

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Postal Corporation of Kenya set out on pages 1 to 33, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Postal Corporation of Kenya as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with the Postal Corporation Act of 1998 of the Laws of Kenya.

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

Basis for Adverse Opinion

1. Property Plant and Equipment

1.1 Property not Registered in the Name of the Corporation

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

No	Name	LR.Number	Vested 1999	Acreage Ha/Acreas	Ownership Documents	Status	Valuation Kshs
1	Chepkorio Trading Centre - Plot	Chepkorio	Vested 1999	0.12	LOA	undeveloped	150,000.00

2	Chaani	MN/VI/1088	Vested 1999	0.23	Transfer doc. Available	Developed/ Chaani post office	19,000,000.00
3	Nairobi West	37/272/5	Approve d for vesting	0.1148 (0.28367)	LOA	Undeveloped	35,000,000
4	Kagio Market - Plot	Kagio Market - Plot	Vested 1999	0.114 (0.2817)	LOA/ Title acquisition in	Undeveloped /Leased	1,200,000.00
5	Kangari Post Office	Kangari	Vested 1999	0.125	PDP	Developed/ Kangari post office	2,200,000.00
6	Kangundo Post Office	Kangundo / 52317/115A	Vested 1999	0.105	LOA	Developed/ Kangundo post office	13,400,000.00
7	Khayega Post Office	Khayega	Vested 1999	0.34 (0.84015)	LOA	Developed/ Khayega post office	10,300,000.00
8	Kikambala Post Office	Kikambala	Vested 1999	0.5	PDP	Developed/ Vacant	6,500,000.00
9	Kilimambogo Market - Plot	Kilimambogo Market - Plot	Vested 1999	0.0530 (0.13096)	LOA	Undeveloped	300,000.00
10	Kithimani Town - Plot	Kithimani Town - Plot	Vested 1999	0.15 (0.37065)	LOA	Undeveloped	350,000.00
11	Kivingoni Market - Plot	Kivingoni Market - Plot	Vested 1999	0.05 (0.12355)	LOA	Undeveloped	150,000.00
12	Kobujoi Trading Centre - Plot	Kobujoi Trading Centre - Plot	Vested 1999	0.37 (0.91428)	LOA	Undeveloped	800,000.00
13	Litein Post Office	Litein	Vested 1999	0.12 (0.29652)	LOA	Developed/ Litein post office	14,500,000.00
14	Lokitaung Post Office	Lokitaung	Vested 1999	0.5	PDP	Developed/ Lokitaung post office	25,400,000.00
15	Londiani Post Office	Londiani 548/x/5	Vested 1999	0.5653	PDP	Developed/ Londiani post office	3,500,000.00
16	Makongeni Post Office	Makongeni (Nairobi) 209/6825/2	Vested 1999	0.0832	LOA	Developed/ Makongeni post office	10,700,000.00

17	Malindi Post Office	Malindi /1726	Vested 1999	0.1319 (0.32593)	LOA	Developed/ Malindi post office	28,000,000
18	Mandera Post Office	Mandera	Vested 1999	0.38 ha	LOA	Developed/ Mandera post office	8,540,000.00
19	Masii Post Office Plot	Masii plot 46	Vested 1999	0.44 (1.08725)	LOA	Undeveloped	4,800,000.00
20	Mbale Post Office	PLOT 58 Mbale Town	Vested 1999	0.550 (1.35906)	LOA	Developed/ Maragoli post office	11,600,000.00
21	Mbembani Market - Plot	Mbembani Market - Plot 410	Vested 1999	0.05	LOA	Undeveloped	130,000.00
22	Menengai Post Office	Menengai Post Office	Vested 1999	3	PDP	Developed/ Menengai post office	20,000,000.00
23	Mosoriot Trading Centre - Plot	Mosoriot Trading Centre - Plot	Vested 1999	0.18	LOA	Undeveloped	Does not exist
24	Moyale Post Office	Moyale	Vested 1999	0.4237	LOA	Developed/ Moyale post office	12,000,000.00
25	Mtito Andei Post Office	Mtito Andei 23916	Vested 1999	0.2(0.49421)	LOA	Developed/ Telephone exchange	1,600,000.00
26	Mutyambo Market - Plot	Mutyambo Market - Plot 408	Vested 1999	0.08 (0.19768)	LOA	Undeveloped	150,000.00
27	Narok Post Office	Narok /167	Vested 1999	0.5	PDP	Developed/ Narok post office	12,500,000.00
28	Rongai Post Office	Rongai	Vested 1999	0.2 (0.49421)	LOA	Developed/ Rongai post office	8,500,000.00
29	Rumuruti Post Office	Rumuruti 3671/VI/I	Vested 1999	1.44	LOA	Developed/ Rumuruti post office	9,800,000.00
30	Siaya Post Office	Siaya	Vested 1999	0.17 (0.42007)	LOA	Developed/ Siaya post office	27,800,000.00
31	Songhor Post Office	Songhor	Vested 1999	0.774 (1.91258)	LOA	Developed/ Songhor post office	4,910,000.00

