

Isle of Man Post Office

Report and financial statements

For the year ended 31 March 2019

Isle of Man Post Office

<i>Contents</i>	<i>Page</i>
Officers and Professional Advisers	2
Chairman's Statement	3 and 4
Chief Executive Officer's Report	5 and 6
Statement of Internal Control	7 to 13
Statement of Responsibilities of the Board	14
Report of the Independent Auditor	15 to 16
Income Statement	17
Statement of Comprehensive Income	18
Statement of Financial Position	19
Statement of Changes in Equity	20
Statement of Cash Flows	21
Notes	22 to 34

Isle of Man Post Office

Officers and Professional Advisers

Headquarters

Spring Valley Industrial Estate
Douglas
Isle of Man
IM2 1AA

Board Members

Mrs J Edge MHK - Chairman
Miss T August-Hanson MLC - Vice Chairman (appointed on 17th April 2018)
Mr J D Hollis
Mr C Mitchell
Mrs J O'Rourke

Chief Executive Officer

Mr S Kneen

Principal Bankers

Isle of Man Bank
East Region
2 Athol Street
Douglas
Isle of Man
IMI 1JA

Principal Advocates

HM Attorney General
Attorney General's Chambers
Ground Floor, Belgravia House
Circular Road
Douglas
IMI 1AE

Auditor

KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

Isle of Man Post Office

Chairman's Statement

As Chairman of Isle of Man Post Office (IOMPO) I present the Report and Financial Statements for the year ended 31st March 2019.

This year has been one of the most challenging for the business. We have continued to face industry pressures, sought support from Tynwald on the future direction of the business and come into dispute with one of the employee representative unions in our bid to modernise terms and conditions for our workforce.

Financially, it has been another difficult trading year as for the second time running, the business reports a loss. In addition to our loss, we have provided from reserves a dividend of £500k to Treasury. We have no desire to be subsidised by the taxpayer, putting further pressure on overall Government funding. The Board has to balance the interests of all our 340 staff, our customers, the taxpayer and all our stakeholders and we are very aware of our social and economic value to the Island. Therefore, we continue to look for new service opportunities at every turn, but the industry in which we operate continues to feel the effect of the growing popularity to communicate and transact business digitally through online channels.

Letters remain in irreversible decline with no corresponding significant reduction in cost. During the financial year, our letter mail volumes continued to decline, 21.7m items compared to 23.6m in 2017/18. While parcel volumes, the market for which is becoming more competitive and sensitive to cost rather than quality of service, has regrettably not compensated the loss in letter mail. High costs have made the IOMPO less competitive when competing for new business, particularly in the parcels market which has seen the unlicensed 'gig economy' operators significantly lower the cost of entry in this market.

In December, the desire and need for IOMPO to modernise and adapt to give it a chance of survival for the future was brought to the fore in a much-publicised Tynwald debate. Tynwald Members had the opportunity to vote on recommendations proposed in order to protect the long-term future of the Island's post office, in the best interests of its staff, customers, key stakeholders and the Manx community. IOMPO welcomed the support and recognition it received from Tynwald with the approval of its strategic recommendations report while its five year business case was received. Gaining support was fundamental to the future success of the business, enabling it to create efficiencies and savings whilst not compromising the high quality standard of service the IOMPO provides to customers Island-wide. Since their appointment in 2017, the Board have been committed to acting in a financially responsible way, whilst providing services that meet the needs of the Island's community and the recommendations it brought to Tynwald evidenced this stance.

For much of the year, the union dispute has been a topic that has very much been in the public eye and most certainly caught the Island's media attention. The long-running dispute necessitated the need for the Executive to meet for many rounds of negotiation with the Communication Workers Union (CWU) and resulted in two separate walk-outs by CWU members. We regret the industrial action that took place, causing inconvenience to our customers. Our business contingency plans were implemented and worked well and we were grateful to our staff who worked through this.

Throughout the dispute, the Board and Executive listened to employee and union member feedback and moved materially to reassure our staff and provide them with greater financial certainty as we progress changes to modernise, adapting to our customers' changing needs and to regulatory changes. Our pay and pension proposals were realistic, fair and financially responsible and sought to maintain the terms and conditions of our valued workforce as much as possible. An essential aspect of the negotiations was to ensure any proposals offered were aligned to our financial status, chiefly because the business continues to be loss making. Early into the new financial year, IOMPO has reached a settlement with the CWU on elements of the negotiation so progress can now be made.

Our pension scheme, despite being substantially fully funded, is neither affordable nor sustainable and changes to address this have been part of the negotiations with the unions. As part of the settlement reached with the unions, and subject to the necessary changes being approved by Tynwald, measures to bridge the current defined benefit scheme future funding gap have been determined, including increased member contributions, along with agreement to close the current scheme final salary based benefits to new entrants. New entrants are to benefit from an attractive new innovative risk sharing scheme that is more affordable for the business. The changes will be coming to Tynwald in November for approval.

Isle of Man Post Office

Chairman's Statement (continued)

Throughout the year, much emphasis and focus has been duly spent on the five-year strategy which remains in place in a bid to ensure the long-term sustainability of the business and return it to profitability. The strategy incorporates all areas of the business: Letters and Parcels, the Post Office Retail Network, IMS, Stamps and Coins and our support teams. Our governing legislation requires the Post Office to have regard to efficiency and economy, the social industrial and commercial needs of the Island, to the desirability of improving and developing our operating systems and to the development occurring in the fields of communications and banking and we believe our strategic business plan addresses those obligations squarely. It is pleasing to see change projects within the strategic plan starting to close, delivering wide ranging benefits including; new uniforms, GDPR compliance, up-to-date robust and secure IT systems, commercial partner cost efficiencies, an in-house cashier and the timely integration of Stamps & Coins production with IMS. Meanwhile major initiatives such as implementation of the five day letter delivery continue, and new initiatives commence, which will also provide efficiencies and improvements to the way we operate.

As we look ahead, in October we will be reporting to Tynwald to seek support for our strategic recommendations regarding the future format of the delivery of retail services. We look forward to this debate with optimism that Tynwald will once again recognise that change and modernisation is required in order for the business to become more reflective of the changing social needs, providing customer-driven services while being duty bound to act financially responsible. We wish to continue providing services our customers want, but realise these may need to be offered in different, more affordable ways going forward.

In conclusion, I would like to express my thanks to the Board and Executive for navigating the path to modernisation. It has been a difficult year, particularly for our staff, as we have endeavoured to make changes to protect the future viability of the business. We value our staff and it is for that reason we, as a responsible Board and Executive Team, have made key changes to ensure fairness and equality to all. Each and every employee plays a part in delivering the strategic business case and in the year ahead, the business will continue to face trials and tribulations, but I sincerely hope collectively while making best use of our skills, experience and knowledge, we can overcome this challenging period.



