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**REPORT  
OF  
THE CONTROLLER  
AND AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF POSTAL  
CORPORATION OF KENYA FOR THE YEAR  
ENDED 30 JUNE 2007**



**POSTAL CORPORATION OF KENYA**



**ANNUAL REPORT AND FINANCIAL  
STATEMENTS FOR THE YEAR ENDED  
30<sup>TH</sup> JUNE 2007**



# POSTAL CORPORATION OF KENYA

## Annual Accounts 2006/2007

### Financial Highlights

#### 1. Introduction

The overall financial position of year 2006/2007 remained impressive compared to 2005/2006 inspite of increased operational costs.

#### 2. Statutory Provision

##### (a) Audit

In accordance with the provision of Section 20 Subsection 2 of Postal Corporation of Kenya Act, the Corporation is required to prepare and submit Annual Accounts to Auditor General (Corporations) by 30<sup>th</sup> September each year.

##### (b) Legal form

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.

#### 3. Economic review

The Kenyan economy experienced an improved growth rate of 6.1% in 2006 compared to 5.8% in 2005. Inflation increased from 10.3% in 2005 to 14.5% in 2006- Kenyan economic survey 2007.

Economic performance influences the performance of the Postal sector as a provider of Universal Services.

#### 4. Financial performance

##### (a) Revenue

The overall Corporation Revenue registered a growth rate of 6 % in 2006/2007 compared to 1.1% in 2005/06 and 1% in 2004/05.

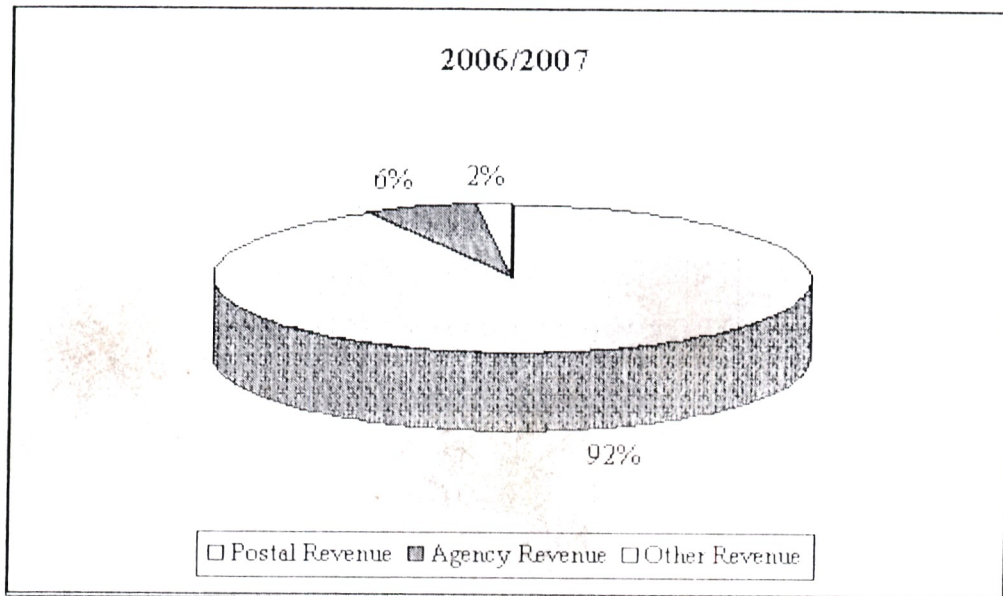
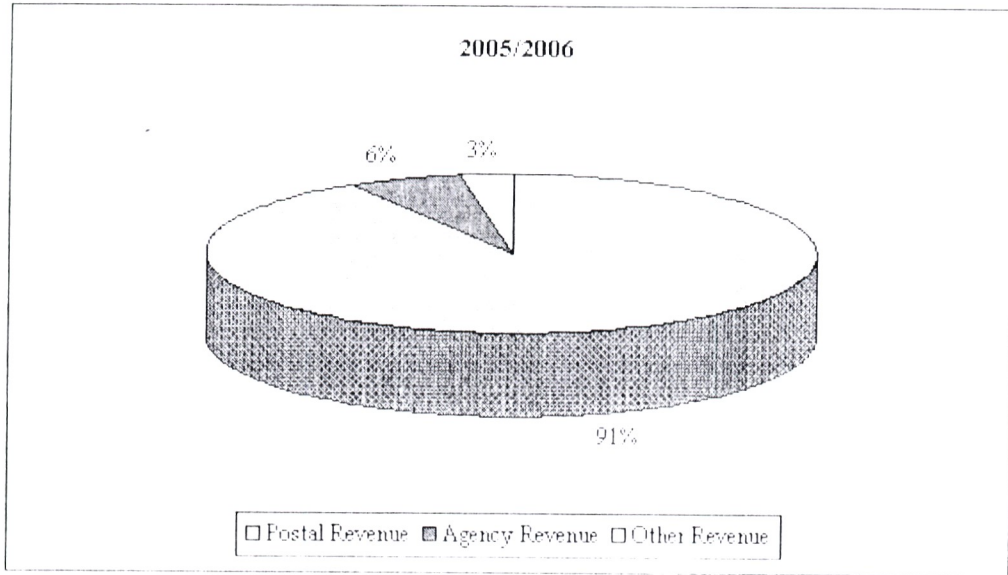
Factors that influenced this performance include:-

- Competition in Agency and Financial services
- Improvement in Bulky Postage.



The Corporation registered revenue growth in key revenue lines of bulky postage and boxes through focused marketing and improved customer care. The combined money transfer of EFT and ordinary money order also improved.

