REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF POSTAL CORPORATION OF KENYA

FOR THE YEAR ENDED 30 JUNE 2013

POSTAL CORPORATION OF KENYA

POSTA
KENYA
Touching lives

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

POSTAL CORPORATION OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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POSTAL CORPORATION OF KENYA
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

CORPORATE INFORMATION

1. Postal Corporation is a statutory body established by an Act of Parliament, PCK Act Number 3 of 1998 as a public Postal licensee providing communication and financial services.

2. Registered Office

Posta House
Posta Road, Off Kenyatta Avenue
PO Box 34567 – 00100
NAIROBI

3. Bankers

The main bankers are-:

Kenya Commercial Bank
PO Box 30081-00100
NAIROBI

Barclays Bank of Kenya
PO Box 30120-00100
NAIROBI

Commercial Bank of Africa
PO Box 30437-00100
NAIROBI

National Bank of Kenya
PO Box 41862-00100
NAIROBI

3. Advocates

Miller & Company Advocates
Bruce House, 13th Floor
Standard Street
P.O. Box 45707 - 00100
NAIROBI

Okoth & Kiplagat Advocates
Bruce House , 12th Floor
Standard Street
P.O. Box 9807 - 00100
NAIROBI

Maina Njanga & Company Advocates
Mombasa Trade Centre
South Tower, 9th Floor
Nkrumah Road
P.O. Box 40744 - 00800
NAIROBI

CORPORATE INFORMATION

4. Independent Auditors

Auditor-General
Kenya National Audit Office
Anniversary Towers
PO Box 30084-00100
Nairobi

5. Directors

- Cyrus Maina — Chairman (Revoked
- Dr. Enock Kinara — Postmaster General
- Ms. Florence Chelimo
- Abdi Adan
- John Katiku
- Steven K. Oboso
- M/s Pauline Muthigani
- Principal Secretary, Ministry of Information, Communication and Technology.
  Alternate director: Onesmus Mutua
- Principal Secretary, National Treasury
  Alternate director: Mutua Kilaka

6. Audit Committee

Members of Audit Committee are:

- Abdi Adan
- John Katiku
- Principal Secretary, Ministry of Information, Communication and Technology
- Principal Secretary, Ministry of National Treasury

CORPORATE INFORMATION

7. Human Resource Committee

Members of Human Resource Committee are:

- Florence Cherimo
- Abdi Adan
- Steven K. Oboso
- Pauline Muthigani
- PS, Ministry of Information, Communications and Technology
- Postmaster General

8. Finance and Technical Committee

Members of Finance and Technical Committee are:

- Pauline Muthigani
- Mrs. Florence Chelimo
- Steven K. Oboso
- Postmaster General
- Principal Secretary, Ministry of Information, Communications and Technology
- Permanent Secretary, Ministry of National Treasury

9. Corporation Secretary

Jane F. Otieno
P.O. Box 34567 - 00100
NAIROBI

Financial Highlights

1. Introduction

The overall financial position of year 2012/2013 is a net surplus of Kshs. 287,891,695 Million before tax.

2. Statutory Provision

(a) Audit

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

3. Economic review

The Kenyan economy registered a GDP growth rate of 4.6% in 2012 compared to 4.4% in 2011. Inflation eased from 14% in 2011 to 9.4% in 2012 - *Kenyan economic survey 2013*

The general economic performance influences all players in the National Economy.

4. Financial performance

(a) Revenue

The overall Corporation Revenue registered an increase of 9.3% in 2012/2013 compared to 4.5% increase in 2011/2012. Significant revenue growth was registered in the following;