Julie Edge MHK
Chairman

Isle of Man Post Office

Chief Executive Officer's Report

As our Chairman observes, this has been yet another challenging year for the Post Office. This year's results reflect the demanding environment we are operating in, though we remain confident that our plan of focussed growth and modernisation strategy is correct.

This year we report a loss of £662k compared to £1.2m the previous year. Turnover has decreased from £27.4m to £27.1m and the net asset value is £14.7m (2018: £14.8m). After adjusting for prior year exceptional costs, such as property disposals and revaluations, and other costs outside the Board's control such as pension charges, our trading result is broadly consistent with the prior year. Due to our high fixed costs, it does not always follow that the impact of reduced revenue is mitigated by reduced direct costs. To that end, we have achieved trading result parity by acknowledging the challenges the business faces, and in embracing the Isle of Man Government SAVE initiative, have identified, implemented and measured efficiency savings.

In addition to our loss for the year, we have provided for a levy to Treasury of £0.5m, reduced from the prior year amount of £1.5m. We would like to express our gratitude to Treasury for their decision not to impose a levy for the new financial year. This key decision illustrates their support for our strategy, recognising our financial situation and the need for our capital to fund our loss-making Retail division, and the exceptional restructuring costs necessarily incurred as we seek to deliver on our five year strategic plan.

Our Mails division reported a 3% reduction in revenue. This is a credible result given the 8% reduction in total mail volumes, and supports the Board's pricing strategy of moving toward the alignment of our rates with those of the UK and Channel Islands. Whilst letter volumes have continued to fall, our parcel volumes have seen healthy increases, due in part to our partnering with a local haulier to provide last mile delivery for a major UK delivery partner. Notwithstanding the fall in overall revenue, the division reported an improved profit, due in the most part to reduced pension costs and the absence of property revaluation adjustments this year. Following the approval of Tynwald in December 2018 we have created a dedicated team to plan and implement the five day week for letter deliveries. The team is embracing technology, and putting in place new ways of working to improve operational logistics and divisional management.

The Retail Network, including its head office support requirement, continued to be loss making, reporting a loss of £1.17m for the year. With the exception of foreign exchange, all material counter revenues from agency services saw a decline, evidencing how retail customers are changing the ways in which they transact their business, as our agency partners in both the public and private sector encourage their customers to choose online methods to reduce their own operating costs. While digital strategies continue to affect our traditional business, we have seen a continued growth in our foreign exchange service, and have extended the availability of this service to other sub post offices which has generated an increase in sales and margin compared to the previous year.

As a result of our public consultation last year, and within the scope to bring back our retail strategy to Tynwald, we undertook an internal Government services consultation. We met with all Government Departments and Statutory Boards to explore whether there are other opportunities to use IOMPO services, particularly the retail counter network with its community focus, providing a socially responsible function for the digitally excluded members of our society. Regrettably, there was a limited take-up, although a number of opportunities for IMS were identified, with scanning and document storage being the most common which we will progress.

Our IMS division held its own with revenue marginally (5%) less than prior year, but improved cost control resulting in an improved contribution. The division's results are directly impacted by the social and economic trends affecting the business as a whole, and it is a credit to our commercial team that we have achieved the reported revenues. IMS continues to search for new revenue and growth opportunities, and to that end we trialled a UK based sales representative. Although no substantive work materialised, and the trial came to an end, the exercise did provide us with insightful market intelligence, and a number of leads which are now being followed up by local team.

Isle of Man Post Office

Chief Executive Officer's Report (continued)

During the year our Stamps and Coins production team successfully amalgamated with our IMS division, creating efficiencies from the two production areas of our business. Isle of Man Stamps and Coins continues to issue a varied stamp programme and its Christmas stamps featuring the Beano was widely enjoyed by the general public, and encouraged the art of writing cards and letters as a way of keeping in touch. The division reported revenues marginally down (4%) on the prior year, but a combination of improved cost control and the absence of exceptional costs have resulted in an improved profit position.

As our business continues to operate in a market of rapid change, our strategic business case enables us to have a clear vision of where we want to be and to focus on key strands that will help deliver a return to profitability and sustainability. Throughout our change process thus far, we have sought to be inclusive with all our stakeholders primarily staff, unions and Tynwald, informing them of the reasons why we need to change to become a modern post office. This is a vital aspect of our strategy as we need to ensure we bring our stakeholders with us through this period of managing transformation and we look forward to one of our next key steps which is to bring our Retail strategy to Tynwald in October, and the implementation of the five day letter delivery.

2018/19 has certainly been a challenging year for our staff as we have sought to introduce pay and pension reforms in a bid to ensure the future sustainability of our business. The prolonged negotiations with the Communication Workers Union (CWU) placed our valued workforce under immense strain and pressure, and the two incidents of industrial action in December and February tested and proved our contingency plans. While it was very regrettable that we faced this disruption, I am indebted to the team who worked tirelessly throughout these walkouts to ensure that all key services were maintained, and that disruption to our valued customers was kept to a minimum. I would also like to extend my thanks to our valued customers for their patience and understanding, and I am pleased that we have been able to reach agreement with the CWU to move forward together to implement necessary change that is in all our interests.

As we look ahead to the new financial year, we await with interest the report and recommendations of the Zero Hours Contracts Committee. IOMPO provided input into this as it ties in with our current review of the Post Office Act and the licence to carry letters granted by the Department for Enterprise, in light of significant changes in the postal market, particularly regarding the impact of the gig economy and unlicensed operators on the Island. We also look forward to the outcome of the Economic Policy Review Committee's study into the future of the Post Office. As part of this process, we have been supportive and have attended a number of private hearings with the Committee to provide evidence.

The postal market continues to change as customers migrate at a rapid pace in this digital communications era. It is vitally important to the future success of IOMPO that we are able to maintain our ability to be nimble and quick to react to market opportunities and provide products our customers want. I am also very aware that this fast pace of change has the potential to create uncertainty amongst our people and I would like to encourage everyone to continue to embrace the inevitable changes this business is facing. As a public sector body the Post Office is rightly subject to a high level of governance and compliance requirements, and in this period of change it is pleasing to retain our high standards. I wish to thank our staff for their ongoing efforts and hard work, delivering the changes that move us closer toward achieving our strategic objectives while meeting short-term tactical needs.



Simon Kneen
Chief Executive

Isle of Man Post Office

Statement of Internal Control

Introduction

The Isle of Man Post Office is constituted as a Statutory Board of Tynwald under The Post Office Act 1993. This report is made by the Isle of Man Post Office to Isle of Man Government Treasury in accordance with the requirements of the Isle of Man Government's Corporate Governance Principles and Code of Conduct ("the Code").