### Revenue Contribution



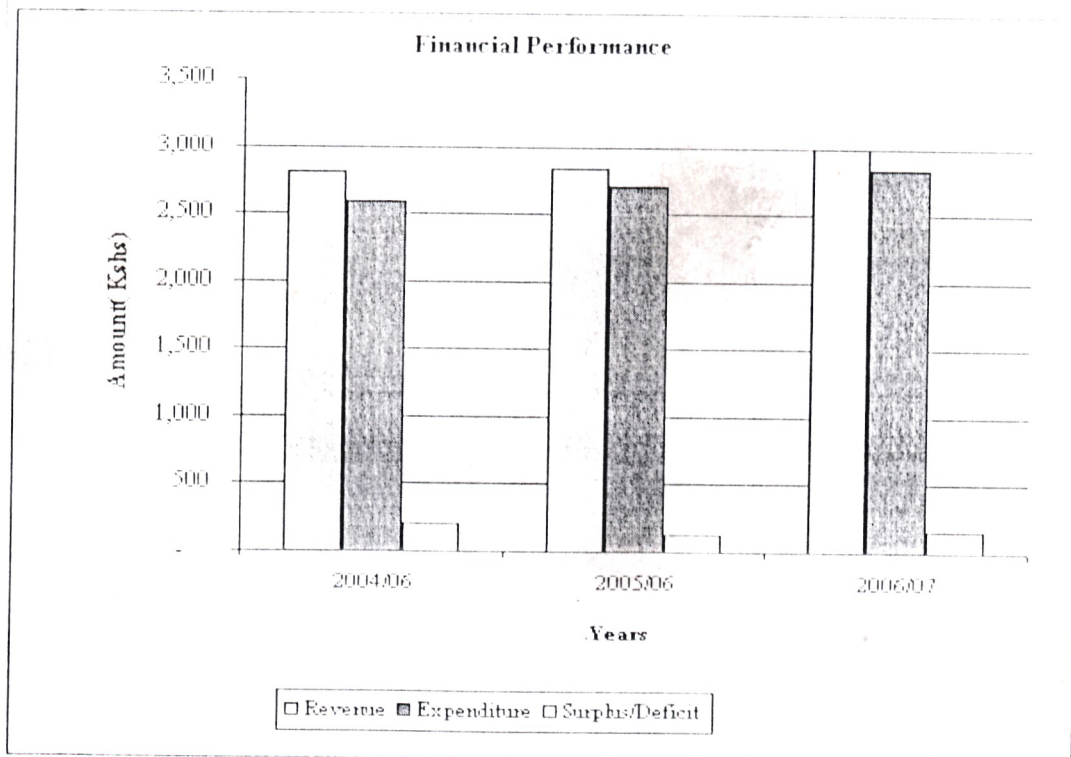


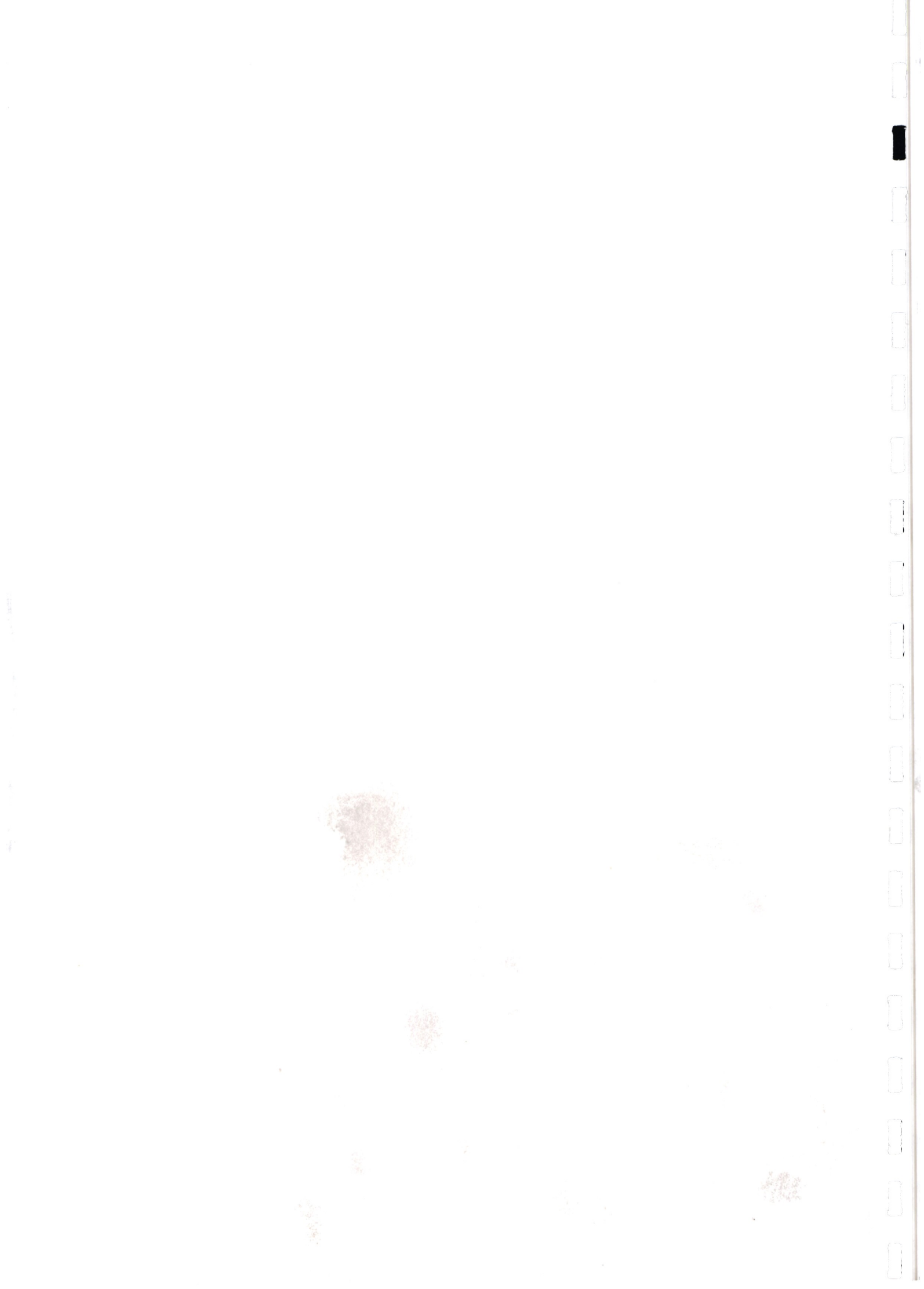
The Table below shows financial performance trend since 2004/2005

**Table 1- Financial performance Trend.**

Particulars	Kshs. Million			% Growth from 2005/06
	2004/05	2005/06	2006/07	
Revenue	2,800	2,831	2,988	5.5%
Expenditure before exceptional Items	2,597	2,705	2,827	4.5%
Net Surplus /(Deficit) before Tax	130	128	162	27%
Tax Provision	67	56	66	17.8%
Net Surplus/(Deficit) after Tax	63	72	96	33%

**Bar-Chart –Financial Trend**





## (b) Operating Expenditure

Operating expenditure reflected an increase of Kshs. 141 million in 2006/2007 financial year compared to 2005/06. The increases observed in Operations and office Rental were due to staff salaries, inflation and fuel costs, which are major inputs in the business.

Decreases in expenditure were registered in various cost lines due to the ongoing initiatives to reduce wastage realizing a cost reduction of Kshs. 3m in telephone, 15m in administration due to reduced salaries as a result of retrenchment and 14m in conveyance of mails.

## (c) Financial Results

The overall financial results reflected an operating profit of Kshs. 163m up from 152m last year. The profit after tax of Kshs. 98m has been realized with a contribution of Kshs. 67m to the exchequer as corporate tax.

The status on investment in rural internet connectivity through the Post Office has been omitted in the accounts as it was in the last 3 years awaiting the outcome of the ongoing discussion with the government.

## (d) Ratios

		<u>2006/07</u>	<u>2005/06</u>	
(1)	Liquidity ratio: Current ratio	= 1.21	1.21	Current Assets/ Current liabilities
(2)	Gearing ratio	= 0.62	0.66	Total liabilities/ Total Assets
(3)	Return on investment	= 0.02	0.02	Net Income/ Total Assets



## REPORT OF THE DIRECTORS

The directors of Postal Corporation of Kenya (PCK) are happy to submit their report together with the audited financial statements for the financial year ended June 30<sup>th</sup> 2007.

The Registered office is at  
Posta House  
Kenyatta Avenue  
PO Box 34567  
Nairobi

### 1. Principal Activities

Postal Corporation of Kenya, a Public Corporation established 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 include provision of postal services like communication, distribution and financial services.

The number of staff at year end were 4,361.

### 2. Results

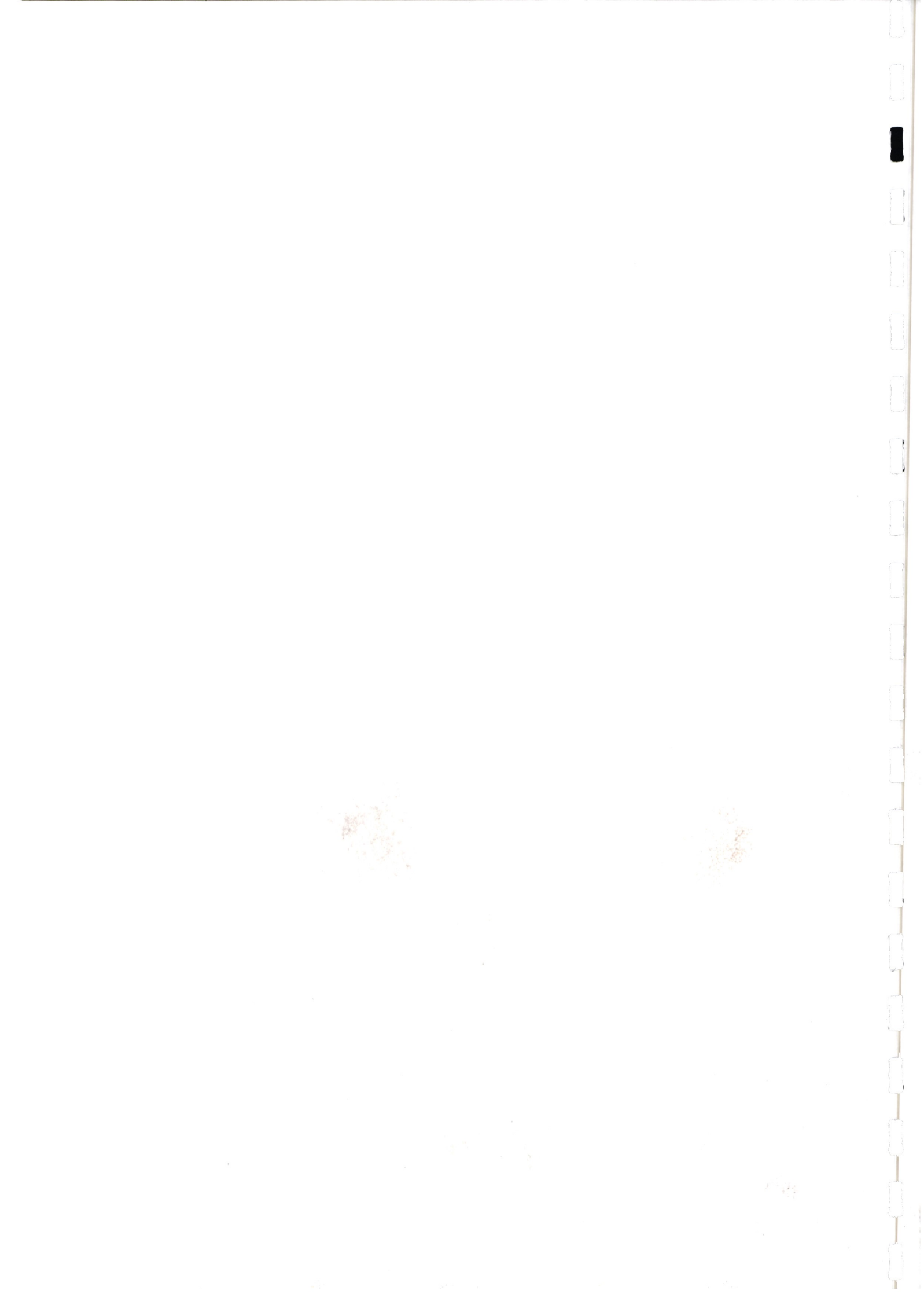
	<b>Kshs.'Million</b>
Profit Before Tax	162
Less Corporation Tax	66
Net Profit After Tax for the Year	96

### 3. Dividends

The Board has resolved not to recommend any dividends to shareholders with respect to financial year then ended.

