Kenya Revenue Authority.

In the circumstances, it has not been possible to confirm that the trade and other receivables balance of Kshs.1,068,054,288 is fairly stated as at 30 June 2018.

5.0 Trade and other payables

5.1 New Posta Pay EFT

The statement of financial position reflects an amount of Kshs.6,446,942,721 as at 30 June 2018 in respect of trade and other payables. Included in this amount as indicated in note 13 to the financial statements is an amount of Kshs.1,220,000,228 in respect of New Posta pay EFT a service creditor which had not been analyzed or supported.

In addition, ageing analysis for the service creditors was not provided for audit verification.

5.2 Posta pay (Revenue Share and Network fees)

Included in the balance of Kshs.6,446,942,721 reflected as trade and other payables as at 30 June 2018 is an amount of Kshs.92,544,072 in respect of Posta Pay (Revenue Share and Network fees) which has been outstanding for more than eight (8) years. Further and as similarly reported, the management is in dispute with a firm which was offering the services, and an accounting firm was appointed to carry out an investigation to determine the correct amount payable. However, no report on the investigation was provided for audit review as at the time of our audit.

5.3 Other creditors

5.3.1 Deferred Projects

As previously reported, the trade and other payables balance of Kshs.6,446,942,721 as at 30 June 2018 Included bills totaling to Kshs.96,819,339 in respect of deferred projects as indicated in note 13 to the financial statements. These bills were however not supported with the relevant records as at the time of our audit.

Consequently, the accuracy, completeness and validity of the balance of trade and other payables of Kshs.6,446,942,721 as at 30 June 2018 could not be ascertained.

6. Posta Switch

As previously reported, on 3 May 2012 the Corporation entered into a contract with a Company for supply, delivery, installation and commissioning of financing agency solution

Report of the Auditor-General on the Financial Statements of the Postal Corporation of Kenya for the year ended 30 June 2018

at a contract cost of USD.893,800 equivalent to Kshs.76,151,760. The contract was denominated in dollar and the contract cost continues to rise due to the fluctuation in Kenya Currency against the dollar. Although management is fully aware of the fluctuation of the contract cost, no evidence of budgetary provisions has been made to cater for the anticipated increase was provided for audit review.

As at the time of audit, the financing agency solution was confirmed not to be fully operational although the project was officially launched on 31 July 2013. It was however observed that out of the various services it was supposed to offer, only agency banking module was operational. Other services which includes mobile money transfer, card based transaction, e-commerce online disbursement of funds. The stakeholders have therefore not obtained value for money from this project. Further, the solution which is an intangible asset is not shown separately in these financial statements in line with International Accounting Standard No. 38 which requires that each class of intangible asset be disclosed separately with the useful life, amortization rate and gross carrying amount. It is not clear and management has not explained if and when the project will be commissioned.

In consequence, the propriety of the expenditure of USD.893,800 equivalent to Kshs.76,151,760 at the time cannot be ascertained.

7. Unsupported revenue

The statement of profit and loss as at 30 June 2018 reflects a figure of Kshs.4,099,334,185 as total revenues. However, revenue of Kshs.667,981,042 was not supported as detailed below;

Account name	Amount as per Financial Statements (Kshs)	Amount not Supported (Kshs)
Revenue		
Postal Revenue	3,279,798,546	654,479,397
Agency services	110,476,628	13,501,645
Total	3,390,275,174	667,981,042

Agency services agreements/contracts for a total of Kshs.107,496.748 out of the total of Kshs.110,476,628 were not provided for audit review.

Consequently, the validity and accuracy of the figure of Kshs.4,099,334,185 in respect of total revenue for the year ended 30 June 2018 could not be confirmed.

8. Unsupported Adjustments

The following account balances of profit and loss as at 30 June 2018 have adjustments that are not supported as highlighted below:

Report of the Auditor-General on the Financial Statements of the Postal Corporation of Kenya for the year ended 30 June 2018

	Account balance	Amount of Adjustments Kshs.
1	Postal Revenue	(400,000)
2	Operation expenses	24,487,996
3	Other expenses	(11,128,669)
4	Trade and other payables-Other creditors (Rentals)	22,500,000

Under the circumstance, the accuracy and correctness of these expenditure accounts and the financial statements as at 30 June 2018 could not be ascertained.

9. Other Revenue

Statement of profit and loss as at 30 June 2018 reflects a figure of Kshs.575,686,499 as other revenue. This figure includes a figure of Kshs.587,754,610 as debt recovery as reflected under note 3 to the financial statements. Although the explanation was that the amount was earlier provided for as bad and doubtful debt in financial year ended 30 June 2016 and upon recovery the amount was considered as income for the year 30 June 2018, this amount was not a bad debt written off but only a provision made in the year 30 June 2016.

Further, the amount of other revenues of Kshs.575,686,499 was arrived at after netting off foreign exchange loss of Kshs.12,602,284 as reflected at Note 2 which is not in line with the International Accounting Standards No. 1.