Responsibilities of the Board and the Accounting Officer

The Board consists of a Chairman, a Vice Chairman, and three other Board members. The Board controls the strategy, policies, and key financial and operational matters within the Isle of Man Post Office, and it is the Board's responsibility to ensure that the work of the Accounting Officer and the other Executive Directors supports the strategy and policies approved by the Board. The other Executive Directors include the Finance Director and the Chief Operating Officer.

As Accounting Officer, the Chief Executive of the Isle of Man Post Office is responsible for implementing and maintaining systems of Corporate Governance, Internal Control and Risk Management, that:

- ensure compliance with legislation and other regulations;
- safeguard money, ensure that it is properly accounted for and that it is used economically, efficiently and effectively; and
- support the achievement of the strategy and policies approved by the Board.

In discharging this responsibility, the Chief Executive works with the other Executive Directors to put in place arrangements for the governance of the Isle of Man Post Office's affairs and the stewardship of resources, in accordance with the Code.

Corporate Governance

There are two key elements of the corporate governance framework: firstly, the workings of the Board, and its sub-committees; and secondly, the corporate governance environment itself. These are described below.

Board

The Chairman and other members of the Board are appointed by the Council of Ministers, subject to approval by the Court of Tynwald; the Chairman and Vice Chairman are either a Member of the House of Keys or a Member of the Legislative Council.

The Board has a schedule of powers reserved for its approval, which includes non-delegated and delegated powers to be exercised by the Board itself, members of the Board sub-committees and the Chief Executive. The Board of the Isle of Man Post Office has published this "Schedule of Reserved and Delegated Responsibilities" within its own corporate governance documentation to enable the day to day operations of the business.

There are generally 10 Board meetings a year with other meetings taking place as and when necessary, and the Chief Executive, Executive Directors and the Personal Assistant to the Chief Executive (acting as "Secretary to the Board") attend the Board meetings. The Board receives, and can request, reports from the Chief Executive, Executive Directors and Senior Managers on financial and operational matters, and the Secretary to the Board captures any actions and maintains minutes of proceedings on behalf of the Board that are approved at the next meeting.

Board sub-committees

Audit and Risk Committee ("ARC")

The ARC generally meets quarterly and consists of two members of the Isle of Man Post Office Board. The meetings are also normally attended by the Chief Executive, the Finance Director, the Risk Manager, the Secretary to the Board, and a representative from Isle of Man Government Internal Audit. A representative from the external auditors also attends meetings as appropriate.

Isle of Man Post Office

Statement of Internal Control (continued)

Audit and Risk Committee (continued)

The ARC ensures that the business maintains a systematic approach to Risk Management. It reports to the Board on issues concerning Corporate Governance, Risk, Internal Control, Financial reports and associated information issued by the Isle of Man Post Office. It is also the principal point of contact for the external auditors.

The ARC is active in embedding Risk Management practices through regular comprehensive reviews of each individual department's approach to risk management. These reviews have helped to develop a wider understanding of the nature and criticality of risks affecting the Isle of Man Post Office.

The ARC is responsible for reviewing the current top risks faced by the business and reporting them to the Board, and occasionally other Senior Managers are invited to attend meetings to assist the members in their deliberations.

Remuneration Committee

The Remuneration Committee is a sub-committee of the Board and consists of two members of the Isle of Man Post Office Board. The Committee makes recommendations to the Board on Executive Directors' (including Chief Executive's) pay and conditions. The Committee's remit was extended in April 2017 to cover pay and conditions for all employees not just the Chief Executive and Executive Directors. During the year ended 31 March 2019 the Committee was temporarily suspended with all remuneration matters subject to discussion at the full board. The committee terms of reference are currently under review.

Corporate Governance environment

Corporate Governance at the Isle of Man Post Office revolves around an effective environment of attitudes, behaviours and processes that aim to support the delivery of the long-term strategy, goals and objectives established by the Board.

A corporate governance framework has been developed which contains a number of documents detailing Board policies and operational procedures in relation to financial and operational management; internal control and risk management; organisational capability and capacity; people management and standards of conduct, and management of health, safety and the environment.

The management framework provides a structure for documenting policies, procedures, delegated duties, roles and responsibilities, activities, standards and guidelines. This is additional to divisional and department structures, authorities and organisational arrangements, activities, processes and records maintained within each service area, which when taken together with the framework, create the environment of good corporate governance, risk management and internal control.

Internal Control and Risk Management

The Isle of Man Post Office has introduced a system of Internal Control and Risk Management that is designed to enable it to assess its performance in these areas and determine, where appropriate, relevant actions to improve the control environment.

The system of Internal Control is based on ongoing processes designed to:

- Identify the principal risks to the achievement of the organisation's strategic aims and objectives.
- Identify the principal risks associated with the organisation's operational activities.
- Consistently evaluate the nature and extent of the above risks and agree appropriate mitigating controls.
- Provide assurance that key risks are being managed efficiently, effectively and economically and that existing controls are robust.
- Ensure adherence throughout the organisation to Isle of Man Post Office policies and relevant legislation.

The system of Internal Control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance of effectiveness.

Isle of Man Post Office

Statement of Internal Control (continued)

Internal Control and Risk Management (continued)

The Isle of Man Post Office is committed to an effective risk management approach that protects business operations and stakeholders affected by its operations. The risk management process ensures consistency to the assessment, monitoring and reporting of risks, and the appetite to risk is set out in Board approved policies.

The Isle of Man Post Office has established risk registers at operational and strategic levels; issues arising out of these registers form part of the standing agenda at operational and certain Board meetings. The identification, evaluation and management of risk is a line management responsibility, with Board guidance as appropriate.

The Chief Executive and Executive Directors identify, evaluate and monitor corporate and strategic risks, and monitor risks at an operational level via divisional and departmental managers. Each divisional and departmental manager has the appropriate delegated authority and resources to manage risks to a reasonable level. The Risk Manager meets quarterly with the divisional and departmental managers to update the risk registers. The risk management process is an important part of the internal control environment.

The management of the organisation's most significant current and emerging risks is subject to Board oversight. A high-level summary of the current top risks faced by the business is presented quarterly to the Board, with any newly identified risks being brought to the Board's attention at the earliest opportunity. This summary includes: i) a heat map depicting the risks in pictorial format, and ii) a schedule of top risks that details the risks, the existing mitigation or controls, and any proposed improvement actions, together with assigned responsibilities and expected implementation dates. The current status (Red-Amber-Green) is evaluated for each key risk.