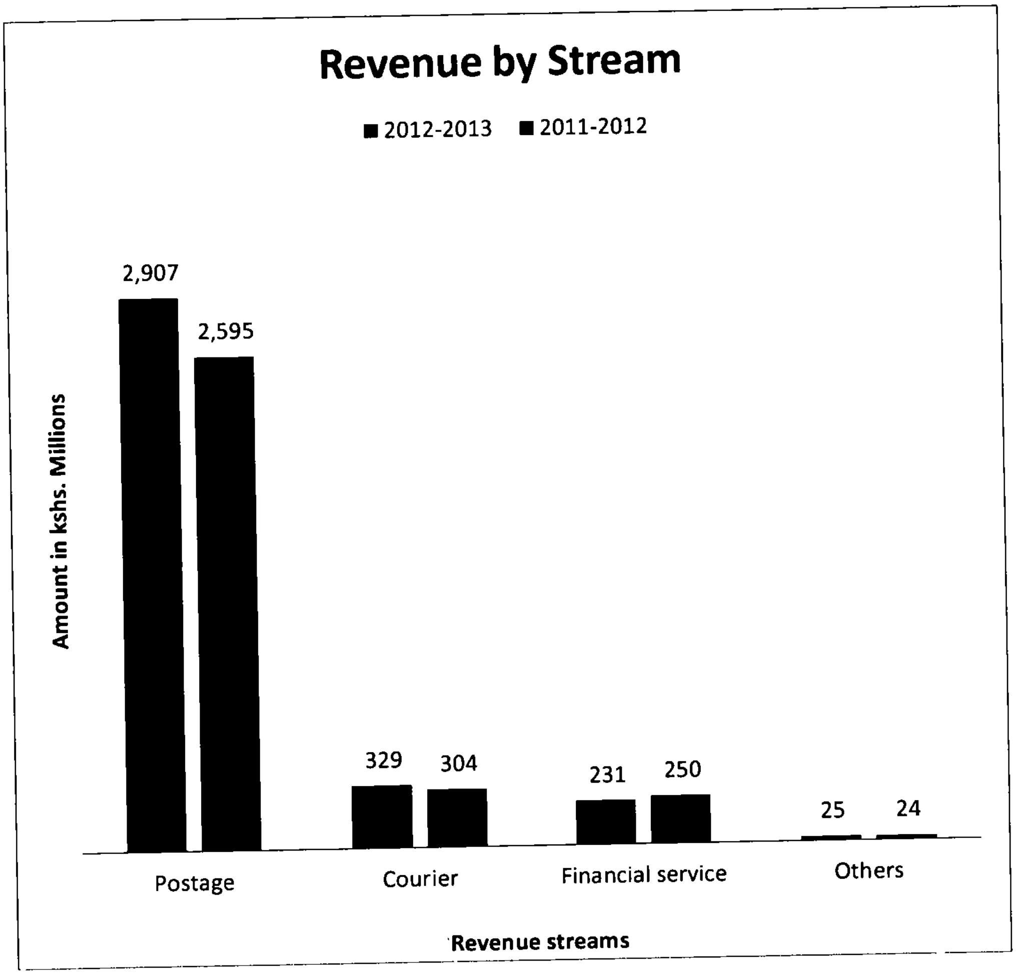
- Box/bag rentals
- Bulky postage

However revenue decline was experienced in

- Foreign administration
- Agency EFT and
- Money Order commission

Financial Highlights

Revenue



Financial Highlights

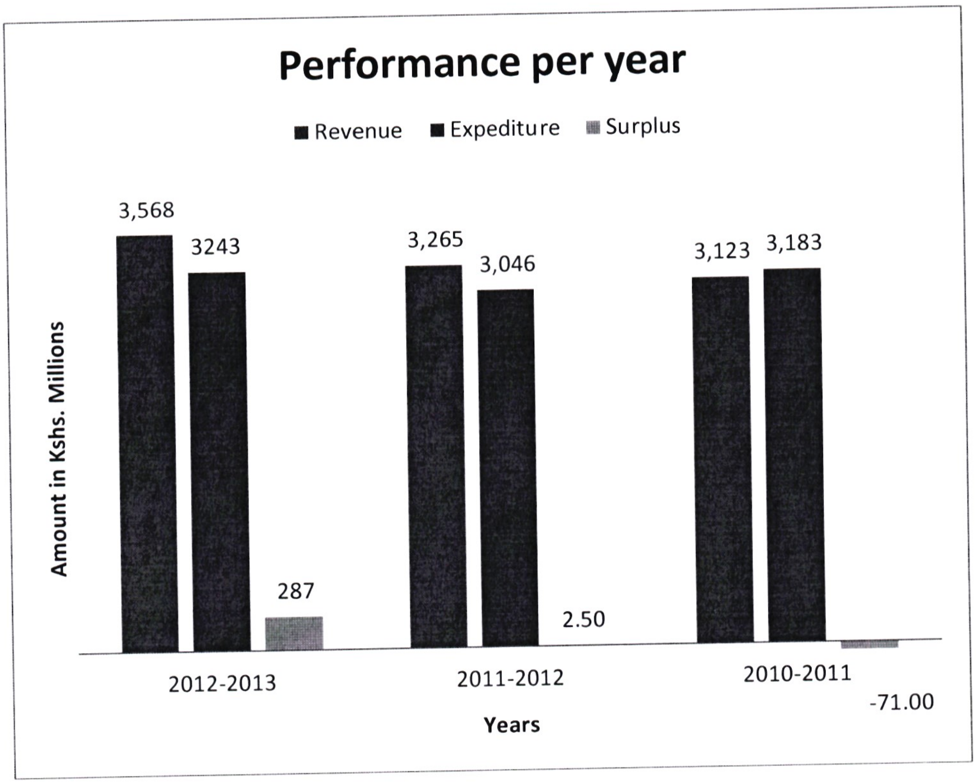
The Table below shows financial performance trend since 2010/2011

Table 1- Financial performance Trend

Kshs. 'million'

Particulars	2010/2011	2011/2012	2012/2013	% Growth from 2011/12
Revenue	3,114	3,265	3,568	9.2
Expenditure before exceptional Items	3,183	3,046	3,243	6.3
Net Surplus /(Deficit) before Tax	(70.12)	2.5	287.9	11,416
Tax Provision	1.2	30.3	114.4	276
Net Surplus/(Deficit) after Tax	(76.3)	(27.7)	173.4	725

Bar-Chart –Financial Trend



Financial Highlights

(b) Operating Expenditure

Operating expenditure reflected an increase of Kshs. 197,651,388 Million in 2012/2013 financial year compared to 2011/2012. The increase was a result increase in staff costs, marketing activities and Pension costs which is related to basic pay.

(c) Financial Results

The financial results reflected an operating profit of KShs.294,355,290 Million up from a profit of Kshs. 177,944,318 million.

(d) Ratios

			2011/2012	2012/2013	
(1)	Liquidity ratio: Current ratio	=	1.08	1.09	Current Assets / Current liabilities
(2)	Gearing ratio	=	0.65	0.61	Total liabilities/ Total Assets
(3)	Return on investment	=	0.00033	0.034	Net Profit before tax/Total Assets

REPORT OF THE DIRECTORS

The directors of Postal Corporation of Kenya (PCK) are happy to submit their report together with the financial statements for the financial year ended 30 June 2013.