In view of the foregoing, the accuracy of the non-operating revenue figure of Kshs.575,686,499 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse 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. Except for the matters described in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matters

Procurement method for ERP software

The Statement of financial position reflects a figure of Kshs.318,194,473 as Intangible assets. Postal Corporation of Kenya awarded M/S Nortis supplies Ltd to provide arbutus audit software for audit and risk management at a cost of Kshs.4,640,000 on 8 September 2017 using restrictive tendering. No justification was provided for using this method of procurement. In addition, no contract was signed between PCK and the supplier contrary to the procurement procedures. Further, the supplier was recommended by the requesting department thus making the request subjective.

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(s) described in the Basis for Adverse Opinion 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.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7(1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter(s) described in the Basis for Adverse Opinion section 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.

Responsibilities of Management and Those Charged with Governance

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 governance.

In preparing the financial statements, management is responsible for assessing the Corporation'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 Corporation 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.

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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity 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.

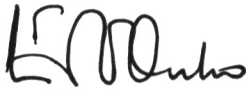
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the 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 ability to continue as a going concern or to sustain its services. 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 to cease to continue as a going concern or to sustain its services.
- 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 Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the 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.



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

Nairobi

23 August 2019

Postal Corporation of Kenya
Statement of Profit and Loss
For the year ended 30 June 2018

	Notes	2017/2018	2016/2017
		KSHS	KSHS
REVENUES			
Operating revenue	2	3,523,647,686	2,552,477,865
Other revenue	3	575,686,499	24,103,054
Total revenue		4,099,334,185	2,576,580,919
Operating expenses			
Staff costs	5	2,162,782,886	2,291,921,517
Administrative expenses	6	174,581,990	141,051,448
Other operational expenses	7	1,693,041,918	1,249,864,735
Depreciation of PPE	8.a	133,090,384	123,972,341
Total operating expenses		4,163,497,179	3,806,810,041
Operating Surplus/(Deficit)		(64,162,994)	(1,230,229,122)
Finance income	4	2,296,910	3,070,731
Finance costs	9	(22,668,655)	(15,325,000)
Net surplus/(Deficit) before tax		(84,534,739)	(1,242,483,391)
Income tax expense		-	-
Net Surplus/(Deficit) after Tax		(84,534,739)	(1,242,483,391)

Postal Corporation of Kenya
Statement of Financial Position
For the year ended 30 June 2018

		<u>2017/2018</u> KSHS	<u>2016/2017</u> KSHS
Assets			
Non- Current Assets			
Plant Property and Equipment	8.a	7,736,114,740	7,799,357,385
Intangible asset	8.b	318,194,473	310,854,473
		8,054,309,213	8,110,211,858
Current Assets			
Inventories	10	-	9,219,600
Trade and Other Receivables	11	1,068,054,288	1,068,589,247
Cash and Bank	12	311,883,958	297,186,443
		1,379,938,247	1,374,995,290
Total Assets		9,434,247,460	9,485,207,148
Reserves and Liabilities			
Current liabilities			
Trade & Other payables	13	6,446,942,722	6,413,367,671
Taxation		-	-
		6,446,942,722	6,413,367,671
Reserves			
General reserve	14	(4,191,955,204)	(4,107,420,465)
Revaluation Reserve	15	7,179,259,943	7,179,259,943
Total Reserves		2,987,304,738	3,071,839,478
Non Current liabilities			
Total Reserves and Liabilities		9,434,247,460	9,485,207,148

The Financial Statements on pages 1 to 33 were approved by the Board of Directors on September 2017 and were signed on its behalf by;

Chairperson.....

Postmaster General.....

Date:

Date:

General Manager Finance.....

ICPAK NO. 12602

Date:

Postal Corporation of Kenya
Statement of Changes in Reserves
For the Year Ended 30 June 2018

	Note	General Reserve	Revaluation Reserve	Total
As at 1 July 2016		(2,864,937,074)	7,179,919,943	6,392,801,507
Net profit / Deficit for the year		(1,242,483,391)	-	(1,242,483,391)
Revaluation adjustment			(660,000)	
Revaluation Gain				-
As at 30 June 2017		(4,107,420,465)	7,179,259,943	3,071,839,478
opening 01/07/2017		(4,107,420,465)	7,179,259,943	3,071,839,478
				-
				-
				-
				-
Net profit / Deficit for the year		(84,534,739)	-	(84,534,739)
				-
				-
				-
As at 30 June 2018		(4,191,955,204)	7,179,259,943	2,987,304,739

Postal Corporation of Kenya
Statement of Cashflows
For the year ended 30 June 2018

		2018/2017 <u>KSHS</u>	2016/2017 <u>KSHS</u>
Cash receipts from customers		3,663,731,146	2,694,557,769
Cash paid to suppliers and staff		<u>4,005,322,690</u>	<u>3,174,079,555</u>
Total cash flow from operating activities		(341,591,544)	(479,521,786)
Tax paid		<u>-</u>	<u>-</u>
Cash generated from operations		(341,591,544)	(479,521,786)
CASHFLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of assets		-	1,771,604
Purchase of Property and Equipments	12	(37,959,437)	(50,118,822)
Interest income		2,296,910	3,070,731
Cash advanced to staff		<u>(3,263,720)</u>	<u>(11,041,212)</u>
Net cashflow from Investing activities		(38,926,247)	(56,317,698)
CASH FLOW FROM FINANCING ACTIVITIES			
Loan Repayments	21	-	-
Loan interests	22	-	-
Dividend paid		<u>-</u>	<u>-</u>
Net cashflow from financing activities		<u>-</u>	<u>-</u>
Net Increase /Decrease in PCK Cash		(380,517,791)	(535,839,485)
Cash to/ from others		395,215,306	338,083,374
Cash and Cash Equivalent at beginning		<u>297,186,443</u>	<u>494,942,554</u>
Cash and Cash Equivalent at year end		<u>311,883,958</u>	<u>297,186,443</u>

