REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

THE NATIONAL ASSEMBLY
PAPERS LAID
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OF

THE AUDITOR-GENERAL

ON

POSTAL CORPORATION OF KENYA

FOR THE YEAR ENDED 30 JUNE, 2019

POSTAL CORPORATION OF KENYA

POSTA KENYA
Touching lives

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING JUNE 30, 2019

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 2019

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POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

KEY PCK INFORMATION

1. Background information

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

2. Principal Activities

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

3. Directors

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

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

Principal Secretary Ministry of Information, Communication and Technology

Alternate Director: Dr. Catherine Getao-Outgoing

Alternate Director: Mr. Elikana N.Ong'uti-Incoming

Principal Secretary, National treasury

Alternate Director: Mutua Kilaka

Alternate Director: Ms. Elizabeth Shungula-incoming

POSTAL CORPORATION OF KENYA *...Continued*

4. Corporation Secretary

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

5. Registered Office

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

6. Corporate Contacts

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

7. Corporate Bankers

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

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

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

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

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

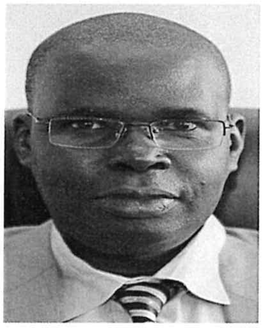
Sichangi Advocates,
Hill Plaza, 10th Floor,
Ngong Road,
P.O.Box 33223 -00600,
NAIROBI.

POSTAL CORPORATION OF KENYA

BOARD OF DIRECTORS

S/N	Name	Experience
1.	 **Hon. Nicholas Kiptoo Arap Korir Salat - Chairperson**	He is a career public servant/ politician who has consistently upheld a high level of integrity & with longstanding experience in National and party politics. He seeks challenging opportunities for both service and personal growth. He holds Bachelor of Arts(BA) –Political Science From University of Alberta(Augustana University College),and also a high School diploma from Cantab College. He is the Secretary General of Kenya African National Union (KANU) party from 2008 to date. He was a Member of Parliament for Bomet Constituency from 2002-2007 and also a member of Pan African Parliament from 2005-2007 He is an Honest, High level integrity, Consistent, Assertive, Trailblazer, Self-starter, Strong networking skills, Excellent communication skills ,Team player, Trustworthy & Reliable person.
2.	 **Mr. Dan Kagwe CEO & Postmaster General**	He has worked extensively in the private sector including the financial,courier and logistics industry in Kenya and the wider East Afrcian 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.
3.	 **Mr.Munyua Waiyaki - Director**	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.
4.		Ms. Elizabeth Shungula is a Senior Accountant and Economist working with The National Treasury. She holds a Bachelor of Commerce, Accounting option from Daystar University and an MBA in Finance from Kenya Methodist University. She is also a qualified CPA (K) holder and a member of ICPAK. Ms. Elizabeth Shungula is currently the alternate Director, Postal Corporation of Kenya Board, representing the Principal Secretary, The National Treasury.

5.	 **Ms. Mary Maingi - Director**	**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
6.	 **Pauline Muthigani W. – Director**	**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. 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.
7.	 **Ibrahim Salat- Director**	Born in 1960 is a Banker, politician and entrepreneur with over 30 years of experience. 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

8.	 **Mr. Elikana N.Ong'uti-Director**	Mr. Elkana. N. Onguti is the Chief Economist and Head of the Central Planning, Project Monitoring and Unit at the State Department of Broadcasting and Telecommunications, Ministry of Information, Communication and Technology. He holds a Bachelors and Masters of Arts degree in Economics from the University of Nairobi. He has also attended many short courses in planning, monitoring and evaluation, policy analysis and project management, both within and outside the country, with the latest being at the Kenya School of Government in 2013 (Strategic Leadership Development Programme); World Bank Institute in 2013 (the Global Flagship Course on Health Systems Strengthening and Sustainable Financing: The Challenge of Universal Health Coverage) and Harvard School of Public Health in 2015 (Making Decentralization Work: Tools for Health Policy Makers and Managers). Mr. Elkana Onguti is the alternate Director, Postal Corporation of Kenya Board, representing the Principal Secretary, Ministry of Information, Communication & Technology. **Honors:** Received the Presidential Award, the Order of the Grand Warrior of Kenya (OGW) in 2013 for exemplary service.
9.		**Julius Opini- Corporation Secretary** He holds Bachelors of Law, Bachelors in Economics and Postgraduate diploma in Law

POSTAL CORPORATION OF KENYA

EXECUTIVE MANAGEMENT TEAM

 **Mr. Dan Kagwe**	**CEO & Postmaster General**
 **Julius Opini** Masters of Law, Bachelors of Law, Bachelors Arts (Economics) Postgraduate diploma in Law	Corporation Secretary
 **B. Murerwa** MBA (Entrepreneurship) Bachelor of Arts (Economics), CPA (K), CISA.	GM / Business Development.
 **Eliud Lell** Bachelor of Arts	GM/ Government Business
 **Joan Toroitich** Bachelor of Education	GM/ Operations

 **E. Mwaura** - MBA , BSC in FSM, Diploma Institutional Management.	GM /Courier Services
 **J.K Tonui** - MBA, Bachelor of Arts, Diploma in HRM	GM/ Human Resource Development & Administration
 **P.N. Gichuki** Bachelor of Arts	Manager Corporate Communications & Public Affairs.
 **M Masinde** – MSC in Strategic Management, BBM -Supply Chain	Manager Supply Chain Management
 **David Fundia** MBA Strategic Mgt CPA(K)	AGM /Audit and Risk management
 **Milka Mugwe** Masters In Public Admin, Bachelor of Public Admin & Communication	GM/ Mails

 **James Kahonge** MSc in Business with IT, BCom Marketing	GM/Payments & ICT
 **Alex Lumadede** Bachelor of Arts In Military Science	AGM /Security & Investigation
 **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, 2019. Though the reported performance is still in deficit, the Corporation was able to meet its mandate to Kenyans.

Performance

During the period under review, Kenya registered an economic growth, averaging 6.3%. The company recorded a net deficit of Kshs. 966.1 million compared to Kshs. 84.534 million in the previous period.

Growth Strategy

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

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

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

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

Implement a marketing plan/business plans by;

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

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

iv. Systems and Processes

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

Appreciation

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

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

Chairperson

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, 2019. 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 2018-2019, 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 966 million for the financial year ended 30th June 2019 compared to Kshs 84.5 million achieved in the Financial Year 2017/18.

Operational Revenue

Revenue decreased to Kshs 2.6 billion in the year under review from Kshs 3.5 billion recorded in the Financial Year 2017/18 equivalent to a 25% decrease.

Operating Expenditure

Whereas the Corporation operated within the budgeted expenditure during the year, total operating expenditure decreased by -13% to Kshs 3.610 billion from the previous year's Kshs 4.163 billion. The decrease in the operating expenditure is as a result of reduced operating and administration costs.

Key Projects

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

1. Implementation of enterprise resource planning(ERP) is almost complete

This has assisted the Corporation in managing and integrating the important parts of our business in areas such Finance, Human resources and Procurement

2. Introduction of new Financial and Agency services including agency banking.
3. Kisumu post office Building which is still ongoing.
4. EMS center Building in industrial area which is still on going.

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

Appreciation

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

Postmaster General

CORPORATE GOVERNANCE STATEMENT

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

The Board of Directors

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

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

The role of the Board includes to:

a) Exercise leadership, enterprise, integrity and sound judgment in directing PCK to achieve continued prosperity;

b) Approve and review strategic business and operational plans and ensure that PCK has sufficient and appropriate resources to achieve its goals;

c) Ensure that effective systems of control are in place to manage major risks faced by PCK and to safeguard its assets;

d) Provide oversight and guidance to Senior Management so as to enhance efficiency and effectiveness of the Corporation;

e) Ensure that the Corporation complies with all statutory and legal requirements including prescribed codes of best practice;

f) Monitor and evaluate organization performance through quarterly reports and agreed key performance indicators.

g) Ensure effective accountability to the Government through the Ministry of Information and Communications in proper management of the affairs of the Corporation.

h) Adhere to the principles and virtues of good corporate governance.