Improvements made to the system of Internal Control during the year

In accordance with best practice, the systems of Internal Control across the Isle of Man Post Office are subject to continuous review and improvement. Some of the most significant improvements made to the Isle of Man Post Office management of risk over this year have been:

Isle of Man Post Office

Statement of Internal Control (continued)

Risk Management - Improvements Made During The Year (2018 – 2019)	
Improvement	Details of Improvement
Risk Register	Continued improvements to the business Risk Register, noting existing controls and mitigation actions. Divisional Managers present their registers quarterly to the Audit & Risk Committee.
IMS	<p>IMS Division have completed further cross training of staff to enable greater flexibility from a multi-skilled workforce.</p> <p>Under the scope of the ISO accreditations, the IMS Division have reviewed their skills matrix, and where deficiencies identified provided supplementary training.</p>
GDPR	The organisation has implemented a number of changes to ensure compliance to the General Data Protection Regulations. These include areas such as privacy notices, reviewing contracts, undertaking supplier audits, training programmes as well as IT upgrades.
Infrastructure Review mitigation work streams	The IT support and development teams have implemented a number of infrastructure review projects during the year. These include a separate Exchange server for the IMS Division, with the PostNet Exchange server upgrade to v2016 currently in progress.
Information Risk and Cyber-Security	<p>A Senior Information Risk Officer (SIRO) and Deputy SIRO have been appointed lead and foster a culture that values, protects and uses information for the public good. They now lead the Information Risk Board and represent the Isle of Man Post Office on the Isle of Man Government Cyber Risk Advisory Board. A program of annual cyber security training to enhance staff awareness on social engineering and phishing was introduced.</p> <p>Isle of Man Post Office have invested resource in a programme of cross training, across individual job roles and business areas. This has produced benefits of enhancing productivity, improving business continuity and increasing specialist knowledge.</p>
Paessler Router Traffic Grapher (PRTG)	During the year, Isle of Man Post Office have introduced more proactive monitoring of their infrastructure.
System Centre Configuration Manager (SCCM)	Isle of Man Post Office have completed a project to introduce improvements to the management and support of the internal infrastructure.
Intrusion Prevention System (IPS)/ Intruder Detection System (IDS) Solutions	The IT support and development teams implemented the IPS as per the NIST Review recommendations in October 2018. Isle of Man Post Office is considering the business case for the preferred IDS solution during the forthcoming year.

Isle of Man Post Office

Statement of Internal Control (continued)

Planned improvements to the system of Internal Control

Following the review of the effectiveness of the system of Internal Control and the governance structures currently in place, the following key improvements have been identified for implementation within the next financial year:

Risk Management - Improvements Planned For The Forthcoming Year (2019 – 20)	
Improvement	Details of Improvement
Review ordering process on iomstamps.com	Initiate changes to reduce the risk of order failures at the time of increased traffic volumes and human error in respect of website house keeping.
Risk Management	Isle of Man Post Office plan to assess available risk management software during the forthcoming financial year, with any recommendations subject to approval of the business case.
Infrastructure upgrade	Upgrade desktop environment to Windows 10.
Employment Legislation	Continued work towards the necessary changes to comply with the full scope of the Equality Act in January 2020.
IMS Strategy	Implementation of Production Management Information system to increase automation, reduce administration and improve customer experience.
GDPR	Introduce supplier management improvements and compliance audit programme with companies who handle IOMPO personal data.
IT Infrastructure	PostNet Exchange server upgrade to v2016 currently in progress.

Internal Audit

The Isle of Man Post Office contracts internal audit resource from the Internal Audit division of Treasury. The ARC are responsible for the approval of the planned audit programme whilst Internal Audit division are responsible for delivery of the programme. A service level agreement is in place to ensure effective delivery of the service.

The Isle of Man Post Office Risk Manager works closely with the Internal Audit division and is responsible for reporting the audit findings to the ARC and for ensuring any follow up actions are executed. The Risk manager is also charged with oversight of the business's risk management processes.

The Internal Audit Plan is structured against an agreed Assurance Framework (see below) that is designed to provide enhanced assurance over the effectiveness of the controls and processes used to ensure the organisation's Strategic Plan objectives are progressed and achieved.

Isle of Man Post Office

Statement of Internal Control (continued)

Assurance Framework

As part of the continuous assessment process, the Isle of Man Post Office has developed an annual review procedure that involves Executive Directors and Senior Managers completing self-assessment questionnaires on Internal Control, Risk management and Corporate Governance arrangements within the business.

A formal Assurance Framework for the business was established following a co-ordinated assessment of all forms of assurance available to the Board and its Audit and Risk Committee. This framework continues to be revised and updated. The Assurance Framework is designed to a systematic mechanism to ensure the adequacy and operation of existing key controls and systems to manage the Isle of Man Post Office's major risks.

The Isle of Man Post Office's Internal Audit Plan is an integral part of the above framework, providing appropriately focused supplementary or independent assurance. Audit needs are determined according to the strength, independence and criticality of each of the current assurances.

In undertaking their review, managers have given specific consideration to each of the following operating risks within their business unit:

- Business Continuity
- Performance Management
- Financial Management and Compliance
- Procurement
- Information Management
- Value for Money
- Human Resources
- Change Management
- Health & Safety
- Environment
- Corporate Governance

The Executive Directors submit an assurance certificate to the Chief Executive on the adequacy of the control environment for the areas of the business for which they are responsible. The Chief Executive reviews the results of these assessments with the Internal Auditor, before being presented to the ARC.

External Assurances of Effectiveness

Further independent assurance is gained from a number of external reviews as below:

Division	Name of Review Organisation	Review Undertaken	Date Completed
IMS	Lloyd's Register Quality Assurance	ISO 27001:2013 and ISO 9001:2015	June 2018
IMS	ISO QA Isle of Man	ISO 27001:2013 and ISO 9001:2015	12 monthly audits throughout the year across both accreditations
All	Commercial clients performed four audits	Assurance Audits	Various 2018-2019

Isle of Man Post Office

Statement of Internal Control (continued)

Management Review Meetings

The Chief Executive and the Executive Directors meet with divisional and departmental managers either monthly or quarterly to formally review their business unit and departmental financial and operational performance.

Report on Internal Control and Corporate Governance environment

The effectiveness of the Isle of Man Post Office's Internal Control and Corporate Governance arrangements is continuously assessed by the work of the Chief Executive, Executive Directors, Senior Management and the Audit and Risk Committee. In addition, the Risk Manager worked with management to assess compliance with the code of corporate governance, reviewed items on the risk registers and ensured action was being taken against outstanding issues.

Attention is drawn to the fact that systems of Internal Control and Corporate Governance are designed to manage, rather than eliminate, the risk of failure to achieve objectives. As previously stated, they can therefore only provide reasonable and not absolute assurance. Accordingly, reasonable assurance is given that the Isle of Man Post Office's Internal Control and Corporate Governance arrangements are adequate and operated effectively during the period ended 31st March 2019.