1. **Principal Activities**
   Postal Corporation of Kenya, a Public Corporation set up in 1999 under Postal Corporation of Kenya Act Number 3 of 1998 Laws of Kenya, is fully owned by the Government of Kenya. Its principal activities are provision of communication, distribution and financial services.

   The number of staff at year end was 3683 (3279 in 2011/2012).

2. **Results**

	KShs
Profit/ (Loss) before Tax	287,891,695
Less Corporation Tax	(114,425,537)
Net Profit/ (Loss) after Tax for the Year	**173,466,158**

3. **Dividends**
   The Board has resolved to recommend dividends amounting to KShs 17,346,616 to the shareholder with respect to financial year then ended.
4. **Directors**
   Directors who served are set out on page 2.
5. **Auditors**
   The Auditors for the Corporation are as reported on page 2 and will continue being in office in the coming financial year 2013/ 2014
6. **Corporation Secretary**
   The Corporation Secretary is on page 3.
7. **Approval of Financial Statements**
   The financial statements of the Corporation were approved on 26 September 2013

By Order of the Board

Corporation Secretary
Nairobi
26 September 2013

CORPORATE GOVERNANCE STATEMENT

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

The Board of Directors

The Board is made up of 7 non-executive directors and the Postmaster General (PMG). The directors are provided with appropriate and timely information so that they can maintain full and effective control over the strategic financial, operational and compliance issues of the Corporation.

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

The role of the Board includes to:

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE STATEMENT
Board Committees

The Board discharges its functions through committees. Postal Corporation of Kenya has 3 committees as listed below.

i. Audit Committee

The mandate of the Committee includes:

a) Establishment and review of internal control systems, risk management issues and internal audit procedures for the Corporation.

b) Establish the scope, nature and priorities of internal audit. Review the internal audit programs relating to all operational aspects of the corporation.

c) Review major findings on internal audit, investigations and recommend to the Board reasoned responses and/or contemplated actions thereto.

d) Liaise with external auditors for audit programs, coordinating management responses to management letters thereto prior to issuance of the audit certificate.

e) Review the external auditors' findings, issues and recommendations arising in the course of audit.

f) Review performance and consider the remuneration of external auditors for action by the Board.

g) Undertake such other duties or functions as may be assigned by the Board which are relevant to audit and risk management.

ii. Human Resource Committee

The duties of the Committee include:

a) Human resource management and development – policies and their implementation.

b) Review succession planning at senior level and make appropriate recommendations for consideration by the Board.

c) Review the remuneration of staff for consideration by the Board.

CORPORATE GOVERNANCE STATEMENT

d) Monitor the implementation of corporate governance policies after Board approval.

iii. Finance and Technical Committee

The functions of the Committee include to:

a) Review the Corporation's financial statements and budget before submission to the Board.

b) Approval of procurement plans.

c) Review quarterly reports on tenders that have been awarded by the Tender Committee.

d) Monitor customer service standards and productivity of resources.

e) Review the Corporation's corporate business strategy and market research development.

f) Review postal operations, UPU standards and compliance with Universal Service Obligations.

CORPORATE GOVERNANCE STATEMENT

Board/Committee meetings

The following is the record of the Board and Committee meetings held during the year ended 30 June 2013

	2012/2013	2010/2011
Main / Special Board	11	15
Audit	4	3
Human Resource	10	8
Finance and Technical	5	7
Task force on PCK properties	13	-

Statement of Directors Responsibilities for the year ended 30 June, 2013

The Directors are required to prepare financial statements which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year and of its surplus or deficit for that year. The Directors are required to ensure that the Corporation maintains proper accounting records which disclose, with reasonable accuracy, the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of the Corporation.

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, consistent with previous years, and in conformity with International Financial Reporting Standards. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation as at 30 June, 2013 and of its surplus for the year then ended. The Directors further confirms the accuracy and completeness for the accounting records maintained by the Corporation which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

Nothing has come to the attention of the Directors to indicate that the Corporation will not remain a going concern for at least twelve months from the date of this statement.

This statement is approved by the Board and signed on its behalf by;

Eng. Sammy K.Tangus	M/s Pauline Muthigani
Chairman	**Director**
Date	**Date**

REPUBLIC OF KENYA

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NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON POSTAL CORPORATION OF KENYA FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Postal Corporation of Kenya set out on pages 14 to 31, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 14 of the Public Audit Act, 2003. 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.

Management's Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. Plant, Property and Equipment

As previously reported, the property, plant and equipment balance of Kshs.2,922,596,043 as at 30 June 2013, includes sixty three (63) properties which are not registered in the name of the Corporation. In addition the balance of Kshs.2,922,596,043 also excludes undetermined value of a parcel of land measuring 0.50 acres situated at Lamuria.

In the circumstances, it has not been possible to ascertain that the balance of Kshs.2,922,596,043 as at 30 June 2013 is fairly stated.

2. Trade and Other Receivables

2.1 Telkom (K) Ltd Receivables

As similarly reported in 2011/2012 trade and other receivables balance of Kshs.3,113,125,375 includes two debts on account of Telkom Kenya Limited which comprise Kshs.403,648,938 in respect of service debts and Kshs.36,478,729 for other debtors both totalling to Kshs.440,127,667 which have been owing since 1999. Further, debts in respect of money order inter-state of Kshs.82,501,415, Postapay of Kshs.177,742,768 and rent receivable of Kshs.185,286,619 all totalling Kshs.445,530,802 have remained uncollected over the years and therefore their recoverability is doubtful. However, no evidence has been provided about efforts being taken to recover the debts.

