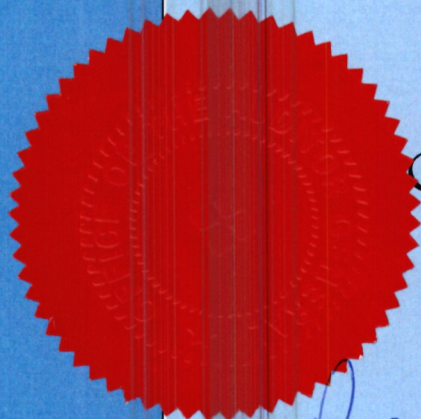


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



Paper Laid
By Hon. Aden Duale, MP (Pres)
on Thurs. 23.08.2018 (pm)
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REPORT

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THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
POSTAL CORPORATION OF KENYA**

**FOR THE YEAR
ENDED 30 JUNE 2017**



POSTAL CORPORATION OF KENYA



ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
30 JUNE 2017**

**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 2017

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POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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. Wilfred Sang	-Appointed on 24th June 2016 -Retired 11th May 2017
Mr. Daniel Kagwe	Chief Executive Officer/Postmaster General
Ms. Pauline Muthigani	-Appointed on 24 th June 2016
Mr. Munyua Waiyaki	-Appointed on 31 st May 2016
Rev. Symon Kiuta	-Appointed on 31 st May 2016
Ms. Mary Maingi	-Appointed on 31 st May 2016
Hon. Ibrahim Mohamed Salat	-Appointed on 31 st May 2016

Principal Secretary Ministry of Information, Communication and Technology

Alternate Director: Henry Mungasia

Principal Secretary, National treasury

Alternate Director: Mutua Kilaka

POSTAL CORPORATION OF KENYA

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.	 <p>Mr. Dan Kagwe CEO & Postmaster General</p>	<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.	 <p>Mr. Munyua Waiyaki - Director</p>	<p>He holds a BSc in IBA (Accounting & Finance) from United States International University. Munyua is an entrepreneur and has a 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.	 <p>Mr. Mutua Kilaka, CBS, SS-Director</p>	<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.	 <p>Ms. Mary Maingi - Director</p>	<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 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). Mary has gone through various leadership programmes including: -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</p>






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>DSymon Kyuta Lonyayo- Director</p>	<p>He is Currently a Lecturer at Kabarak University, School of Education, Department of Theology & Biblical Studies. Served for two terms as a Board member at The Kenya Broadcasting Corporation (KBC) sitting on various committees of the Board and chaired Audit committee for the two terms. While at the KBC Board, Mr.Lonyayo managed to attend two important workshops on Corporate Governance and Strategic Leadership and change Management.</p>
7.	 <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>
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.	 Mr. Dan Kagwe	Postmaster General of Postal Corporation of Kenya
2.	 Julius Opini Bachelors of Law, Bachelors in Economics Postgraduate diploma in Law	Corporation Secretary
3.	 B. Murerwa MBA (Entrepreneurship) Bachelor of Arts (Economics), CPA (K), CISA.	GM / Business Development.
4.	 Eliud Lell Bachelor of Arts	GM/ Customer Service
5.	 T. E Juma Executive MBA , Bachelor of Commerce	GM/ Operations

6.	 <p>S. Muruiki Executive MBA, BCom, CPS</p>	GM Special Projects
7.	 <p>E. Mwaura - MBA , BSC in FSM, Diploma Institutional Management.</p>	GM Courier Services
8.	 <p>J.K. Tonui - MBA, Bachelor of Arts, Diploma in HRM</p>	GM Human Resource Development & Administration
9.	 <p>P.N. Gichuki Bachelor of Arts</p>	Manager Corporate Communications & Public Affairs.
10.	 <p>M Masinde – MSC in Strategic Management, BBM -Supply Chain</p>	Manager Supply Chain Management
11.	 <p>George Makori MBA Executive, Bachelors in Computer Science CIM Postgraduate, Diploma in Marketing</p>	AGM/ ICT

12.		David Fundia MBA Strategic Mgt CPA(K)	AGM /Audit and Risk management
13.		Washington Opata Bachelor of Commerce	GM/ Payment Services
14.		James Kahonge MSc in Business with IT, BCom Marketing	Ag GM/Mails
15.		K Bosire Bachelor of Arts	AGM Security & Compliance
16.		Peter Korir Exec. MBA CPA(K)	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, 2017. 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 5.8%. The company recorded a net deficit of Kshs 1.242 billion compared to Kshs.3.283 billion in the previous period.

Growth Strategy

During the year under review, the Board approved and adopted PCK strategic plan 2016-2019.

The following agenda will define the organization's strategic direction,

- 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 opportunity given to the Board and management to enable PCK meet its mandate to Kenyans.

In closing, let me express my heartfelt appreciation to my all directors for their commitment to the Corporation throughout the year. I am very grateful for having an 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

22nd September 2017

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, 2017. 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 2016-17, 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 1.242 billion for the financial year ended 30th June 2017 compared to Kshs 3.283 billion achieved in the Financial Year 2015/16.

Operational Revenue

Revenue decreased to Kshs 2.552 billion in the year under review from Kshs 2.617 billion recorded in FY 2015/16 equivalent to a 2.5% decrease.

Operating Expenditure

Whereas the Corporation operated within the budgeted expenditure during the year, total operating expenditure decreased by 36% to Kshs 3.806 billion from the previous year's Kshs 5.960 billion. The decrease in the operating expenditure is as a result of decreased provision for bad debts, reduced staff, training and telephone and administration costs.

Key Projects

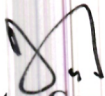
During the period under review, the Company laid firm measures for the implementation of key projects whose status is given below:

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.

The Corporation is gearing up to realise 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 to the members of staff for their commitment in serving our customers.



Postmaster General

22nd September 2017

POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

PERFORMANCE HIGHLIGHTS

1. Introduction

The overall financial position of year 2016/2017 is a net loss of KShs (1.242 billion) before tax.

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 5.8% in 2016 compared to 5.7%(Revised) in 2015. Inflation decreased to 6.3% in 2016 from 6.6% in 2015 - *Kenyan economic survey 2016*

The general economic performance influences all players in the National Economy.

4. Financial performance

(a) Revenue

The overall Corporation Revenue registered a decrease of 3.2% in 2016/2017 compared to 2015/2016. Significant revenue decrease was registered in the Postage in bulk and Box rentals.

The Table below shows financial performance trend from 2014/2015 to 2016/2017

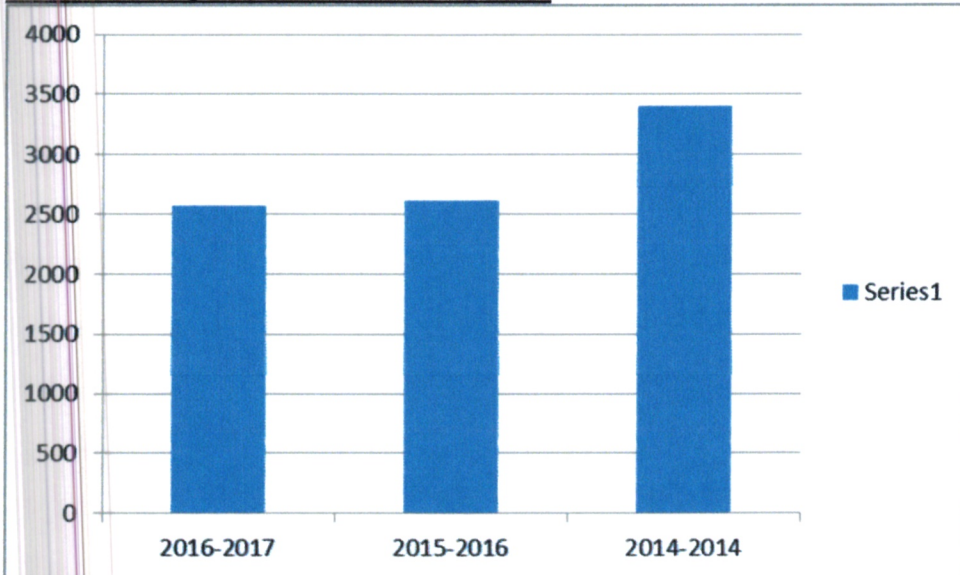
Table 1- Financial performance Trend in Kshs millions

Particulars	2016/2017	2015/2016	2014/2015	Variance
Revenue	2,552	2,617	3,399	-3%
Expenditure before exceptional items	3,806	5,921	3,588	36%
Net deficit / before tax	(1,242)	(3,285)	(147)	61%
Net deficit/ after tax	(1,242)	(3,283)	(147)	61%