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.

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 2019

	2018/2019	2017/2018
Main / Special Board	13	14
Audit and risk management	4	3
Human Resource	7	5
Finance	7	9
Business development, and Innovation	5	6

MANAGEMENT DISCUSSION AND ANALYSIS

1. **Introduction**

2. **Statutory Provision**

(a) Audit

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

3. **Economic review**

The Kenyan economy registered a GDP growth rate of 6.3% in 2018 compared to 4.9 in 2017. Inflation decreased to 6.3% in 2017 from 8% in 2016 - *Kenyan economic survey 2019*

4. The overall financial position of year 2018/2019 is a net loss of KShs (966.1) before tax.

Table 1- Financial performance Trend in Kshs millions

Particulars	2018/2019	2017/2018	2016/2017	Variance
Revenue	2,668	4,099	2,552	-35%
Expenditure before exceptional items	3,610	4,163	3,806	-13%
Net deficit / before tax	(966)	(84.5)	(1,242)	
Net deficit/ after tax	(966)	(84.5)	(1,242)	

5. Financial performance

(a) Revenue

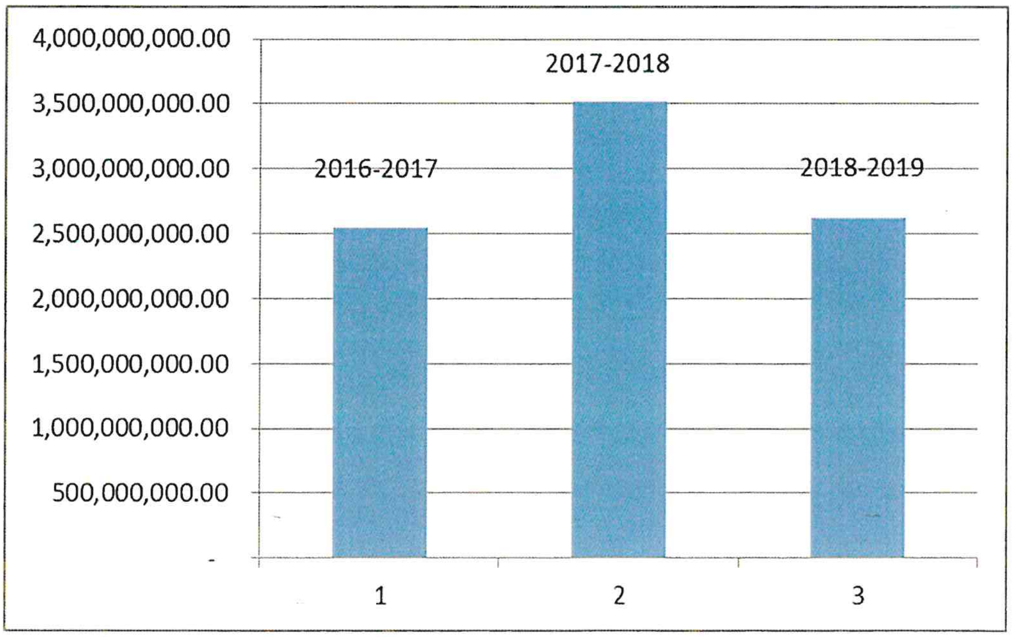
The overall Corporation operating Revenue registered a decrease of Kshs.888.3 million in 2018/19 Compared to 2017/2018. This is attributable to reduced Courier business (IEBC) that was witnessed in 2017/2018.

Other notable decreases were noted in sale of postage stamps by Kshs.22 million, postage in bulk by Kshs.47 million, customs and clearing commission by Kshs.41 million and miscellaneous revenue by Kshs.10million.

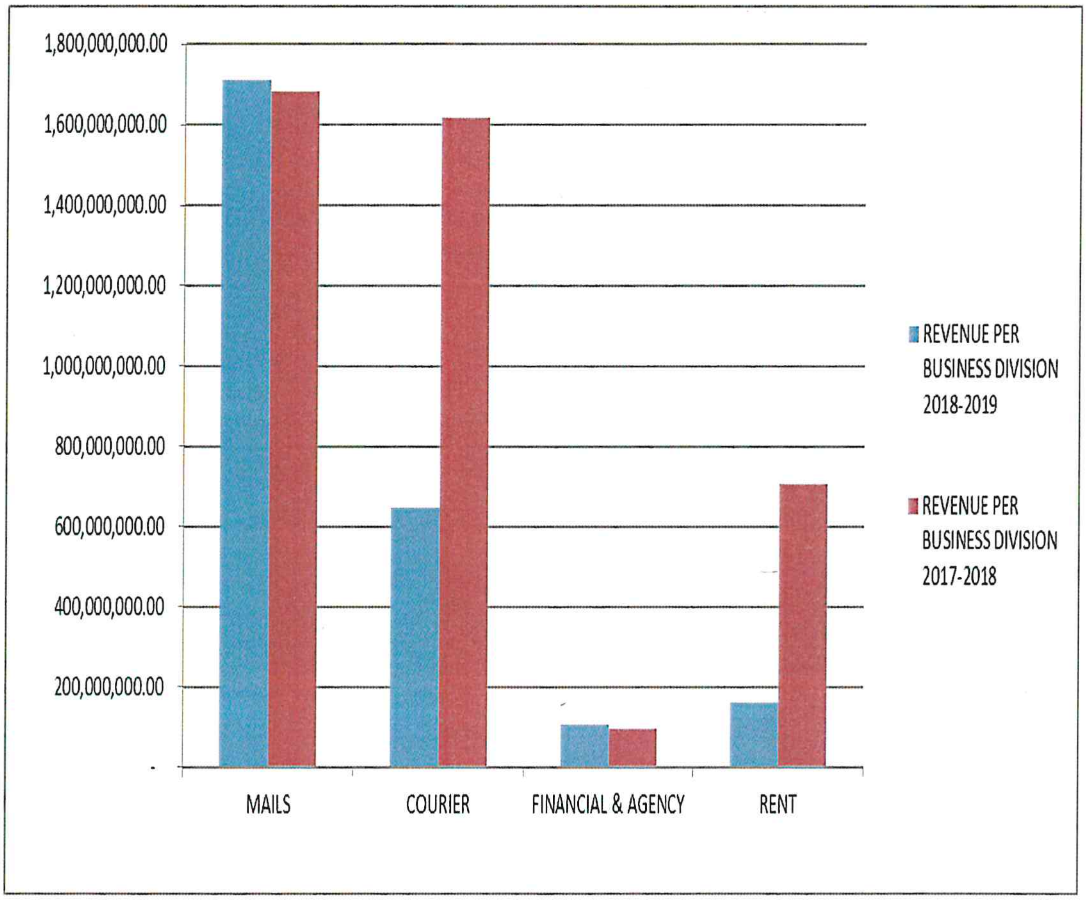
Significant increases were noted in parcels post by Kshs.69 million, foreign administration income by Kshs.41 million, box rentals by Kshs.58 million and rent income by Kshs.31 million