2.2 Foreign Administration and EMS Receivables

As reported in 2011/2012, trade and other receivables balance of Kshs.3,113,125,375 as at 30 June 2013 includes foreign administration and EMS receivables totalling to Kshs.912,756,952; the bulk of which has been outstanding for between six (6) and twenty three (23) years and whose provision for bad and doubtful debts is only Kshs.344,792,436 in the financial statements. Although the management has indicated that international receivables are regulated by Universal

Postal Union (UPU) and are collectable or enforceable, no evidence was provided of debts forwarded to UPU for collection or enforcement was availed for audit review.

2.3 Kenya Post Office Savings Bank Agency

As similarly reported in 2011/2012, trade and other receivables balance of Kshs.3,113,125,375 includes an amount of Kshs.1,231,585,317 being uncollected agency charges accumulated over a period of thirteen (13) years on account of Kenya Post Office Savings Bank. However, no confirmation of the balance had been received from the Bank as at 30 June 2013.

In the circumstances, it has not been possible to confirm that the trade and other receivables balance of Kshs.3,113,125,375 as at 30 June 2013 is fairly stated.

3. Trade and Other Payables

3.1 Kenya Post Office Savings Bank

As reported in 2011/2012, the trade and other payables balance of Kshs.4,966,310,309 as at 30 June 2013 includes Kshs.1,634,003,728 being outstanding debt to Kenya Post Office Savings Bank. However, neither reconciliation nor confirmation from the Postbank was availed to confirm the accuracy of outstanding debts.

3.2 Postapay Payables

As previously reported trade and other payables balance of Kshs.4,966,310,309 also includes an amount of Kshs.92,544,072 which has been outstanding on an account of Postapay for more than three years. As similarly reported in 2011/2012 management is in dispute with a firm which was offering the services and an accounting firm has been appointed to carry out an investigation to determine the correct amount payable.

3.3 Deferred Projects

The trade and other payables balance of Kshs.4,966,310,309 as at 30 June 2013 also includes deferred projects bills totalling Kshs.123,525,504. Although the management has explained that the amount represents dues not paid on some projects that were started sometimes back but were later abandoned after it was established that the projects were not feasible, these bills have not been supported with the relevant records.

In the foregoing circumstances, the accuracy of the trade and other payables balance of Kshs.4,966,310,309 as at 30 June 2013 could not be confirmed.

Qualified Opinion

In my opinion, except for the effect of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Corporation as at 30 June 2013, 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 Act, 1998 of the Laws of Kenya.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

7 April 2014

Postal Corporation of Kenya
Statement of Comprehensive Income
For the year ended 30 June 2013

	NOTES	2012/2013 KSHS	2011/2012 KSHS
Operating Revenue	2	**3,538,245,691**	**3,224,183,332**
Operating Expediture			
Administration cost	3	152,820,814	156,903,374
Staff costs	3a	1,884,867,382	1,650,460,641
Directors Expenses	4	15,958,665	13,900,590
Operational cost	5	218,577,047	215,073,307
Conveyance of Mail	6	150,200,076	148,782,889
International Services	7	72,285,665	151,130,536
Rental expenses	8	206,121,282	231,841,378
Maintenance expenses	9	44,057,691	38,220,130
Training	10	13,113,152	10,851,160
Telephone and Data Communicat	11	45,942,646	41,655,329
Pension Expense	12	130,715,391	109,090,643
Other expenses	13	150,753,372	109,923,647
Provision for Depreciation	19	158,477,219	168,405,390
Total		**3,243,890,402**	**3,046,239,014**
Operating Surplus/(Deficit)		**294,355,290**	**177,944,318**
Non Operating revenue	14	30,213,083	40,828,133
Non Operating expediture	15	(9,291,289)	(12,669,369)
Bad debts written off	16	-	(451,044)
Finance Charge	17	(27,385,388)	(35,692,466)
		(6,463,594)	(7,984,745)
Exceptional Items			
Provision for contigent liabilities	18		(167,412,910)
SubTotal		-	**(167,412,910)**
Net surplus/(Deficit) before tax		**287,891,695**	**2,546,662**
Corporation tax		114,425,537	30,313,473
Net Surplus/(Deficit) after Tax		**173,466,158**	**(27,766,810)**

Postal Corporation of Kenya
Statement of Financial Position
as at 30 June 2013

	Notes	2012/2013 KSHS	2011/2012 KSHS
Assets			
Non- Current Assets			
Plant Property and Equipment	19	2,922,596,043	2,988,250,125
		2,922,596,043	**2,988,250,125**
Current Assets			
Inventories	20	14,767,081	10,421,089
Trade and Other Receivables	21	3,113,125,375	3,165,598,010
Cash and Bank	22	2,399,953,123	1,573,813,876
		5,527,845,579	**4,749,832,975**
Total Asets		**8,450,441,623**	**7,738,083,100**
Reserves and Liabilities			
Current liabilities			
Trade & Other payables	23	4,966,310,309	4,372,240,557
Taxation		81,567,040	
		5,047,877,349	**4,372,240,557**
Reserves			
Revaluation Reserve		2,279,237,947	2,279,237,947
General reserve		1,026,813,044	436,037,929
Proposed Dividends		17,346,616	
Total Reserves		**3,323,397,607**	**2,715,275,876**
Non Current liabilities			
Bank Loan	24	79,166,666	129,166,666
Pension Fund	25	-	521,400,000
Total Non Current Liabilities		**79,166,666**	**650,566,666**
Total Reserves& Liabilities		**8,450,441,623**	**7,738,083,100**