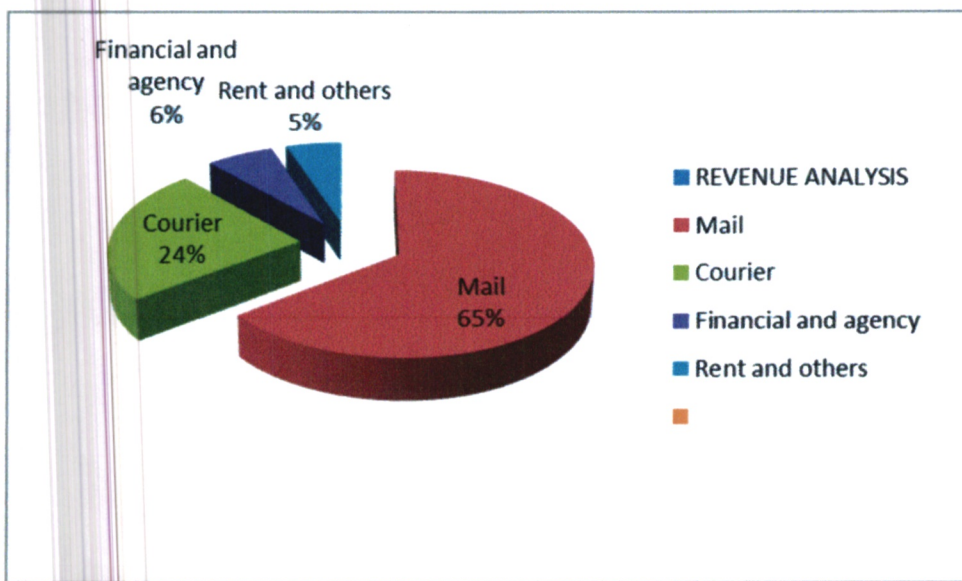
POSTAL CORPORATION OF KENYA

PERFORMANCE HIGHLIGHTS... *Continued*

Revenue comparatives Kshs. in millions



Revenue analysis for 2016/2017



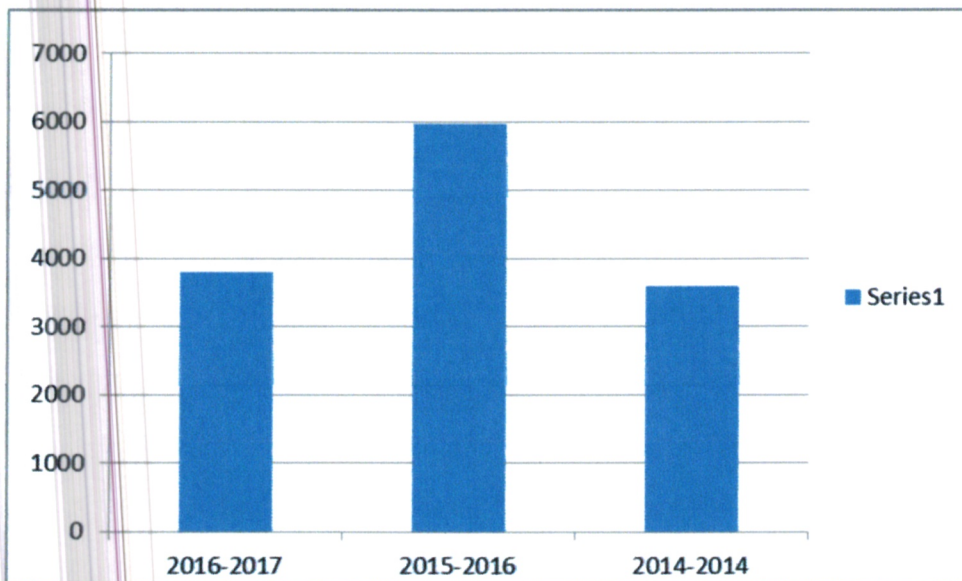
POSTAL CORPORATION OF KENYA

PERFORMANCE HIGHLIGHTS... *Continued*

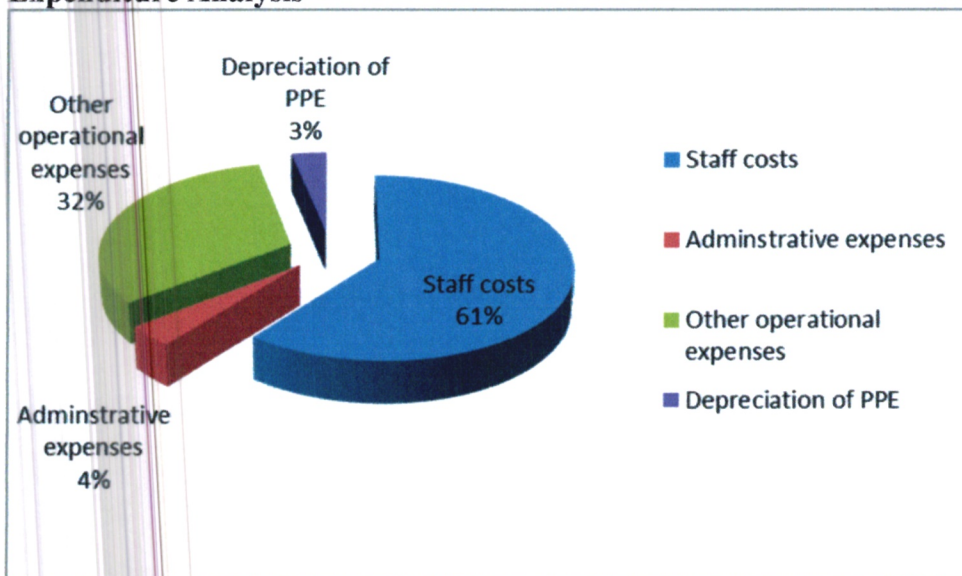
(b) Operating Expenditure

Operating expenditure reflected an decrease of KShs. 2,115 billion in 2016/2017 financial year compared to 2015/2016. This was as a result of decrease in provision for bad debts, , staff costs , administration costs , training and telephone costs. However, Operational and provision for depreciation. conveyance,other expenses and maintenance expenses registered significant increase.

Expenditure comparatives



Expenditure Analysis



POSTAL CORPORATION OF KENYA

PERFORMANCE HIGHLIGHTS... *Continued*

(c) Financial Results

The financial results reflected an operating loss of KShs 1.242 billion compared to a loss of Kshs. 3.283 million in 2015/6

(d) Ratios

	<u>2016/2017</u>	<u>2015/2016</u>	
Liquidity ratio:			
Current ratio =	0.21	0.29	Current Assets / Current liabilities
Gearing ratio =	0.68	0.55	Total liabilities/ Total Assets
Return on investment	- 13.10	-33.83	Net Profit /loss before tax/Total Assets

Corporate Social Responsibility (CSR) Statement

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 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 fund the drilling and construction works of a public borehole at Madaraka, Ol-Jororok in Nyandarua County at cost of Kshs.3.57 million within the current financial period. This program will not only assist the targeted community in accessing clean water but also confirms our commitment to ensuring that our customers lead healthy life. The PCK 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.

POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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 8 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 2017

	<u>2016/2017</u>	<u>2015/2016</u>
Main / Special Board	20	14
Audit and risk management	4	4
Human Resource	7	8
Finance	9	6
Business development, and Innovation	8	4

POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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 2017.

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

	<u>KShs</u>
Loss before Tax	(1,242,483,391)
Less Corporation Tax	-
Net Profit/ (Loss) after Tax for the Year	<u>(1,242,483,391)</u>

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

22nd September 2017



POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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.

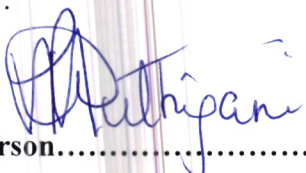
The Directors are responsible for the preparation and presentation of financial statements, which give a true and fair view of the state of affairs of Corporation for and as at the end of the financial year (period) ended on 30 June 2017. This responsibility includes: (i) maintaining adequate financial 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 2017, 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 22nd September 2017 and signed on its behalf by:


Chairperson.....


