



# **ACCOUNTING POLICIES OF THE PUBLIC SECTOR**

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# Foreword

Public sector accounting plays a critical role in promoting transparency, accountability, and informed decision-making in the use of public resources. As the government faces increasing demands for efficient service delivery and financial stewardship, the need for robust and consistent accounting policies has never been greater.

Article 201 of the Constitution is very clear:

- (a) there shall be openness and accountability, including public participation in financial matters;*
- (d) public money shall be used prudently and responsibly; and*
- (e) financial management shall be responsible, and fiscal reporting shall be clear.*

The National Treasury, pursuant to Section 12(1)(e) of the Public Finance Management Act, 2012, is required to design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting, as contemplated by Article 226 of the Constitution.

This document presents the policies and principles governing public sector accounting in Kenya. Developed in alignment with internationally recognized standards—such as the International Public Sector Accounting Standards (IPSAS) and Government Finance Statistics Manual (GFSM) 2014—these policies aim to ensure that financial reporting is accurate, comparable, and relevant for stakeholders, including policymakers, citizens, auditors, and development partners.

The implementation of these accounting policies reflects the National Treasury's commitment to sound financial management, good governance, and responsible stewardship of public funds. It provides guidance for all public entities in the preparation and presentation of financial statements, ensuring uniformity and enhancing the credibility of financial information.

We acknowledge the efforts of the public sector accounting professionals, oversight bodies, and institutional stakeholders who have contributed to the development and continuous improvement of these policies. As the public sector environment evolves, so too will our accounting practices, ensuring that they remain responsive, transparent, and accountable.

We trust that this document will serve as a valuable resource for all preparers, users, and stakeholders of public sector financial information.

**Hon. FCPA John Mbadi Ngongo, EGH**  
Cabinet Secretary,  
National Treasury & Economic Planning

# Purpose and Objectives

The publication of these accounting policies marks a significant milestone for our country and, indeed, the transition to accrual accounting. It is with great pride and a deep sense of responsibility that we officially publish Accounting Policies for the Public Sector.

Public resources are entrusted to us by citizens. Every tax collected, every grant received, and every public fund allocated carries with it a duty of accountability. The publication of these accounting policies reinforces our commitment to responsible stewardship of public funds and to upholding the highest standards of financial governance.

These policies provide a clear and consistent framework for the recognition, measurement, recording, and reporting of financial transactions across all public entities in Kenya. They ensure that financial information is reliable, comparable, and aligned with applicable public sector accounting standards and legal requirements.

Accounting policies are the specific principles, bases, conventions, rules, and practices an entity applies when preparing and presenting financial statements. Their purpose is to ensure that financial data is consistent, comparable, and compliant with frameworks such as IFRS or IPSAS. Key objectives include providing accurate, transparent, and reliable financial information to stakeholders for decision-making.

Strong accounting policies are not just technical documents; they are the foundation of financial integrity, transparency, accountability, and sustainable growth. They guide how we record transactions, report financial information, and ensure compliance with regulatory and accounting standards.

In an environment where financial governance and stakeholder confidence are more important than ever, having clear, consistent, and well-structured accounting policies is essential. These policies will help us maintain accuracy in our financial reporting, strengthen internal controls, and ensure alignment with applicable laws and professional standards. These accounting policies are structured with financial statement consolidation in mind. All public entities in Kenya must apply the same accounting and reporting policies.

The development of these policies has been a collaborative effort. I want to thank the National Steering Committee on transition to accrual accounting (that I chair), the Directorate of Accounting Services, the Accountant General, accounting teams in government, and all stakeholders who contributed their time, expertise, and insights to make this possible. Your dedication demonstrates our collective commitment to excellence and responsible financial management.

I encourage each government entity, at the national and county government level, to familiarize with these policies and seek clarification (Accountant General's Department, National Treasury) where necessary. Proper implementation will require cooperation, discipline, and continuous learning. Remember, policies are only effective when they are understood and consistently applied.

Thank you all for your attention and support.