Revenue comparatives in millions

2018/2019.	2017/2018.	2016/2017.
2,635	3,523	2,552



The graph below shows financial performance trend from 2017/2018 to 2018/2019

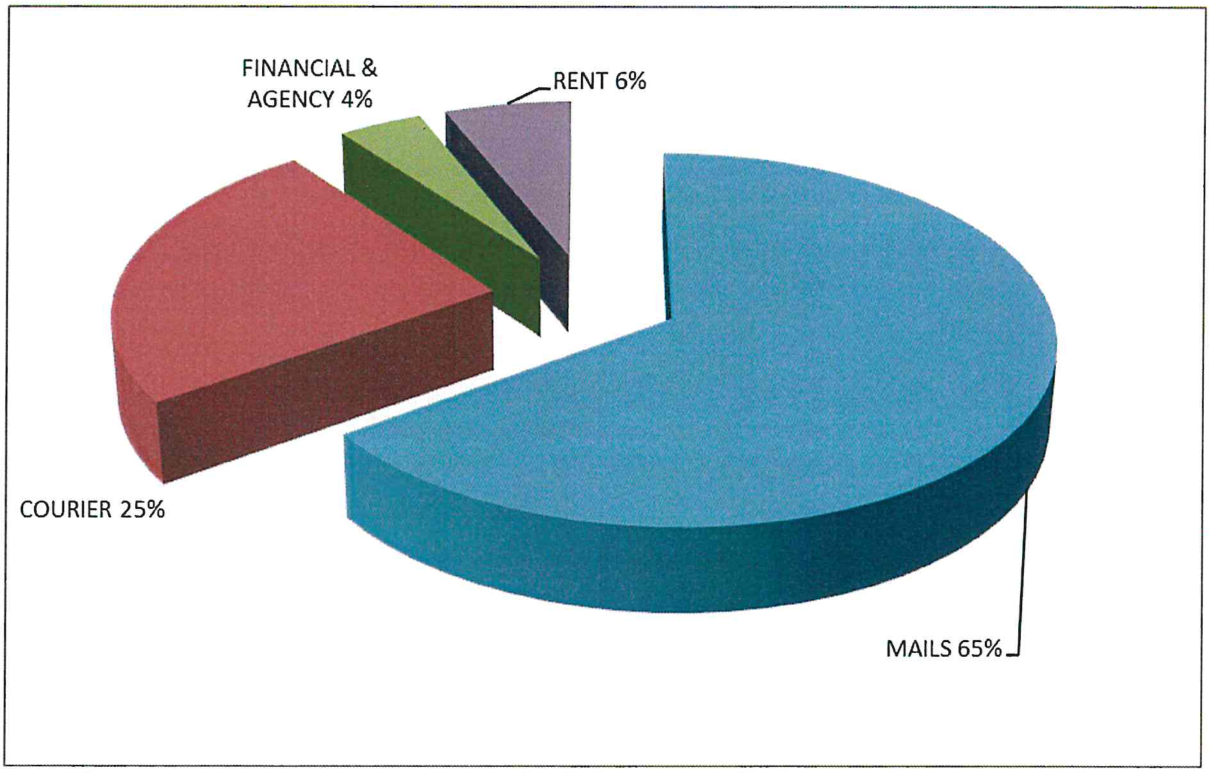


POSTAL CORPORATION OF KENYA

MANAGEMENT DISCUSSION AND ANALYSIS....*continued*

REVENUE PERFORMANCE PER STREAMS

Revenue analysis for 2018 / 2019



(b) Operating Expenditure

Operating expenditure reflected a decrease of KShs 553 million in 2018/2019 financial year compared to 2017/2018. This was as a result of decreased expenditure in various items as shown below.

Major Reductions;

- Administration cost-Kshs. 35 million due to reduced security and staff tea costs
- Staff cost-Kshs.71 million due to reduced staff numbers by 398
- Operational cost –Kshs.408 million due to reduced motor vehicle hire
- Training cost-Kshs.18 million due to reduced training budget
- Other expenses-Kshs 61 million due to reduced expenditure in print and electronic advertisements
- Maintenance cost-Kshs.55 million due to reduced ICT and building repairs within the year

Major Increases:

- Conveyance of mail-Kshs.28 million due to increased airline conveyance costs this matches the increase in parcel volumes

- International service costs-Kshs.44 million due to increased mail and parcel international expenses
- Telephone and data-Kshs 10 million increase due to data expense