Postmaster General

REPUBLIC OF KENYA

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NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON POSTAL CORPORATION OF KENYA FOR THE YEAR ENDED 30 JUNE 2017

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 33, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, 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 discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Postal Corporation of Kenya as at 30 June 2017, 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.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Property Plant and Equipment

1.1 Property not Registered in the Name of the Corporation

As similarly reported in previous years, the property, plant and equipment balance of Kshs.7,799,357,385 as of 30 June 2017, includes forty-five (45) properties measuring 16.3623 hectares and valued at Kshs.386,680,000 which are not registered in the name of the Corporation as per the detailed list below: -

No	Name	LR.Number	Vested 1999	Acreage Ha/Acreas	Ownership Documents	Status	Valuation Kshs
1	Chepkorio Trading Centre - Plot	Chepkorio	Vested 1999	0.12	LOA	undeveloped	150,000.00
2	Chaani	MN/VI/1088	Vested 1999	0.23	Transfer doc. Available	Developed/Chaani post office	19,000,000.00
3	Nairobi West	37/272/5	Approved for vesting	0.1148 (0.28367)	LOA	Undeveloped	35,000,000
4	Kagio Market - Plot	Kagio Market - Plot	Vested 1999	0.114 (0.2817)	LOA/ Title acquisition in	Undeveloped /Leased	1,200,000.00
5	Kangari Post Office	Kangari	Vested 1999	0.125	PDP	Developed/Kangari post office	2,200,000.00
6	Kangundo Post Office	Kangundo / 52317/115A	Vested 1999	0.105	LOA	Developed/Kangundo post office	13,400,000.00
7	Khayega Post Office	Khayega	Vested 1999	0.34 (0.84015)	LOA	Developed/Khayega post office	10,300,000.00
8	Kikambala Post Office	Kikambala	Vested 1999	0.5	PDP	Developed/Vacant	6,500,000.00
9	Kilimambogo Market - Plot	Kilimambogo Market - Plot	Vested 1999	0.0530 (0.13096)	LOA	Undeveloped	300,000.00
10	Kithimani Town - Plot	Kithimani Town - Plot	Vested 1999	0.15 (0.37065)	LOA	Undeveloped	350,000.00
11	Kivingoni Market - Plot	Kivingoni Market - Plot	Vested 1999	0.05 (0.12355)	LOA	Undeveloped	150,000.00
12	Kobujoi Trading Centre - Plot	Kobujoi Trading Centre - Plot	Vested 1999	0.37 (0.91428)	LOA	Undeveloped	800,000.00
13	Litein Post Office	Litein	Vested 1999	0.12 (0.29652)	LOA	Developed/Litein post office	14,500,000.00
14	Lokitaung Post Office	Lokitaung	Vested 1999	0.5	PDP	Developed/Lokitaung post office	25,400,000.00

15	Londiani Post Office	Londiani 548/x/5	Vested 1999	0.5653	PDP	Developed/ Londiani post office	3,500,000.00
16	Makongeni Post Office	Makongeni (Nairobi) 209/6825/2	Vested 1999	0.0832	LOA	Developed/ Makongeni post office	10,700,000.00
17	Malindi Post Office	Malindi /1726	Vested 1999	0.1319 (0.32593)	LOA	Developed/ Malindi post office	28,000,000
18	Mandera Post Office	Mandera	Vested 1999	0.38 ha	LOA	Developed/ Mandera post office	8,540,000.00
19	Masii Post Office Plot	Masii plot 46	Vested 1999	0.44 (1.08725)	LOA	Undeveloped	4,800,000.00
20	Mbale Post Office	PLOT 58 Mbale Town	Vested 1999	0.550 (1.35906)	LOA	Developed/ Maragoli post office	11,600,000.00
21	Mbembani Market - Plot	Mbembani Market - Plot 410	Vested 1999	0.05	LOA	Undeveloped	130,000.00
22	Menengai Post Office	Menengai Post Office	Vested 1999	3	PDP	Developed/ Menengai post office	20,000,000.00
23	Mosoriot Trading Centre - Plot	Mosoriot Trading Centre - Plot	Vested 1999	0.18	LOA	Undeveloped	Does not exist
24	Moyale Post Office	Moyale	Vested 1999	0.4237	LOA	Developed/ Moyale post office	12,000,000.00
25	Mtito Andei Post Office	Mtito Andei 23916	Vested 1999	0.2(0.49421)	LOA	Developed/ Telephone exchange	1,600,000.00
26	Mutyambo Market - Plot	Mutyambo Market - Plot 408	Vested 1999	0.08 (0.19768)	LOA	Undeveloped	150,000.00
27	Narok Post Office	Narok /167	Vested 1999	0.5	PDP	Developed/ Narok post office	12,500,000.00
28	Rongai Post Office	Rongai	Vested 1999	0.2 (0.49421)	LOA	Developed /Rongai post office	8,500,000.00
29	Rumuruti Post Office	Rumuruti 3671/VI/I	Vested 1999	1.44	LOA	Developed/ Rumuruti post office	9,800,000.00

30	Siaya Post Office	Siaya	Vested 1999	0.17 (0.42007)	LOA	Developed/ Siaya post office	27,800,000.00
31	Songhor Post Office	Songhor	Vested 1999	0.774 (1.91258)	LOA	Developed/ Songhor post office	4,910,000.00
32	Sotik Post Office	Sotik 7288/103	Vested 1999	0.459 (1.1342)	LOA	Developed/ Sotik post office	15,500,000.00
33	Sugotek Trading Centre - Plot	Sugotek	Vested 1999	0.18 (0.44478)	LOA	Undeveloped	500,000.00
34	Ukwala Post Office	Ukwala	Vested 1999	0.1635 (0.40401)	LOA	Developed /Ukwala post office	3,800,000.00
35	Vipingo Post Office	Vipingo	Vested 1999	0.2	LOA	Developed /Vipingo post office	1,400,000.00
36	Voi Town Plot	Voi /1956/1871	Vested 1999	0.2286 (0.56487)	LOA/Title acquisition in progress	Undeveloped	1,300,000.00
37	Garissa Post Office	Garissa Plot 111303/Temp. p./45	Vested 1999	0.3583 (0.88537)	LOA	Developed/ Garissa post office	20,900,000.00
38	Butere Post Office plot	Butere 1664/60	Vested 2006	0.304	LOA	Undeveloped	800,000.00
39	Kabiyet Plot	Kabiyet Plot 25988	Vested 2006	0.1500 (0.37065)	LOA/ Title acquisition in progress	Undeveloped	600,000.00
40	Changamwe Post Office	MN/V1/2971	Vested 1999	0.49	PDP	Developed/ Changamwe post office	28,400,000.00
41	Chebiemet	Unsurveyed Plot Chebiemet	Vested 2006	0.44 (1.08725)	LOA	Undeveloped	1,300,000.00
42	Ortum	Unsurveyed Plot Ortum	Vested 2006	0.29 (0.71659)	LOA	Undeveloped	500,000.00
43	Maseno Post Office	Maseno/934/ 22	Vested 1999	0.209 (0.51644)	LOA	Developed/ Maseno post office	5,100,000.00
44	Homa Bay Plot LR 1432/315	Homa Bay Plot LR 1432/315	vested 1999	0.33 (0.81543)	LOA	Undeveloped	800,000.00

45	Likoni Office	Post	MSA SOUTH/1/61	Vested 1999	0.5	LOA	Developed /Likoni post office	12,000,000.00
	TOTAL				16.3623			386,680,000.00

Although and as previously reported, the management had contracted a firm for provision of land surveying, identification of beacons and title acquisition services for five (5) post offices, a review of the matter in February 2018 revealed that no progress has been made on the remaining forty (40) post offices.

1.2 Property Excluded from the Financial Statements

1.2.1 Unsurveyed/Unvalued Land

In addition, the balance of Kshs.7,799,357,385 also excludes six (6) unsurveyed/unvalued land parcels of undetermined value situated throughout the country as tabulated below: -

	County	Town	Land/Building	Ownership	Value
1	Nairobi hill next to Ministry of Agriculture	209/13685(Nairobi provincial surveyor of	Land only	No document	No value
2	Elgeyo Marakwet	Iten 65617/11/207	Land Only	No document	No value
3	Bomet	Bomet Town	Land only	No document	No value
4	Tharaka Nithi	Maua Town	Land only	No document	No value
5	Siaya P.O Plot	Siaya Town-LR.No.12045/113	Land only	No document	No value
6	Laikipia County	Lumuria town	Land only	No document	No value

1.2.2 Leased and Grabbed/Encroached Parcels of Land

Also the balance of Kshs.7,799,357,385 excludes 1 (one) leased land measuring 0.0464ha and 10 (ten) grabbed/encroached parcels of land measuring 4.1235ha as detailed below:

Leased Land

County	Land/Town	Land/Building	Value
Nakuru	Crater Centre-Lease of undeveloped space at Nakuru Post Office plot measuring 500sqft title no. Nakuru municipality block 5/9	Land	Unknown

Grabbed/encroached Parcels of Land

No.	LR No.	Location	Area in hectares	Remarks
1.	LOA Ref No 51277/111/27	Jogoo RD P.O. Plot	0.160ha	Grabbed and already developed
2.	LR No 37/272/5	NRB West Plot	0.0459ha	Plot grabbed and re-allocated to Julius Keru Njoroge/Grace W Keru matter in court.
3.	KSM/Mun/Block 6/73	Kisumu P.O Plot	0.0836ha	Plot re-allocated to a private individual and is already developed
4.	LOA Ref no 209163/A/40	Merewet P.O Plot	0.1665ha	Double allocation
5.	KSM 8/496	Kisumu	1.11ha`	The plot was formerly block 8/257 before excision of 0.19ha to equator bottlers on advice of the Commissioner of Lands.
6.	209/11921	Nairobi Upper Hill	0.51ha	Double allocation
7.	LOA Ref No 62416/36	Kabiyet	0.1500ha	Double allocation
8.	LR No 11021	Kipkabus	0.0465ha	Half of the plot has been excised off by a Mr. L.M.K. Kiptui and developed
9.	Parcel No 32	Lumakanda	0.371ha	Double allocation
10.	LR 10407/1	Menengai	1.48ha	Double allocation
	Total		4.1235ha	

In the circumstances, it has not been possible to ascertain the ownership status of the forty-five (45) properties valued at Kshs.386,680,000.00, the undetermined value of six (6) un-surveyed land, one (1) leased parcel and ten (10) grabbed/encroached parcels of land.