Note: Cash to and from others refer to deductions from staff to sacco and banks and other received from agency clients

Postal Corporation of Kenya

Statement of Comparison of Budget and Actual Amounts

For the year ended 30 June 2018

Description	Original budget	Adjustment	Final budget	Actuals	Performance difference
	2017/2018	2017/2018	2017/2018	2017/2018	
REVENUE	5,188,249,000		5,188,249,000	4,101,631,094	(1,086,617,906)
Less OPERATING EXPENDITURE					
Staff costs	2,214,500,000	43,260,000	2,257,760,000	2,162,782,886	(94,977,114)
Administration cost	235,929,000	(35,866,000)	200,063,000	158,214,240	(41,848,760)
Directors Expenses	20,000,000	1,960,000	21,960,000	16,367,750	(5,592,250)
Operational cost	505,660,000	387,708,000	893,368,000	758,710,239	(134,657,761)
Conveyance of Mail	136,000,000	3,103,000	139,103,000	105,005,223	(34,097,777)
International Services	70,000,000	-	70,000,000	49,502,366	(20,497,635)
Rental expenses	291,400,000	23,900,000	315,300,000	283,364,431	(31,935,569)
Maintenance expenses	186,580,000	3,507,000	190,087,000	151,595,753	(38,491,247)
Training	34,206,000	(106,000)	34,100,000	32,995,046	(1,104,954)
Telephone and Data Communic	53,800,000	2,499,000	56,299,000	51,079,972	(5,219,028)
Other expenses	260,285,000	7,222,000	267,507,000	194,184,481	(73,322,519)
	4,008,360,000	437,187,000	4,445,547,000	3,963,802,387	(481,744,613)
Provision for Depreciation				133,090,384	
Non operating expenditure				22,668,655	
Provision for bad debts				66,604,408	
				4,186,165,834	
Surplus/(Deficit) for the year					(84,534,739)

The corporation's 10% cost containment measure to minimise on cost of overall expenditure in the F/Y 2017/2018 has affected administrative costs, operational costs, conveyance of mails, rental expenses, maintenance expenses and other expenses. On the other hand, the adverse variance on Revenue has been as a result of reducing mail business.

POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) 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, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. 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 PCK accounting policies. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Postal Corporation of Kenya.

The financial statements have been prepared in accordance with the PFM Act, Postal Corporation of Kenya Act, and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

1. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date
IFRS 9: Financial Instruments <i>(Issued 24 July 2014)</i>	Effective for annual periods beginning on or after 1 January 2018
IFRS 15: Revenue from Contracts with Customers <i>(Issued 28 May 2014)</i>	Applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018
IFRIC 22: Foreign Currency Transactions and Advance Consideration <i>(Issued 8 December 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2018
<i>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</i> <i>(Issued 19 January 2016)</i>	Effective for annual periods beginning on or after 1 January 2017

Amendment/Interpretation to a standard	Effective date
<i>Disclosure Initiative (Amendments to IAS 7) (Issued 29 January 2016)</i>	Effective for annual periods beginning on or after 1 January 2017
<i>Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Issued 12 April 2016)</i>	Effective for annual periods beginning on or after 1 January 2018
<i>Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (Issued 20 June 2016)</i>	Effective for annual periods beginning on or after 1 January 2018
<i>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) (Issued 12 September 2016)</i>	Overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for annual periods beginning on or after 1 January 2018 and only available for three years after that date
<i>Transfers of Investment Property (Amendments to IAS 40) (Issued 8 December 2016)</i>	Effective for annual periods beginning on or after 1 January 2018
<i>Annual Improvements to IFRS Standards 2014–2016 Cycle (Issued 8 December 2016)</i>	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017

A number of amendments to standards and interpretation become effective for the first time in the financial year beginning 1st July 2017 and have been adopted by the Corporation. None of them has had an effect on the company's financial statements.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date
<i>IFRS 16: Leases (Issued 13 January 2016)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019
<i>IFRS 17 Insurance Contracts (Issued 18 May 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2021
<i>IFRIC 23: Uncertainty over Income Tax Treatments (Issued 7 June 2017)</i>	Applicable to annual reporting periods beginning on or after 1 January 2019

<i>Prepayment Features with Negative Compensation (Amendments to IFRS 9) (Issued 12 October 2017)</i>	Annual periods beginning on or after 1 January 2019
<i>Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) (Issued 12 October 2017)</i>	Annual periods beginning on or after 1 January 2019
<i>Annual Improvements to IFRS Standards 2015–2017 Cycle (Issued 12 December 2017)</i>	Annual periods beginning on or after 1 January 2019
<i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) (Issued 7 February 2018)</i>	Annual periods beginning on or after 1 January 2019
<i>Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018)</i>	Annual periods beginning on or after 1 January 2020

The directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2017-2018.