32	Sotik Post Office	Sotik 7288/103	Vested 1999	0.459 (1.1342)	LOA	Developed/ Sotik post office	15,500,000.00
33	Sugotek Trading Centre - Plot	Sugotek	Vested 1999	0.18 (0.44478)	LOA	Undeveloped	500,000.00
34	Ukwala Post Office	Ukwala	Vested 1999	0.1635 (0.40401)	LOA	Developed /Ukwala post office	3,800,000.00
35	Vipingo Post Office	Vipingo	Vested 1999	0.2	LOA	Developed /Vipingo post office	1,400,000.00
36	Voi Town Plot	Voi /1956/1871	Vested 1999	0.2286 (0.56487)	LOA/Title acquisition in progress	Undeveloped	1,300,000.00
37	Garissa Post Office	Garissa Plot 111303/Temp./45	Vested 1999	0.3583 (0.88537)	LOA	Developed/ Garissa post office	20,900,000.00
38	Butere Post Office plot	Butere 1664/60	Vested 2006	0.304	LOA	Undeveloped	800,000.00
39	Kabiyet Plot	Kabiyet Plot 25988	Vested 2006	0.1500 (0.37065)	LOA/ Title acquisition in progress	Undeveloped	600,000.00
40	Changamwe Post Office	MN/V1/2971	Vested 1999	0.49	PDP	Developed/ Changamwe post office	28,400,000.00
41	Chebiemet	Unsurveyed Plot Chebiemet	Vested 2006	0.44 (1.08725)	LOA	Undeveloped	1,300,000.00
42	Ortum	Unsurveyed Plot Ortum	Vested 2006	0.29 (0.71659)	LOA	Undeveloped	500,000.00
43	Maseno Post Office	Maseno/934/22	Vested 1999	0.209 (0.51644)	LOA	Developed/ Maseno post office	5,100,000.00
44	Homa Bay Plot LR 1432/315	Homa Bay Plot LR 1432/315	vested 1999	0.33 (0.81543)	LOA	Undeveloped	800,000.00
45	Likoni Post Office	MSA SOUTH/1/61	Vested 1999	0.5	LOA	Developed /Likoni post office	12,000,000.00
	TOTAL			16.3623			386,680,000.00

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

1.2 Property Excluded from the Financial Statements

1.2.1 Unsurveyed/Unvalued Land

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

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

1.2.2 Leased and Grabbed/Encroached Parcels of Land

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

Leased Land

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

Grabbed/encroached Parcels of Land

No.	LR No.	Location	Area in hectares	Remarks
1.	LOA Ref No	Jogoo RD P.O. Plot	0.160ha	Grabbed and already

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

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

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

2. Going Concern

During the year under review the Corporation recorded a deficit of Kshs.1,242,483,392 (2016 loss: Kshs.3,322,617,251) thereby reducing accumulated reserves from negative Kshs.2,864,937,074 in 2015/2016 to negative Kshs.4,107,420,465 as at 30 June 2017. Further the current liabilities of Kshs.6,413,367,671 exceeded current assets of Kshs.1,374,995,290 resulting to a negative working capital of Kshs.5,038,372,381 as at the same date. The Corporation is therefore unable to meet its financial obligations as and when they fall due. In particular, the Corporation was unable to pay pensions and gratuities and operations of Kshs.512,796,742 and Kshs.148,172,528 respectively. The Corporation was also unable to pay audit fees for six (6) financial years from 2010/2011 to 2015/2016 amounting to Kshs.18,025,000 inclusive of VAT.

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

3.0 Cash and Bank Balances

3.1. Variances in the Cash and Bank Balances

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

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

4. Posta Switch

As previously reported, on 3 May 2012 the Corporation entered into a contract with a company for supply, delivery, installation and commissioning of financing agency solution at a contract cost of USD. 893,800, an equivalent to Kshs.76,151,760. The contract was denominated in dollar and the contract cost continues to rise due to the fluctuation in Kenya Currency against the dollar. Although management is fully aware of the fluctuation of the contract cost, no evidence of budgetary provisions made to cater for the anticipated increase was availed for audit review.

As at the time of audit in April 2018, the financing agency solution was confirmed not to be fully operational although the project was officially launched on 31 July 2013. It was however observed that out of the various services it was supposed to offer, only agency banking module was operational. Other services which includes mobile money transfer, card based transaction, e-commerce online disbursement of funds, E-payment for utility services, E-Ticketing and E-Government services were not operational. The stakeholders have therefore not obtained value for money from this project. Further, the solution which is an intangible asset is not shown separately in these financial statements in line with International Accounting Standard No 38 which requires that each class of intangible asset be disclosed separately with the useful life, amortization rate and gross carrying amount. It is not clear and management has not explained if and when the project will be commissioned.

5.0 Trade and Other Receivables

5.1 Telkom (K) Ltd Receivables

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

5.2 Foreign Administration and EMS Receivables

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

5.3 Kenya Post Office Savings Bank Agency

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

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

5.4 Tax Recoverable

Further included in the trade and other receivables balance of Kshs.1,068,589,247 as at 30 June 2017 is an amount of Kshs.201,041,139 in respect of tax recoverable from the Kenya Revenue Authority (KRA) some of which date back to 2013 and have not been recovered as at the time of our audit in April, 2018. It is not clear and the management has not explained why a claim has not been lodged to recover the outstanding amount from Kenya Revenue Authority.

5.5 Loss of Cash

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

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

6.0 Trade and Other Payables

6.1 Kenya Post Office Savings Bank

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

6.2 Postapay Payables

As previously reported, trade and other payables balance of Kshs.6,413,367,671 as at 30 June 2017 also includes an amount of Kshs.92,544,072 which has been outstanding on an account of Postapay for more than seven (7) years. Further and as similarly reported in 2015/2016 the management is in dispute with a firm, which was offering the services, and an accounting firm was appointed to carry out an investigation to determine the correct amount payable. However, no report on the investigation was availed for audit review as at the time of our audit in April 2018.

6.3 Deferred Projects

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

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Postal Corporation of Kenya in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Adverse Opinion section of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

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

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

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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

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

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



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

Nairobi

31 July 2018