Consequently, the property, plant and equipment balance of Kshs.7,799,357,385 could not be confirmed as fairly stated.

2. Going Concern

During the year under review the Corporation recorded a deficit of Kshs.1,242,483,392 (2016 loss: Kshs.3,322,617,251) thereby reducing accumulated reserves from negative Kshs.2,864,937,074 in 2015/2016 to negative Kshs.4,107,420,465 as at 30 June 2017. Further the current liabilities of Kshs.6,413,367,671 exceeded current assets of Kshs.1,374,995,290 resulting to a negative working capital of Kshs.5,038,372,381 as at

the same date. The Corporation is therefore unable to meet its financial obligations as and when they fall due. In particular, the Corporation was unable to pay pensions and gratuities and operations of Kshs.512,796,742 and Kshs.148,172,528 respectively. The Corporation was also unable to pay audit fees for six (6) financial years from 2010/2011 to 2015/2016 amounting to Kshs.18,025,000 inclusive of VAT.

The Corporation is technically insolvent and its financial statements have been prepared on a going concern basis with the assumption of continued financial support from the Government, bankers and creditors.

3.0 Cash and Bank Balances

3.1. Variances in the Cash and Bank Balances

The cash and bank balance of Kshs.297,186,443 as at 30 June 2017 could not be verified due to anomalies noted in the sampled bank reconciliation statements. Five (5) bank reconciliation statements as at 30 June 2017 under Nairobi region reflected direct debits totalling Kshs.4,466,911, uncredited receipts totalling Kshs.3,222,687 and direct credits amounting to Kshs.348,905 whose nature and reason for non-clearance was not availed for audit review.

In the circumstances, it was not possible to confirm the accuracy, validity and completeness of the cash and bank balance of Kshs.297.186,443 as at 30 June 2017.

4. 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 at a contract cost of USD. 893,800, an 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 made to cater for the anticipated increase was availed for audit review.

As at the time of audit in April 2018, 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, E-payment for utility services, E-Ticketing and E-Government services were not operational. 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.

5.0 Trade and Other Receivables

5.1 Telkom (K) Ltd Receivables

As previously reported, trade and other receivables balance of Kshs.1,068,589,247 as at 30 June 2017 includes debts on account of Telkom Kenya Limited of Kshs.678,292,487 in respect of service debts which have been owing since 1999. Further, debts in respect of money order inter-state of Kshs.61,544,274, Postapay of Kshs.177,695,268 and rent receivable of Kshs.19,625,811 all totaling Kshs.258,865,353 have remained uncollected over the years and therefore their full recoverability is doubtful. However, no evidence has been provided on efforts being taken to recover the debts.

5.2 Foreign Administration and EMS Receivables

As previously reported, trade and other receivables balance of Kshs.1,068,589,247 as at 30 June 2017 includes foreign administration and EMS receivables totaling Kshs.968,981,703, the bulk of which has been outstanding for between ten (10) and twenty-seven (27) years and whose provision for bad and doubtful debts has not been made in these financial statements. Although the management has indicated that international receivables are regulated by Universal Postal Union (UPU) and are collectable or enforceable, no evidence of debts forwarded to UPU for collection or enforcement was availed for audit review during the time of audit in April, 2018.

5.3 Kenya Post Office Savings Bank Agency

As previously reported, the trade and other receivables balance of Kshs.1,068,589,247 includes an amount of Kshs.1,379,450,448 in respect to uncollected agency charges accumulated over a period of sixteen (16) years on account of Kenya Post Office Savings Bank. A review of the matter in April 2018 showed that no confirmation of the balance had been received from the Bank as at 30 June 2017.

In the circumstances, it has not been possible to confirm that the trade and other receivables balance of Kshs.1,068,589,247 is fairly stated.

5.4 Tax Recoverable

Further included in the trade and other receivables balance of Kshs.1,068,589,247 as at 30 June 2017 is 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 and have not been recovered as at the time of our audit in April, 2018. It is not clear and the management has not explained why a claim has not been lodged to recover the outstanding amount from Kenya Revenue Authority.

5.5 Loss of Cash

As disclosed in note 11 to the financial statements trade and other receivables balance of Kshs.1,068,589,247 includes staff advances figure of Kshs.72,419,849. The figure of Kshs.72,419,849 also includes an amount of Kshs.26,787,970 being cash stolen by staff at various stations at diverse dates. Although the management has made full provision for these losses in the financial statements and the staff involved dismissed from service, no evidence of any steps being taken to recover the amount was availed for audit review.

In the circumstances, it has not been possible to confirm that the trade and other receivables balance of Kshs.1,068,589,247 is fairly stated.

6.0 Trade and Other Payables

6.1 Kenya Post Office Savings Bank

As previously reported, the trade and other payables balance of Kshs.6,413,367,671 as at 30 June 2017 includes Kshs.1,597,646,686 being outstanding debt owed to Kenya Post Office Savings Bank. However, no reconciliation or confirmation from Postbank was availed to confirm the accuracy of the outstanding debts as at the time of audit in April 2018.

6.2 Postapay Payables

As previously reported, trade and other payables balance of Kshs.6,413,367,671 as at 30 June 2017 also includes an amount of Kshs.92,544,072 which has been outstanding on an account of Postapay for more than seven (7) years. Further and as similarly reported in 2015/2016 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 availed for audit review as at the time of our audit in April 2018.

6.3 Deferred Projects

As previously reported, the trade and other payables balance of Kshs.6,413,367,671 as at 30 June 2017 also includes deferred projects bills totaling Kshs.96,819,339. Although the management has explained that the amount represents dues not paid on some projects that were started sometimes back but were later abandoned after it was established that the projects were not feasible, these bills have not been supported with the relevant records as at the time of our Audit in April, 2018.

In the circumstances, it has not been possible to ascertain the validity and accuracy of the trade and other payables balance of Kshs.6,413,367,671 and that the balance is fairly stated as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Postal Corporation of Kenya in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. 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 of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

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

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

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless 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.

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

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

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 of Kenya. 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 when it exists. Misstatements can arise from fraud or error and are considered material if, individually or taken together, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Corporation's 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 Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern or continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate 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.
- 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

31 July 2018

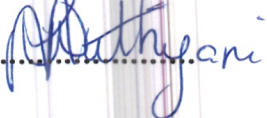

Postal Corporation of Kenya
Statement of Profit and Loss
For the year ended 30 June 2017

	Notes	2016/2017 KSHS	2015/2016 KSHS	2015/2016 KSHS
REVENUES				
Operating revenue	2	2,552,477,865	2,617,217,827	2,617,217,827
Other revenue	3	24,103,054	24,813,299	24,813,299
Total revenue		2,576,580,919	2,642,031,126	2,642,031,126
Operating expenses				
Staff costs	5	2,291,921,517	2,313,149,920	2,313,149,920
Administrative expenses	6	141,051,448	167,038,423	166,884,643
Other operational expenses	7	1,249,864,735	3,378,921,534	3,339,931,804
Depreciation of PPE	8.a	123,972,341	101,116,618	101,226,618
Total operating expenses		3,806,810,041	5,960,226,495	5,921,192,984
Operating Surplus/(Deficit)		(1,230,229,122)	(3,318,195,369)	(3,279,161,858)
Finance income	4	3,070,731	10,800,339	10,800,339
Finance costs	9	(15,325,000)	(15,222,222)	(15,222,222)
Net surplus/(Deficit) before tax		(1,242,483,391)	(3,322,617,251)	(3,283,583,741)
Income tax expense		-	-	-
Net Surplus/(Deficit) after Tax		(1,242,483,391)	(3,322,617,251)	(3,283,583,741)


Postal Corporation of Kenya
Statement of Financial Position
as at 30 June 2017

		2016/2017 KSHS	RESTATED 2015/2016 KSHS	2015/2016 KSHS
Assets				
Non- Current Assets				
Plant Property and Equipment	8.a	7,799,357,385	7,862,625,760	7,863,175,760
Intangible asset	8.b	310,854,473	302,838,717	302,838,717
		8,110,211,858	8,165,464,477	8,166,014,477
Current Assets				
Inventories	10	9,219,600	10,320,834	10,320,834
Trade and Other Receivables	11	1,068,589,247	1,038,544,496	1,038,544,496
Cash and Bank	12	297,186,443	494,942,554	494,942,554
		1,374,995,290	1,543,807,884	1,543,807,884
Total Assets		9,485,207,148	9,709,272,361	9,709,822,361
Reserves and Liabilities				
Current liabilities				
Trade & Other payables	13	6,413,367,671	5,394,949,493	5,355,805,983
Taxation		-	-	-
		6,413,367,671	5,394,949,493	5,355,805,983
Reserves				
General reserve	14	(4,107,420,465)	(2,864,937,074)	(2,825,903,564)
Revaluation Reserve	15	7,179,259,943	7,179,259,943	7,179,919,943
Total Reserves		3,071,839,477	4,314,322,868	4,354,016,378
Non Current liabilities				
Total Reserves and Liabilities		9,485,207,148	9,709,272,360	9,709,822,361

The Financial Statements on pages 1 to 33 were approved by the Board of Directors on 22 September 2017 and were signed on its behalf by;

Chairman.....  Postmaster General..... 