### 4. Directors

Directors who served are set out on page 7



**5. Auditors**

The Auditors for the Corporation, the Controller and Auditor General of the Kenya National Audit Office, will continue being in office in the coming financial year 2007/2008. Their address and location is

Controller and Auditor and General  
Kenya National Audit Office  
Anniversary Towers  
PO Box 30084  
Nairobi

**6. Bankers**

The Corporation has bank accounts in the following banks

Kenya Commercial Bank  
PO Box 30081  
Nairobi

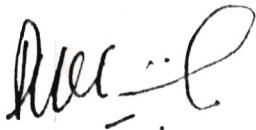
Barclays Bank of Kenya  
PO Box 30120  
Nairobi

Commercial Bank of Africa  
PO Box 30437  
Nairobi

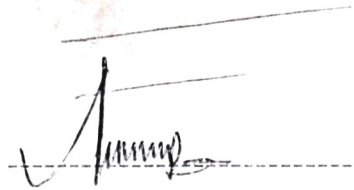
National Bank of Kenya  
PO Box 41862  
Nairobi

**7. Approval of Financial Statements**

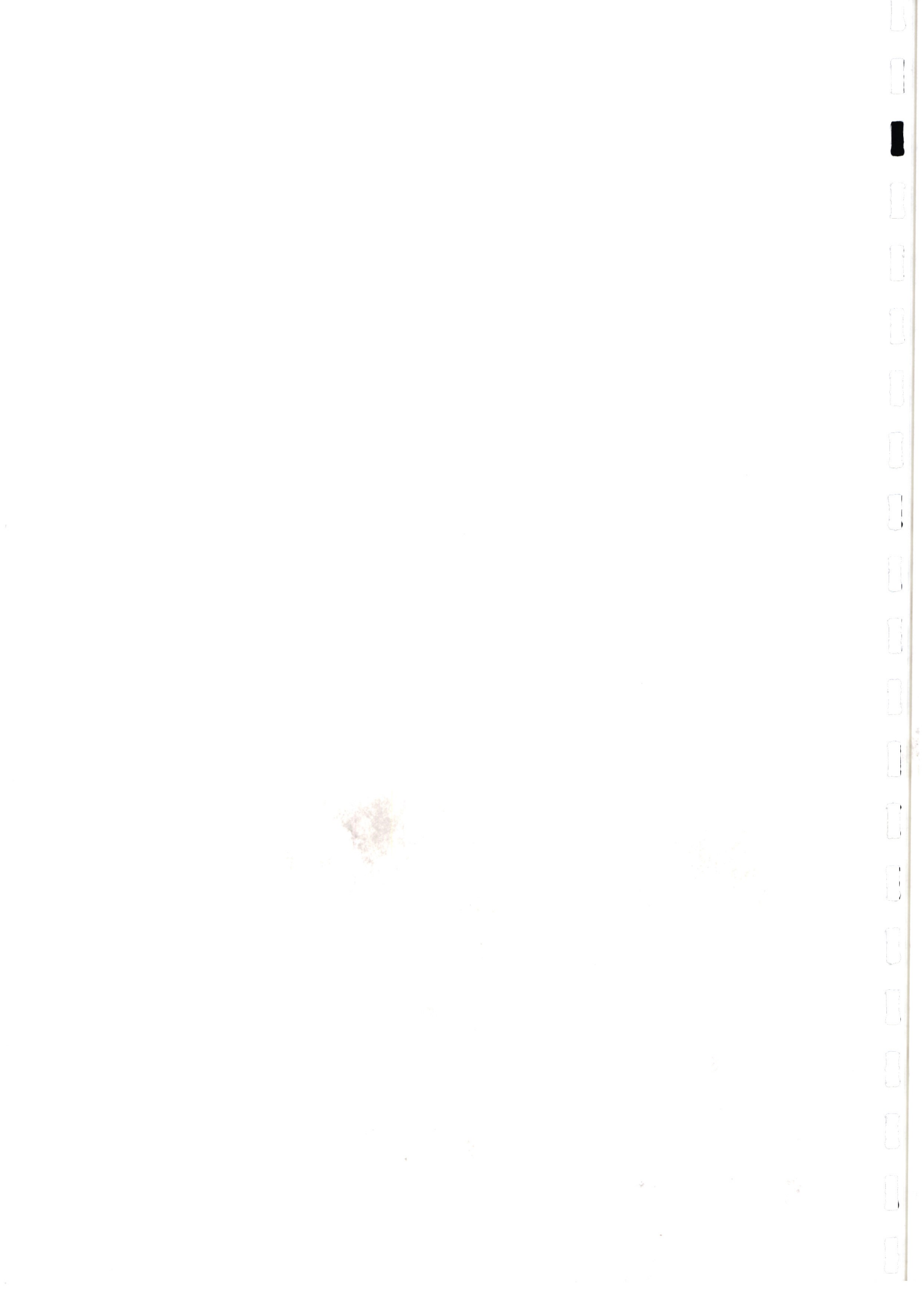
The financial statements of the Corporation were approved on 29<sup>th</sup> February 2008.



-----  
**Chairman**



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**Postmaster General**



## **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 8 non-executive directors and the Postmaster General who is also the Chief Executive Officer. 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.

### **BOARD MEETINGS**

Members of the Board of Directors during the financial year 2006/2007 were:

- |  |   |
|--|---|
| 1) Major General (Retired) Peter Kariuki | Chairman                                      |
| 2) Fred Odhiambo                         | Postmaster General                            |
| 3) Newton Osiemo                         |   |
| 4) Harun Ndambuki                        | Appointed 1/10/2006                           |
| 5) Charles Kioko                         | Appointed 1/10/2006                           |
| 6) Mary Ngoyoni                          | Appointed 1/10/2006                           |
| 7) Dr. Dominic Wamugunda                 | Appointed 1/10/2006                           |
| 8) Samwel W. Thuo                        | Retired 25/08/2006                            |
| 9) Matei M. Ndeti                        | Retired 27/08/2006                            |
| 10) Kepher O. Odongo                     | Retired 23/09/2006                            |
| 11) Dr. Bitange Ndemo                    | PS, Ministry of Information and Communication |
| 12) Joseph Kinyua                        | PS, Ministry of Finance                       |



The role of the Board includes to:

- a) Exercise leadership, enterprise, integrity and sound judgement 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 & Communications in proper management of the affairs of the Corporation.
- h) Adhere to the principles and virtues of good corporate governance.

## **BOARD COMMITTEES**

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

### **I. AUDIT COMMITTEE**

Members of Audit Committee are:

1. Mr. Charles Kioko - Chairman
2. Mrs. Mary Ngoyoni
3. PS, Ministry of Finance
4. Postmaster General

The mandate of the Committee include:

- a) Establish 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 and 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 investigations.

## **II. HUMAN RESOURCE COMMITTEE**

Members of Human Resource Committee are:

1. Dr. Dominic Wamugunda - Chairman
2. Mr. Harun Nyamboki
3. Mr. Newton Osiemo
4. PS, Parent Ministry
5. Postmaster General



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.
- d) Review staff performance at all levels.
- e) Monitor internal and external communication.
- f) Monitor the implementation of corporate governance policies after Board approval.

### **III. FINANCE AND TECHNICAL COMMITTEE**

Members of Finance and Technical Committee are:

1. Mr. Newton Osiemo - Chairman
2. Mrs. Mary Ngoyoni
3. Dr. Dominic Wamugunda
4. Postmaster General

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 and asset disposal plans.
- c) Approval of pre-qualification criteria for suppliers of goods and services.
- d) Approval of procurement and disposal documents including invitations to tender, pre-qualification, tender evaluation criteria and invitations for expression of interest.

- e) Review quarterly reports on tenders that have been awarded by the Tender Committee.
- f) Monitor customer service standards and productivity of resources.
- g) Review the Corporation's corporate & business strategy and market research development.
- h) Review postal operations, UPU standards and compliance with Universal Service Obligations.

**DIRECTORS ALLOWANCES**

Non – executive Directors are given sitting allowances during meetings while the Executive director does not get sitting but instead draws a monthly salary and allowances.

**BOARD/COMMITTEE MEETINGS**

The following is the record of the Board and Committee meetings held during the year ended 30<sup>th</sup> June 2007.

Main / Special Board	19
Audit	4
Human Resource	8
Finance and Technical	6

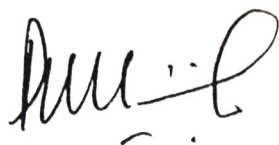
## Statement of Directors Responsibilities for the year ended 30<sup>th</sup> June, 2007

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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 the 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 judgements and estimates, consistence 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<sup>th</sup> June, 2007 and of its surplus for the year then ended. The Directors further accept responsibility for the maintenance of 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 the next twelve months from the date of this statement.



Chairman

  
Postmaster General



## KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF POSTAL CORPORATION OF KENYA FOR THE YEAR ENDED 30 JUNE 2007

I have audited the financial statements of Postal Corporation of Kenya set out on pages 13 to 28 which comprise the balance sheet as at 30 June 2007, the general operating and net revenue account, statement of changes in equity and cash flow statement for the year then ended, together with a summary of significant accounting policies and other explanatory notes in accordance with the provisions of 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.

#### **Directors' Responsibility for the Financial Statements**

The Directors are responsible for the preparation of financial statements which give a true and fair view of the Corporation's state of affairs and its operating results in accordance with the International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Responsibility of the Controller and Auditor General**

My responsibility is to express an independent opinion on the financial statements based on the audit. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed with a view to obtaining reasonable assurance that 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 controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. I believe the audit provides a reasonable basis for my opinion.

## **1. Property, Plant and Equipment**

### **Land and Buildings**

According to the Corporation's records reviewed during the audit, one hundred and sixty seven (167) properties had been revalued. Out of these, only seventy two (72) properties were registered in the name of the Corporation two of which are occupied by private developers. Ownership documents for ninety five (95) properties are at various stages of processing including five (5) properties in the names of defunct Corporations and two (2) occupied by private developers. In addition, buildings valued at Kshs.2,550,000.00 and included in the financial statements were constructed on land owned by third parties. The management has not explained why such construction was allowed on land not owned by the Corporation. Further, four (4) properties which include Faza Post Office were not valued. In the circumstances, the ownership of the properties without title documents could not be confirmed. Further, the value of land and buildings balance of Kshs.3,149,295,333.00 as at 30 June 2007 could not be confirmed as fairly stated in these financial statements.