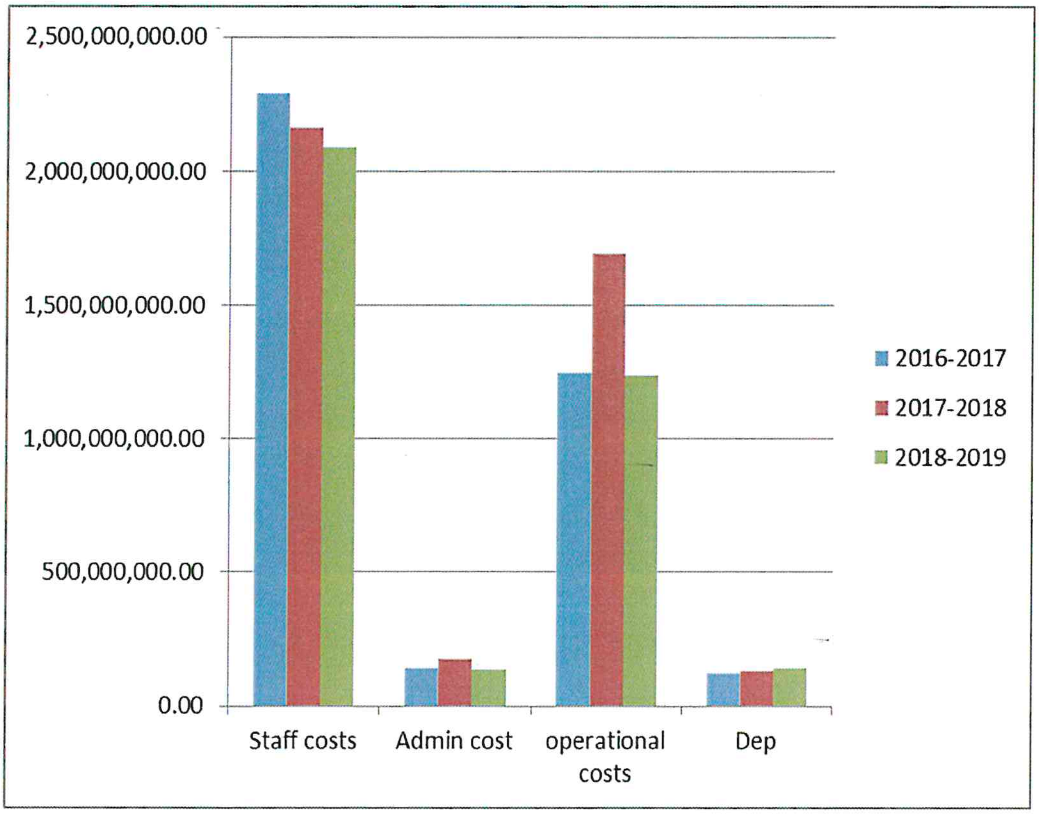
Expenditure comparatives in millions

2018/2019.	2017/2018.	2016/2017.
3,634	4,186	3,806

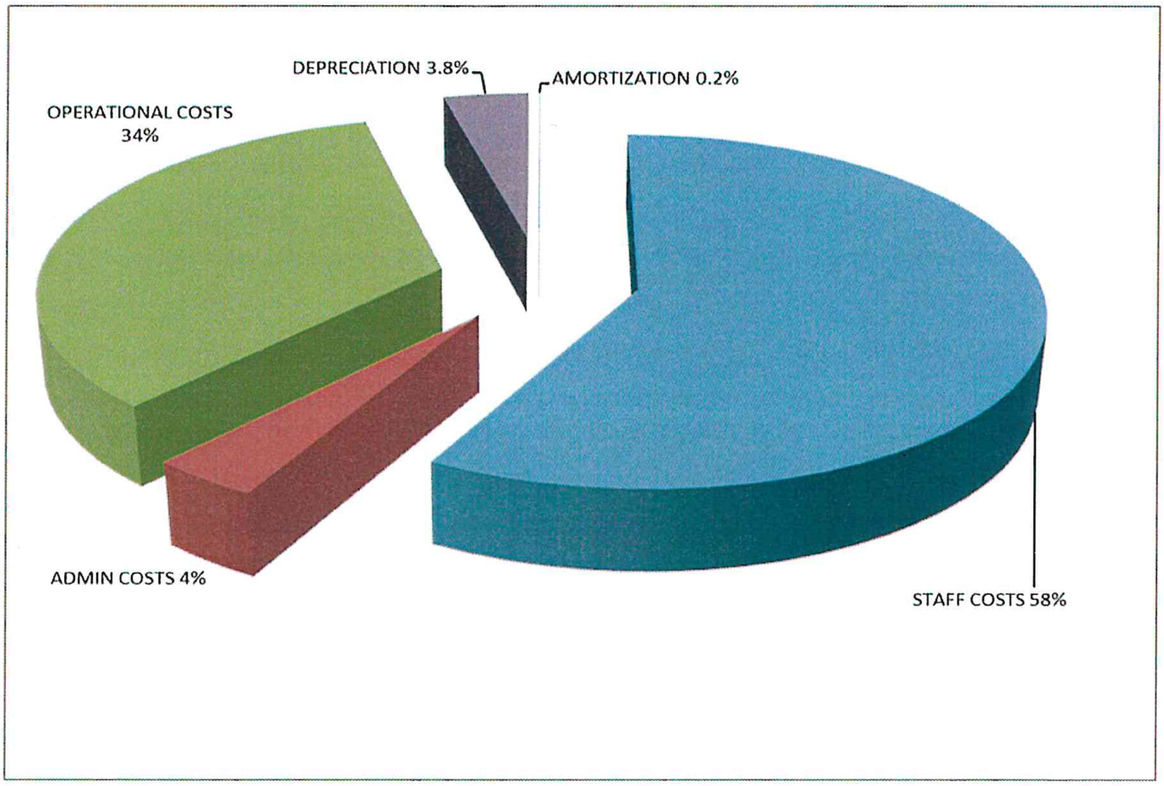
Operating Expenses per head 2018/2019

	2018-2019
Staff costs	2,091,315,213
Administrative expenses	137,777,015
Other operational expenses	1,239,675,222
Depreciation of PPE	141,244,840
Amortisation of Intangible Assets	928,000

Expenditure Analysis



Expenditure Analysis



(c) Financial Results

The financial results reflected an operating loss of KShs. 966.1 million compared to a loss of Kshs. 85.4 million in 2017/2018

(d) Ratios

	2018/2019	2017/2018	
Liquidity ratio:			
Current ratio =	0.18	0.21	Current Assets / Current liabilities
Gearing ratio =	0.78	0.6	Total liabilities/ Total Assets
Return on investment	-0.1	0.89	Net Profit /loss before tax/Total Assets

CORPORATE SOCIAL RESPONSIBILITY STATEMENT (CSR)

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

Our CSR program focuses on improvement of health and sanitation, assisting needy children with school fees, sports and emergencies. The PCK fraternity continues to volunteer their skills, time and funds towards community projects as a way of investing in the society. To this end, PCK was able to support a needy student from Kisumu girls with school fees, sponsor Posta Rangers football club, among other CSR activities within the current financial period. PCK's Posta Rangers Football Club remains the corporation's signature CSR project. The football team has helped to place the Corporation on the Kenyan sports map through their participation and various achievements in the national football league.

Chairperson

Postmaster General

POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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 2019.

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**

	KShs
Loss before Tax	**((966,104,609))**
Less Corporation Tax	-
Net Profit/ (Loss) after Tax for the Year	**((966,104,609))**

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 2018/2019

By Order of the Board

Corporation Secretary

Nairobi

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 2019. 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 2019, 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 …14th January, 2020 and signed on its behalf by:

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

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL
Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON POSTAL CORPORATION OF KENYA FOR THE YEAR ENDED 30 JUNE, 2019

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 36, which comprise the statement of financial position as at 30 June, 2019 and the statement of profit and loss, statement of changes in reserves, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters 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, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (Accrual Basis) and do not comply with the Postal Corporation Act, 1998.

Basis for Adverse Opinion

1.0 Going Concern

During the year under review, the Corporation recorded a deficit of Kshs.966,104,609 (2018/2019 - deficit of 84,534,739) thereby reducing the accumulated reserves from negative Kshs.4,191,955,204 as at 30 June, 2018 to negative Kshs.5,158,059,813 as at 30 June, 2019.

Further, the current liabilities of Kshs.7,322,278,116 exceed the current assets of Kshs.1,323,519,684 resulting in a negative working capital of Kshs.5,998,758,432. The Corporation is technically insolvent and is unable to meet its financial obligations as and when they fall due. The financial statements have been prepared on the going concern basis with the assumption of continued financial support from the Government, its bankers and creditors.

2.0 Property, Plant and Equipment

The statement of financial position reflects an amount of Kshs.7,702,692,088 under property, plant and equipment as at 30 June, 2019. However, thirty-three (33) parcels of the Corporation land located in different parts of the country have ownership disputes. On 25 February, 2019, Management requested the Ethics and Anti-Corruption Commission (EACC) for assistance to repossess the illegally acquired parcels of land, but no tangible results have been obtained to date. Further, during the year under review, there was forceful occupation and demolition of the Corporation's properties worth Kshs.5,900,000 on plot number LR 2/840 in Thika and LR 2/284 in Kiambu by the County Government of Kiambu.

In view of the foregoing, the Corporation's property, plant and equipment balance of Kshs.7,702,692,088 as at 30 June, 2019 could not be confirmed as fairly stated.

3.0 Non-Disclosure of Rent Receivable owed by Huduma Kenya

The statement of financial position reflects an amount of Kshs.1,133,555,734 under trade and other receivables which, as disclosed in Note 10 to the financial statements, includes an amount of Kshs.102,179,671 in respect of rent receivable. However, records provided for audit indicated that by 9 June, 2019, Huduma Kenya owed the Corporation rental charges of Kshs.1,170,650,802 for spaces occupied in fifty-two (52) Postal outlets throughout the Country. However, the amount owing has not been disclosed as a rent receivable in the financial statements for the year under review. Further, Huduma Kenya has been operating on a Memorandum of Understanding with Postal Corporation of Kenya which expired on 17 October, 2018 making the memorandum invalid for the remaining eight (8) months of the year under audit review.

Consequently, the completeness and accuracy of the rent receivable amount of Kshs.102,179,671 as at 30 June, 2019 could not be confirmed.

4.0 Cash and Bank

The statement of financial position reflects a cash and bank balance of Kshs.189,963,949 as at 30 June, 2019 which, as disclosed in Note 11 to the financial statements, includes a bank balance of Kshs.113,040,859. However, examination of bank reconciliation statements revealed that unpresented cheques amounting to Kshs.4,510,604 were stale and had not been reversed in the bank reconciliation statement and cash book. Further, credits amounting to Kshs.20,516,702 in the bank statement had not been recorded in the cash book for a period exceeding one year .

There were also items in the reconciliations described as deposits or receipts in the cash book not recorded in the bank statement of Kshs.18,099,501. Included in this amount was Kshs.1,618,920 in Nakuru bank reconciliation statement which has been outstanding since July, 2001. The Kenya Commercial Bank main account had receipts of Kshs.4,591,560 in cash book not in the bank statements while there were debits in the bank statement not recorded in the cash book of Kshs.34,422,095.

In view of the foregoing, the completeness and accuracy of the cash and bank balance of Kshs.189,963,949 as at 30 June, 2019 could not be confirmed.