Date : _____ Date: _____

General Manager Finance.....  ICPAK NO..... 12602

Date: 22/09/2018

Postal Corporation of Kenya
Statement of Changes in Reserves
For the Year Ended 30 June 2017

	Note	General Reserve	Revaluation Reserve	Total
As at 1 July 2015 (Restated)		457,680,177	2,254,198,800	2,711,878,977
Net profit / Deficit for the year		(3,322,617,251)	-	(3,322,617,251)
Revaluation adjustment	15		(660,000)	(660,000)
Revaluation Gain	15		4,925,721,143	4,925,721,143
				-
As at 30 June 2016		(2,864,937,074)	7,179,259,943	4,314,322,869
				-
opening 01/07/2016		(2,864,937,074)	7,179,259,943	4,314,322,869
				-
				-
				-
				-
Net profit / Deficit for the year		(1,242,483,391)	-	(1,242,483,391)
				-
				-
				-
				-
As at 30 June 2017		(4,107,420,465)	7,179,259,943	3,071,839,478

NOTE. Revaluation adjustment refers to Motor vehicles that were erroneously revalued after disposal

Postal Corporation of Kenya
Statement of Cashflows
For the year ended 30 June 2017

		2016 /2017	2015 /2016
		<u>KSHS</u>	<u>KSHS</u>
Cash receipts from customers		2,694,557,769	2,956,389,053
Cash paid to suppliers and staff		<u>3,174,079,555</u>	<u>(3,391,480,963)</u>
Total cash flow from operating activities		(479,521,786)	(435,091,911)
Tax paid		<u>-</u>	<u>-</u>
Cash generated from operations		(479,521,786)	(435,091,911)
CASHFLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of assets		1,771,604	3,633,511
Purchase of Property and Equipments	12	(50,118,822)	(150,038,077)
Interest income		3,070,731	9,878,953
Cash advanced to staff		<u>(11,041,212)</u>	<u>(22,361,075)</u>
Net cashflow from Investing activities		<u>(56,317,698)</u>	<u>(114,164,538)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Loan Repayments	21	-	(29,166,667)
Loan interests	22	-	(1,655,222)
Dividend paid		<u>-</u>	<u>-</u>
Net cashflow from financing activities		<u>-</u>	<u>(30,821,889)</u>
Net Increase /Decrease in PCK Cash		(535,839,485)	(580,078,338)
Cash to/ from others		338,083,374	326,109,844
Cash and Cash Equivalent at beginning		<u>494,942,554</u>	<u>748,911,048</u>
Cash and Cash Equivalent at year end		<u>297,186,443</u>	<u>494,942,554</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 2017

Description	Original budget	Adjustment	Final budget	Actuals	Performance difference
	2016/2017	2016/2017	2016/2017	2016/2017	
REVENUE	3,981,469,000	-	3,981,469,000	2,579,651,650	(1,401,817,350)
Less OPERATING EXPENDITURE					-
Staff costs	2,183,005,000	(100,093,499)	2,283,098,499	2,291,921,517	(8,823,018)
Administration cost	157,085,000	(31,387,500)	188,472,500	122,980,519	65,491,981
Directors Expenses	20,520,000	(2,000,000)	22,520,000	18,070,929	4,449,071
Operational cost	194,563,000	(94,676,466)	289,239,466	269,666,506	19,572,960
Conveyance of Mail	133,200,000	(1,242,000)	134,442,000	119,962,909	14,479,091
International Services	60,000,000	(10,000,000)	70,000,000	79,785,850	(9,785,850)
Rental expenses	262,900,000	2,899,000	260,001,000	255,795,441	4,205,559
Maintenance expenses	110,548,883	4,591,300	105,957,583	90,857,989	15,099,594
Training	27,106,000	(294,000)	27,400,000	20,890,294	6,509,706
Telephone and Data Communic	54,230,000	(2,044,500)	56,274,500	45,144,076	11,130,424
Other expenses	265,137,000	1,199,000	263,938,000	185,349,387	78,588,613
Finance Charge				-	-
	3,468,294,883	(233,048,665)	3,701,343,548	3,500,425,418	200,918,130
Provision for Depreciation				123,972,341	
Non operating expenditure				15,325,000	
Provision for bad debts				182,412,282	
				3,822,135,041	
Surplus/(Deficit) for the year				(1,242,483,391)	

The corporation's 10% cost containment measure to minimise on cost of overall expenditure in the F/Y 2016/2017 has affected administrative costs, operational costs, conveyance of mails, rental expenses, maintenance expenses and other expenses. On the other hand, the adverse variance has been as a result of currency exchange rate which affected international services leading the budget to be revised upwards.

POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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. **ADOPTION OF NEW AND REVISED STANDARDS**

(a) i) **New and revised standards**

i) **Adoption of new and revised standards**

A number of amendments to standards and interpretation become effective for the first time in the financial year beginning 1st July 2016 and have been adopted by the corporation. None of them has had an effect on the company's financial statements.

ii) **New and revised standards and interpretations which have been issued but not yet effective**

The corporation has not applied the following revised standards and interpretations that have been published but are not yet effective for the year beginning 1st July 2016:

- Amendments to IAS 27 titled *Equity Method in Separate Financial Statements* (issued in August 2014, applicable to annual periods beginning on or after 1 January 2016).
- IFRS 15 Revenue from Contracts with Customers (issued in May 2014, effective for annual periods beginning on or after 1 January 2018).
- IFRS 9 Financial Instruments (issued in July 2014, effective for annual periods beginning on or after 1 January 2018).

POSTAL CORPORATION OF KENYA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

- Amendments to IFRS 10 and IAS 28 titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014, applicable from a date yet to be determined).
- Amendments to IAS 12 titled Recognition of Deferred Tax Assets (issued in January 2016, applicable to annual periods beginning on or after 1 January 2017).
- Amendments to IAS 7 titled Disclosure Initiative (issued in January 2016, applicable to annual periods beginning on or after 1 January 2017).
- Amendments to IFRS 2 titled Classification and Measurement of Share-based Payment Transactions issued in June 2016, applicable to annual periods beginning on or after 1 January 2018.
- Amendment to IFRS 12 (Annual Improvements to IFRSs 2014–2016 Cycle, issued in December 2016, effective for annual periods beginning on or after 1 January 2017).
- Amendment to IFRS 1 (Annual Improvements to IFRSs 2014–2016 Cycle, issued in December 2016, effective for annual periods beginning on or after 1 January 2018).
- Amendment to IAS 28 (Annual Improvements to IFRSs 2014–2016 Cycle, issued in December 2016, effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 Investment Property issued in January 2017, effective for periods beginning on or after 1 January 2018.
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration issued in January 2017, effective for annual periods beginning on or after 1 January 2018.

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.

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.

POSTAL CORPORATION OF KENYA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(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.

(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.

POSTAL CORPORATION OF KENYA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(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.

(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.

		2016/17	2015/2016
Balance at beginning of the year	Kshs.	7,206,540	6,306,242
Additional provision at end of year		2,497,307	900,298
Balance at end of the year		<u>9,703,847</u>	<u>7,206,540</u>

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

POSTAL CORPORATION OF KENYA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(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.

(v) Budget information

The original budget for FY 2016-2017 was approved by the National Assembly on 7th June 2016. 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.113,824,335 on the 2016-2017 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, 2017.