## **2. Debtors**

The total debtors balance rose by Ksh.238,210,946 to Ksh.2,389,662,378 up from Ksh.2,151,451,432 in 2005/2006. Provision for bad and doubtful debts amounting to Ksh.331,822,099 provided in the prior years was retained. However, this provisions only covered International and EMS debtors and excluded provision for some debtors dating back to 1988. In addition, the other debtors balance of Ksh.218,317,339 included accounts totalling Ksh.36,691,011 which showed insignificant movement during the year. Apart from the international debtors, the aging analysis for the rest of the debtors was not produced for audit review. Under the circumstances, recoverability of the debts and the adequacy of the provision for bad and doubtful debts could not be confirmed.

## **3. Creditors**

The service creditors' balance of Ksh.1,001,259,159 as at 30 June 2007 includes foreign administration creditors amounting to Ksh.92,071,289 which have remained unclaimed for between three (3) and twenty (20) years. This casts doubt on the genuineness of such liabilities. No action appears to have been taken to review and deal with these long outstanding liabilities.

#### **4. Contracts**

##### **4.1 Contract Documentation**

The Corporation had five (5) running contracts with a total contract sum of Ksh.75,751,815 for which necessary records such as project files, contract agreements and contract bid reports were not made available for audit verification. These include installation of a PABX at the head office, the Ngara Road Post Office project, the City Square toilets contract, Eldoret head post office and the City Square lift project. In the absence of relevant records and the necessary supporting documentation, the contract agreements and contract prices could not be confirmed.

##### **4.2 Posta Pay Service System**

The Corporation engaged the services of a firm to provide support service for the electronic funds transfer service; Posta pay. The firm breached several terms of the agreement including effecting transfer of funds by cheque system instead of by cash and effecting transactions from the firm's premises rather than from the Corporation's premises. Records made available are incomplete to allow for an informed opinion on the firm's financial accountability levels. However, it appears that generally, the firm has overriding rights over its principal, Postal Corporation of Kenya. It developed the Posta pay software, retained it with all back-ups and also runs it for the Corporation. In the circumstances, public funds entrusted to the Corporation are exposed to the risk of loss.

#### **5. Very Small Aperture Terminal (VSAT) Project**

As reported previously, the Corporation failed to recognise the assets of the VSAT project in its financial statements. However, the revenue generated from the project amounting to Ksh.6,157,870 during the financial year ended 30 June 2007, was recognised and incorporated. This caused a mis-match between the revenue and the asset base contrary to accounting principles. It was therefore not possible to confirm the correctness of the total assets base and the total revenue generated and reflected in these financial statements.

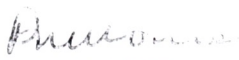
#### **6. General Reserves**

The general reserve balance of Kshs.925,721,477 incorporates unexplained prior year adjustment amounting to Kshs.69,502,742. This adjustment increased the balance of the reserves considerably. In the absence of satisfactory explanation and appropriate documentation to support the adjustment, I am unable to confirm the correctness of the general reserves balance of Kshs.925,721,477 as at 30 June 2007 and the Statement of Changes in Equity for the year ended 30 June 2007.



**Opinion**

Except for the foregoing reservations, in my opinion, proper books of account have been kept and the accompanying financial statements give a true and fair view of the state of the financial affairs of the Corporation as at 30 June 2007 and of its surplus and cash flows for the year then ended and comply with the Postal Corporation Act, 1998.

  
**P. N. KOMORA, CBS.**  
**CONTROLLER AND AUDITOR GENERAL**

Nairobi

16 April 2008



**Postal Corporation of Kenya**  
**General Operating and Net Revenue Account**  
**For the period ended 30th June 2007**

	Notes	2006/2007	2005/2006	Variance
		Kshs	Kshs	
<b>Operating Revenue</b>	1			
Postal Revenue		2,750,097,839	2,582,570,762	167,527,077
Agency Services & Rent		200,076,124	215,418,910	(15,342,786)
<b>Total</b>		<u>2,950,173,963</u>	<u>2,797,989,672</u>	<u>152,184,291</u>
<b>Operating Expenditure</b>				
Administration	2	660,704,413	676,125,181	15,420,768
Directors Expenses	3	17,953,301	12,064,573	(5,888,728)
Operation	4	1,342,131,313	1,274,439,698	(67,691,615)
Conveyance of mail		55,449,417	69,045,243	13,595,826
International Services	5	37,023,657	38,315,684	1,292,027
Rental		108,687,796	81,895,169	(26,792,627)
Maintenance	6	51,741,272	71,664,568	19,923,296
Training		49,537,016	48,313,393	(1,223,623)
Telephone Charges		54,439,563	57,190,770	2,751,207
Provision for Depreciation		113,650,686	120,226,454	6,575,768
Retrenchment costs	7	24,669,626	-	(24,669,626)
Pension		126,882,851	129,922,557	3,039,706
Other Expenses	8	143,873,371	66,729,476	(77,143,895)
<b>Total</b>		<u>2,786,744,281</u>	<u>2,645,932,766</u>	<u>(140,811,515)</u>
<b>Operating Surplus/(Deficit)</b>		<u>163,429,682</u>	<u>152,056,906</u>	<u>11,372,776</u>
<b>Non operating Revenue</b>	9	37,810,007	33,353,922	4,456,085
<b>Non Operating Expenditure</b>		39,879,334	51,947,489	12,068,155
<b>Loan Charges- operational</b>		5,449,017	6,854,823	1,405,806
<b>sub Total</b>		<u>(7,518,345)</u>	<u>(25,448,390)</u>	<u>17,930,045</u>
<b>Exceptional Items-</b>				
Staff leave		6,359,946	1,400,778	4,959,168
<b>sub Total</b>		<u>6,359,946</u>	<u>1,400,778</u>	<u>4,959,168</u>
<b>sub Total</b>		<u>(1,158,399)</u>	<u>(24,047,611)</u>	<u>(22,889,212)</u>
<b>Net Surplus /(Deficit) Before Tax</b>		<u>162,271,283</u>	<u>128,009,295</u>	<u>34,261,988</u>
<b>Tax Provision</b>		66,200,447	56,202,122	(9,998,325)
<b>Net Surplus /(Deficit) after Tax</b>		<u>96,070,836</u>	<u>71,807,173</u>	<u>24,263,663</u>



# Postal Corporation of Kenya

## Balance Sheet

As at 30th June 2007

	Notes	2006/2007 Kshs	2005/2006 Kshs
<b>Plant, Property &amp; Equipment</b>	10		
Land and Buildings		3,149,295,333	2,743,485,650
Motor Vehicles		106,129,352	113,302,454
Furniture and office equipment		621,709,219	120,841,303
Net Fixed Assets in Operation		<u>3,877,133,904</u>	<u>2,977,629,407</u>
Capital works in progress		77,764,760	28,423,820
<b>Current Assets</b>	11		
Stocks		1,133,868	4,220,633
<b>Debtors</b>			
Service		2,171,345,039	1,906,503,513
Others		218,317,339	244,947,919
Cash and Bank	12	<u>524,363,634</u>	<u>922,579,450</u>
		<u>2,915,159,880</u>	<u>3,078,251,515</u>
<b>Current Liabilities</b>	13		
<b>Creditors</b>			
Service		1,001,259,159	1,051,768,369
Others		1,407,974,773	1,484,407,984
		<u>2,409,233,933</u>	<u>2,536,176,353</u>
<b>Net Current Assets</b>		<u>505,925,947</u>	<u>542,075,162</u>
<b>Assets Employed</b>		<u><u>4,460,824,612</u></u>	<u><u>3,548,128,390</u></u>
<b>Financed by:</b>			
<b>Owners equity:</b>			
Revaluation Reserve		1,673,505,050	1,299,770,655
General Reserve		925,721,477	760,147,899
		<u>2,599,226,527</u>	<u>2,059,918,554</u>
<b>Loans</b>		64,998,085	73,416,228
<b>Pension and Provident Fund</b>	14	<u>1,796,600,000</u>	<u>1,414,793,607</u>
		<u>1,861,598,085</u>	<u>1,488,209,835</u>
		<u><u>4,460,824,612</u></u>	<u><u>3,548,128,390</u></u>



CHAIRMAN



POSTMASTER GENERAL



# Postal Corporation of Kenya

## Cash Flow Statement

### For the period ended 30th June 2007

Particulars	Notes	2006/2007 Kshs.	2005/2006 Kshs.
<b>Cash Flows from Operating Activities:</b>			
Cash receipts from customers		2,766,111,244	2,718,166,128
Cash paid to Suppliers and Employees		<u>(2,871,557,807)</u>	<u>(2,555,069,726)</u>
<b>Cash generated from operations</b>		<b>(105,446,563)</b>	<b>163,096,402</b>
Tax paid		<u>(67,365,338)</u>	<u>(126,339,149)</u>
<b>Net Cash from Operating Activities</b>		<b><u>(172,811,901)</u></b>	<b><u>36,757,253</u></b>
<b>Cash Flows from Investing Activities:</b>			
Proceeds from disposals		4,698,576	1,680,000
Interest Received		21,700,899	19,567,608
Interest Charges		(23,619,971)	(21,469,538)
Purchase of Property and Equipment	18	(55,416,323)	(38,327,062)
Loans and Advances granted		<u>(25,029,285)</u>	<u>(27,385,340)</u>
<b>Net Cash from Investing Activities</b>		<b><u>(77,666,104)</u></b>	<b><u>(65,934,332)</u></b>
<b>Cash Flows from Financing Activities:</b>			
Postbank		(146,591,073)	107,644,398
Money and Postal Orders		-	-
Key Deposits		-	-
VAT		-	-
Customs		-	-
Loans		24,345,107	7,400,214
Loans Redemption		<u>(25,509,222)</u>	<u>(8,856,469)</u>
<b>Net Cash Flows from Financing Activities</b>		<b><u>(147,755,188)</u></b>	<b><u>106,188,143</u></b>
<b>Net increase in cash and cash equivalents</b>		<b><u>(398,233,194)</u></b>	<b><u>77,011,064</u></b>
Cash and Cash equivalents - 2005/2006		<u>922,596,828</u>	<u>855,846,126</u>
<b>Cash and Cash equivalents - 2006/2007</b>	19	<b><u><u>524,363,634</u></u></b>	<b><u><u>922,596,828</u></u></b>