POSTAL CORPORATION OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(b) Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Corporation 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 the Corporation's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the Corporation's activities as described below.

- i) **Revenue from the sale of goods and services** is recognised in the year in which the 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 the Corporation actually receives such grants.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

POSTAL CORPORATION OF KENYA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(c) In-kind contributions

In-kind contributions are donations that are made to the Corporation in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Corporation includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

(d) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses.

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. The last revaluation was done by Swatz Developers limited on 1st July 2015 .

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.

(e) 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 on buildings 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	50 years or the unexpired lease period
Land	Nil
Motor vehicles, including motor cycles	6-9 years
Computers and related equipment	5 years
Office equipment, furniture and fittings	10 years

No depreciation is charged both in the year of asset purchase and 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.

POSTAL CORPORATION OF KENYA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(f) Intangible assets

Intangible assets comprise purchased computer software licences, which are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the intangible assets from the year that they are available for use, usually over three years.

(g) 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.

(h) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by PCK, are classified as investment property under non-current assets.

Investment property is carried at fair value, representing open market value determined periodically by independent external values. Changes in fair values are included in profit or loss in the income statement.

(i) Finance and operating leases

Leases which confer substantially all the risks and rewards of ownership to PCK are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, and the asset is subsequently accounted for in accordance with the accounting policy applicable to that asset.

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

(j) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

POSTAL CORPORATION OF KENYA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(k) Quoted investments

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value.

(l) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on the moving average price method.

(n) 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.

(o) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where PCK operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(p) 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 Central Bank of Kenya and at various commercial banks at the end of the financial year.

POSTAL CORPORATION OF KENYA

(q) 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.

(r) 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 PCK or not, less any payments made to the suppliers.

(s) Retirement benefit obligations

PCK operates a defined contribution scheme for all full-time employees from January 1, 2010. The scheme is administered by an independent body and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the Retirement benefit Authority and National Social Security Act. The company's total obligation under the DCS scheme and NSSF is currently at 12.5 % of employees' basic pay. The company contribution to National Social Security Fund (NSSF) is currently at Kshs.200 per employee per month.

(t) Provision for staff leave pay

Employees' entitlements to annual leave are recognized as they accrue at the employees. At provision is made for the estimated liability for annual leave at the reporting date.

		2017/18	2016/2017
Balance at beginning of the year	Kshs.	7,206,540	7,206,540
Additional provision at end of year		<u>280,353</u>	<u>2,497,307</u>
Balance at end of the year		<u>9,984,200</u>	<u>9,703,847</u>

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

(u) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the PCK 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 recognized in profit or loss.

POSTAL CORPORATION OF KENYA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(v) Budget information

The original budget for FY 2017-2018 was approved by the National Assembly on 7th June 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. Accordingly, the PCK recorded additional revisions of Kshs.565,322,000 on the 2017-2018 budget following approval.

The PCK's 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.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented page 5 of these financial statements.

(w) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

(x) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

(y) IAS 24 Related party disclosure

The objective of this standard is to ensure that PCK financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit and loss may have been affected by the existence of related parties.

Related parties of the Corporation include the National Government, the Board of Directors and key Management personnel. Transactions and benefits made to related parties during the year are as summarized below:

	Shs.'000' 2017/18	shs.'000' 2016/17
(a) Payment to Board of Directors in note No. 6 page 17	16,367	18,070
(b) Senior Management emoluments	54,385	55,486

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of PCK's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. PCK based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of PCK. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the PCK
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the assets
- Changes in the market in relation to the asset

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 7(j)

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Local debts that are over one year and international debts over seven years are provided at 100%.

POSTAL CORPORATION OF KENYA
For the year ended 30 June 2018 (Cont'd)

NOTE 2	2017/2018	2016/2017
Revenue Analysis	KShs	KShs
Postal Revenue		
Sale of stamps	282,230,497	220,207,743
Parcels	183,413,116	195,263,377
Postage in bulk	357,219,151	460,426,467
Receipts from Foreign admin	144,498,093	165,850,324
EMS Service	1,365,335,229	378,612,682
Money order commisson	36,739,689	49,019,039
Box/ bag Rentals	858,227,408	781,535,988
EFT commission	5,814,378	9,969,725
Posta Despatch	3,077,368	2,864,360
Direct Mail Marketing	683,690	739,733
Post Liner Bus services	9,298,448	7,479,060
Posta Pesa Comm.	9,183,950	2,242,291
Miscellaneous	24,077,530	23,075,335
TOTAL	3,279,798,546	2,297,286,124
Post shops		
Posta shops	2,664,445	2,058,111
Total	2,664,445	2,058,111
Total postage and Post shops	3,282,462,991	2,299,344,234
Rent revenue	130,708,066.88	130,525,283.23
AGENCY SERVICES		
(KPOSB) Post Office Savings Banl	505,701.00	1,316,063.00
PCK and Teleposta Pension schem	59,840.00	60,945.00
Kenya power Commisions	6,178,055.00	927,231.00
Customs and Clearing commisions	67,279,960.42	30,298,009.65
Mpesa and Airtel	13,878,955.97	8,634,116.70
Huduma Service commissions	8,957,815.00	23,723,063.50
Nairobi Water and Other Regional	13,616,300.28	57,648,918.30
Total Agency Revenue	110,476,628	122,608,347
Total Operating Revenue	3,523,647,686	2,552,477,865
Debt Recovery		
3 Non-Operating Revenue	2016/2017	2016/2017
	<u>Kshs</u>	<u>Kshs</u>
Debt Recovery	587,754,610	27,264,866
Sale of Tender documents	440,000	550,017
Gain/Loss on disposal of Vehicles	-	(633,953)
Sale of Stores	94,173	1,058,923
Foreign exchange loss	(12,602,284)	(4,136,798)
Total	575,686,499	24,103,054
	2016/2017	2015/2016
	<u>Kshs</u>	<u>Kshs</u>
4 Finance income		
Bank Interest	2,280,410	3,017,382
Staff loans interest	16,500	53,349
	2,296,910	3,070,731