POSTAL CORPORATION OF KENYA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(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'	shs.'000'
	2016/17	2015/16
(a) Payment to Board of Directors in note No. 6 page17	19,020	14,997
(b) Senior Management emoluments	55,486	54,460

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 2017 (Con

NOTE 2 Revenue Analysis	2016/2017	2015/2016	2015/2016
	KShs	KShs	KShs
Postal Revenue			
Sale of stamps	220,207,743	207,296,779	207,296,779
Parcels	195,263,377	173,458,941	173,458,941
Postage in bulk	460,426,467	578,597,598	578,597,598
Receipts from Foreign admin	165,850,324	152,265,030	152,265,030
EMS Service	378,612,682	383,099,514	383,099,514
Money order commisson	49,019,039	50,200,816	50,200,816
Box/ bag Rentals	781,535,988	831,658,986	831,658,986
EFT commission	9,969,725	10,056,421	10,056,421
Posta Despatch	2,864,360	4,246,627	4,246,627
Direct Mail Marketing	739,733	373,228	373,228
Post Liner Bus services	7,479,060	-	-
Posta Pesa Comm.	2,242,291	-	-
Miscellaneous	23,075,335	22,603,758	22,603,758
TOTAL	2,297,286,124	2,413,857,698	2,413,857,698
Post shops			
Posta shops	2,058,111	1,806,988	1,806,988
Total	2,058,111	1,806,988	1,806,988
Total postage and Post shops	2,299,344,234	2,415,664,686	2,415,664,686
Rent receivable	130,525,283.23	76,032,148.74	76,032,148.74
AGENCY SERVICES			
(KPOSB) Post Office Savings Banl	1,316,063.00	1,709,475.00	1,709,475.00
PCK and Teleposta Pension schem	60,945.00	832,695.00	832,695.00
Kenya power Commisions	927,231.00	14,087,254.00	14,087,254.00
Customs and Clearing commisions	30,298,009.65	27,959,545.84	27,959,545.84
Multichoice, Mpesa and Airtel	8,634,116.70	8,717,567.87	8,717,567.87
Intergration fee	-	5,065,783.70	5,065,783.70
Huduma Sercices commissions	23,723,063.50	31,027,134.25	31,027,134.25
Nairobi Water and Other Regional	57,648,918.30	36,121,536.34	36,121,536.34
Total Agency Revenue	122,608,347	125,520,992	125,520,992
Total Operating Revenue	2,552,477,865	2,617,217,827	2,617,217,827

Debt Recovery

3 Non-Operating Revenue	2016/2017	2015/2016
	Kshs	Kshs
Debt Recovery	27,264,866	0
Sale of Tender documents	550,017	458,764
Gain/Loss on disposal of Vehicles	(633,953)	3,633,511
Sale of Stores	1,058,923	851,870
Foreign exchange gain	(4,136,798)	19,869,153
Total	24,103,054	24,813,299

4 Finance income	2016/2017	2015/2016
	Kshs	Kshs
Bank Interest	3,017,382	10,657,637
Staff loans interest	53,349	142,702
Total	3,070,731	10,800,339

POSTAL CORPORATION OF KENYA

Notes to the financial statements For the year ended 30 June 2017 (Cont'd)

5. Staff costs	2017/2016	RESTATED	
		2015/2016	2015/2016
Salaries and Allowances	1,481,321,606	1,476,788,589	1,476,788,589
House Allowance	458,064,915	485,049,894	485,049,894
Medical	153,268,056	171,886,152	171,886,152
Staff leave expense	2,497,307	900,298	900,298
Pension expense	192,682,299	178,259,084	178,259,084
staff awards	4,087,334	265,903	265,903
	<u>2,291,921,517</u>	<u>2,313,149,920</u>	<u>2,313,149,920</u>

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

Permanent- Management staff	392	422	422
Permanent Unionisable staff	2,775	2,966	2,966
Contract staff and temporary st	28	48	48
	<u>3,195</u>	<u>3,436</u>	<u>3,436</u>

6. Administration Expense

	2017/2016	2015/2016	2015/2016
	Kshs	Kshs	Kshs
Consultancy Charges	3,291,171	14,641,984	14,641,984
Bank Charges	12,335,031	13,321,060	13,321,060
Office Administration	24,254,000	21,891,797	21,891,797
Contingencies	1,671,081	3,461,708	3,461,708
Insurance	21,922,496	28,095,072	28,095,072
Security Charges	58,377,017	69,968,890	69,968,890
Miscellaneous expense	1,129,723	506,545	506,545
Directors expense	18,070,929	15,151,367	14,997,587
Total	<u>141,051,448</u>	<u>167,038,423</u>	<u>166,884,643</u>

POSTAL CORPORATION OF KENYA

Notes to the financial statements For the year ended 30 June 2017(Cont'd)

7. Operations Expense	note	2016/2017	2015/2016 RESTATED	2015/2016
Operation Expense	7(a)	269,666,506	312,363,617	312,363,617
Conveyance of mail	7(b)	119,962,909	106,644,580	106,644,580
International Services Expense	7(c)	79,785,850	74,361,113	74,361,113
Rental Expense	7(d)	255,795,441	252,586,282	220,621,341
Maintenance	7(e)	90,857,989	43,842,758	42,982,763
Training Expense	7(f)	20,890,294	28,207,137	28,207,137
Telephone and Data Communication	7(g)	45,144,076	48,103,828	48,103,828
Other Expenses	7(h)	185,349,387	135,019,638	128,854,845
Provision for bad debts	7(i)	182,412,282	2,377,792,581	2,377,792,581
		1,249,864,735	3,378,921,534	3,339,931,805

7(a). Operation Expense

	2016/2017 Kshs	2015/2016 Kshs
Postal Agencies	2,721,344	4,806,533
General Stores	32,027,555	29,332,344
Supply of Stamps	4,563,939	3,049,838
Vehicles Running Expenses	131,480,105	116,513,013
Compensation	770,643	1,920,986
Operating License	1,330,932	30,389,070
Transport hire and Freight charges	3,059,513	5,107,892
Travel subsistence allowances	93,712,475	121,243,942
Total	269,666,506	312,363,617

7(b). Conveyance of mail

	2016/2017 Kshs	2015/2016 Kshs
Road	11,376,693	9,394,052
Air Internal	71,657	75,206
Air International	108,514,559	97,175,321
TOTAL	119,962,909	106,644,580

7(c). International Services Expense

	2016/2017 Kshs	2015/2016 Kshs
International Parcel Services -	61,909,306	51,377,237
International Mail Services -	17,876,544	22,983,876
Total	79,785,850	74,361,113

POSTAL CORPORATION OF KENYA

Notes to the financial statements For the year ended 30 June 2017(Cont'd)

7(d). Rental Expense

	2016/2017	2015/2016	2015/2016
	<u>Kshs</u>	<u>Kshs</u>	
		restated	
Site Rentals	13,630,554	2,389,988	2,389,988
Office Rentals	242,164,887	250,196,294	218,231,353
Total	<u>255,795,441</u>	<u>252,586,282</u>	<u>220,621,341</u>

7(e). Maintenance

		RESTATED	
Equipment leasing	33,093,993		
Office Equipment	16,306,868	9,882,281	9,882,281
ICT and Building Repairs	41,457,129	33,960,477	33,100,482
Total	<u>90,857,989</u>	<u>43,842,758</u>	<u>42,982,763</u>

7(f). Training Expense

Training DIT	1,356,285	5,911,329	5,911,329
Local Training	19,534,009	22,295,808	22,295,808
Total	<u>20,890,294</u>	<u>28,207,137</u>	<u>28,207,137</u>

7(g). Telephone and Data Communication

Telephone lines	13,832,539	12,510,139	12,510,139
Mobile lines	1,267,119	4,114,453	4,114,453
Data communication	30,044,418	31,479,236	31,479,236
Total	<u>45,144,076</u>	<u>48,103,828</u>	<u>48,103,828</u>

POSTAL CORPORATION OF KENYA

Notes to the financial statements
For the year ended 30 June 2017 (Cont'd)

7(h). Other Expenses	2016/2017	RESTATED 2015/2016	2015/2016
	<u>Kshs</u>	<u>Kshs</u>	<u>Kshs</u>
Furniture and Fittings (Repa	532,098	80,349	80,349
Electricity/Water	49,653,673	50,688,034	50,688,034
PCK Sporting Activities	14,060,065	22,158,285	22,158,285
Legal Expenses	13,893,705	7,205,192	7,205,192
Health, Safety Environment (12,587,654	13,560,266	13,560,266
Shows and Exhibitions	6,378,111	4,742,371	4,742,371
Electronic Media Adverts	31,084,068	16,173,196	10,008,403
Print Media Adverts	34,609,186	12,588,567	12,588,567
Outdoor advertisement	19,379,863	4,064,626	4,064,626
Entertainment	372,425	0	0
Audit fees	2,500,000	2,625,000	2,625,000
Tax on fridge benefits	298,539	1,133,752	1,133,752
Total	185,349,387	135,019,638	128,854,845

7(i). Provision for bad debts

The Corporation has increased the provision for bad debts by Kshs. 182 Million to take care of EMS and othe debtors that have been outstanding for over one year

	2016/2017	2015/2016
Opening	2,722,585,017	344,792,436
Bad debt recovery	(27,264,865)	
Provision for bad debts	182,412,282	2,377,792,581
TOTAL provision	2,877,732,434	2,722,585,017

POSTAL CORPORATION OF KENYA
Notes to the financial statements
For the year ended 30 June 2017 Cont'd)