**Postal Corporation of Kenya**  
**Statement of Changes in Equity**  
**For the year ended 30th June, 2007**

	General Reserves Kshs	Revaluation Reserves Kshs	Total Kshs
At 1 July 2006	760,147,899	1,299,770,655	2,059,918,554
Prior year adjustments	69,502,742	(589,784,606)	(520,281,864)
As restated	829,650,641	709,986,050	1,539,636,691
Revaluation surplus	-	963,519,000	963,519,000
Net profit for the year	96,070,836	-	96,070,836
At 30 June 2007	925,721,477	1,673,505,050	2,599,226,527



# Postal Corporation of Kenya

## Accounting policies

For the year ended 30<sup>th</sup> June, 2007

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

### 1. 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.

### 2. 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.

### 3. 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.

### 4. Stocks

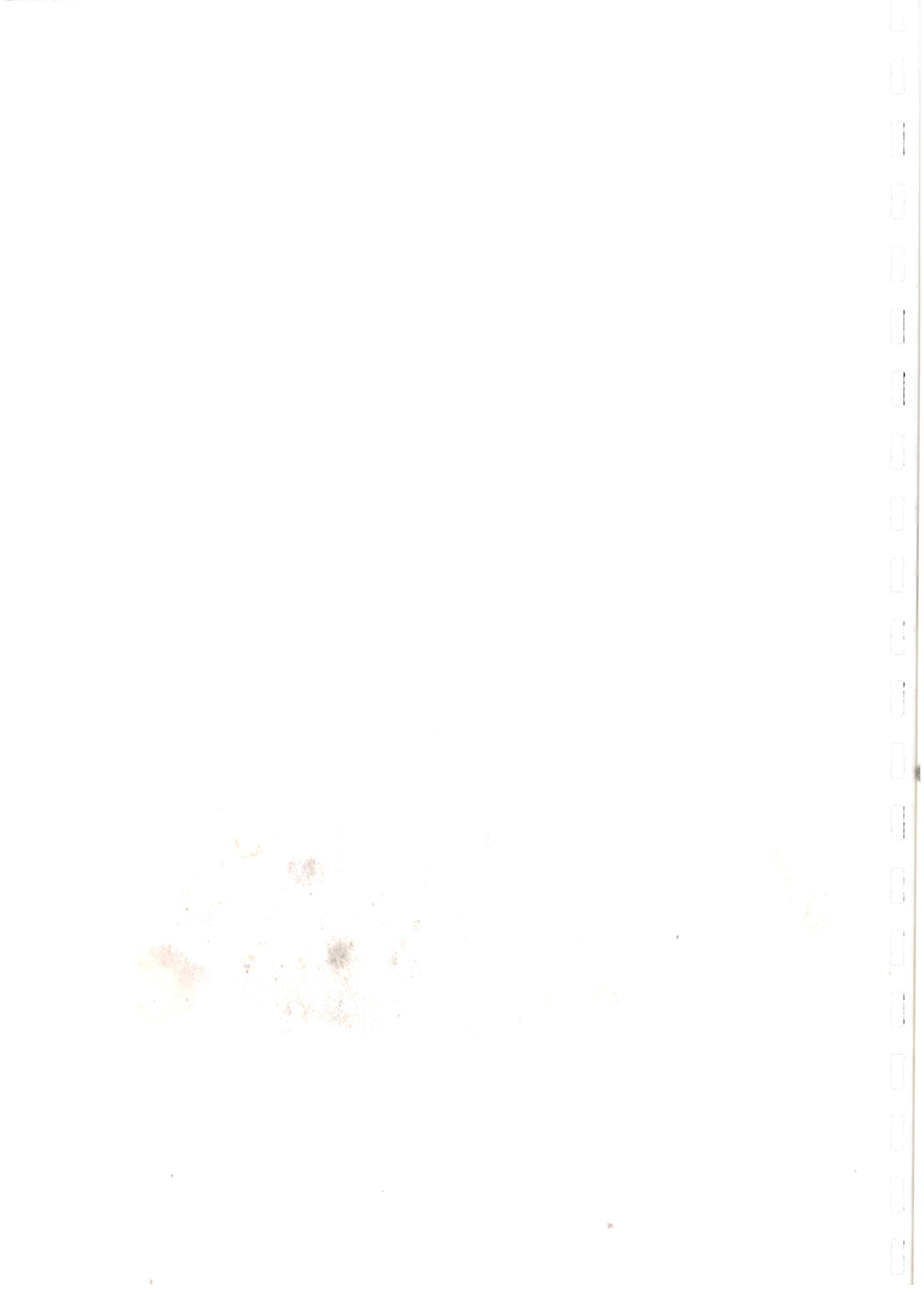
These are stated at the lower of cost and Net realizable value. Cost is determined on a weighted average basis net of provision for obsolescence.

### 5. Fixed Assets

#### • 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.

- Contractual rights and obligations on the rural Internet connectivity equipment have not been agreed between the Board of the Corporation and the Government and the Assets and obligations of the contracts have not been recognized in the Accounts.



# Postal Corporation of Kenya

## Accounting policies

For the year ended 30<sup>th</sup> June, 2007

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### ◦ 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
- Land and Building freehold	-	50
- Computers	-	5
- Motor vehicles	-	6-9
- Furniture & Office equipment	-	10

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

### 6. 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.

### 7. Debtors

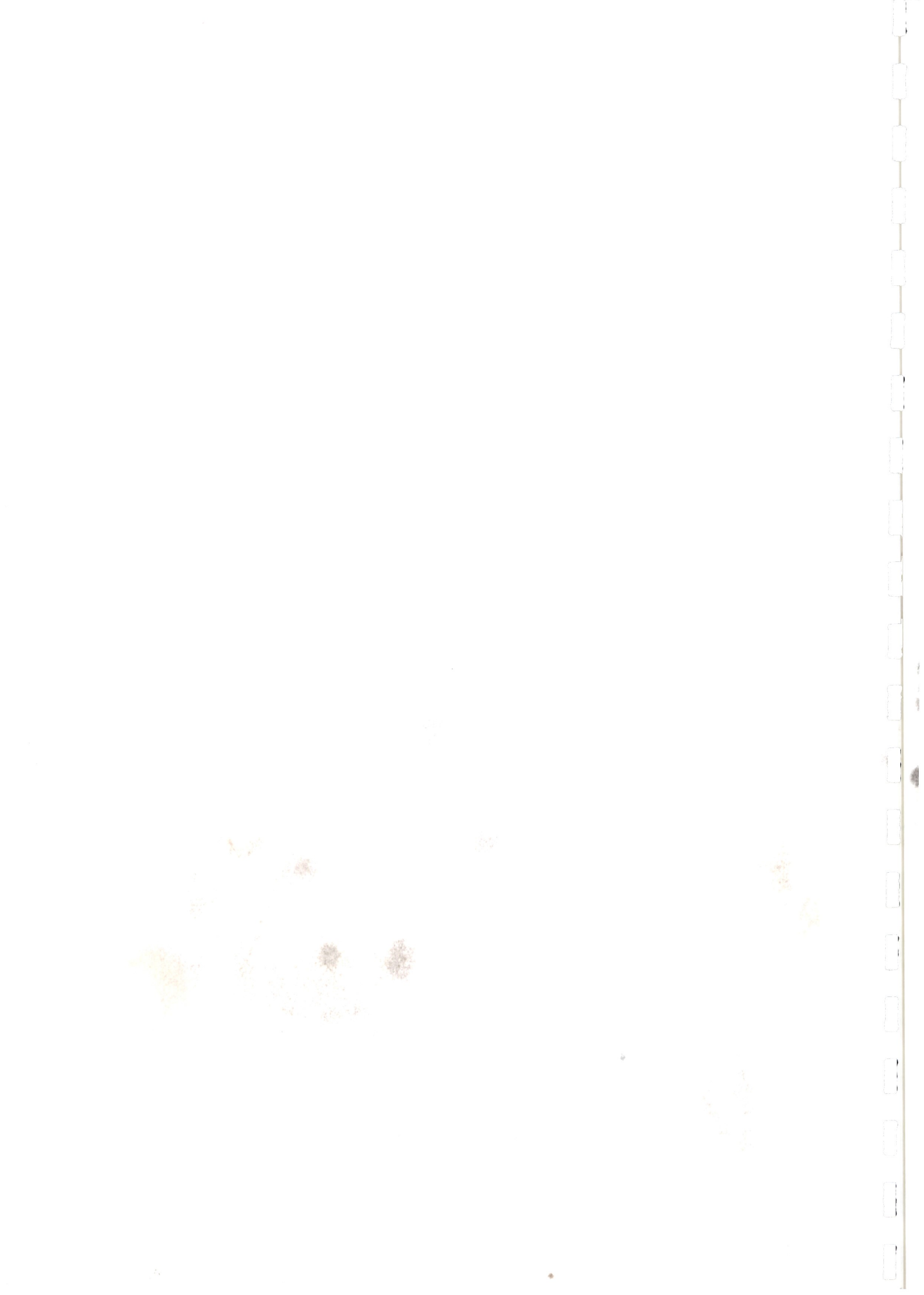
Known bad debts are written-off and a provision is made for those considered doubtful of collection.