**Dr. Chris Kiptoo, PhD, CBS**  
Principal Secretary  
National Treasury

# Abbreviations

AGD	Accountant General Department
A-G	Auditor-General
AG	Attorney General
A-I-A	Appropriations – In – Aid
AIE	Authority to Incur Expenditure
CBK	Central Bank of Kenya
CoB	Controller of Budget
CoK	Constitution of Kenya
COV	Current Operational Value
CRA	Commission for Revenue Allocation
FVTSD	Fair value through surplus or deficit
FVTNAE	Fair value through net assets/equity
GFSM 2014	Government Financial Statistics Manual 2014
GoK	Government of Kenya
ICT	Information, Communication, and Technology
IFMIS	Integrated Financial Management Information System
IPPD	Integrated Personnel and Payroll Database
IPSAS	International Public Sector Accounting Standards
MDAs	Ministries, Departments, and Agencies
PDMO	Public Debt Management Office
PFM	Public Finance Management
PFMA	Public Finance Management Act, 2012
PSASB	Public Sector Accounting Standards Board
PSC	Public Service Commission
PV	Payment Voucher
SCOA	Standard Chart of Accounts
SoFPe	Statement of Financial Performance
SoFPo	Statement of Financial Position
TSA	Treasury Single Accounts

# International Public Sector Accounting Standards

International Public Sector Accounting Standards		Included
IPSAS 1	<i>Presentation of Financial Statements</i>	√
IPSAS 2	<i>Cash Flow Statements</i>	√
IPSAS 3	<i>Accounting Policies, Changes in Accounting Estimates</i>	√
IPSAS 4	<i>The Effects of Changes in Foreign Exchange Rates</i>	√
IPSAS 5	<i>Borrowing Costs</i>	√
IPSAS 9	<i>Revenue from Exchange Transactions</i>	χ <sup>1</sup>
IPSAS 10	<i>Financial Reporting in Hyperinflationary Economies</i>	√
IPSAS 11	<i>Construction Contracts</i>	χ <sup>2</sup>
IPSAS 12	<i>Inventories</i>	√
IPSAS 13	<i>Leases</i>	√
IPSAS 14	<i>Events After the Reporting Date</i>	√
IPSAS 16	<i>Investment Property</i>	√
IPSAS 17	<i>Property, Plant and Equipment</i>	χ <sup>3</sup>
IPSAS 18	<i>Segment Reporting</i>	√
IPSAS 19	<i>Provisions, Contingent Liabilities and Contingent Assets</i>	√
IPSAS 20	<i>Related Party Disclosures</i>	√
IPSAS 21	<i>Impairment of Non-Cash-Generating Assets</i>	√
IPSAS 22	<i>Disclosure of Financial Information about the General Government Sector</i>	√
IPSAS 23	<i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>	χ <sup>4</sup>
IPSAS 24	<i>Presentation of Budget Information in Financial Statements</i>	√
IPSAS 26	<i>Impairment of Cash-Generating Assets</i>	√
IPSAS 27	<i>Agriculture</i>	√
IPSAS 28	<i>Financial Instruments: Presentation</i>	√
IPSAS 29	<i>Financial Instruments: Recognition and Measurement</i>	√

<b>IPSAS 30</b>	<i>Financial Instruments: Disclosures</i>	√
<b>IPSAS 31</b>	<i>Intangible Assets</i>	√
<b>IPSAS 32</b>	<i>Service Concession Arrangements: Grantor</i>	√
<b>IPSAS 33</b>	<i>First-time Adoption of Accrual Basis IPSASs</i>	√
<b>IPSAS 34</b>	<i>Separate Financial Statements</i>	√
<b>IPSAS 35</b>	<i>Consolidated Financial Statements</i>	√
<b>IPSAS 36</b>	<i>Investments in Associates and Joint Ventures</i>	√
<b>IPSAS 37</b>	<i>Joint Arrangements</i>	√
<b>IPSAS 38</b>	<i>Disclosures of Interests in Other Entities</i>	√
<b>IPSAS 39</b>	<i>Employee Benefits</i>	√
<b>IPSAS 40</b>	<i>Public Sector Combinations</i>	√
<b>IPSAS 41</b>	<i>Financial Instruments</i>	√
<b>IPSAS 42</b>	<i>Social Benefits</i>	√
<b>IPSAS 43</b>	<i>Leases</i>	√
<b>IPSAS 44</b>	<i>Non-Current Assets Held for Sale and Discontinued Operations</i>	√
<b>IPSAS 45</b>	<i>Property, Plant and Equipment</i>	√
<b>IPSAS 46</b>	<i>Measurement</i>	√1
<b>IPSAS 47</b>	<i>Revenue</i>	√2
<b>IPSAS 48</b>	<i>Transfer Expenses</i>	√3
<b>IPSAS 49</b>	<i>Retirement Benefits Plans</i>	√4
<b>IPSAS 50</b>	<i>Exploration for and Evaluation of Mineral Resources</i>	√5
<b>IPSAS 51</b>	<i>Tangible Natural Resources held for Conservation</i>	√6

√ This standard is incorporated into accounting policies.

