REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

POSTAL CORPORATION OF KENYA

FOR THE YEAR ENDED 30 JUNE, 2025

REPUBLIC OF KENYA

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REPORT OF THE AUDITOR-GENERAL ON POSTAL CORPORATION OF KENYA FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;

B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on the Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Postal Corporation of Kenya set out on pages 1 to 39, which comprise of the statement of financial position as at 30 June, 2025, and the statement of profit or loss and other comprehensive income, statement of changes in equity, 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Postal Corporation of Kenya at 30 June, 2025 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Postal Corporation of Kenya Act, 1998 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Undisclosed Material Uncertainty Related to Going Concern

The statement of financial position reflects current assets balance of Kshs.3,189,237,444 and current liabilities balance of Kshs.10,072,961,789 resulting in a negative working capital of Kshs.6,883,724,345. These conditions indicate the existence of material uncertainty, which may lead to significant doubt on the Corporation's ability to continue as a going concern. Further, this material uncertainty and any mitigating measures put in place by Management to reverse the financial position, were not disclosed in a note to the financial statements.

The Corporation's financial statements, therefore, have been prepared on a going concern basis on the assumption that it will continue to receive financial support from the Government, bankers, creditors and other stakeholders.

In the circumstances, the going concern of the Corporation is uncertain without the support from the Government, bankers, creditors and other stakeholders.

2. Land and Buildings without Ownership Documents

The statement of financial position reflects property, plant and equipment net book value of Kshs.11,429,699,543 as disclosed in Note 10a to the financial statements. This includes Kshs.9,036,850,000 being the value of land out of which, Kshs.1,478,000,000 relates to thirty-four (34) parcels of land in various parts of the country whose ownership is in dispute. As previously reported, the land parcels had either been encroached on, on double allocation, or alienated. Further, fifty-five (55) parcels of land valued at Kshs.210,210,000 that were vested to the Corporation through Legal Notice No.156 of 05 November, 1999 did not have title deeds.

In the circumstances, the accuracy, completeness and ownership of land valued at Kshs.9,036,850,000 could not be confirmed.

3. Long Outstanding Receivables and Doubtful Debts

The statement of financial position reflects trade and other receivables balance of Kshs.3,084,650,426 less provision of bad debt balance of Kshs.1,606,742,243 as disclosed in Note 11 to the financial statements. It includes an amount for Money order inter-state, Posta pay, rent deposit, Kenya Post Office Savings Bank and hospitals deposits of Kshs.41,646,854, Kshs.177,695,268, Kshs.434,889, Kshs.375,235,673 and Kshs.1,400,000 respectively which have been outstanding for long period of time. Further, as previously reported, the trade and other receivables balance includes an amount of Kshs.26,787,970 in respect of cash-in-transit fraud committed by employees who have since been dismissed. Although the schedule provided for audit indicated that Insurance Company declined to compensate the loss, Management has not explained the measures taken to recover the same from the former employees.

In the circumstances, the accuracy, completeness and recoverability of the trade and other receivables balance of Kshs.3,084,650,426 could not be confirmed.

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 the 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 qualified opinion.

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects revenue final budget and actuals amounts of Kshs.3,558,193,000 and Kshs.3,722,178,550 respectively, resulting to over collection of Kshs.163,985,550 or 4.5% of the budget. Similarly, the Corporation spent Kshs.2,576,414,535 against actual receipts of Kshs.3,722,178,550 resulting in an underutilization of Kshs.1,145,764,015 or 31% of the receipts.

The underutilization affected the Corporation's planned activities and may have impacted negatively on service delivery to the public.

2. Long Outstanding Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.10,072,961,798 as disclosed in Note 13 to the financial statements. Review of the financial statements presented for audit revealed that an amount of Kshs.7,688,058,563 which relates to trade and other payables that have been outstanding for more than three (3) years. Management has not provided measures taken to ensure that the long outstanding historical pending payables are prioritized.

Failure to settle bills during the year to which it relates distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

3. Long Outstanding Receivables from Huduma Kenya Secretariat

The statement of profit or loss and other comprehensive income reflects extraordinary item-Huduma rent revenue of Kshs.1,540,732,478 as disclosed under Note 18 to the financial statements. The amount relates to historical outstanding rent and utilities indicated as agreed through mediation as owed to Postal Corporation of Kenya by Huduma Kenya from October, 2013 to June, 2025.

Review of documents provided for audit revealed that, a letter dated 25 August, 2025 was sent from the State Department for Public Service and Human Capital Development to the State Department of Broadcasting and Telecommunications confirming that pending bill amounting to Kshs.1,540,732,478 was owed to the Postal Corporation of Kenya (PCK) by Huduma Kenya Secretariat (HKS). Following this, Executive Office of the President vide letter Ref: OP.CAB 1/3 dated 9 September, 2025 based on the report of the Joint Mediation Committee relating to the matter, it was agreed an amount of Kshs.1,540,732,478 be paid to PCK as rent and utilities owed to them by Huduma Kenya. Further, The National Treasury Vide Letter Ref RES1123/25/01'A' (19) dated 24 October, 2025 directed all accounting officers to prioritize payment of debts owed to Postal Corporation of Kenya.

Although, PCK recognized the receivables in their books during the financial year ended 30 June, 2025 an amount of Kshs.58,710,357 out of a total of Kshs.1,540,732,478 was still in dispute. Further, it was also agreed going forward, the parties shall enter into lease agreement for registration at the Ministry of Lands, with The National Treasury to provide an annual budget of Kshs.194,302,884 effective the next financial year 2025/2026 as rent to be paid to Postal Corporation annually.