### 8. Pension obligation

The corporation contribution to pension scheme is charged to the General Operating and Net Revenue for the year.

### 9. Cash and cash equivalent

For the purpose of cash flow statement cash and cash equivalents comprises cash in hand, and bank balances.



#### **10. 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.

#### **11. 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.

#### **12. Property, Plant and Equipment**

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

#### **13. Provision for employee entitlement**

Employee entitlement to annual leave are recognized where they accrue to an 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 forming part of the financial statements.

For the year ended 30th June, 2007

1. Analysis of Revenue	Actual	Actual	Growth %
	2006/2007	2005/2006	
	Kshs	Kshs	
<b>(i) Postal Revenue:</b>			
Sale of stamps	515,332,589	518,341,280	(1)
Postage paid in bulk	1,020,413,672	927,092,618	10
Foreign administrations	167,334,239	212,628,227	(21)
Money order commission	247,748,085	296,510,319	(16)
Postal order commission	84,930	100,505	(15)
Box/Bag rentals	520,157,966	499,962,227	4
EMS speedpost	113,896,584	85,555,824	33
EFT commission	142,934,503	-	-
Miscellaneous (lock replacements etc)	14,611,299	13,720,730	6
<b>Total</b>	<b>2,742,513,866</b>	<b>2,553,911,730</b>	<b>7</b>
<b>Premium services:</b>			
Internet services(VSAT)	6,157,870	27,047,365	(77)
Bureau Services	615,597	1,035,099	(41)
Posta shops	270,628	375,257	(28)
Photo Copying services	539,878	201,311	168
<b>Total</b>	<b>7,583,973</b>	<b>28,659,032</b>	<b>(74)</b>
<b>Total Postal Revenue</b>	<b>2,750,097,839</b>	<b>2,582,570,762</b>	<b>6</b>
<b>(ii) Rent Receivable</b>	<b>21,703,980</b>	<b>43,597,690</b>	<b>(50)</b>
<b>(iii) Agency Services:</b>			
KPOSB	80,530,242	96,687,724	(17)
Customs and excise commission	4,666,340	3,031,733	54
Telkom	2,571,674	4,511,481	(43)
Pension Commission	4,562,410	4,084,909	12
Western union	-	15,100	(100)
TSC commission	23,884,800	23,940,960	(0)
Others	62,156,678	39,549,313	57
<b>Total Agency Revenue</b>	<b>178,372,144</b>	<b>171,821,220</b>	<b>4</b>
<b>Total operating Revenue</b>	<b>2,950,173,963</b>	<b>2,797,989,672</b>	<b>5</b>
<b>(iv) Non-Operating Revenue</b>	<b>37,810,007</b>	<b>33,353,922</b>	<b>13</b>
<b>Grand Total</b>	<b>2,987,983,970</b>	<b>2,831,343,594</b>	<b>6</b>



# Postal Corporation of Kenya

## Notes forming part of the financial statements.

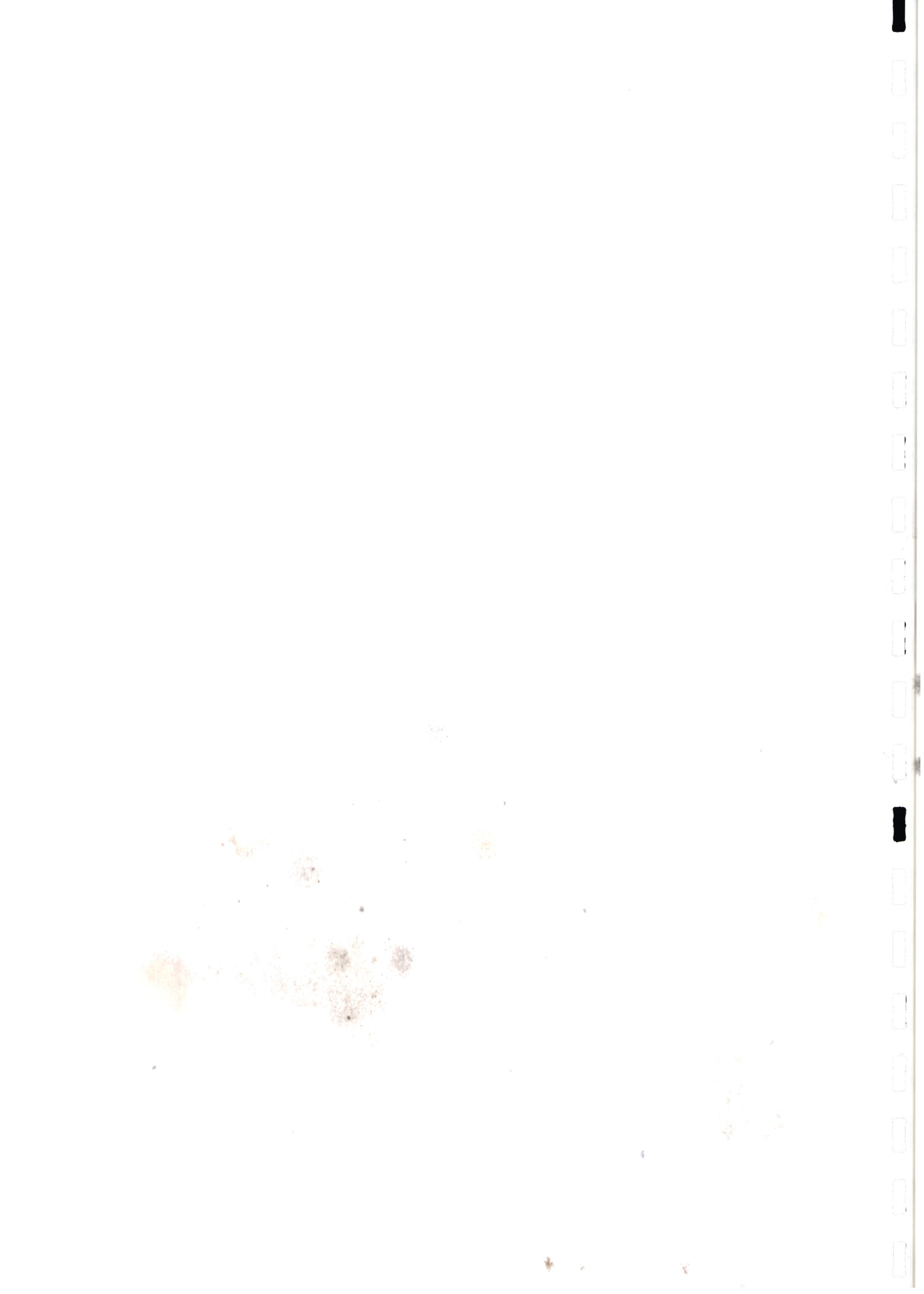
For the year ended 30<sup>th</sup> June, 2007

### 2. Administration

	2006/2007	2005/2006	Growth
	Kshs.	Kshs.	%
Salaries and allowances	267,227,512	295,796,900	(10)
House allowance	115,829,778	106,555,596	9
Medical	126,886,218	102,878,051	23
Consultancy Charges	5,686,770	2,420,431	135
Bank Charges	17,406,128	21,409,453	(1)
Office Administration	12,780,693	11,621,553	10
Contingencies	3,745,514	-	-
Insurance	13,706,231	15,698,961	(13)
Security Charges	61,582,251	71,130,687	(13)
General Stores	16,696,131	20,285,276	(18)
Vehicle running costs	17,157,392	20,113,554	(15)
Loss on disposal of Motor Vehicle	-	-	-
Others	1,529,985	4,439,455	(66)
Tax on fringe benefits	469,810	3,775,264	(88)
<b>Sub-total</b>	<b>660,704,413</b>	<b>676,125,181</b>	<b>(2)</b>

### 3. Directors Expenses

	2006/2007	2005/2006	Growth
	Kshs.	Kshs.	%
F(1) Directors Sitting Allowance	9,262,017	6,476,927	43
F(j) Directors Honorarium Allowance	1,221,641	1,910,811	(36)
F(k) Directors Travelling subsistence - Local	358,203	630,603	(43)
F(L) Directors Travelling subsistence -External	4,023,301	1,919,026	110
F(m) Directors incidental Expenses	16,222	28,838	(44)
F(n) Directors incidental Expenses	3,071,917	1,098,368	180
<b>Sub-total</b>	<b>17,953,301</b>	<b>12,064,573</b>	<b>49</b>



# Postal Corporation of Kenya

## Notes forming part of the financial statements.

For the year ended 30<sup>th</sup> June, 2007  
continued

### 4. Operational

Operational	2006/2007	2005/2006	Growth
	Kshs.	Kshs.	%
Salaries and Allowances	816,875,702	779,822,655	5
Postal Agencies	8,139,677	5,240,934	55
House Allowance	354,791,436	354,235,457	-
Office Administration expenses	11,172,714	8,874,302	26
General Stores	29,719,468	30,858,129	(4)
Supply of Stamps	2,639,790	4,946,279	(47)
Vehicle running costs	98,820,354	83,307,651	19
Postal Losses	555,615	866,005	(36)
Operating Licence	19,416,557	6,288,287	209
<b>Sub-total</b>	<b>1,342,131,313</b>	<b>1,274,439,699</b>	<b>5</b>