8. a. Property, Plant and Equipment

	LAND	BUILDINGS	VEHICLES	OFFICE EQUIP.	COMPUTERS	W. I. P	TOTAL
Valuation as At 1/7/2015	5,303,450,000	2,067,540,000	225,220,000	172,043,751	48,740,550		7,816,994,301
ADDITIONS		1,717,693	34,939,152	35,860,619	77,520,613		150,038,077
Revaluation ADJUSTMENT			(660,000)				(660,000)
DISPOSALS			(2,630,000)				(2,630,000)
AS AT 30/06/16	5,303,450,000	2,069,257,693	256,869,152	207,904,370	126,261,163	-	7,963,742,378
CHARGE FOR THE YEAR	-	(41,350,800)	(32,923,333)	(17,204,375)	(9,748,110)	-	(101,226,618)
DISPOSALS	-	-	-	-	-	-	-
adjust			110,000				110,000
AS AT 30/06/16	-	(41,350,800)	(32,813,333)	(17,204,375)	(9,748,110)	-	(101,116,618)
NET BOOK VALUE:							
AS AT 30 JUNE 2016	5,303,450,000	2,027,906,893	224,055,819	190,699,995	116,513,053		7,862,625,760
COST/VALUATION	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)
Cost as at 30.06.2017	5,303,450,000	2,071,491,343	254,019,152	221,120,469	165,519,967	8,400,970	8,024,001,901
DEPRECIATION							
BAL BFWD 01/07/2015	-	(41,350,800)	(32,813,333)	(17,204,375)	(9,748,110)	-	(101,116,618)
Charge for the year	-	(41,385,154)	(36,544,517)	(20,790,437)	(25,252,233)	-	(123,972,341)
disposals			444,443				444,443
NET BOOK VALUE		(82,735,954)	(68,913,407)	(37,994,812)	(35,000,343)	-	(224,644,516)
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
AS AT 30.06/2016	5,303,450,000	2,027,906,893	224,055,819	190,699,995	116,513,053	-	7,862,625,760

Note. PPE Balances are based on revaluation done by Swatz Developers w.e.f 01/07/2015 plus additions and minus disposal and depreciation for 2015/2016 and 2016-2017

8 b. Work in progress Intangible asset

		2017/2016	2015/2016
BAL BFWD	Posta Pesa and ERP	302,838,717	265,862,667
	ADDITIONS	8,015,756	36,976,050
BAL CFWD		310,854,473	302,838,717

The amount of Kshs.310,854,473 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 2017 Cont'd)

9. Finance cost	2016/2017	2015/2016 RESTATED
Interest on excess deposit (KPOSB)	<u>15,325,000</u>	13,567,000
Interest on long term loan	<u>0</u>	<u>1,655,222</u>
	<u>15,325,000</u>	<u>15,222,222</u>

POSTAL CORPORATION OF KENYA

Notes to the financial statements For the year ended 30 June 2017 (Cont'd)

Current Assets	2016/2017	RESTATED 2015/2016	2015/2016
	Kshs	Kshs	Kshs
Note 10			
Inventories			
Inventories	9,219,600	10,320,834	10,320,834
Total Inventories	9,219,600	10,320,834	10,320,834
Note 11			
Trade and Other Receivables			
Service Debtors			
Foreign Administration	685,519,716	687,554,005	687,554,005
E M S	283,461,978	211,820,761	211,820,761
Bulky Postage	147,937,235	125,716,546	125,716,546
Money Orders Inter-state	61,544,274	49,151,378	49,151,378
Postapay	177,695,268	177,695,268	177,695,268
Rent Receivable	19,625,811	29,279,092	29,279,092
Rent Deposits	687,698	687,698	687,698
Total service Debtors	1,376,471,978	1,281,904,747	1,281,904,747
Agency:			
Kenya post office Savings Bank	1,393,450,448	1,379,349,549	1,379,349,549
Telkom Kenya Ltd	678,292,487	623,882,122	623,882,122
Telposta Pension Scheme	17,575,080	39,479,275	39,479,275
Other Agency Debtors	161,131,879	134,521,533	134,521,533
Total Agency debtors	2,250,449,894	2,177,232,478	2,177,232,478
Other Debtors			
Customs and Excise	-	-	-
Tax recoverable	201,041,139	201,041,139	201,041,139
Staff Advances	72,419,849	50,597,226	50,597,226
Other Deposits(court attachments,T	44,538,820	48,953,922	48,953,922
Hospitals Deposits	1,400,000	1,400,000	1,400,000
Net Other Debtors	319,399,808	301,992,288	301,992,288
Total Debtors	3,946,321,680	3,761,129,513	3,761,129,513
Provision for Bad debts	(2,877,732,434)	(2,722,585,017)	(2,722,585,017)
Total Net Debtors	1,068,589,247	1,038,544,496	1,038,544,496
Note 12			
Cash and Bank Balance			
Annex 1 shows the commercial banks and account numbers in which cash is held			
Cash on Hand	99,052,764	93,460,465	93,460,465
Bank Balances	152,128,078	293,112,743	293,112,743
Cash in transit	5,612,440	34,283,409	34,283,409
E-Value	40,393,161	74,085,937	74,085,937
Total	297,186,443	494,942,554	494,942,554

POSTAL CORPORATION OF KENYA

Notes to the financial statements For the year ended 30 June 2017(Cont'd)

Note 13. Trade and other Payables	2016/2017	RESTATED 2015/2016	2015/2016
	<u>Kshs</u>	<u>Kshs</u>	<u>Kshs</u>
Service Creditors			
Foreign Administration	345,705,852	289,493,366	289,493,366
Money Orders/IFS	210,404,669	171,834,960	171,834,960
Postapay(Revenue Share and Network fees)	92,544,072	92,544,072	92,544,072
New Posta pay EFT	1,065,975,180	622,401,282	622,401,282
Postal Orders	4,422,640	4,422,640	4,422,640
Key Letter Box Deposits	180,678,024	174,328,069	174,328,069
Rental Deposits	2,842,620	2,666,580	2,666,580
Conveyance of Mail	153,350,437	96,416,315	96,416,315
Total Service Creditors	2,055,923,494	1,454,107,284	1,454,107,284
Agencies			
Agency accounts	675,929,397	736,461,531	736,461,531
Telkom Kenya	651,111,663	644,502,942	644,502,942
Kenya Post Office Savings Bank	1,597,646,686	1,583,342,071	1,583,342,071
	2,924,687,746	2,964,306,545	2,964,306,545
Other Creditors			
Statutory	90,451,514	45,696,753	45,696,753
Excise duty	1,321,335	1,303,864	1,303,864
Pensions and Gratuties	512,796,742	268,166,826	268,166,826
Retrenchment costs	3,600,215	3,600,215	3,600,215
Provision for staff leave	9,703,847	7,206,540	7,206,540
Institutions Insurances	10,986,654	8,369,721	8,369,721
Cooperatives	67,239,791	56,291,985	56,291,985
Bank Staff Loans	129,164,773	56,079,164	56,079,164
Administration	46,672,208	32,501,663	32,501,663
Operations	148,172,528	79,211,229	79,057,449
Rentals	80,897,710	56,587,060	24,622,119
Contigent liabilities	54,357,673	60,357,673	60,357,673
Training	4,827,350	1,326,535	1,326,535
Deferred Projects	96,819,339	96,819,339	96,819,339
Suppliers:			
Other creditors	58,323,043	79,392,967	79,392,967
Miscellaneous	117,421,709	123,624,129	116,599,341
Total others	1,432,756,431	976,535,664	937,392,155
Total Current Payables	6,413,367,671	5,394,949,493	5,355,805,983

POSTAL CORPORATION OF KENYA

**Notes to the financial statements
for the year ended 30 June 2017 Cont'd)**

14. General reserve

	2016/2017	<u>RESTATED</u> 2015/2016	2015/2016
As at 1 July (Restated)	(2,864,937,074)	457,680,177	457,680,177
Revaluation adjustments	-	-	-
Net profit / Deficit for the year	(1,242,483,391)	(3,322,617,251)	(3,283,583,741)
		-	-
		-	
As at 30 June	(4,107,420,465)	(2,864,937,074)	(2,825,903,564)

15. Revaluation reserve

	2016/2017	2015/2016
As at 1 July (Restated)	(7,179,919,943)	2,254,198,800
Revaluation gain/adjustment	660,000	4,925,721,143
As at 30 June	(7,179,259,943)	7,179,919,943

POSTAL CORPORATION OF KENYA

Notes to the financial statements For the year ended 30 June 2017(Cont'd)

16. Prior year adjustments

Rent of Kshs. 31,964,941 , marketing expenses Kshs. 6,164,793 .06, Repair and maintenance Kshs.859,995, board expenses Kshs.153,780 paid in the year and gain on sale of non-current asset of Kshs.660,000 were proper to prior periods and individual items have been adjusted.