Simon Kneen
Chief Executive Officer

Isle of Man Post Office

Statement of Responsibilities of the Board

The Isle of Man Post Office is constituted under the Post Office Act 1993 as a Statutory Board of Tynwald. The Chairman and Chief Executive Officer are responsible for preparing their Statement and Report, respectively. The Board is responsible for approving the Chairman's Statement and the Chief Executive Officer's Report, the Statement of Internal Control and preparing the financial statements, in accordance with applicable law and regulations.

The Audit Act 2006 requires the Board to prepare financial statements for each financial year, which meet the requirements of the Accounts and Audit Regulations 2018, made under the Audit Act 2006. The regulations require the Board to prepare the financial statements in accordance with UK Accounting Standards including FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to an Isle of Man entity.

The Board must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Entity and of the profit or loss of the Entity for that period. In preparing these financial statements, the Board are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

The Board are responsible for keeping adequate accounting records that are sufficient to show and explain the Entity's transactions and disclose with reasonable accuracy at any time the financial position of the Entity and enable them to ensure that the financial statements comply with the Accounts and Audit Regulations 2018 made under the Audit Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Entity and to prevent and detect fraud and other irregularities.

The Board are responsible for the maintenance and integrity of the corporate and financial information included on the Entity's website.

Isle of Man Post Office

Independent Auditor's Report to Isle of Man Post Office

Opinion

We have audited the financial statements of Isle of Man Post Office ("the Post Office") for the year ended 31 March 2019 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Post Office's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, as applicable to an Isle of Man entity and as modified by any Directions issued by Treasury under section 13 of the Audit Act 2006; and
- have been properly prepared in accordance with the requirements of the applicable law and UK Accounting Standards as applicable to an Isle of Man entity, as modified by the Accounts and Audit Regulations 2018 made under the Audit Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Post Office in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Board have prepared the financial statements on the going concern basis as they do not intend to liquidate the Post Office or to cease its operations, and as they have concluded that the Post Office's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Boards' conclusions, we considered the inherent risks to the Post Office's business model and analysed how those risks might affect the Post Office's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Post Office will continue in operation.

Other information

The Board are responsible for the other information presented with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Isle of Man Post Office

We review the Statement of Internal Control prepared by the Board in accordance with the Accounts and Audit Regulations 2018 made under the Audit Act 2006. We report if the Statement of Internal Control is misleading or inconsistent with other information we are aware of from our audit of the Accounts. We are not required to consider, nor have we considered, whether the Statement of Internal Control covers all risks and controls.

Matters on which we are required to report by exception

In accordance with section 6(2) of the Audit Act 2006, we are required to include a statement in our audit report providing particulars where in relation to the Accounts we:

- (a) are not satisfied as to any of the matters specified in section 4(1) of the Audit Act 2006;
- (b) Consider that any matter specified in section 4(2) of the Audit Act 2006 is contrary to law, or;
- (c) Consider that the relevant body has failed in any respect mentioned in section 4(3) of the Audit Act 2006.

With regard to section 4(3) of the Audit Act 2006, recommendations in respect of internal controls matters identified during the course of our audit are reported to the Post Office in a separate Highlights Memorandum.

Except as noted above, we have nothing to report in respect of the matters we are required to report by exception.

The Board's responsibilities

As explained more fully in their statement set out on page 14, the Board are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Post Office'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 they either intend to liquidate the Post Office or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our 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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities.

This report is made solely to the Post Office, as a body, in accordance with the Accounts and Audit Regulations 2018, made under the Audit Act 2006.

Our audit work has been undertaken so that we might state to the Post Office those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Post Office as a body, for our audit work, for this report, or for the opinions we have formed.

KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

Isle of Man Post Office

Income Statement

for the year ended 31 March 2019

	Note	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Turnover	1(b), 2	27,099,174	27,412,473
Cost of sales	1(c)	(21,347,243)	(21,503,324)
Gross profit		5,751,931	5,909,149
Other operating expenditure	1(c)	(6,406,915)	(6,828,737)
Operating loss		(654,984)	(919,588)
Interest receivable		52,823	21,073
Interest payable and similar charges		(59,477)	(320,293)
Loss for the year	3	(661,638)	(1,218,808)

The notes on pages 22 to 34 form part of these financial statements.

The Board considers that all results derive from continuing activities.

Isle of Man Post Office

Statement of Comprehensive Income

for the year ended 31 March 2019

	Note	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Loss for the year	3	(661,638)	(1,218,808)
Other comprehensive income			
Remeasurement of the net defined pension benefit liability	9	1,084,468	11,888,623
Revaluation of freehold land & buildings	4	-	(718,265)
Total other comprehensive income for the year		1,084,468	11,170,358
Total comprehensive income for the year		422,830	9,951,550

The notes on pages 22 to 34 form part of these financial statements.

The Board considers that all results derive from continuing activities.

Isle of Man Post Office

Statement of Financial Position

as at 31 March 2019

	Note	31 March 2019	31 March 2018
		£	£
Non-current assets			
Fixed assets	1(d), 4	6,350,210	6,505,635
Investments	1(e), 5	40	40
		6,350,250	6,505,675
Current assets			
Stocks	1(g)	161,313	139,039
Trade and other debtors	6	4,385,498	3,701,305
Amounts due from Isle of Man Government	8	12,587	9,850
Short term cash deposit		8,871,394	2,009,673
Cash at bank and in hand		3,200,846	11,080,008
		16,631,638	16,939,875
Creditors: amounts falling due within one year			
Trade and other creditors	7	(3,088,351)	(2,442,721)
Amounts due to Isle of Man Government	8	(2,328,448)	(3,223,866)
		(5,416,799)	(5,666,587)
Net current assets		11,214,839	11,273,288
Pension scheme liability	9	(2,879,635)	(3,016,339)
Net assets		14,685,454	14,762,624
Represented by:			
Reserves	1(k)	14,685,454	14,762,624

The notes on pages 22 to 34 form part of these financial statements.