### 5. International Services

	2006/2007	2005/2006	Growth
	Kshs.	Kshs.	%
International parcel Services - payments	19,161,668	21,686,671	(12)
International Mail Services - payments	17,861,988	16,629,013	7
<b>Sub-total</b>	<b>37,023,656</b>	<b>38,315,684</b>	<b>(3)</b>

### 6. Maintenance

	2006/2007	2005/2006	Growth
	Kshs.	Kshs.	%
Office Equipment	3,632,929	5,175,639	(30)
Information Technology	840,143	418,287	87
Building repairs and refurbishment	47,268,200	66,040,642	(28)
<b>Sub-total</b>	<b>51,741,272</b>	<b>71,664,568</b>	<b>(28)</b>

# Postal Corporation of Kenya

## Notes forming part of the financial statements.

For the year ended 30<sup>th</sup> June, 2007  
continued

### 7. Retrenchment costs

Twenty two employees were retrenched during the year at a cost of Kshs.24,669,626. However some have not collected their dues amounting to Kshs. 3,600,215/=

### 8. Other Expenses

	2006/2007	2005/2006	Growth
	Kshs.	Kshs.	%
Furniture & Fittings (Repairs)	979,130	997,837	(2)
Electricity/Water /Fuel Bills	23,916,138	20,616,161	16
Staff Awards	1,368,734	64,256	2,030
PCK Sporting Activities	7,057,291	3,788,519	86
Legal Expenses	15,831,132	5,147,618	208
Health, Safety Environment (HSE)	8,504,095	8,837,541	(4)
Shows and Exhibitions	8,052,541	1,436,128	461
Electronic Media Adverts	25,675,718	7,526,462	241
Print Media Adverts	31,993,936	13,446,147	138
Outdoor advertisement	7,302,706	-	-
Entertainment	3,113,757	2,368,807	31
Audit fees	2,500,000	2,500,000	-
Provision for Bad Debts	7,578,198	-	-
<b>Sub-total</b>	<b>143,873,371</b>	<b>66,729,476</b>	<b>104</b>



# Postal Corporation of Kenya

## Notes forming part of the financial statements. For the year ended 30<sup>th</sup> June, 2007 continued

### 9. Non-Operating Revenue

	2006/2007	2005/2006	Growth
	Kshs.	Kshs.	%
Bank interest	21,700,899	19,377,879	8
Staff loans interest	9,089,753	10,448,163	(13)
Tender	1,498,899	815,100	84
Disposal of Vehicles	4,586,991	1,393,961	229
Sale of Stores	111,585	195,679	(43)
Commission on Cash Salaries	821,880	913,140	(10)
Insurance	-	210,000	(100)
<b>Sub-total</b>	<b>37,810,007</b>	<b>33,353,922</b>	<b>11</b>

### 12. Cash and Bank Balance

	2006/2007	2005/2006	Growth
	Kshs.	Kshs.	%
Cash on hand	149,556,693	137,715,015	11
Bank Balances	366,535,700	721,707,326	(49)
Cash in transit	8,271,242	63,157,110	(87)
<b>Sub-total</b>	<b>524,363,535</b>	<b>922,579,451</b>	<b>(43)</b>

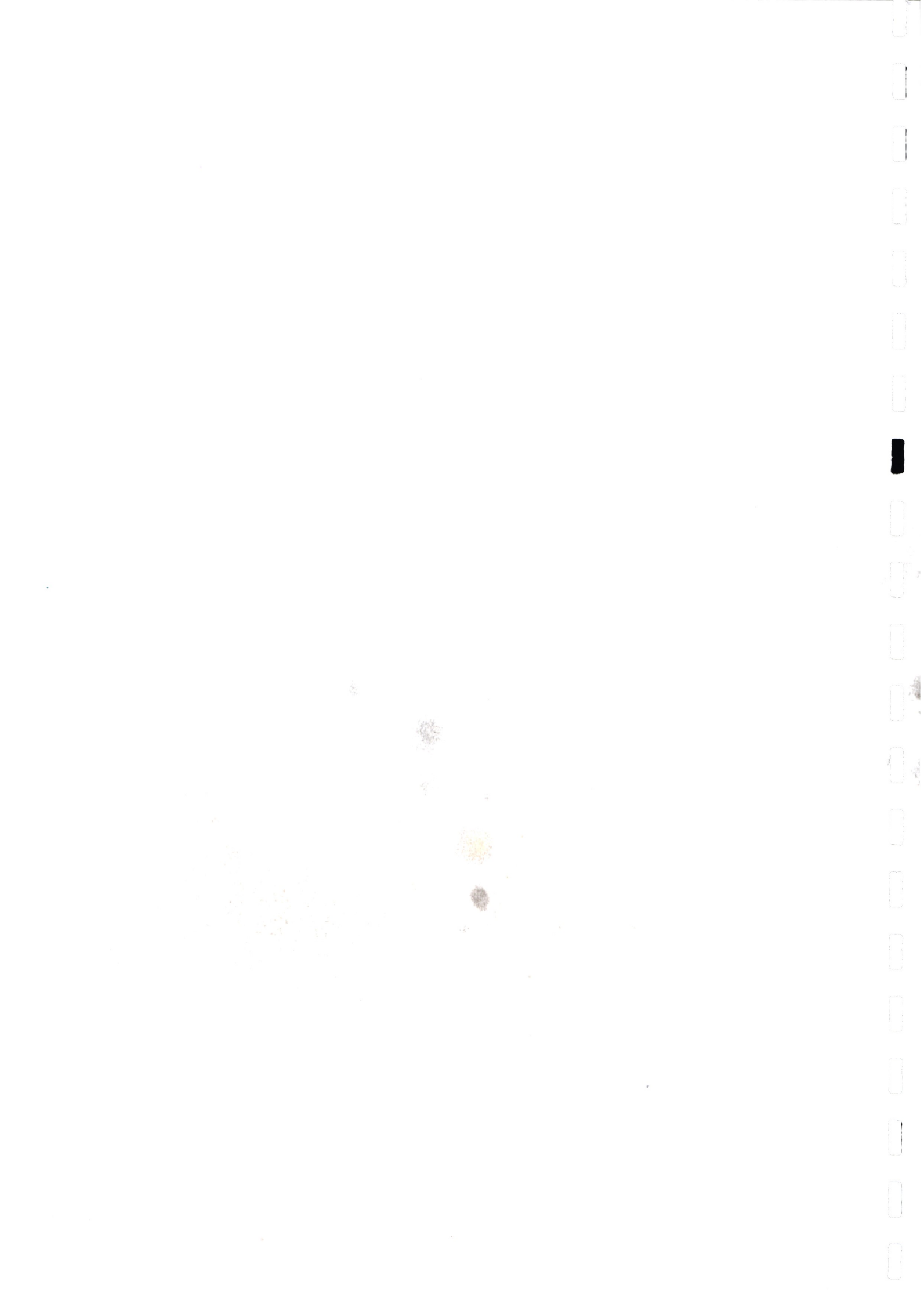
## 10. Property, Plant and Equipment

	LAND AND BUILDINGS	MOTORS VEHICLES	FURNITURE AND OFFICE EQUIP.	GRAND TOTAL
<b>COST/VALUATION</b>				
At 1/7/2006	3,085,460,054	261,176,439	503,315,081	3,849,951,574
ADJUSTMENT	-	-	-	-
ADDITIONS	1,546,716	-	2,512,857	4,059,573
DISPOSALS	-	(10,260,000)	-	(10,260,000)
AS AT 28/02/07	3,087,006,770	250,916,439	505,827,938	3,843,751,147
<b>DEPRECIATION</b>				
CUMM B/F 1/7/2006	341,974,404	147,873,985	382,473,778	872,322,167
CHARGE TO 28/02/07	30,231,704	19,183,053	24,461,193	73,875,950
DISPOSALS/ADJUSTMENTS 28/02/07	-	(10,260,000)	-	(10,260,000)
	372,206,108	156,797,038	406,934,971	935,938,117
<b>NET BOOK VALUE:</b>				
ASSETS IN OPERATION	<u>2,714,800,662</u>	<u>94,119,401</u>	<u>98,892,967</u>	<u>2,907,813,030</u>
<b>VALUATION 01/03/07</b>				
ADJUSTMENT	3,165,245,000	112,035,000	594,052,030	3,871,332,030
	(4,000,000)	-	-	(4,000,000)
ADDITIONS	1,882,000	-	47,694,610	49,576,610
DISPOSALS	-	-	-	-
AS AT 30/06/07	3,163,127,000	112,035,000	641,746,640	3,916,908,640
<b>DEPRECIATION</b>				
CHARGE TO 30-06-07	13,831,667	5,905,648	20,037,421	39,774,736
DISPOSALS	-	-	-	-
	13,831,667	5,905,648	20,037,421	39,774,736
<b>NET BOOK VALUE:</b>				
ASSETS IN OPERATION - 30-06-2007	<u>3,149,295,333</u>	<u>106,129,352</u>	<u>621,709,219</u>	<u>3,877,133,904</u>
ASSETS IN OPERATION - 30-06-2006	<u>2,743,485,650</u>	<u>113,302,454</u>	<u>120,841,303</u>	<u>2,977,629,407</u>
WIP-CABLING REGIONS	6,749,171			6,749,171
PABX INSTALLATION	18,610,873			18,610,873
CONTRACT WORKS	52,404,716			52,404,716
BALANCE AS AT 30-06-07	3,149,295,333	106,129,352	621,709,219	3,877,133,904
BALANCE AS AT 30-06-06	2,743,485,650	113,302,454	120,841,303	2,977,629,407
WIP- KISUMU	14,548,419			14,548,419
WIP-CABLING			13,875,401	13,875,401