The Financial Statements on pages 14 to 31 were approved by the Board of Directors on ------- September 2013 and were signed on its behalf by;

Eng. Sammy K.Tangus
Chairman.............................
Date :

Dr. Enock O. Kinara
Postmaster General.............................
Date:

Postal Corporation of Kenya
Statement of Changes in Reserves
For the Year Ended 30 June 2013

	General Reserve	Proposed Dividends	Revaluation Reserve	Total
As at 1 July 2011	**463,804,739**	-	**2,279,237,947**	**2,743,042,686**
				-
				-
Net profit / Deficit for the yea	(27,766,810)			**(27,766,810)**
				-
As at 30 June 2012	**436,037,929**	-	**2,279,237,947**	**2,715,275,876**
As at 1 July 2012	**436,037,929**	-	**2,279,237,947**	**2,715,275,876**
Prior Year	(10,944,428)			**(10,944,428)**
				-
Pension Deficit	445,600,000			**445,600,000**
Net profit / Deficit for the yea	173,466,158			**173,466,158**
				-
Proposed dividends	(17,346,616)	17,346,616		-
As at 30 June 2013	**1,026,813,044**	**17,346,616**	**2,279,237,947**	**3,323,397,607**

Postal Corporation of Kenya
Statement of Cashflows
For the year ended 30 June 2013

	Note	2012 /2013 KSHS	2011 /2012 KSHS
Cash flow from operations	27	1,098,037,065	457,497,264
Tax paid		(29,767,557)	(1,132,579)
Total cash flow from operating activities		1,068,269,508	456,364,685
Cashflow from investing activities			
Purchase of property	19	(95,971,883)	(67,314,974)
Proceeds from disposal of assets		7,027,010	1,760,324
Total cashflow from investing activities		**(88,944,873)**	**(65,554,650)**
Cashflow from financing activities			
Loans Repayments		(50,000,000)	(50,000,000)
Pension scheme		(75,800,000)	(14,600,000)
Interest on bank loan		(27,385,388)	(35,692,466)
Total cashflow from financing activities		**(153,185,388)**	**(100,292,466)**
Net Increase/(Decrease) in cash and Cash Equivalent		826,139,247	290,517,568
Cash and equivalents at the beginning		1,573,813,876	1,283,296,308
Cash and cash equivalents at year end	22	**2,399,953,123**	**1,573,813,876**

Note 1.

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are as outlined below:-

a. Basis of Accounting

The accounts are prepared in accordance with International Financial Reporting standards.

The Corporation prepares its accounts under the historical cost convention, modified to include the revaluation of certain fixed assets.

b. Interest

Interest receivable from Bank Accounts is accounted for in the General Operating and Net Revenue Account as it accrues. Interest payable is chargeable to General Operating and Net Revenue Account.

c. Revenue recognition

Revenue is recognized on an accrual basis and represent receipts accruing from the major services of Postal Corporation of Kenya. It is stated net of Value Added Tax.

d. Inventories

These are stated at the lower of cost and Net realizable value. Cost is determined on a weighted average basis net of provision for obsolescence.

Accounting policies

e. Property, Plant and Equipment

- **Cost**

Fixed Assets are stated at purchase or production cost, less accumulated depreciation. Cost for self- constructed assets include the cost of materials, direct labour and an appropriate portion of overhead costs. Additions to fixed assets during the year are capitalized at cost.

- **Depreciation**

Depreciation on fixed assets is calculated to write off the cost or valuation of the assets over their estimated useful lives by equal annual installments as follows:-

Useful lives (Years)

- Land	-	Nil
- Building s	-	50
- Computers	-	5
- Motor vehicles	-	6-9
- Furniture & Office equipment	-	10

No provision for depreciation is made on assets acquired during the year. Buildings under leasehold land are depreciated over the lease period at valuation.

f. Translation of foreign currencies

Assets and Liabilities denominated in foreign currencies are translated into Kenya shillings at Inter-Bank rates of exchange ruling on the Balance Sheet date. Transactions in Foreign Currencies are translated in Kenya Shillings at Inter-Bank rates of exchange ruling at the time of the transaction.

g. Receivables

Known bad debts are written-off and a provision is made for those considered doubtful of collection.

Accounting policies

h. Employee benefit costs

The Corporation operates a defined contribution pension scheme which is administered independently of the Corporations assets. The Corporation's contributions to the scheme are charged to the income statement in the year to which it relates. Prior to January 2010 the Corporation was operating both defined benefit pension scheme and a provident fund. However the two schemes were merged into one defined contribution pension scheme.
Employees on contract are entitled to gratuity at the end of the contract. The estimated monetary liability for such entitlement as at the financial reporting date is accrued as an expense accrual.

i. Cash and cash equivalent

For the purpose of cash flow statement cash and cash equivalents comprise cash in hand, E value and bank balances.

j. Comparatives

Where necessary figures have been adjusted to conform with changes in presentation in the current year. Particular comparatives have been adjusted or extended to take into account the requirements of international accounting standards.

k. Taxation

Tax on the profit or loss for the year comprises current tax on the adjusted results for the period in accordance with enacted tax legislation.

l. Property, Plant and Equipment

The comparative figure for movement in property, plant and equipment is net of accumulative depreciation for the respective period

m. Provision for employee entitlement

Employee entitlement to annual leave are recognized where they accrue to employee as per existing staff policies and regulations. A provision is made for the estimated liability for annual leave accrued as per policy at the balance sheet date.