POSTAL CORPORATION OF KENYA

Notes to the financial statements For the year ended 30 June 2018 (Cont'd)

	2017/2018	2016/2017
	KShs	KShs
5. Staff costs		
Salaries and Allowances	1,433,327,092	1,483,818,913
House Allowance	440,710,843	458,064,915
Medical	118,420,871	153,268,056
Pension expense	170,324,079	192,682,299
staff awards	0	4,087,334
	2,162,782,886	2,291,921,517

The average number of employees at the end of the year was:

Permanent- Management staff	367	392
Permanent Unionisable staff	2,636	2,775
Contract staff and temporary st	31	28
	3,034	3,195

6. Administration Expense

	2017/2018	2016/2017
	Kshs	Kshs
Consultancy Charges	3,237,348	3,291,171
Bank Charges	15,848,704	12,335,031
Office Administration	29,055,266	24,254,000
Contingencies	1,562,269	1,671,081
Insurance	20,939,088	21,922,496
Security Charges	87,200,216	58,377,017
Miscellenous expense	371,350	1,129,723
Directors expense	16,367,750	18,070,929
Total	174,581,990	141,051,448

POSTAL CORPORATION OF KENYA

Notes to the financial statements For the year ended 30 June 2018 (Cont'd)

7. Operations Expense	note	2017/2018	2016/2017
		KShs	KShs
Operation Expense	7(a)	758,710,239	269,666,506
Conveyance of mail	7(b)	104,269,538	119,962,909
International Services Expense	7(c)	49,502,366	79,785,850
Rental Expense	7(d)	283,364,431	255,795,441
Maintenance	7(e)	151,595,753	90,857,989
Training Expense	7(f)	32,995,046	20,890,294
Telephone and Data Communication	7(g)	51,079,972	45,144,076
Other Expenses	7(h)	194,184,481	185,349,387
Provision for bad debts	7(i)	66,604,408	182,412,282
		<u>1,692,306,234</u>	<u>1,249,864,735</u>

7(a). Operation Expense	2017/2018	2016/2017
	Kshs	Kshs
Postal Agencies	10,436,694	2,721,344
General Stores	53,859,718	32,027,555
Supply of Stamps	7,479,762	4,563,939
Vehicles Running Expenses	118,885,385	131,480,105
Compensation	1,632,345	770,643
Operating License	38,677,474	1,330,932
Transport hire, clearing and Freight charges	435,672,794	3,059,513
Travel subsistence allowances	92,066,067	93,712,475
Total	<u>758,710,239</u>	<u>269,666,506</u>

7(b). Conveyance of mail	2017/2018	2016/2017
	Kshs	Kshs
Road	11,133,217	11,376,693
Air Internal	23,138	71,657
Air International	93,113,183	108,514,559
TOTAL	<u>104,269,538</u>	<u>119,962,909</u>

7(c). International Services Expense	2017/2018	2016/2017
	Kshs	Kshs
International Parcel Services -	28,188,243	61,909,306
International Mail Services -	<u>21,314,123</u>	<u>17,876,544</u>
Total	<u>49,502,366</u>	<u>79,785,850</u>

POSTAL CORPORATION OF KENYA

Notes to the financial statements For the year ended 30 June 2018 (Cont'd)

7(d). Rental Expense

	2017/2018	2016/2017
	KShs	KShs
		restated
Site Rentals	8,336,585	13,630,554
Office Rentals	275,027,846	242,164,887
Total	283,364,431	255,795,441

7(e). Maintenance

Equipment leasing	68,935,543	33,093,993
Office Equipment Repairs	14,110,134	16,306,868
ICT maintenance and licences	41,508,617	13,499,127
Building Maintenance	27,041,459	27,958,002
Total	151,595,753	90,857,989

7(f). Training Expense

Training DIT	6,985,505	1,356,285
Local Training	26,009,541	19,534,009
Total	32,995,046	20,890,294

7(g). Telephone and Data Communication

Telephone lines	12,212,249	13,832,539
Mobile lines	4,850,788	1,267,119
Data communication	34,016,935	30,044,418
Total	51,079,972	45,144,076

Notes to the financial statements
For the year ended 30 June 2018 (Cont'd)

7(h). Other Expenses	2017/2018	2016/2017
	<u>Kshs</u>	
Furniture and Fittings (Repairs)	691,149	532,098
Electricity/Water	53,180,657	49,653,673
PCK Sporting Activities	4,049,365	14,060,065
Legal Expenses	10,684,765	13,893,705
Health, Safety Environment (HSE)	12,216,446	12,587,654
Shows and Exhibitions	6,620,721	6,378,111
Electronic Media Adverts	37,838,341	31,084,068
Print Media Adverts	48,355,340	34,609,186
Outdoor advertisement	17,475,105	19,379,863
Entertainment	132,239	372,425
Audit fees	2,500,000	2,500,000
Tax on fridge benefits	440,354	298,539
Total	<u>194,184,481</u>	<u>185,349,387</u>

7(i). Provision for bad debts

The Corporation has increased the provision for bad debts by Kshs.66 million to cover long outstanding EMS and other debtors that have been outstanding for more than over one year.