These financial statements were approved by the Board on
on their behalf by:

and were signed

Chairman

Chief Executive Officer

Finance Director

Isle of Man Post Office

Statement of Changes in Equity

for the year ended 31 March 2019

	Note	Year ended 31 March 2019		Year ended 31 March 2018	
		Profit and loss reserve £	Total equity £	Profit and loss reserve £	Total equity £
Balance at start of year		14,762,624	14,762,624	6,311,074	6,311,074
Total comprehensive income for the year					
Losses for the year		(661,638)	(661,638)	(1,218,808)	(1,218,808)
Other comprehensive income for the year	9	1,084,468	1,084,468	11,888,623	11,888,623
Loss on property revaluation	4	-	-	(718,265)	(718,265)
Total comprehensive income for the year		422,830	422,830	9,951,550	9,951,550
Levy payable to Isle of Man Government Treasury	8	(500,000)	(500,000)	(1,500,000)	(1,500,000)
Total contributions by and distributions to owners		(500,000)	(500,000)	(1,500,000)	(1,500,000)
Balance at end of year		14,685,454	14,685,454	14,762,624	14,762,624
The Profit & Loss Reserve is analysed as follows :					
Property revaluation surplus		1,799,358	1,799,358	1,799,358	1,799,358
Defined benefit pension scheme deficit		(2,879,635)	(2,879,635)	(3,016,339)	(3,016,339)
Retained profit		15,765,731	15,765,731	15,979,605	15,979,605
Total Reserves		14,685,454	14,685,454	14,762,624	14,762,624

The notes on pages 22 to 34 form part of these financial statements.

Isle of Man Post Office

Statement of Cash Flows

for the year ended 31 March 2019

	Note	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Net cash flow from operating activities	11	1,136,545	3,434,826
Cash flows from investing activities			
Payments to acquire fixed assets		(714,458)	(246,720)
Receipts from sales of fixed assets		7,650	1,102,574
Net cash flow (used in)/from investing activities		(706,808)	855,854
Cash flows from financing activities			
Interest received		52,822	21,073
Levy to Isle of Man Government		(1,500,000)	(1,500,000)
Net cash used in financing activities		(1,447,178)	(1,478,927)
Net (decrease)/increase in cash and cash equivalents		(1,017,441)	2,811,753
Cash and cash equivalents at start of year		13,089,681	10,277,928
Cash and cash equivalents at end of year		12,072,240	13,089,681

The notes on pages 22 to 34 form part of these financial statements.

Isle of Man Post Office

Notes

(forming part of the financial statements for year ended 31 March 2019)

I Accounting policies

a) Basis of accounting

These financial statements have been prepared in accordance with UK Accounting Standards including Financial Reporting Standard 102: the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as applicable to an Isle of Man entity. The presentation currency of these financial statements is Sterling. They have been prepared in accordance with the Accounts and Audit Regulations 2018 made under the Audit Act 2006 as modified by any Direction issued by Treasury under Section 13 of the Audit Act 2006.

These financial statements have been prepared under the historical cost convention, with the exception of land and buildings and investment property, which are measured at fair value.

The Board has prepared these financial statements on a going concern basis.

b) Turnover

Turnover has been accounted for on an accruals basis net of discounts and has been recorded in the Statement of Comprehensive Income. Turnover is the value of services provided and goods sold excluding VAT.

Foreign currency sales are included in revenue based on the transaction values of monies exchanged at advertised rates, net of any promotional discounts, on the date of the transactions.

Stage of completion of rendering of services

Amounts earned and not invoiced are included within accrued income, in line with time based costs as and when services are provided, forming the basis of the stage of completion.

c) Expenses

Expenses are accounted for on an accruals basis. The general policy is that no provision is made for any charges which may be incurred in respect of stamps sold, but unused at the statement of financial position date. However where specific circumstances allow the amount and type of stamps to be clearly identified and an estimate of the likely liability to be made, then a provision is made in accordance with FRS102.

d) Tangible fixed assets

Tangible fixed assets (except Land and Buildings) are stated at cost less accumulated depreciation and accumulated impairment losses. Land and Buildings are stated at fair value less any subsequent accumulated depreciation and impairment losses.

Land & buildings are independently valued every 5 years. The board value the portfolio every 3 years at the midpoint of the external valuation cycle. The last independent valuation was carried out on 30th March 2018.

The fair value was assessed by a qualified valuer on the basis of the comparison and investment methods of valuation using notional rents where applicable, in accordance with RICS Valuation – Global Standards 2017 (the Red Book).

Gains on revaluation are recognised in Other Comprehensive Income and accumulated in the profit and loss reserve. However, any increase is recognised in the Income Statement to the extent that it reverses a revaluation decrease previously recognised in the Income Statement.

Losses arising on revaluation are recognised in Other Comprehensive Income to the extent of any previously recognised revaluation increase accumulated in equity in respect of that asset. Any excess is recognised in the Income Statement.

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for the year ended 31 March 2019)

I Accounting policies (continued)

d) Tangible fixed assets (continued)

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Post Office assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases and accounted for in tangible fixed assets. All other leases are classified as operating leases.

The Post Office assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives are as follows:

Land	No Depreciation
Buildings:	
- Freehold (based on the estimated useful remaining life)	10-40 years
- Leasehold	Over period of lease
Motor vehicles	5 years
Office equipment and machines:	
- Letter boxes	5 to 30 years
- Other postal equipment	5 to 10 years
- Office furniture and equipment	5 to 10 years
- Office machines	5 to 10 years
- Safes in sub-offices	20 years
- Computers	3 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Post Office expects to consume an asset's future economic benefits.

e) Investment in associates

The measurement basis for investment in associates is cost. The Post Office's share of profits or losses of associates that would ordinarily be included in the Statement of Comprehensive Income and its interest in the net of any associate is not material.

f) Basic financial instruments

Trade and other debtors:

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument. Doubtful debt provisions are raised on long outstanding debts or in the event recoverability is otherwise doubtful, and measured at management's best estimate of the recoverable amount.

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for the year ended 31 March 2019)

I Accounting policies (continued)

f) Basic financial instruments (continued)

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

g) Stocks

Commemorative stamp costs are fully written off in the year of issue. Other stock is stated at the lower of cost and net realisable value.

h) Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in the statement of comprehensive income over the term of the lease as an integral part of the total lease expense.

i) Research and Development expenditure

Expenditure on research activities is recognised in the Income Statement as an expense as incurred

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the Post Office intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if it can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the Income Statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

j) Foreign exchange

Transactions in foreign currencies are translated to the Business's functional currency at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are retranslated to the functional currency at the foreign exchange rate ruling at that date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the Income Statement.

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for the year ended 31 March 2019)

I Accounting policies (continued)

k) Reserves

Reserves comprise the Profit & Loss Reserve only, which includes all items of 'Comprehensive Income' net of levies paid and payable to Isle of Man Government Treasury (reserves are managed by agreement of Treasury under Section 6(1) of the Post Office Act 1993). Reserves include unrealised gains and losses in respect of property and pension scheme revaluations which are taken into account in the determination of any levies paid and payable.

l) Pension costs

The Isle of Man Post Office operates a defined benefit pension scheme. A defined benefit scheme is a post-employment benefit plan other than a defined contribution plan. The Post Office's net obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Post Office determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the Statement of Financial Position date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Post Office's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Post Office recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan. Changes in the net defined benefit liability arising from employee service rendered during the period and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in the profit or loss as a component of operating profit. Net interest on net defined benefit liability is recognised in interest payable. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to Other Comprehensive Income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Re-measurement of net defined benefit liability'.

m) Heritage assets

Heritage assets are not recorded at value in the Statement of Financial Position, unless the Board believes that there is sufficient ongoing business benefit accruing to justify the cost of revaluing the assets.

n) Provisions for liabilities

Provisions are recognised when Isle of Man Post Office has a material present obligation (legal or constructive) as a result of a past event, it is probable that the Post Office will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

The Post Office recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2019)

I Accounting policies (continued)

o) Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant accounting estimates relate to the pension liability, whereby external specialists are used to determine the most appropriate estimate (see note 9).