5.0 Trade and Other Payables

The statement of financial position reflects an amount of Kshs.7,322,278,116 under trade and other payables which, as disclosed in Note 12 to the financial statements, includes agency creditors of Kshs.2,471,519,800. The agency creditors includes agency accounts balance of Kshs.827,210,274 which further includes an amount of Kshs.417,126,384 in respect of the Government of Kenya Cash Transfer Programs under the State Department of Social Protection.

It was noted that the State Department of Social Protection terminated agency services in respect to cash transfer programs and the amounts due were to be paid back to the respective cash transfer programs. The Management of Postal Corporation has not satisfactorily explained why it has not remitted back the outstanding amounts due to the Agencies. Although Management explained that the Ministry of Information Technology and Youth Affairs (MoICT) is undertaking a restructuring programme for Postal Corporation of Kenya to clean up the balance sheet, enable the Corporation to stay afloat and be able to pay up some of the creditors, no correspondences were provided to confirm this.

Further, included in the trade and other payables of Kshs.7,322,278,116 is an amount of Kshs.7,772,024 owed to Telkom Kenya Limited. The amount includes billings of Kshs.23,539,433 and payments for Kshs.103,096,293 which were not supported and no ageing analysis was provided for audit verification.

In addition, included in the trade and other payables of Kshs.7,322,278,116 is an amount of Kshs.1,636,537,502 owed to the Kenya Post Office Savings Bank which was not supported. Management had indicated that reconciliations were ongoing in respect of the accounts between the two organizations. Further, the trade and other payables of Kshs.7,322,278,116 includes an amount of Kshs.96,819,339 in respect of deferred projects. Details of the projects were not provided for audit review.

In view of the foregoing, the accuracy of the trade and other payables amount of Kshs.7,322,278,116 as at 30 June, 2019 could not be confirmed.

6. Unresolved Prior Year Issues

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Postal Corporation of Kenya Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources has not been applied lawfully and in an effective way.

Basis for Conclusion

Non- Submission of Statutory Deductions

Included in the trade and other payables of Kshs.7,322,278,116 is also an amount of Kshs.284,388,357 in respect of statutory deductions, out of which Kshs.278,172,711 is owed to the Kenya Revenue Authority. The Management has not been remitting statutory deductions as required by the Income Tax Act, Cap 470. The unremitted amounts attracts interest and penalties. Further, pensions and gratuities amounting to Kshs.915,233,134 had not been remitted to the Staff Pension Scheme. Management attributed this to lack of cash flow and explained that the Ministry of Information Technology and Youth Affairs was undertaking a restructuring programme for Postal Corporation of Kenya although no correspondences was provided to confirm this.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit so as to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the review so as to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance was maintained in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

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 sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to liquidate the Corporation or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

19 July, 2021

Postal Corporation of Kenya
Statement of Profit and Loss
For the year ended 30 June 2019

	Notes	2018/2019 KSHS	2017/2018 KSHS
REVENUES			
Operating revenue	2	2,635,429,336	3,523,647,686
Finance income	3	12,027,314	2,296,910
Other Income	4	37,068,866	588,288,783
Other gains and losses	5	(15,946,845)	(12,602,284)
Total revenue		**2,668,578,671**	**4,101,631,094**
OPERATING EXPENSES			
Adminstrative expenses	6	2,229,092,228	2,337,364,876
Other operational expenses	7	1,381,671,962	1,826,132,302
Finance costs	8	23,919,089	22,668,655
Total operating expenses		**3,634,683,280**	**4,186,165,833**
Operating Surplus/(Deficit)		**(966,104,609)**	**(84,534,739)**
Net surplus/(Deficit) before tax		**(966,104,609)**	**(84,534,739)**
Income tax expense		-	-
Net Surplus/(Deficit) after Tax		**(966,104,609)**	**(84,534,739)**

Postal Corporation of Kenya
Statement of Financial Position
For the year ended 30 June 2019

	Notes	2018/2019 KSHS	2017/2018 KSHS
Assets			
Non- Current Assets			
Plant Property and Equipment	9.a	7,702,692,088	7,736,114,740
Intangible asset	9.b	317,266,473	318,194,473
		8,019,958,561	**8,054,309,213**
Current Assets			
Trade and Other Receivables	10	1,133,555,734	1,068,054,288
Cash and Bank	11	189,963,949	311,883,958
		1,323,519,684	**1,379,938,247**
Total Assets		**9,343,478,245**	**9,434,247,460**
Reserves and Liabilities			
Current liabilities			
Trade & Other payables	12	7,322,278,116	6,446,942,721
		7,322,278,116	**6,446,942,721**
Reserves			
General reserve	13	(5,158,059,813)	(4,191,955,204)
Revaluation Reserve	14	7,179,259,943	7,179,259,943
Total Reserves		**2,021,200,129**	**2,987,304,738**
Non Current liabilities			
Total Reserves and Liabilities		**9,343,478,245**	**9,434,247,460**

The Financial Statements on pages 1 to 35 were approved by the Board of Directors on 14th January 2020 and were signed on its behalf by;

Chairperson.............................. **Postmaster General**..............................

Date : Date:

General Manager Finance..............................

ICPAK NO......12622...................................... Date:

Postal Corporation of Kenya
Statement of Changes in Reserves
For the Year Ended 30 June 2019

	Note	General Reserve	Revaluation Reserve	Total
As at 1 July 2018		**(4,107,420,465)**	7,179,919,943	**6,392,801,507**
				-
Net profit / Deficit for the year		(84,534,739)	-	**(84,534,739)**
Revaluation adjustment			(660,000)	
Revaluation Gain				
				-
As at 30 June 2018		**(4,191,955,204)**	**7,179,259,943**	**2,987,304,739**
				-
				-
opening 01/07/2018		**(4,191,955,204)**	**7,179,259,943**	**2,987,304,739**
				-
				-
				-
		-		-
		-	-	-
Net profit / Deficit for the year		**(966,104,609)**	-	**(966,104,609)**
				-
			-	-
				-
				-
As at 30 June 2019		**(5,158,059,813)**	**7,179,259,943**	**2,021,200,130**

Postal Corporation of Kenya
Statement of Cashflows
For the year ended 30 June 2019

	Notes	2018/2019 KSHS	2017/2018 KSHS
Cash receipts from customers		2,467,284,602	3,663,731,146
Cash paid to suppliers and staff		2,694,553,291	4,005,322,690
Total cash flow from operating activities		(227,268,689)	(341,591,544)
Tax paid		-	-
Cash generated from operations		**(227,268,689)**	**(341,591,544)**
CASHFLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of assets		4,389,333	-
Purchase of Property and Equipments	9	(94,494,925)	(37,959,437)
Interest income		12,027,314	2,296,910
Cash advanced to staff		2,059,562	(3,263,720)
Net cashflow from Investing activities		**(76,018,716)**	**(38,926,247)**
CASH FLOW FROM FINANCING ACTIVITIES			
Loan Repayments		-	-
Loan interests		-	-
Dividend paid		-	-
Net cashflow from financing activities		-	-
Net Increase /Decrease in PCK Cash		**(303,287,405)**	**(380,517,791)**
Cash to/ from others		181,367,396	395,215,306
Cash and Cash Equivalent at beginning		**311,883,958**	**297,186,443**
Cash and Cash Equivalent at year end		**189,963,949**	**311,883,958**

