

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