The accounting policies set out in this note, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

2 Turnover

	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Mails	18,271,003	18,831,655
Retail Counters *	6,625,699	6,269,300
Stamps & Coins	1,235,920	1,290,908
Integrated Mailing Solutions	966,552	1,020,610
	<hr/> 27,099,174 <hr/>	<hr/> 27,412,473 <hr/>

* Retail Counters turnover includes gross foreign exchange sales of £5,153,244 (2018: £4,763,321).

3 Total loss for the year

Total loss for the year is arrived at after charging/(crediting):

	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Auditor's remuneration	16,095	14,673
Depreciation (note 4)	867,875	906,265
Pension - current service cost (note 9)	2,090,618	2,350,674
Pension - interest on scheme liabilities (note 9)	59,477	320,293
Irrecoverable VAT	335,585	341,717
Rentals payable under operating leases (note 10)	130,830	127,653
Community support payments to Sub-Postmasters	366,579	384,705
Foreign exchange currency purchases	4,847,833	4,505,216
Loss on disposal of investment property (note 4)	-	245,000
Loss on revaluation of freehold land & buildings (note 4)	-	217,192
	<hr/> <hr/>	<hr/> <hr/>

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2019)

4 Fixed assets

	Land & Buildings	Motor Vehicles	Office Equipment & Machines	Total
	£	£	£	£
Cost or valuation:				
At 31 March 2018	5,178,876	1,561,948	6,324,822	13,065,646
Additions	31,224	154,808	528,426	714,458
Disposals	(32,411)	(13,105)	(660,135)	(705,651)
At 31 March 2019	5,177,689	1,703,651	6,193,113	13,074,453
Accumulated depreciation:				
At 31 March 2018	(520,717)	(950,833)	(5,088,461)	(6,560,011)
Charge for the year	(190,404)	(273,873)	(403,598)	(867,875)
Disposals	32,411	11,097	660,135	703,643
At 31 March 2019	(678,710)	(1,213,609)	(4,831,924)	(6,724,243)
Net book value:				
At 31 March 2019	4,498,979	490,042	1,361,189	6,350,210
At 31 March 2018	4,658,159	611,115	1,236,361	6,505,635

The freehold land and buildings were revalued to fair value on the 30 March 2018, by a qualified professional valuer from Chrystals Estate Agents and Valuers, in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Global Standards. Post Office Headquarters was revalued downwards by £718k in the prior year (current year no change), however as there remains a revaluation surplus over historic cost, this amount was recognised in the Statement of Other Comprehensive Income. This was not the case for the Barleyfields property, where a downward revaluation of £217k in the prior year (current year no change) was recognised in the Income Statement.

The net book value of land and buildings is detailed below:

	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Land	1,115,000	1,115,000
Freehold Buildings	3,263,771	3,350,000
Leasehold Buildings	120,208	193,159
	4,498,979	4,658,159

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2019)

5 Investment in associates

As part of the acquisition of property at Barleyfields, Isle of Man Business Park, the Post Office acquired 40 shares of Isle of Man Business Park (No 4) Management Company Limited, a company incorporated in the Isle of Man, representing 40% of the issued capital of the company. The principal activity of the company is the management of the shared element of the property acquired. The Board has taken the decision not to include the Post Office's share of profits or losses of associates or its interest in their net assets in these accounts, as in its view the results would be immaterial.

6 Trade and other debtors

	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Trade debtors (gross)	1,256,748	1,151,123
Less provision for doubtful debts	(7,045)	(15,231)
Trade debtors (net)	1,249,703	1,135,892
Other debtors	2,566,282	2,041,271
Prepayments and accrued income	569,513	524,142
	4,385,498	3,701,305

7 Trade and other creditors

	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Trade creditors and accruals	2,668,333	1,771,702
Agency creditors	230,142	267,487
VAT	87,842	310,611
Philatelic subscriber balances	102,034	92,921
	3,088,351	2,442,721

8 Amounts due from and amounts due to Isle of Man Government (excluding trade debtors and creditors)

	Year ended 31 March 2019 £	Year ended 31 March 2018 £
<i>Due from Isle of Man Government comprises:</i>		
Treasury department	12,587	9,850
<i>Due to Isle of Man Government comprises:</i>		
Agency creditors	1,828,448	1,723,866
Treasury department	500,000	1,500,000
	2,328,448	3,223,866

All balances are interest free, unsecured and payable/repayable on demand.

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2019)

9 Pension scheme

The Isle of Man Post Office operates a funded defined benefit pension scheme, The Isle of Man Post Office Superannuation Scheme ("the Scheme"), providing benefits based on final pensionable pay. Contributions to the scheme are determined by a firm of independent actuaries employed by the Trustees.

The actuarial assumptions used to calculate scheme liabilities under FRS102 are as follows:

	Year ended 31 March 2019 %	Year ended 31 March 2018 %
Discount rate	2.55%	2.60%
Salary increase rate	2.25%, 2.75%*	2.20%, 2.70%*
Rate of revaluation in deferment	2.25%	2.20%
Expected return on scheme assets	2.65%	2.65%
Pension increase rate	2.05%	2.00%
RPI Price inflation rate	3.25%	3.20%
CPI Price inflation rate	2.25%	2.20%

*2.25% p.a. for the next 3 years, 2.75% p.a. thereafter.

**2.20% p.a. for the next 4 years, 2.70% p.a. thereafter

Assumptions regarding life expectancy of members are based on published statistics and mortality tables.

The life expectancies at age 65 utilised in the actuarial assumptions are as follows:

	MALE		FEMALE	
	31 March 2019	31 March 2018	31 March 2019	31 March 2018
Current pensioners aged 65	21.3	22.0	23.3	23.8
Future pensioners now aged 45	22.4	23.1	24.5	25.1

The expected return on scheme assets is the best estimate of returns expected over the period from dividends, interest and capital gains, taking into account the expected returns for individual asset categories.