My opinion is not modified in respect of these matters.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Issues

In the prior year's audit report, several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Review of the status during audit of the Corporation in 2024/2025 revealed that the following ten (10) issues remained unresolved;

No.	Financial Year	Audit Issue
1	2023/2024	Undisclosed material uncertainty related to going concern
2	2023/2024	Land and buildings without ownership documents
3	2023/2024	Non-amortization of intangible assets
4	2023/2024	Unsupported and doubtful recovery of trade and other receivables
5	2023/2024	Long outstanding Trade and other payables

No.	Financial Year	Audit Issue
6	2023/2024	Un supported contingent liabilities balance
7	2023/2024	Budgetary control and performance
8	2023/2024	Failure to remit payroll deductions
9	2023/2024	Redundant computer software
10	2023/2024	Nugatory expenditure

Other Information

The Management is responsible for the Other Information set out on page iii to xliii which comprise of Key Entity Information, The Board of Directors, Key Management Team, Fiduciary Management, Fiduciary Oversight Arrangements, Chairman's Statement, Report of the Post Master General, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the Corporation's financial statements, my responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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 have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Compliance with the Fiscal Responsibility Principles

The statement of profit or loss and other comprehensive income reflects total revenue of Kshs.2,181,446,072, while staff costs amount to Kshs.1,620,428,262 as reflected in Note 7(a) to the financial statements. This amount represents 74.3% of total revenue. This was contrary to Regulation 26(1)(a) of the Public Finance Management (National Government) Regulations, 2015 which prescribes a limit of 35%.

In the circumstances, Management was in breach of the law.

2. Overstaffing Beyond Approved Establishment

The Corporation's approved staff establishment for 2024 provides for one thousand six hundred and fifty-two (1,652) positions. However, as at 30 June, 2025 the Corporation had two thousand and sixty (2,060) employees, resulting in an excess of four hundred and eight (408) staff or 25 % above the approved structure contrary to Section 5.1.1 of the Public Service Human Resource Policies and Procedures Manual, 2016.

In the circumstances, Management was in breach of the law.

3. Failure to Remit Payroll Deductions

The statement of profit or loss and other comprehensive income reflects administrative expenses amount of Kshs.1,707,869,403 as disclosed in Note 7 to the financial statements. However, as previously reported, a review of trade and other payables revealed that the Corporation did not remit payroll deductions amounting to Kshs.4,594,060,260 as tabulated below: -

Type	**Amount (Kshs)**
PAYE and Excise Duty	1,501,535,928
Pensions and Gratuities	2,426,785,810
Cooperatives	153,988,417
Staff Bank Loans	322,196,978
NSSF	189,553,127
Total	**4,594,060,260**

This is contrary to Section 19(4) of the Employment Act, 2007, which requires an employer who deducts an amount from an employee's remuneration to pay the amount deducted and remit within the stipulated time.

In the circumstances, Management was in breach of the law.

4. Leased Asset for Over Twenty (20) Years

The Corporation leased a portion of undeveloped open space for property in Kisumu to a company. The lease was to be for a period of twenty (20) years with effect from 1 October, 2022 to 30 October, 2042. The current rent per annum inclusive of Value Added Tax is Kshs.4,662,000. This is contrary to the Postal Corporation of Kenya leasing procedure manual which states that maximum leasing period should be five (5) years. Otherwise, the lease should be registered with the Ministry of Lands if exceeding 5 years. Further, the lease was not subjected to technical report which takes into account the market price and set up a reserve price as the minimum acceptable price below the market value.

Further, at Likoni Post Office in the coastal region, it was noted that the lease agreement for one company is for twenty (20) years effective from 01 September, 2022 to

31 August, 2042 despite the Board, in its meeting on 14 July, 2022, explicitly deferring the request for a long-term lease pending submission of justifying information by the tenant. No evidence of subsequent Board approval was provided for audit review. It is therefore unclear how the 20-year lease was granted without the requisite Board approval, contrary to the guidelines.

In the circumstances, Management breached the Corporation leasing procedure requirements.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply 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 audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Weaknesses in Rental Income Recognition

Review of leasing records and documentation maintained by the Corporation revealed that Management uses outdated leasing guidelines which was due for review after five (5) years upon signing it on 04 June, 2020. In addition, it was noted that Management continues to recognize rental income amounting to Kshs.39,316,947 from one hundred and seven (107) sampled lease agreements whose contractual terms had expired. The original lease contracts were explicit on the lease term and the requirement for tenants to revert possession of the premises to the landlord upon expiry. Despite this, tenants have continued to occupy the premises and remit rent at the last applicable escalated rate. There has been no evidence of formal renewal, extension or communication between the landlord and tenants of these expired leases. In addition, the rental rates have remained unchanged since expiry, despite escalation provisions that applied every two years during the lease term, resulting in loss of potential income.

In the circumstances, existence of effective management of revenue could not be confirmed.

2. Inadequacies in the Leasing of Corporation Properties

Review of the financial and operational activities of the Corporation for the year ended 30 June, 2025 revealed that the Corporation had leased out land and property across various Regional Offices for revenue generation purposes. However, no proof was provided to show that notices or advertisements were done to notify the public on the existence of those leases. In addition, no evaluation documents were provided to show how the lessees were identified and competitive bidding process of potential lessee were done. Further, no rental assessment reports were made available to indicate whether the rental amounts agreed upon reflect the fair market value.

In the circumstances, the internal controls in the management of the revenue could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk Management and overall governance were operating effectively 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 Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with international financial reporting standards and for maintaining effective internal controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Corporations' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention 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 comply with the authorities which govern them and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Corporations' financial reporting process, reviewing the effectiveness of how Management 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

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the

International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. 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 in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment 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.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/. This description forms part of my auditor's report.

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

15 December, 2025