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

NSSF arrears	17,796,920	23,796,720
Retrenchment award	<u>36,560,753</u>	<u>36,560,753</u>
	<u>54,357,673</u>	<u>60,357,673</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 Ksh
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	4,098,449,758	1,220,717,325	2,850,944,464	
At 30 June 2016				
Receivables from exchange transactions	687,554,005	265,144,243	422,409,762	
Receivables from non exchange transactions	3,198,522,202	773,400,253	2,300,175,255	
Bank balances	293,112,743	293,112,743	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 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
At 30 June 2016	
Trade payables	5,087,639,157
Current portion of borrowings	0
Provisions	0
Deferred income	0
Employee benefit obligation	268,166,826
Total	5,393,935,718

(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 2017			
Financial assets(investments, cash ,debtors)	687,554,005	0	687,554,005
Liabilities			
Trade and other payables	345,705,852	0	345,705,852
Borrowings	0	0	0
Net foreign currency asset/(liability)	341,848,153	0	341,848,153

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
2017			
Euro	10%	(4.1)million	(4.1)million
USD	10%		
2016			
Euro	10%	19 million	19 million
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:

	2016-2017	2015-2016
	Kshs	Kshs
Revaluation reserve	7,179,259,943	7,179,919,943
Retained earnings	(4,107,420,465)	(2,825,903,564))
Capital reserve		
Total funds	3,071,839,477	4,354,016,378
Total borrowings	0	0
Less: cash and bank balances	297,186,443	494,942554
Net debt/(excess cash and cash equivalents)	297,186,443	494,942554
Gearing	68%	55%

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>2017/2016</u>	<u>2015 / 2016</u>
Payable within one year	255,795,441	220,621,341
Payable after one year but not later than 5 years	0	0
	<u>255,795,441</u>	<u>220,621,341</u>
	=====	=====

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	2018/2019
2.0	Going Concern	Being addressed through improvement of revenue and cost cutting measures	Postmaster-General	Improving	2018/2019
3.0	Posta switch and ERP	Relevant departments are finalising their reports	Head of ICT	In progress	2018/2019
4.0	Trade and Other Receivables	Reconciliation and arbitration nearing completion	Corporation secretary , GM/ Finance	In progress	2018/2019
5.0	Trade and Other Payables	Reconciliation and arbitration nearing completion	Corporation secretary ,GM Finance	In progress	2018/2019

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

III. INTER-ENTITY TRANSFERS- NONE

IV. RECORDING OF TRANSFERS FROM OTHER GOVERNMENT - ENTITIES- NONE

**ANNEX 1
BANK BALANCES**

OFFICE	BANK	ACCOUNT NO.	BANK BALANCE
CITY SQUARE	KCB	1107180945	9,250,048.14
ENTERPRISE	KCB	1102588792	1,825,909.63
WESTLANDS	KCB	1106971620	1,075,873.44
NGARA ROAD	KCB	1109104839	957,765.91
TOM MBOYA	KCB	1109104790	1,205,058.30
RONALD NGALA	KCB	1101632720	1,392,899.30
EMS	KCB	1104165945	15,309,275.27
KIAMBU	KCB	1101975636	129,434.30
THIKA	KCB	1102282405	1,361,790.92
KAJIADO	KCB	1107681057	537,312.72
LOITOKITOK	KCB	1103870815	385,615.10
GPO	KCB	1107181488	4,072,125.89
TALA	KCB	1107344824	250,588.35
MAKUENI	KCB	1105336603	978,222.05
MACHAKOS	KCB	1106435818	2,583,940.49
KITUI	KCB	1106054490	275,456.60
MWINGI	KCB	1103063359	877,735.17
NAMANGA	KCB	1134890168	1,011,040.00
EASTLEIGH	KCB	1144434068	2,539,049.80
MOMBASA	KCB	1107636299	1,346,705.54
UKUNDA	KCB	1108623131	(89,487.84)
MALINDI	KCB	1108002986	99,190.77
LAMU	KCB	1104797739	64,215.74
VOI	KCB	1108159648	116,583.80
WUNDANYI	KCB	1103860526	245,824.40
KILIFI	KCB	1102291870	317,010.33
TAVETA	KCB	1103860771	500,656.50
KISUMU	KCB	1104029243	551,828.45
SIAYA	KCB	1106917588	134,484.08
KISII	KCB	1101996196	1,144,857.81
SUNA	KCB	1106349628	4,082,624.77
NYAMIRA	KCB	1103322427	285,856.85
HOMABAY	KCB	1106829786	1,381,887.41
KILGORIS	KCB	1102254517	119,469.87
KEHANCHA	KCB	1106457625	194,640.25
OYUGIS	KCB	1102141240	95,840.35
KEROKA	KCB	1102215384	97,267.70
BONDO	KCB	1107097460	114,611.80
UGUNJA	KCB	1106971388	50,659.54
KAKAMEGA	KCB	1101939818	336,979.67
MARAGOLI	KCB	1101397989	362,347.39
BUNGOMA	KCB	1106286421	2,446,816.95
BUSIA	KCB	1105250717	140,198.42
WEBUYE	KCB	1107192609	398,697.10
EMBU	KCB	1102942324	659,784.99
MERU	KCB	1103313665	681,204.30
CHUKA	KCB	1103744763	358,071.19
MARSABIT	KCB	1102657034	786,096.00
MOYALE	KCB	1105845419	377,644.60
ISIOLO	KCB	1134890109	446,895.05
ISIOLO	CONS	120048102700	4,000.00
MAUA	KCB	1134892683	43,781.75
MAUA	CONS	120045025400	315,658.00
NYERI	KCB	1101980141	115,593.90
MURANGA	KCB	1107249139	1,142,964.55
KERUGOYA	KCB	1104068605	483,938.95
NANYUKI	KCB	1103173472	452,214.05
KARATINA	KCB	1105585166	713,704.35
KANGEMA	KCB	1104844435	69,815.20
OTHAYA	KCB	1101571985	67,936.20
KIANYAGA	KCB	1104002744	147,736.00
MUKURWEINI	KCB	1103098705	409,138.95

KIRIAINI	KCB	1114446688	88,127.00
WANGURU	KCB	1139154915	47,462.40
KENOL	KCB	1107306582	19,430.55
NAKURU	KCB	1101845759	1,897,769.70
KERICHO	KCB	1103604929	230,901.56
ELDAMA RAVINE	KCB	1105701956	700,084.35
NAROK	KCB	1102022098	540,674.20
NYAHURURU	KCB	1102163872	716,953.20
BOMET	KCB	1105831310	1,934,766.74
ELDORET	KCB	1103512404	79,149.53
KITALE	KCB	1105199606	317,351.56
KABARNET	KCB	1103763636	110,203.30
KAPSABET	KCB	1102086932	1,200,624.75
KAPENGURIA	KCB	1106263634	202,386.10
LODWAR	KCB	1107307953	1,525,745.88
ITEN	KCB	1106936558	130,474.91
LITEIN	KCB	1105682544	1,091,793.55
OL KALOU	KCB	1102222054	645,546.65
GILGIL	KCB	1106241428	423,379.10
MOLO	NBK	01003-53937800	2,387,352.50
NAIVASHA	KCB	1105267466	224,919.25
KAPSOWAR	KCB	1103291793	8,722.00
MARALAL	KCB	1104414260	215,291.45
SOTIK	KCB	1143649117	344,007.05
KAKUMA	EQUITY		10,474,800.00
GARISSA	KCB	1107820251	180,067.60
WAJIR	KCB	1105247597	37,187.95
MANDERA	KCB	1103984195	133,420.90
ELWAK	EQUITY	262195161	861,983.95
DAADAB	EQUITY	262195199	379,320.00
HOLA	KCB		110,731.00
A/C 1	KCB	1107180848	2,357,501.52
A/C 2	KCB	1107181089	691,192.48
A/C 3	KCB	1107181259	3,868,191.85
A/C 4	STAN CHART	104006727800	2,143,550.00
A/C 5	CBA	656869-22568027	1,634,110.23
A/C 6	CO-OP	1120065154800	2,035,185.02
A/C 7	KCB	1144434025	5,648,752.35
A/C 8	KCB	1107181321	2,200,337.35
A/C 9	NBK	1003003098800	2,550,010.35
A/C 10	CBA	656869-22568043	13,554,657.02
A/C 11	BBK	7009141	(72,728.97)
A/C 12	EQTY	13277889	378,965.65
A/C 14	KCB	1145879047	2,237,016.24
A/C 15	KCB	11411260697	258,183.12
A/C 16	CBA	6568690053	5,617,167.74
A/C 17	KCB	1153643758	1,731,519.34
STAMP BUREAU	KCB	1104165759	81,913.35
NBK-Kenyatta University	NBK	1003059037200	3,162,169.00
NBK-Kenyatta Hospital	NBK	1003058040800	721,634.00
NBK-Moi Airport	NBK	1003057299200	3,295,371.00
BBK Current A/C	BBK	775040068	-333,375.25
BBK-Lavington Post office	BBK	2030474034	83,309.20
BBK-Muthaiga Post office	BBK	2030474018	42,584.00
BBK-Limuru Post office	BBK	2030473976	661,199.80
BBK-Buru Buru Post office	BBK	2030473933	96,062.10
BBK-Embakasi Post office	BBK	2030473925	102,022.70
BBK-Karen Post office	BBK	2030473992	260,937.00
BBK-Jamia Post office	BBK	2030474042	138,385.25
BBK-Sarit Post office	BBK	2030474077	1,193,039.00
BBK-Ngong Post office	BBK	2030473968	98.00
BBK-Yaya Post office	BBK	2030473909	-1,056.00
BBK-Bamburi Post office	BBK	2030474069	-1,366.00
KCB- Agency transactions	KCB	1131483626	695,824.00
TOTAL			152,128,078.18