	2017/2018	2016/2017
Opening	2,877,732,434	2,722,585,017
Provision for bad debts	66,604,408	182,412,282
Bad debt Recovery	(587,754,610)	(27,264,865)
TOTAL provision	<u>2,356,582,232</u>	<u>2,877,732,434</u>

POSTAL CORPORATION OF KENYA
Notes to the financial statements
For the year ended 30 June 2018 Cont'd)

8. a. Property, Plant and Equipment

	LAND	BUILDINGS	VEHICLES	OFFICE EQUIP.	COMPUTERS	W. I. P	TOTAL
COST/VALUATION 01.07.2016	5,303,450,000	2,069,257,693	256,869,152	207,904,370	126,261,163		7,963,742,378
Additions	-	2,233,650	-	13,216,099	39,258,804	8,400,970	63,109,523
Disposals	-	-	(2,850,000)	-	-	-	(2,850,000)
AS AT 30/06/17	5,303,450,000	2,071,491,343	254,019,152	221,120,469	165,519,967	8,400,970	8,024,001,901
BAL BFWD 01/07/2015	-	(41,350,800)	(32,813,333)	(17,204,375)	(9,748,110)	-	(101,116,618)
Charge for the year disposals	-	(41,385,154)	(36,544,517) 444,443	(20,790,437)	(25,252,233)	-	(123,972,341) 444,443
AS AT 30/06/17	-	(82,735,954)	(68,913,407)	(37,994,812)	(35,000,343)	-	(224,644,516)
BALANE AS AT 30 JUNE 2017	5,303,450,000	1,988,755,389	185,105,745	183,125,657	130,519,624	8,400,970	7,799,357,385
COST AS AT 01/06/2017	5,303,450,000	2,071,491,343	254,019,152	221,120,469	165,519,967	8,400,970	8,024,001,901
Additions	-	3,506,956	17,866,552	14,874,630	22,906,782	10,692,819	69,847,739
Disposals	-	-	-	-	-	-	-
Cost as at 30.06.2018	5,303,450,000	2,074,998,299	271,885,704	235,995,099	188,426,749	19,093,789	8,093,849,640
DEPRECIATION	-	(82,735,954)	(68,913,407)	(37,994,812)	(35,000,343)	-	(224,644,516)
BAL BFWD 01/07/2017	-	(41,429,827)	(36,444,517)	(22,112,047)	(33,103,993)	-	(133,090,384)
Charge for the year disposals	-	-	-	-	-	-	-
TOTAL DEPRECIATION	-	(124,165,781)	(105,357,924)	(60,106,859)	(68,104,336)	-	(357,734,900)
NET BOOK VALUE AS AT 30.06.2018	5,303,450,000	1,950,832,518	166,527,780	175,888,240	120,322,413	19,093,789	7,736,114,740
NET BOOK VALUE AS AT 30.06/2017	5,303,450,000	1,988,755,389	185,105,745	183,125,657	130,519,624	8,400,970	7,799,357,385

8 b. Work in progress Intangible asset

	2017/2018	work in progress	2017/2018
BAL BFWD	Posta Pesa and ERP	310,854,473	310,854,473
	ADDITIONS	7,340,000	2,700,000
			4,640,000
BAL CFWD		318,194,473	313,554,473
			4,640,000

The amount of Kshs.313,554,473 intangible asset refers to software projects that are on going thus work in progress and will be amortized once complete.

POSTAL CORPORATION OF KENYA

Notes to the financial statements For the year ended 30 June 2018 (Cont'd)

9. Finance cost	2017/2018	2016/2017
Interest on excess deposit (KPOSB)	<u>22,668,655</u>	15,325,000
Interest on long term loan	<u>0</u>	-
	<u>22,668,655</u>	<u>15,325,000</u>

POSTAL CORPORATION OF KENYA

Notes to the financial statements For the year ended 30 June 2018 (Cont'd)