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 2019

Description	Original budget 2018/2019	Adjustment 2018/2019	Final budget 2018/2019	Actuals 2018/2019	Performance difference
REVENUE	5,188,249,000	(1,184,437,000)	4,003,812,000	2,668,578,671	(1,335,233,329)
			-		-
Less OPERATING EXPENDITURE					-
Staff Cost	2,218,458,000	15,930,200	2,234,388,200	2,091,315,213	(143,072,987)
Administration Cost	192,451,000	31,435,800	223,886,800	124,071,273	(99,815,527)
Directors Expenses	31,220,000	(10,500,000)	20,720,000	13,705,743	(7,014,257)
Operational Cost	514,363,000	(116,436,900)	397,926,100	349,838,148	(48,087,952)
Conveyance of Mail Expenses	139,103,000	(24,477,000)	114,626,000	133,424,824	18,798,824
International Services Expenses	70,000,000	(25,000,000)	45,000,000	93,726,175	48,726,175
Rental Expenses	301,800,000	-	301,800,000	286,997,406	(14,802,594)
Maintenance Expenses	217,339,000	(83,173,000)	134,166,000	95,831,194	(38,334,806)
Training Expenses	24,100,000	(6,700,000)	17,400,000	14,658,707	(2,741,293)
Telephone and Data Communin	59,579,000	(11,665,000)	47,914,000	61,956,481	14,042,481
Other expenses	542,936,300	(284,772,730)	258,163,570	132,545,903	(125,617,667)
					-
	4,311,349,300	(515,358,630)	3,795,990,670	**3,398,071,066**	(397,919,604)
Provision for Depreciation				141,244,840	
Non operating expenditure				23,919,089	
Amortisation				928,000	
Provision for bad debts				70,520,284	
				3,634,683,280	
Surplus/(Deficit) for the year				**(966,104,609)**	

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. GENERAL 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.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

2. 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.

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

IFRS 16: Leases

The new standard, effective for annual periods beginning on or after 1st January 2019, introduces a new lessee accounting model, which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019(Continued)

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee.

IFRIC 23: Uncertainty Over income tax treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017.

The amendments, applicable to annual periods beginning on or after 1st January 2019, provide additional guidance on applying the acquisition method to particular types of business combination.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

IFRS 17 Insurance Contracts (Issued 18 May 2017)

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.

Amendments to References to the Conceptual Framework in IFRS Standards (Issued 29 March 2018- Applicable for annual periods beginning 1 January 2020)

Together with the revised *Conceptual Framework* published in March 2018, the IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

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

PCK did not early – adopt any new or amended standards in year 2018/2019.

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2019(Continued)

Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests

Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle , issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2019, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2018)

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2019, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. 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 thedelivers 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.

b. 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.

c. 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.

d. 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.

e. 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 five years.

f. Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of computer software of five 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.

g. 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.

h. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

i. 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.

j. 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.

k. Unquoted investments

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

l. 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.

m. 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.

n. 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

o. 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.

p. 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.

q. 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.

r. 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.

s. 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.

		2018/19	2017/2018
Balance at beginning of the year	Kshs.	9,984,200	9,703,847
Additional provision at end of year		(556,802)	280,353
Balance at end of the year		**9,427,398**	**9,984,200**

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

t. 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.

u. Budget information

The original budget for FY 2018-2019 was approved by the National Assembly on 18th June 2018 Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. Accordingly, the Corporation recorded downward revisions of Kshs.515,358,630.00 on the 2018-2019 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.

v. Comparative figures

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

w. 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, 2019.

5. 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.

Provisional for bad and doubtful debts are as per current policy that is Local debts that are over one year and international debts over seven years are provided at 100%.

NOTE 2 **Revenue Analysis**	**2018/2019** **KShs**	**2017/2018** **KShs**
Postal Revenue		
Sale of stamps	259,434,831	282,230,497
Parcels	253,244,331	183,413,116
Postage in bulk	310,019,458	357,219,151
Receipts from Foreign admin	185,880,436	144,498,093
EMS Service	395,758,344	1,365,335,229
Money order commisson	35,130,368	36,739,689
Box/ bag Rentals	916,271,449	858,227,408
EFT commission	5,574,253	5,814,378
Posta Despatch	4,688,717	3,077,368
Direct Mail Marketing	3,777,932	683,690
Post Liner Bus services	13,015,302	9,298,448
Posta Pesa Comm.	7,318,385	9,183,950
Miscellaneous	13,618,977	24,077,530
TOTAL	**2,403,732,784**	**3,279,798,546**
Post shops		
Posta shops	3,659,560	2,664,445
Total	**3,659,560**	**2,664,445**
Total postage and Post shops	**2,407,392,343**	**3,282,462,991**
Rent Income	168,962,292.94	130,708,066.88
AGENCY SERVICES		
(KPOSB) Post Office Savings Banl	614,031.00	505,701.00
PCK and Teleposta Pension schem	45,195.00	59,840.00
Kenya power Commisions	2,758,794.00	6,178,055.00
Customs and Clearing commisions	26,014,574.45	67,279,960.42
Mpesa and Airtel	12,259,932.57	13,878,955.97
Huduma Service commissions	3,757,123.00	8,957,815.00
Regional Agencies	13,625,049.42	13,616,300.28
Total Agency Revenue	**59,074,699**	**110,476,628**
Total Operating Revenue	**2,635,429,336**	**3,523,647,686**

POSTAL CORPORATION OF KENYA
For the year ended 30 June 2019 (Cont'd)

NOTE		2018/2019	2017/2018
		Kshs	Kshs
3	**Finance income**		
	Bank Interest	12,010,814	2,280,410
	Staff loans interes	16,500	16,500
		12,027,314	**2,296,910**

4	**Other Revenue**	**2018/2019**	**2017/2018**
		Kshs	**Kshs**
	Debt Recovery	36,222,993.00	587,754,610
	Sale of Tender doc	-	440,000
	Sale of Stores	845,873	94,173
	Total	**37,068,866**	**588,288,783**

5	**Non-Operating R€**	**2018/2019**	**2017/2018**
		Kshs	**Kshs**
	Gain/Loss on non	(14,947,381)	-
	Foreign exchange :	(999,464)	(12,602,284)
	Total	**-15,946,845**	**-12,602,284**

Notes to the financial statements
For the year ended 30 June 2019 (Cont'd)

6. Administration Expense

		2018/2019	2017/2018
		Kshs	Kshs
Staff costs	6.a	2,091,315,213	2,162,782,886
Consultancy Charges		4,067,618	3,237,348
Bank Charges		12,086,457	15,848,704
Office Administration		21,701,195	29,055,266
Corporate Social Responsibility		830,613	1,562,269
Insurance		16,766,758	20,939,088
Security Charges		68,230,793	87,200,216
Miscellenous expense		387,838	371,350
Directors expense		13,705,743	16,367,750
Total		**2,229,092,228**	**2,337,364,876**

	2018/2019	2017/2018
6. a Staff costs	**KShs**	**KShs**
Salaries and Allowances	1,325,245,280	1,395,975,484
House Allowance	433,947,660	440,710,843
Leave allowance	35,075,039	37,351,608
Medical	153,143,356	118,420,871
Pension expense	143,903,878	170,324,079
	2,091,315,213	**2,162,782,886**

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

Permanent- Management staff	423	367
Permanent Unionisable staff	2,284	2,636
Contract and temporary staff	29	31
	2,736	**3,034**

7. Operations Expense	**note**	**2018/2019 KShs**	**2017/2018 KShs**
Operation Expense	7(a)	349,838,148	758,710,239
Conveyance of mail	7(b)	133,424,824	105,005,223
International Services Expense	7(c)	93,726,175	49,502,366
Rental Expense	7(d)	286,997,406	283,364,431
Maintenance	7(e)	95,831,194	151,595,753
Training Expense	7(f)	14,658,707	32,995,046
Telephone and Data Communication	7(g)	61,956,481	51,079,972
Other Expenses	7(h)	132,545,903	194,184,481
Provision for bad debts	7(i)	70,520,284	66,604,408
Provision for depreciation	9.a	141,244,840	133,090,384
Provision for amortisation	9.b	928,000	-
		1,381,671,962	**1,826,132,303**