# Notes forming part of the financial statements.

## For the year ended 30th June, 2007

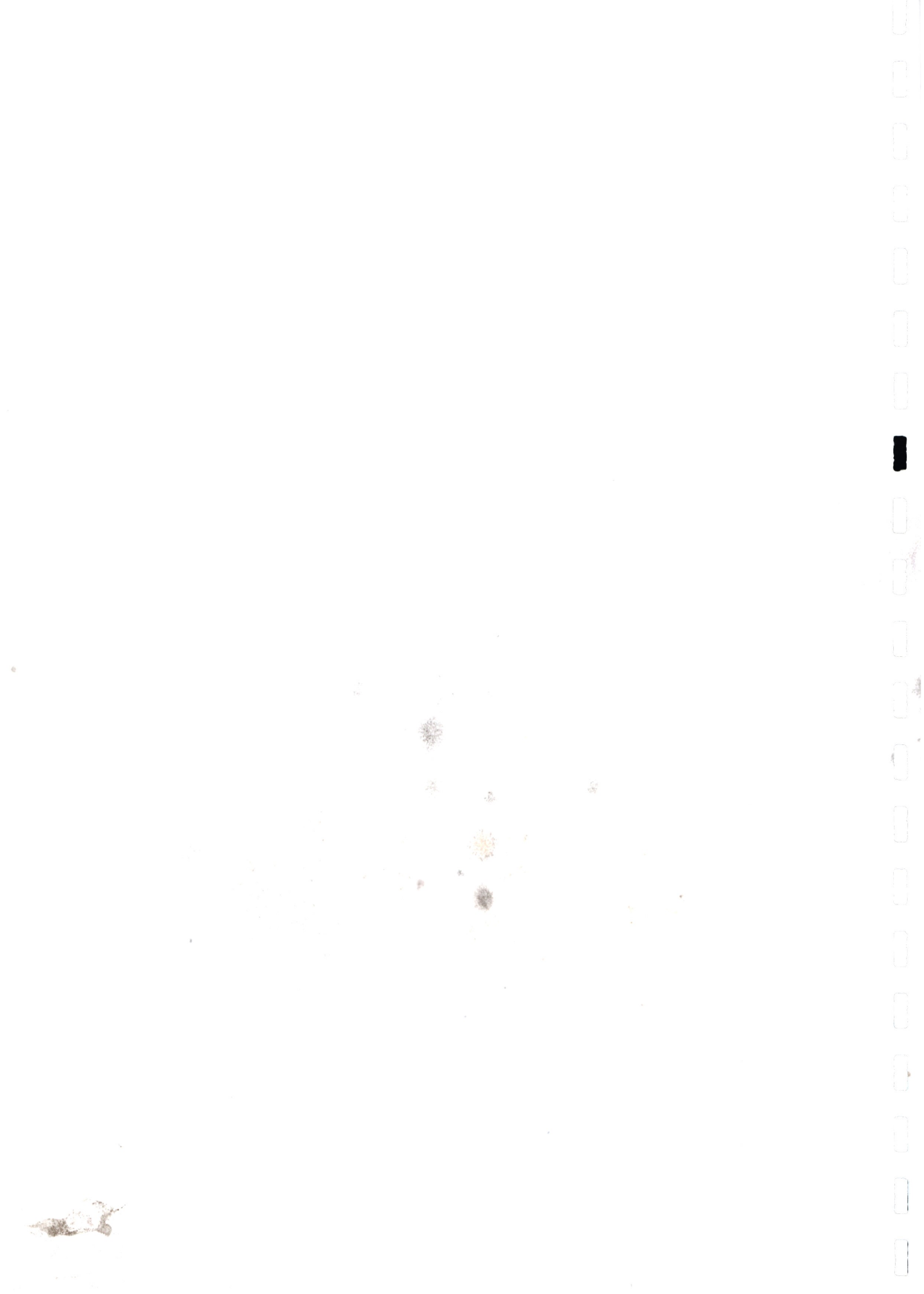
<b>11. Schedule of Current Assets</b>	<b>2006/2007 Kshs</b>	<b>2005/2006 Kshs</b>
<b>Stocks:</b>		
Consumable Stores	1,133,868	4,220,633
<b>Total Stocks</b>	<u>1,133,868</u>	<u>4,220,633</u>
<b>Debtors:</b>		
<b>Services:</b>		
Foreign Administration	483,880,562	521,368,375
E M S	58,847,072	38,786,020
	<u>542,727,634</u>	<u>560,154,395</u>
Less: Provision for Doudtful debts	(331,822,099)	(331,822,099)
Net Service Debtors	<u>210,905,535</u>	<u>228,332,296</u>
Bulky Postage	128,576,788	60,622,151
Money Orders-Intre state	84,005,859	42,996,362
<b>Total</b>	<u>423,488,183</u>	<u>331,950,809</u>
<b>Rent Receivable</b>		
Rent	159,801,326	158,755,861
<b>Agency:</b>		
Kenya Post Office Savings Bank	1,050,125,459	972,049,587
Telkom Kenya Limited	394,735,782	393,282,144
Telposta Pension Scheme	32,750,749	28,175,834
Other Agency Debtors	110,443,541	22,289,278
<b>Total</b>	<u>1,747,856,857</u>	<u>1,574,552,704</u>
<b>Total service Debtors</b>	<u>2,171,345,039</u>	<u>1,906,503,513</u>
<b>Other Debtors</b>		
Rentals	954,803	312,557
Suppliers - Zadock Furniture Systems	212,282	212,282
Staff Advances	144,841,450	183,050,626
Prepayments	1,353,814	-
Other Deposits(court attachements, Tuition fees..)	2,475,432	4,330,587
Institutions	988,317	544,200
Cooperatives	11,444,928	2,158,839
Kenya Post Office Savings Bank	18,167,585	16,476,616
Telkom Kenya Limited	36,478,729	36,462,213
Deposits Hospitals	1,400,000	1,400,000
Stolen cash debtors	7,578,193	-
	<u>225,895,532</u>	<u>244,947,919</u>
Less: Provision for Doudtful debts	(7,578,193)	-
Net Other Debtors	<u>218,317,339</u>	<u>244,947,919</u>
<b>Total debtors</b>	<u>2,389,662,377</u>	<u>2,151,451,432</u>
<b>Cash and Bank Balances</b>		
On hand	149,556,693	137,715,015
Bank	364,271,202	720,683,049
Cash in Transit	8,271,242	63,157,110
Crown Agent and UPU Account	2,264,497	1,024,277
<b>Total</b>	<u>524,363,634</u>	<u>922,579,451</u>
<b>Total Current Assets</b>	<u>2,915,159,879</u>	<u>3,078,251,515</u>



**Notes forming part of the financial statements.**  
**For the year ended 30th June, 2007**

**13. Current Liabilities**

	2006/2007	2005/2006
	Kshs	Kshs
<b>Service Creditors</b>		
Foreign Administration	140,200,850	137,917,778
Money Orders	176,656,257	169,774,285
Postal Orders	8,175,839	8,494,555
Key Letter Box Deposits	83,997,678	73,354,704
Rental Deposits	1,292,566	1,292,566
EMS	760,184	1,624,660
TKL- Telephone and Telegraph	437,037,888	462,424,687
Conveyance of Mail	55,754,925	66,636,854
Agency Accounts-Tps-Mastermind	97,382,972	130,248,281
<b>Total Service Creditors</b>	<u>1,001,259,159</u>	<u>1,051,768,371</u>
<b>Other Creditors</b>		
Statutory	12,459,707	19,474,131
EFT mobile charges	10,961,339	-
Pensions and Gratuties	22,324,206	21,169,925
Provident Fund	5,923,135	2,967,085
Value Added Tax withholding	16,288,329	11,951,397
Value Added Tax accrued	40,035,649	-
Retrenchment costs	3,600,215	-
Corporation Tax	15,993,870	(31,185)
Accrued Liabilities	65,212,927	71,572,873
Institutions	2,327,198	1,251,065
Cooperatives	16,404,559	19,596,404
Kenya Post Office Savings Bank	880,055,959	961,702,644
Bank Staff Loans	28,383,005	17,809,315
Telkom Kenya Limited	5,942,828	5,942,828
Administration	14,771,059	83,523,650
Operational	9,049,262	6,653,452
Rentals	28,909,150	4,364,048
Training	11,916,459	33,392,639
Deffered Projects	96,819,340	96,819,340
Contract work	2,016,866	43,871,111
Suppliers		
Local	28,615,702	3,318,565
Overseas	-	-
Other creditors- Postel Directories	32,751,647	29,328,818
Miscellaneous	57,212,363	49,729,879
<b>Total others</b>	<u>1,407,974,773</u>	<u>1,484,407,985</u>
<b>Total Current Creditors</b>	<u>2,409,233,933</u>	<u>2,536,176,356</u>



# Postal Corporation of Kenya

## Notes forming part of the financial statements.

For the year ended 30<sup>th</sup> June, 2007  
continued

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### 14. Pension and Provident fund Kshs. 1,796,600,000

The increase in this Long-term pension and provident fund liability owing to Postal Pension scheme arose as a result of revaluation of the two schemes as at 30<sup>th</sup> June, 2007.