Current Assets	2017/2018	2016/2017
	Kshs	Kshs
Note 10		
Inventories		
Inventories	-	9,219,600
Total Inventories	<u>-</u>	<u>9,219,600</u>
Note 11		
Trade and Other Receivables		
Service Debtors		
Foreign Administration	690,934,948	685,519,716
E M S	343,331,482	283,461,978
Bulky Postage	170,822,446	147,937,235
Money Orders Inter-state	60,395,648	61,544,274
Postapay	177,695,268	177,695,268
Rent Receivable	62,768,276	19,625,811
Rent Deposits	436,920	687,698
Total service Debtors	<u>1,506,384,986</u>	<u>1,376,471,978</u>
Agency:		
Kenya post office Savings Bank	1,397,759,545	1,393,450,448
Telkom Kenya Ltd	127,972,677	678,292,487
Telposta Pension Scheme	17,585,070	17,575,080
Other Agency Debtors	55,049,722	161,131,879
Total Agency debtors	<u>1,598,367,013</u>	<u>2,250,449,894</u>
Other Debtors		
Customs and Excise	-	-
Tax recoverable	201,041,139	201,041,139
Staff Advances	72,889,717	72,419,849
Other Deposits(court attachments,I	44,553,664	44,538,820
Hospitals Deposits	1,400,000	1,400,000
Net Other Debtors	<u>319,884,520</u>	<u>319,399,808</u>
Total Debtors	<u>3,424,636,520</u>	<u>3,946,321,680</u>
Provision for Bad debts	<u>(2,356,582,232)</u>	<u>(2,877,732,434)</u>
Total Net Debtors	<u>1,068,054,288</u>	<u>1,068,589,247</u>
Note 12		
Cash and Bank Balance		
Annex 1 shows the commercial banks and account numbers in which cash is held		
Cash on Hand	97,390,930	99,052,764
Bank Balances	181,922,771	152,128,078
Cash in transit	7,637,195	5,612,440
E-Value	24,933,063	40,393,161
Total	<u>311,883,958</u>	<u>297,186,443</u>

POSTAL CORPORATION OF KENYA

Notes to the financial statements For the year ended 30 June 2018 (Cont'd)

Note 13. Trade and other Payables	RESTATED		
	2018/2017	2016/2017	2016/2017
	<u>Kshs</u>	<u>Kshs</u>	<u>Kshs</u>
Service Creditors			
Foreign Administration	323,366,932	345,705,852	345,705,852
Money Orders/IFS	194,075,774	210,404,669	210,404,669
Postapay(Revenue Share and Network fees)	92,544,072	92,544,072	92,544,072
New Posta pay EFT	1,220,000,228	1,065,975,180	1,065,975,180
Postal Orders	4,422,640	4,422,640	4,422,640
Key Letter Box Deposits	188,530,625	180,678,024	180,678,024
Rental Deposits	3,050,120	2,842,620	2,842,620
Conveyance of Mail	166,164,182	153,350,437	153,350,437
Total Service Creditors	2,192,154,572	2,055,923,494	2,055,923,494
Agencies			
Agency accounts	797,294,606	675,929,397	675,929,397
Telkom Kenya	87,328,885	651,111,663	651,111,663
Kenya Post Office Savings Bank	1,604,971,802	1,597,646,686	1,597,646,686
	2,489,595,292	2,924,687,746	2,924,687,746
Other Creditors			
Statutory	210,269,705	90,451,514	90,451,514
Excise duty	284,830	1,321,335	1,321,335
Pensions and Gratuities	717,018,769	512,796,742	512,796,742
Retrenchment costs	3,600,215	3,600,215	3,600,215
Provision for staff leave	9,984,200	9,703,847	9,703,847
Institutions Insurances	8,301,046	10,986,654	10,986,654
Cooperatives	51,798,779	67,239,791	67,239,791
Bank Staff Loans	109,886,345	129,164,773	129,164,773
Administration	28,814,626	46,672,208	46,672,208
Operations	156,975,191	148,172,528	148,172,528
Rentals	112,235,032	80,897,710	80,897,710
Contigent liabilities	52,357,673	54,357,673	54,357,673
Training	13,988,769	4,827,350	4,827,350
Deferred Projects	96,819,339	96,819,339	96,819,339
Suppliers:			
Other creditors	66,811,180	58,323,043	58,323,043
Miscellaneous	126,047,157	117,421,709	117,421,709
Total others	1,765,192,856	1,432,756,431	1,432,756,431
Total Current Payables	6,446,942,721	6,413,367,671	6,413,367,671

POSTAL CORPORATION OF KENYA

Notes to the financial statements For the year ended 30 June 2018 (Cont'd)

14. General reserve

	2017/2018	RESTATED 2016/2017
As at 1 July (Restated)	(4,107,420,465)	(2,864,937,074)
Revaluation adjustments	-	-
Net profit / Deficit for the year	(84,534,739)	(1,242,483,391)
As at 30 June	(4,191,955,204)	(4,107,420,465)

15. Revaluation reserve

	2017/2018	2016/2017
As at 1 July (Restated)	7,179,259,943	(7,179,919,943)
Revaluation gain/adjustment	-	660,000
As at 30 June	7,179,259,943	(7,179,259,943)

POSTAL CORPORATION OF KENYA

Notes to the financial statements For the year ended 30 June 2018 (Cont'd)

16. Telkom debtors

PCK was in arbitration case with Telkom Kenya on reconciliation of their accounts. PCK Debtors were offsetted against Telkom creditors as per the agreement of both parties, since the debtors were earlier provided for under provision for bad and doubtful debts the amount was closed to income statement.

17. Pension fund

The Corporation operates a defined contribution pension scheme managed by a Board of trustee appointed by both the employer and the employee

18. Contingency liability

The Corporation was directed by court to deposit Kshs. 48million over several court cases where former staff had sued PCK over their retirement.

19. Incorporation

Postal Corporation is a statutory body established by an Act of Parliament, PCK Act Number 3 of 1998 Revised 2014 as a public Postal licensee and is domiciled in Kenya.