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2019)

9 Pension scheme (continued)

Amounts recognised in the Statement of Financial Position

The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were as follows:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Equities	50,687	49,417
Property	14,907	14,693
Bonds		15,805
Other*	22,805	6,762
	<hr/>	<hr/>
Fair value of scheme assets	88,399	86,677
Present value of funded liabilities	(91,279)	(89,693)
	<hr/>	<hr/>
Net defined benefit liability	(2,880)	(3,016)

* "Other" assets at 31 March 2019 comprised Diversified Growth Funds of £6,435,583 (£6,417,291 at 31 March 2018), and cash and liability driven investments of £15,700,279 (nil at 31 March 2018) and net current assets of £669,683 (£345,451 at 31 March 2018)

The scheme does not invest in the employer's own financial instruments, including property or other assets owned by the employer.

Changes in present value of the funded liabilities:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
At beginning of period	89,693	95,624
Current employer service cost	2,091	2,351
Employee contributions	511	487
Interest cost	2,294	2,412
Actuarial (gains) and losses	(107)	(8,960)
Benefits paid (including expenses)	(3,203)	(2,221)
	<hr/>	<hr/>
At end of period	91,279	89,693

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2019)

9 Pension scheme (continued)

Changes in fair value of the scheme assets:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
At beginning of period	86,677	82,435
Interest income on scheme assets	2,234	2,092
Employer contributions	1,203	955
Employee contributions	511	487
Return on scheme assets in excess of interest income	978	2,929
Benefits paid (including expenses)	(3,204)	(2,221)
	<hr/>	<hr/>
At end of period	88,399	86,677

Amounts recognised in the profit for the year

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Current service cost	2,091	2,351
Net interest on net defined benefit liabilities	59	320
	<hr/>	<hr/>
Total expense recognised in income statement	2,150	2,671

Amounts recognised in other comprehensive income (OCI)

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Return on plan assets in excess of interest income	978	2,929
Experience gains and (losses) on liabilities	(443)	345
Changes in assumptions*	549	8,615
	<hr/>	<hr/>
Total gains/(losses) recognised in OCI	1,084	11,889

*The impact of 'Changes in assumptions' was greater in the comparative year due to a significant change in the Discount Rate' assumption which was applied to scheme liabilities during that year.

Actual return on scheme assets

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Actual return on assets	3,212	5,021

Isle of Man Post Office

10 Capital and lease commitments

a) There is no contracted capital commitments as at 31 March 2019 (2018: £471,025).

b) Future commitments under non-cancellable operating leases as lessee (all relating to Land and Buildings) are as follows:

	Year ended 31 March 2019	Year ended 31 March 2018
	£	£
Total payable:		
Within one year	124,476	124,355
In the second to fifth years inclusive	450,708	473,630
Over five years	-	-
	575,184	597,985

c) The operating lease expense for the year (all relating to Land and Buildings) was as follows:

	Year ended 31 March 2019	Year ended 31 March 2018
	£	£
Total	130,830	127,653

d) Future receivables under non-cancellable operating leases as lessor (all relating to Land and Buildings) are as follows:

	Year ended 31 March 2019	Year ended 31 March 2018
	£	£
Total receivable:		
Within one year	17,438	17,437
In the second to fifth years inclusive	78,468	76,531
Over five years	-	-
	95,906	93,968

e) The operating lease income for the year (all relating to Land and Buildings) was as follows:

	Year ended 31 March 2019	Year ended 31 March 2018
	£	£
Total	17,438	16,954

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2019)

I I Reconciliation of operating profit to net cash flow from operating activities

	Year ended 31 March 2019	Year ended 31 March 2018
	£	£
Operating (loss)/profit	(654,984)	(919,588)
Depreciation charges	867,875	906,265
Loss on revaluation	-	217,192
Net (gain)/loss on sale of tangible fixed assets	(5,643)	197,367
Defined benefit scheme-current service cost in excess of contributions *	888,287	1,395,561
Decrease/(increase) in stocks	(22,274)	16,082
Decrease/(increase) in debtors	(684,193)	698,834
Increase in amounts owed to Isle of Man Government	101,845	805,169
Increase/(decrease) in creditors	645,630	117,944
Net cash flow from operating activities	1,136,545	3,434,826

* Current Service cost £2,090k less £1,202k contributions paid in the year

I 2 Salaries

Number of employees whose remuneration (paid or receivable) for the year fell within the following bands:

	Year ended 31 March 2019	Year ended 31 March 2018
	Number	Number
£50,000 - £74,999	11	10
£75,000 - £99,999	2*	2
£100,000 - £124,999	2	-

* includes one fixed term contract

Excluding personnel on fixed term contracts, overall senior management headcount remained unchanged, however a job evaluation process resulted in revisions to certain salaries.

I 3 Related party transactions

The Isle of Man Post Office is required to disclose material transactions with related parties, that is bodies or individuals that have the potential to control or influence it, or to be controlled or influenced by the same. Disclosure of these transactions allows the readers to assess the extent to which the Post Office might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with it.

The Board considers that the main related parties are the Isle of Man Post Office Superannuation Scheme ("the Scheme"), Members of the Board and Senior Management of the Isle of Man Post Office. In accordance with FRS102 Section 33 as the Isle of Man Post Office is wholly owned by the Isle of Man Government and is included in the consolidated Government accounts, transactions between the Isle of Man Post Office and its beneficial owner, the Isle of Man Government are not disclosed in this note (non trade debtor and creditor balances at 31 March 2019 are disclosed in note 8).

Isle of Man Post Office

Notes (continued)

(forming part of the financial statements for year ended 31 March 2019)

13 Related party transactions (continued)

Remuneration of key management personnel (Remuneration includes contributions to the defined benefit pension scheme and employers National insurance payments) in the year was:

	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Board Members and Executive Directors	<u>401,680</u>	<u>382,520</u>

14 Contingent liabilities

The Isle of Man Post Office may have contingent liabilities to pay recharges for policy excesses in respect of insurance arranged on its behalf by the Department of Treasury. These policy excesses may be up to £150,000 although, to the best of its knowledge as at the date of this report, the Board believes that should a recharge be made, the total of these liabilities would be significantly below this figure.

15 Heritage assets

The Isle of Man Post Office owns a number of heritage assets that are not included in the statement of financial position at 31 March 2019. The assets comprise:-

- 1) A collection of paintings, representing the original artwork for stamps produced during the 1970s and 1980s.
- 2) A memorial World War 1 plaque designed by Archibald Knox
- 3) A memorial World War 2 plaque

These assets were purchased historically. It is the view of the Board that the costs incurred to reliably value these assets on an on-going basis, even if such values could be obtained, would be disproportionate to any additional benefits derived by the Post Office and users of the accounts.

16 Post balance sheet events

The Board are not aware of any material post balance sheet events requiring disclosure in the financial statements.