Notes to the Financial Statements
For the year ended 30 June 2013 (Cont'd)

Note 2 **Revenue Analysis**	**2012 /2013** **KShs**	**2011 /2012** **KShs**
Postal Revenue		
Sale of stamps	534,557,989	506,100,734
postage in bulk	1,272,693,909	1,170,899,180
Receipts from Foreign admin	174,914,678	205,640,583
EMS Service	329,778,851	304,921,968
Money order commisson	52,693,071	58,814,689
Box/ bag Rentals	925,275,274	713,324,597
EFT commission	6,193,228	18,717,479
Miscellaneous	23,911,486	22,220,426
TOTAL	**3,320,018,487**	**3,000,639,658**
Post shops		
Posta shops	1,943,558	1,922,484
Total	**1,943,558**	**1,922,484**
Total postage and Post shops	**3,321,962,045**	**3,002,562,141**
Rent receivable	43,675,436	48,901,524
AGENCY SERVICES		
(KPOSB) Post Office Savings Bank	6,470,779	13,896,095
PCK and Teleposta Pension scheme	3,486,729	2,955,593
Kenya power Commisions	51,554,998	52,880,812
Customs and Clearing commisions	6,015,736	5,699,701
Multichoice, Faulu,Mpesa, Airtel money	3,488,938	2,660,231
TSC Commission	-	692,880
Intergration fee	6,267,559	-
Ministry of Gender and Childrens commissions	66,751,711	60,269,970
Nairobi Water and Other Regional Agencies	28,571,760	33,664,384
Total Agency Revenue	**172,608,210**	**172,719,666**
Total Operating Revenue	**3,538,245,691**	**3,224,183,332**
Non Operating Revenue	30,213,083	40,828,133
Grand Total	**3,568,458,774**	**3,265,011,465**

Notes to the financial statements
For the year ended 30 June 2013 (Cont'd)

3. Administration Expense

	2012/ 2013	2011/ 2012
	Kshs	Kshs
Consultancy Charges	2,096,978	2,907,695
Bank Charges	17,086,519	13,421,986
Office Administration	6,638,049	4,535,664
Contingencies	906,400	511,305
Insurance	12,713,608	18,047,067
Security Charges	76,564,855	77,758,071
General Stores	16,018,832	8,453,493
Vehicle Running costs	16,654,464	15,706,730
UPU Congress meetings	-	6,556,360
Others	4,141,109	9,005,004
Total	**152,820,814**	**156,903,374**

3a. Staff costs

Salaries and Allowances	1,298,451,574	1,125,831,979
House Allowance	457,118,991	408,886,047
Medical	123,780,397	112,326,626
Staff leave expense	5,516,420	3,415,989
	1,884,867,382	**1,650,460,641**

4. Directors Expenses

Directors Sitting Allowance	8,160,000	5,360,000
Directors Honorarium allow.	960,000	960,000
Directors Traveling Subsistence(Local)	2,547,721	118,000
Directors Traveling Subsistence(External)	2,394,020	5,450,510
Directors Mileage Allowance	555,224	12,088
Directors Incidental Expenses *(Training, Medical Insurance)*	1,281,210	1,939,992
Telephone and other expenses	60,000	60,000
Total	**15,958,175**	**13,900,590**

Notes to the financial statements
For the year ended 30 June 2013 (Cont'd)

5. Operational Expense

	2012/2013 Kshs	2011/2012 Kshs
Postal Agencies	6,095,618	5,198,618
Office Administration Expenses	7,458,462	7,413,145
General Stores	50,435,939	48,481,485
Supply of Stamps	1,708,473	4,810,947
Vehicles Running Expenses	139,786,702	131,430,964
Compensation	1,940,663	821,849
Operating License	10,965,342	16,666,756
Freight charges	185,850	249,543
Total	**218,577,047**	**215,073,307**

6.Conveyance of mail

Road	9,878,789	10,124,300
Air Internal	2,625,642	4,434,937
Air International	137,695,645	134,223,652
TOTAL	**150,200,076**	**148,782,889**

7. International Services Expense

International Parcel Services -	61,303,956	78,487,332
International Mail Services -	10,981,709	72,643,204
Total	**72,285,665**	**151,130,536**

Notes to the financial statements
For the year ended 30 June 2013 (Cont'd)

8. Rental Expense

	2012/2013 Kshs	2011/2012 Kshs
Site Rentals	11,967,579	7,264,588
Office Rentals	194,153,703	224,576,790
Total	**206,121,282**	**231,841,378**

9. Maintenance

Office Equipment	5,682,740	4,373,965
Information Technology	433,346	1,497,292
Building Repairs and Refurbishment	37,941,605	32,348,874
Total	**44,057,691**	**38,220,130**

10. Training Expense

Training DIT	3,297,091	969,676
Local Training	9,816,061	9,881,484
Total	**13,113,152**	**10,851,160**

11.Telephone and Data Communication

Telephone lines	13,415,673	13,465,835
Data communication	32,526,973	28,189,494
Total	**45,942,646**	**41,655,329**

Notes to the financial statements
For the year ended 30 June 2013 (Cont'd)

12. Pension expense

	2012/2013 Kshs	2011/2012 Kshs
Pension fund	115,135,778	98,058,043
Gratuity	7,360,412	3,040,200
NSSF	8,219,200	7,992,400
Total	**130,715,391**	**109,090,643**