20. Currency

The Financial statements are presented in Kenya Shillings (KShs)

POSTAL CORPORATION OF KENYA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. CONTINGENT LIABILITIES	2017/2018	2016/2017
NSSF arrears	17,796,920	17,796,920
Retrenchment award	<u>36,560,753</u>	<u>36,560,753</u>
	<u>54,357,673</u>	<u>54,357,673</u>

22. FINANCIAL RISK MANAGEMENT

PCK's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

PCK has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing PCK's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

POSTAL CORPORATION OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2018				
Receivables from exchange transactions	690,934,948	237,599,626	422,409,762	
Receivables from non-exchange transactions	2,421,817,614	817,569,142	1,934,172,470	
Bank balances	311,883,958	311,883,958	0	
Total	3,587,260,367	1,230,678,138	2,356,582,232	
At 30 June 2017				
Receivables from exchange transactions	685,519,716	263,109,954	422,409,762	
Receivables from non exchange transactions	3,260,801,965	805,479,293	2,455,322,672	
Bank balances	152,128,078	152,128,078	0	
Total	4,179,188,950	1,331,657,239	2,722,585,017	

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

PCK has significant concentration of credit risk on amounts due from PostBank and Telkom Kenya.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with PCK's directors, who have built an appropriate liquidity risk management framework for the management of PCK's short, medium and long-term funding and liquidity management requirements. PCK manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed

in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

POSTAL CORPORATION OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (Continued)

FINANCIAL RISK MANAGEMENT (Continued)

ii) Liquidity risk management (Continued)

	Total
	Kshs
At 30 June 2018	
Trade payables	5,729,923,952
Current portion of borrowings	0
Provisions	0
Deferred income	0
Employee benefit obligation	717,018,769
Total	6,446,942,721
At 30 June 2017	
Trade payables	5,900,570,299
Current portion of borrowings	0
Provisions	0
Deferred income	0
Employee benefit obligation	512,796,742
Total	6,413,367,671

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by PCK on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect PCK's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to PCK's exposure to market risks or the manner in which it manages and measures the risk.

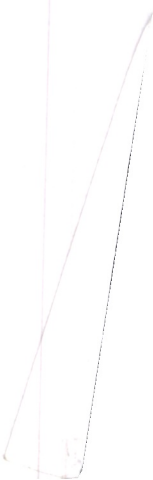
POSTAL CORPORATION OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Foreign currency risk

PCK has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 90 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of PCK's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2018			
Financial assets(investments, cash ,debtors)	0	690,934,948	660,009,388
Liabilities			
Trade and other payables	0	323,366,932	323,366,932
Borrowings	0	0	0
Net foreign currency asset/(liability)		367,568,016	367,568,016



POSTAL CORPORATION OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Risk Management (Continued)

(iii) Market risk (Continued)

Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate	Effect on Profit before tax	Effect on equity
	Kshs	Kshs	Kshs
2018			
Euro	10%		
USD	10%		
2017			
Euro	10%		
USD	10%		

b) Interest rate risk

Interest rate risk is the risk that PCK's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

POSTAL CORPORATION OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Risk Management (Continued)

iv) Capital Risk Management

The objective of PCK's capital risk management is to safeguard the Board's ability to continue as a going concern. PCK capital structure comprises of the following funds:

	2017-2018	2016-2017
	Kshs	Kshs
Revaluation reserve	7,179,259,943	7,179,919,943
Retained earnings	(4,191,955,204)	(4,107,420,465)
Capital reserve		
Total funds	2,987,304,738	3,071,839,477
Total borrowings	0	0
Less: cash and bank balances	311,883,958	297,186,443
Net debt/(excess cash and cash equivalents)	311,883,958	297,186,443
Gearing	68%	68%

23. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

The total future minimum lease payments due to third parties under Non-cancellable operating leases are as follows:

	<u>2017/2018</u>	<u>2016 / 2017</u>
Payable within one year	68,935,543	33,093,993
Payable after one year but not later than 5 years	0	0
	<u>68,935,543</u>	<u>33,093,993</u>
	=====	=====



**POSTAL CORPORATION OF KENYA
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

I. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.0	Plant, Property & Equipment	The management has written to CS Land and EACC	GM/Operations	In progress	2019/2020
2.0	Going Concern	Being addressed through improvement of revenue and cost cutting measures	Postmaster-General	Improving	2019/2020
3.0	Cash and bank balances	Outstanding issues Cleared	-	Resolved	-
4.0	Posta switch	Relevant departments are addressing issues in order to resolve	Head of ICT	In progress	2018/2019
5.0	Trade and Other Receivables	Reconciliation and arbitration nearing completion	Corporation secretary , GM/ Finance	In progress Telkom resolved	Dec 2019
6.0	Trade and Other Payables	Reconciliation and arbitration nearing completion	Corporation secretary ,GM Finance	In progress Telkom resolved	Dec 2019

II. PROJECTS IMPLEMENTED BY THE STATE CORPORATION/ SAGA FUNDED BY DEVELOPMENT PARTNERS - NONE

III. APPENDIX 2: INTER-ENTITY TRANSFERS- NONE

IV. APPENDIX 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES- NONE