7(a). Operation Expense

	2018/2019 Kshs	**2017/2018 Kshs**
Postal Agencies	7,717,268	10,436,694
General Stores	40,055,090	53,859,718
Supply of Stamps	3,475,466	7,479,762
Vehicles Running Expenses	133,194,273	118,885,385
Compensation	2,442,205	1,632,345
Operating License	32,102,754	38,677,474
Transport hire, clearing and Freight charges	46,916,791	435,672,794
Travel subsistence allowances	83,934,302	92,066,067
Total	**349,838,148**	**758,710,239**

7(b). Conveyance of mail	**2018/2019 Kshs**	**2017/2018 Kshs**
Road	11,521,541	11,133,217
Air Internal	-	23,138
Air International	121,903,283	93,113,183
TOTAL	**133,424,824**	**104,269,538**

7(c) . International Services Expense	**2018/2019 Kshs**	**2017/2018 Kshs**
International Parcel Services -	47,956,942	28,188,243
International Mail Services -	45,769,233	21,314,123
Total	**93,726,175**	**49,502,366**

Notes to the financial statements
For the year ended 30 June 2019 (Cont'd)

7(d). Rental Expense

	2018/2019	2017/2018
	KShs	KShs
Site Rentals	10,135,921	8,336,585
Office Rentals	276,861,485	275,027,846
Total	**286,997,406**	**283,364,431**

7(e). Maintenance

Equipment leasing	59,854,385	68,935,543
Office Equipment Repairs	18,243,013	14,110,134
ICT maintenance and licences	3,349,459	41,508,617
Building Maintenance	14,384,337	27,041,459
Total	**95,831,194**	**151,595,753**

7(f). Training Expense

DIT	1,753,800	1,917,750
Training	12,904,907	31,077,296
Total	**14,658,707**	**32,995,046**

7(g). Telephone and Data Communication

Telephone lines	17,674,081	12,212,249
Mobile lines	3,983,399	4,850,788
Data communication	40,299,001	34,016,935
Total	**61,956,481**	**51,079,972**

Notes to the financial statements
For the year ended 30 June 2019(Cont'd)

7(h). Other Expenses

	2018/2019 Kshs	2017/2018
Furniture and Fittings (Repairs)	379,564	691,149
Electricity/Water	43,361,347	53,180,657
PCK Sporting Activities	14,720,992	4,049,365
Legal Expenses	12,814,135	10,684,765
Health, Safety Environment (HSE)	14,705,407	12,216,446
Shows and Exhibitions	6,025,907	6,620,721
Electronic Media Adverts	9,404,864	37,838,341
Print Media Adverts	10,877,660	48,355,340
Outdoor advertisement	16,611,922	17,475,105
Entertainment	394,120	132,239
Audit fees	2,900,000	2,500,000
Tax on fridge benefits	349,985	440,354
Total	**132,545,903**	**194,184,481**

7(i). Provision for bad debts

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

	2018/2019	2017/2018
Opening	2,356,582,232	2,877,732,434
Provision for bad debts	70,520,284	66,604,408
Bad debt Recovery	(36,222,993)	(587,754,610)
TOTAL provision	**2,390,879,523**	**2,356,582,232**

POSTAL CORPORATION OF KENYA

Notes to the financial statements
For the year ended 30 June 2019 (Cont'd)

8. Finance cost	2018/2019	2017/2018
Interest on excess deposit (KPOSB)	23,919,089	22,668,655
Interest on long term loan	0,	-
	23,919,089	22,668,655

9. a. Property, Plant and Equipment

	LAND	BUILDINGS	VEHICLES	OFFICE EQUIP.	COMPUTERS	W. I. P	TOTAL
COST AS AT 01/07/2018	5,303,450,000	2,071,491,343	254,019,152	221,120,469	165,519,967	8,400,970	8,024,001,901
							-
Additions	-	3,506,956	17,866,552	14,874,630	22,906,782	10,692,819	69,847,739
Disposals							-
							-
AS AT 30/06/18	5,303,450,000	2,074,998,299	271,885,704	235,995,099	188,426,749	19,093,789	8,093,849,640
BAL BFWD 01/07/2017	-	(82,735,954)	(68,913,407)	(37,994,812)	(35,000,343)	-	(224,644,516)
						-	-
Charge for the year	-	(41,429,827)	(36,444,517)	(22,112,047)	(33,103,993)		(133,090,384)
disposals							-
AS AT 30/06/18	-	(124,165,781)	(105,357,924)	(60,106,859)	(68,104,336)	-	(357,734,900)
BALANE AS AT 30 JUNE 2018	5,303,450,000	1,950,832,518	166,527,780	175,888,240	120,322,413	19,093,789	7,736,114,740
COST AS AT 01/072018	5,303,450,000	2,074,998,299	271,885,704	235,995,099	188,426,749	8,570,400	8,083,326,251
							-
Additions	-	51,356,062	39,593,400	18,193,288	5,496,091	23,043,450	137,682,291
Disposals			(7,031,572)				(7,031,572)
Disposals		(15,350,000)	-				(15,350,000)
Cost as at 30.06.2018	5,303,450,000	2,111,004,361	304,447,532	254,188,387	193,922,840	31,613,850	8,198,626,970
DEPRECIATION							-
							-
BAL BFWD 01/07/2018	-	(124,165,781)	(105,357,924)	(60,106,859)	(68,104,336)		(357,734,900)
Charge for the year	-	(41,192,966)	(38,767,014)	(23,599,510)	(37,685,350)	-	(141,244,840)
Disposals		921,000					921,000
Disposals			2,123,858				2,123,858
TOTAL DEPRECIATION	-	(41,192,966)	(38,767,014)	(23,599,510)	(37,685,350)	-	(495,934,882)
NET BOOK VALUE AS AT 30.06.2018	5,303,450,000	2,069,811,395	265,680,518	230,588,877	156,237,490	31,613,850	7,702,692,088
NET BOOK VALUE AS AT 30.06/2018	5,303,450,000	1,950,832,518	166,527,780	175,888,240	120,322,413	19,093,789	7,736,114,740

9 b. Intangible asset

	SOFTWARES	WORK IN PROGRESS	
01.07.2018	-	318,194,473	318,194,473
COMPUTER SOFTWARES	4,640,000	(4,640,000)	-
			-
ADDITIONAL			-
			-
Amortization	928,000		928,000
			-
BAL CFWD 30.06.2019	3,712,000	313,554,473	317,266,473

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

Disposals of Kshs.15,350,000 and Kshs.921,000 under building is in reference to destroyed PCK houses in kiambu town plot and two demolished unhabitable houses at Yaya plots LR.No 1/370 and 1/371

Notes to the financial statements
For the year ended 30 June 2019 (Cont'd)

Current Assets	2018/2019 Kshs	2017/2018 Kshs
Note 10		
Trade and Other Receivables		
Service Debtors		
Foreign Administration	787,373,622	690,934,948
E M S	422,059,068	343,331,482
Bulky Postage	191,877,677	170,822,446
Money Orders Inter-state	58,492,069	60,395,648
Postapay	177,695,268	177,695,268
Rent Receivable	102,179,671	62,768,276
Rent Deposits	432,420	436,920
Total service Debtors	**1,740,109,795**	**1,506,384,986**
Agency:		
Kenya post office Savings Bank	1,406,115,920	1,397,759,545
Telkom Kenya Ltd	14,363,445	127,972,677
Telposta Pension Scheme	17,585,070	17,585,070
Other Agency Debtors	58,061,305	55,049,722
Total Agency debtors	**1,496,125,740**	**1,598,367,013**
Other Debtors		
Customs and Excise	152,335	-
Tax recoverable	201,041,139	201,041,139
Staff Advances	70,122,079	72,889,717
Other Deposits(court attachements,T	15,484,170	44,553,664
Hospitals Deposits	1,400,000	1,400,000
Net Other Debtors	**288,199,723**	**319,884,520**
Total Debtors	**3,524,435,257**	**3,424,636,520**
Provision for Bad debts	**(2,390,879,523)**	**(2,356,582,232)**
Total Net Debtors	**1,133,555,734**	**1,068,054,288**