13. Other Expenses

Furniture and Fittings (Repairs)	802,561	483,403
Electricity/Water	34,530,805	41,136,480
Staff Awards	1,921,487	1,021,584
PCK Sporting Activities	8,605,929	3,964,328
Legal Expenses	12,347,098	12,016,541
Health, Safety Environment (HSE)	13,432,432	15,811,899
Shows and Exhibitions	4,072,801	5,739,443
Electronic Media Adverts	16,273,600	7,252,541
Print Media Adverts	50,871,629	17,923,239
Outdoor advertisement	4,473,342	1,771,721
Entertainment	166,405	302,468
Audit fees	2,900,000	2,500,000
Tax on fridge benefits	355,282	
Total	**150,753,372**	**109,923,647**

Notes to the financial statements
For the year ended 30 June 2013 (Cont'd)

14. Non-Operating Revenue	2012/2013	2011/2012
	Kshs	Kshs
Bank Interest	21,187,792	33,628,099
Staff loans interest	1,682,300	2,343,739
Sale of Tender documents	4,176,691	2,573,401
Gain/Loss on disposal of Vehicles	2,924,239	1,402,958
Sale of Stores	237,740	691,897
Commission on Cash Salaries	4,320	188,040
Total	**30,213,083**	**40,828,133**

15. Non Operating Expenditure

Interest on excess deposit (KPOSB)	9,291,289	12,669,369
	9,291,289	**12,669,369**

16. Bad debts written off		
Zadok Furniture	-	212,282
KPOSB Loss	-	238,762
	-	**451,044**

17. Finance charge

Interest on loans	**27,385,388**	**35,692,466**

18. Provision for Contigent Liabilities

NSSF Arrears	-	121,796,920
Retrenchement dispute award	-	36,560,753
Provison for lost cash	-	9,055,237
	-	**167,412,910**

Notes to the financial statements
For the year ended 30 June 2013 (Cont'd)

19. Property, Plant and Equipment

	LAND	BUILDINGS	MOTORS VEHICLES	FURNITURE AND OFFICE EQUIP.	COMPUTERS	W. I. P	GRAND TOTAL
COST/VALUATION							
At 1/7/2011	869,575,000	1,642,385,755	238,981,699	779,793,313	108,213,758	35,977,913	3,674,927,437
ADDITIONS		2,630,084	7,796,900	11,170,332	23,132,225	22,585,432	67,314,974
		1,217,419				(1,217,419)	
DISPOSALS			(700,000)		(402,209)		(1,102,209)
AS AT 30/06/12	869,575,000	1,646,233,258	246,078,599	790,963,645	130,943,774	57,345,926	3,741,140,203
DEPRECIATION AS AT 1.7.2011	-	137,933,290	107,858,701	280,598,391	58,839,148	-	585,229,530
CHARGE FOR THE YEAR	-	32,662,115	36,840,531	77,979,331	20,923,413	-	168,405,390
DISPOSALS			(505,556)		(239,287)		(744,843)
AS AT 30/06/11	-	170,595,405	144,193,677	358,577,722	79,523,274	-	752,890,077
NET BOOK VALUE:							
AS AT 30 JUNE 2012	869,575,000	1,475,637,853	101,884,922	432,385,923	51,420,501	57,345,926	2,988,250,125
AS AT 30 JUNE 2011	869,575,000	1,504,452,464	131,122,998	499,194,922	49,374,610	35,977,913	3,089,697,907

	LAND	BUILDINGS	MOTORS VEHICLES	FURNITURE AND OFFICE EQUIP.	COMPUTERS	W. I. P	GRAND TOTAL
COST/VALUATION 1/7/2012							
At 1/7/2011	869,575,000	1,646,233,258	247,986,649	790,963,645	130,943,774	57,345,926	3,743,048,253
ADDITIONS	-	-	37,428,200	31,829,935	19,845,505	6,868,242	95,971,883
Capitalised	-	-	-	-	-	-	-
DISPOSALS	(800,000)	(2,280,000)	(6,050,000)	-	-	-	(9,130,000)
AS AT 30/06/13	868,775,000	1,643,953,258	279,364,849	822,793,580	150,789,280	64,214,169	3,829,890,135
DEPRECIATION AS AT 1.7.2012	-	170,595,405	145,147,702	358,577,722	79,523,274	-	753,844,102
CHARGE FOR THE YEAR	-	32,739,065	31,791,555	79,096,364	14,850,234	-	158,477,219
DISPOSALS	-	(197,600)	(4,829,629)				(5,027,229)
AS AT 30/06/13	-	203,136,871	172,109,628	437,674,086	94,373,507	-	907,294,092
NET BOOK VALUE:							
AS AT 30 JUNE 2013	868,775,000	1,440,816,388	107,255,221	385,119,494	56,415,772	64,214,169	2,922,596,043
AS AT 30 JUNE 2012	869,575,000	1,475,637,853	101,884,922	432,385,923	51,420,501	57,345,926	2,988,250,125

Notes to the financial statements
For the year ended 30 June 2013 (Cont'd)

	2012/2013	2011/2012
Current Assets	Kshs	Kshs
Note 20.		
Inventories		
Inventories	14,767,081	10,421,089
Total Inventories	**14,767,081**	**10,421,089**
Note 21		
Trade and Other Receivables		
Service Debtors		
Foreign Administration	699,532,503	647,162,414
E M S	213,224,449	222,026,661
Less:Provision for Doubtful debts	(331,822,099)	(331,822,099)
Bulky Postage	161,366,114	188,817,840
Money Orders Inter-state	82,501,415	95,148,847
Postapay	177,742,768	177,742,768
Rent Receivable	185,286,619	184,746,066
Rent Deposits	687,698	687,698
Agency:		
Kenya Post Office Savings Bank	1,231,585,317	1,225,114,538
Telkom Kenya Limited	403,648,938	403,648,938
Telposta Pension Scheme	41,713,742	55,260,784
Other Agency Debtors	119,762,425	196,149,928
Total service Debtors	**2,985,229,888**	**3,064,684,382**
Other Debtors		
Customs and Excise	5,020,038	2,350,982
Staff Advances	69,568,798	51,525,692
Other Deposits(court attachements,Tuition fees..)	28,398,259	19,037,623
Telkom Kenya Limited	36,478,729	36,478,729
Tax recoverable		3,090,940
Hospitals Deposits	1,400,000	1,400,000
Less:Provision for Doubtful debts(Posta Pay)	(12,970,337)	(12,970,337)
Net Other Debtors	**127,895,487**	**100,913,628**
Total debtors	**3,113,125,375**	**3,165,598,010**

Note 22.
Cash and Bank Balance

Cash on Hand	109,254,039	126,415,287
Bank Balances	2,222,606,335	1,426,010,751
Cash in transit	31,096,122	21,387,838
E-Value	36,996,628	
Total	**2,399,953,123**	**1,573,813,876**

Notes to the financial statements
For the year ended 30 June 2013 (Cont'd)

Note 23 . Current Payables	**2012/2013**	**2011/2012**
	Kshs	Kshs
Trade and other Payables		
Service Creditors		
Foreign Administration	237,470,176	242,841,881
Money Orders/IFS	121,535,828	123,098,773
Postapay(Revenue Share and Network fees)	92,544,072	92,544,072
New Posta pay EFT	57,457,093	51,876,270
Postal Orders	5,202,989	5,303,855
Key Letter Box Deposits	143,508,028	130,614,710
Rental Deposits	1,446,579	1,427,114
TKL- Telephone and Telegraph	380,992,893	380,992,893
Conveyance of Mail	106,902,192	89,855,468
Agency Accounts	1,487,854,640	988,191,150
Total Service Creditors	**2,634,914,489**	**2,106,746,185**
Other Creditors		
Statutory	23,833,855	12,901,476
Deposits for sale of land	17,202,752	9,265,002
Bank Loan(Current portion)	50,000,000	50,000,000
Excise duty	4,007,782	-
Pensions and Gratuties	30,869,578	18,699,643
Safaricom rent		5,651,250
Retrenchment costs	3,600,215	3,600,215
Provision for staff leave	11,350,911	5,834,491
Institutions Insurances	5,092,750	3,857,988
Cooperatives	17,264,594	14,290,207
Kenya Post Office Savings Bank	1,634,003,728	1,539,279,230
Faulu Kenya	-	22,141,717
Bank Staff Loans	31,952,559	29,969,098
Telkom Kenya Limited	5,942,828	5,942,828
Administration	31,587,949	69,142,002
Operational	8,471,012	6,447,965
Rentals	73,805,915	86,137,804
Contigent liabilities	120,357,673	167,412,910
Training	975,459	-
Deferred Projects	123,525,504	123,525,504
Contract work	106,435	617,794
Suppliers:		
Other creditors	42,477,082	28,708,918
Miscellaneous	94,967,240	62,068,331
Total others	**2,331,395,820**	**2,265,494,372**
Total Current Payables	**4,966,310,309**	**4,372,240,557**

Notes to the financial statements
For the year ended 30 June 2013 (Cont'd)

24. Bank Loan

	2012/2013	2011/2012
	KShs	KShs
Balance at the beginning of the year	129,166,668	229,166,668
Borrowings		
Current portion of the loan		(50,000,000)
Repayment during the year	(50,000,000)	(50,000,000)
Balance at the end of the year	**79,166,668**	**129,166,668**

25. Pension fund

Balance at the beginning of the year	521,400,000	536,000,000
Remedial plan payments	(73,000,000)	(14,600,000)
Transfer of property	(2,800,000)	-
Acturial Adjustments *	(445,600,000)	
Balance as at close of the year	-	**521,400,000**

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

* The pension fund actualist valued the pension obligation to nil within the year

26. Prior Year Adjustment

International Account services	(16,576,220)	(8,334,691)
Rent Income (Teleposta pension)	4,766,878	(200,586)
Conveyance of international mail	22,753,769	4,404,124
	10,944,428	**(4,131,153.27)**

Notes to the financial statements
For the year ended 30 June 2013 (Cont'd)

27. Reconciliation of Cash generated from Operations

Working capital changes

	2012/2013	2011/2012
	Kshs	Kshs
Profit before tax	287,891,695	2,546,663
Adjustment for		
Depreciation	158,477,219	168,405,390
Gain/loss on disposal of fixed assets	(2,924,239)	(1,402,958)
Staff leave provision	5,516,420	3,471,374
Provision for gratuity	5,640,698	3,040,200
Operating profit before working capital changes	**454,601,793**	**176,060,669**
(Incresase)/ Decrease in trade receivables	52,472,634	(14,028,348)
(Decrease)/Increase in trade and other payables	595,308,630	299,267,953
(Increase)/Decrease in stock	(4,345,992)	(3,803,010)
Cash generated from operations	**1,098,037,065**	**457,497,264**

28. Currency

The Financial statements are presented in Kenya Shillings (KShs)