Note 11

Cash and Bank Balance

Annex 1 shows the commercial banks and account numbers in which cash is held

Cash on Hand	61,896,384	99,052,764
Bank Balances	113,040,859	152,128,078
Cash in transit	5,099,197	5,612,440
E-Value	9,927,510	40,393,161
Total	**189,963,949**	**297,186,443**

Notes to the financial statements
For the year ended 30 June 2019 (Cont'd)

Note 12. Trade and other Payables	2018/2019	2017/2018
	Kshs	Kshs
Service Creditors		
Foreign Administration	401,197,878	323,366,932
Money Orders/IFS	165,880,601	194,075,774
Postapay(Revenue Share and Network fees)	92,544,072	92,544,072
New Posta pay EFT	1,311,450,560	1,220,000,228
Postal Orders	4,422,640	4,422,640
Key Letter Box Deposits	195,249,465	188,530,625
Rental Deposits	17,250,389	3,050,120
Conveyance of Mail	230,017,471	166,164,182
Total Service Creditors	**2,418,013,077**	**2,192,154,572**
Agencies		
Agency accounts	827,210,274	797,294,606
Telkom Kenya	7,772,024	87,328,885
Kenya Post Office Savings Bank	1,636,537,502	1,604,971,802
	2,471,519,800	**2,489,595,292**
Other Creditors		
Statutory	284,388,357	210,269,705
Excise duty	744,280	284,830
Pensions and Gratuties	915,233,134	717,018,769
Retrenchment costs	3,600,215	3,600,215
Provision for staff leave	9,427,398	9,984,200
Institutions Insurances	9,846,122	8,301,046
Cooperatives	80,765,830	51,798,779
Bank Staff Loans	196,575,970	109,886,345
Administration	37,358,664	28,814,626
Operations	422,027,656	156,975,191
Rentals	85,017,757	112,235,032
Contigent liabilities	52,357,673	52,357,673
Training	11,430,278	13,988,769
Deferred Projects	96,819,339	96,819,339
Suppliers:		
Other creditors	70,297,676	66,811,180
Miscellaneous	156,854,889	126,047,157
Total others	**2,432,745,239**	**1,765,192,856**
Total Current Payables	**7,322,278,116**	**6,446,942,721**

13. General reserve

	2018/2019	RESTATED 2017/2018
As at 1 July (Restated)	(4,191,955,204)	(4,107,420,465)
Revaluation adjustments	-	-
Net profit / Deficit for the year	(966,104,609)	(84,534,739)
As at 30 June	**(5,158,059,813)**	**(4,191,955,204)**

14. Revaluation reserve

	2018/2019	2017/2018
As at 1 July (Restated)	(7,179,259,943)	7,179,259,943
Revaluation gain/adjustment	-	-
As at 30 June	**(7,179,259,943)**	**7,179,259,943**

Notes to the financial statements
For the year ended 30 June 2019 (Cont'd)

15. Telkom debtors

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

16. Pension fund

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

17. Huduma Kenya

The Corporation hosted Huduma kenya in its premises as agreed in the memorandum of understanding of 17th October,2013 which was to run for five (5) years.PCK is in negotiation with Huduma Kenya for payment of various costs incurred by them through their occupancy in PCK premises.

17. 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' 2018/19	shs.'000' 2017/18
(a) Payment to Board of Directors in note No. 6 page17	13,706	16,368
(b) Senior Management emoluments	55,486	54,460

18. CAPITAL COMMITMENTS

Capital commitments at the year- end for which no provision has been made in these financial statements are:

	2018-2019 Kshs
Amounts authorised and contracted for	86,933,265
Amounts authorizes but not contracted for	0
Less: Amounts included in Work in progress	33,363,470)
	55,319,416
	=====

19. CONTINGENT LIABILITIES

	2018/2019	2017/2018
NSSF arrears	17,796,920	17,796,920
Retrenchment award	36,560,753	36,560,753
	54,357,673	**54,357,673**

Kshs.17m refers to NSSF arrears that is unpaid to date while 36.5 million was a court award for former employees who had sued PCK for wrongful termination of employment . The ruling has been appealed.

20. 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:

FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2019				
Receivables from exchange transactions	787,373,622	364,963,860	422,409,762	
Receivables from non-exchange transactions	2,723,683,092	755,213,331.77	1,968,469,760.23	
Bank balances	189,963,949	189,963,949	0	
Total	**3,701,020,663**	**1,310,141,140.77**	**2,390,879,522.23**	
At 30 June 2018				
Receivables from exchange transactions	690,934,948	268,525,186	422,409,762	
Receivables from non-exchange transactions	2,733,701,572	799,529,102	1,934,172,470	
Bank balances	181,922,771	181,922,771	0	
Total	**3,606,559,291**	**1,249,977,059**	**2,356,582,232**	

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.

FINANCIAL RISK MANAGEMENT (Continued)

ii) Liquidity risk management (Continued)

	Total Kshs
At 30 June 2019	
Trade payables	6,423,484,651
Current portion of borrowings	0
Provisions	0
Deferred income	0
Employee benefit obligation	915,233,134
Total	**7,338,717,785**
At 30 June 2018	
Trade payables	5,708,655,871
Current portion of borrowings	0
Provisions	0
Deferred income	0
Employee benefit obligation	717,018,769
Total	**6,425,674,640**

(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.

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 2019			
Financial assets(investments, cash ,debtors)	0	687,554,095.93	687,554,095.93
Liabilities			
Trade and other payables	0	289,493,364.96	289,493,364.96
Borrowings	0	0	0
Net foreign currency asset/(liability)		398,060,730.97	398,060,730.97

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
2019			
Euro	10%		
USD	10%		
2018			
Euro	10%		
USD	10%		

b) Interest rate risk

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

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:

	2018-2019	2017-2018
	Kshs	**Kshs**
Revaluation reserve	7,179,259,943	7,179,259,943
Retained earnings	(4,191,955,204)	(4,190,871,438)
Capital reserve		
Total funds	**2,987,304,739**	**2,988,388,504**
Total borrowings	0	0
Less: cash and bank balances	189,963,949	304,585,162
Net debt/(excess cash and cash equivalents)	189,963,949	304,585,162
Gearing	**68%**	**68%**

21. INCORPORATION

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

22. EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non- adjusting events after the reporting period.

23. CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).

APPENDIX 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	Expired leases Resolved others In progress	Dec 2020
2.0	Going Concern	Being addressed through improvement of revenue and cost cutting measures	Postmaster-General	Improving	Dec 2020
3.0	Cash and bank balances	Outstanding issues Cleared	-	Resolved	-
4.0	Trade& other receivables	Relevant departments are addressing issues in order to resolve	GM Finance	Only Post bank is in progress	Dec 2020
5.0	Trade and Other Payables	Reconciliation and arbitration nearing completion	Corporation secretary , GM/ Finance	In progress	Dec 2020
6,7,8 and 9	Posta switch and Revenues	Issues cleared	-	Resolved	Dec 2020
Other matters	Procurement of ERP Software	Contract for the service is attached	-	Resolved	-

Appendix

Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1	MACHAKOS ROAD BUILDING	-	8MONTHS	-	-	YES
2	KISUMU BUILDING		8MONTHS	-	-	YES

Status of Projects completion

Figure in millions

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	MACHAKOS ROAD BUILDING	51	51	100%	51	51	INTERNAL
2	KISUMU BUILDING	35	31	90%	36	31	INTERNAL
3							