χ Another standard has superseded this standard. IPSAS 6 (IPSAS 35 – Consolidated Financial Statements), IPSAS 7 (IPSAS 36 - Investment in Associates and Joint Ventures), IPSAS 8 (IPSAS 36 - Investment in Associates and Joint Ventures), IPSAS 9 (IPSAS 47 -Revenue), IPSAS 11 (IPSAS 47 -Revenue), IPSAS 13 (IPSAS 43- Leases), IPSAS 15 (IPSAS 41 – Financial Instruments), IPSAS 23(IPSAS 47 -Revenue), and IPSAS 25(IPSAS 47 -Revenue).

- 1 *IPSAS 46 - Measurement* is a new standard and is effective from the financial year 2025/2026 for all public entities using IPSAS (earlier application is encouraged).
- 2 *IPSAS 47 – Revenue* is a new standard and is effective as from January 1, 2026. That means from the financial year 2026/2027 for all public entities using IPSAS (earlier application is encouraged). Replaces *IPSAS 9 -Revenue from Exchange Transactions, IPSAS 11 -Construction Contracts, and IPSAS 23 -Revenue from Non-Exchange Transactions (Taxes and Transfers)*.
- 3 *IPSAS 48 – Transfer Expenses* is a new standard and is effective as of January 1, 2026. That means from the financial year 2026/2027 for all public entities using IPSAS (earlier application is encouraged).
- 4 *IPSAS 49 – Retirement Benefits Plans* is a new standard and is effective as of January 1, 2026. That means from the financial year 2026/2027, for all public entities with defined benefits schemes (earlier application is encouraged).
- 5 *IPSAS 50 – Exploration for and Evaluation of Mineral Resources* guides accounting for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets (Amendment to IPSAS 12)
- 6 *IPSAS 51 - Tangible Natural Resources held for Conservation* introduces new public-sector-specific accounting guidance on accounting for natural resources with physical substance, such as land, trees, and water, which governments often hold to preserve or protect.

As a result of the IPSASB's *Improvements to IPSAS, 2023* project, the following IPSAS Standards have been amended:

- IPSAS 1, Presentation of Financial Statements; and
- IPSAS 43, Leases

The Standard *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48) amended these IPSAS Standards to guide how to account for these types of arrangements.

The Standard *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12) added an authoritative appendix to IPSAS 12, Inventories drawn from IFRIC 20, Stripping costs in the Production Phase of a Surface Mine.

The Standard Amendments to IPSAS Standards: Specific IFRIC Interpretations added authoritative guidance drawn from four IFRIC Interpretations to the following IPSAS Standards:

- IPSAS 10, *Financial Reporting in Hyperinflationary Economies*
- IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;
- IPSAS 39, *Employee Benefits*;
- IPSAS 43, *Leases*; and
- IPSAS 45, *Property, Plant, and Equipment*

Illustrative Structure of Statement of Financial Performance for the year ended 30 June 202W.

(Classification of Expenses by Nature)

	Notes	For the year ending 30 <sup>th</sup> June 202X			For the year ending 30 <sup>th</sup> June 202W
		Kshs			Kshs
<b>Revenue</b>					
<b>Revenue from Non-Binding Transactions</b>					
Taxation					-
Other Comprehensive Income					-
Grants					-
Exchequer Transfers					-
Social Security Contributions					-
Other Revenue					-
Total					-
<b>Revenue from Binding Transactions</b>					
Sales of Goods and Services					-
Licenses					-
Finance Income					-
Dividends and Similar Distributions					-
Rent and Royalties					-
Other Revenue					-
Total					-
<b>Total Revenue</b>					-
<b>Expenses</b>					
Compensation of Employees					-
Transfer Expenses & Subsidies					-
Grants					-
Social Benefits					-
Use of Goods and Services					-
Depreciation					
Financial Guarantee Expense					
Impairment charge/ (Reversal of impairment) of PPE, Investment Property, and Intangible Assets					
Other Operating Expenses					-
Finance Costs					-
Tax Expense					-
<b>Total Expenses</b>					-

<b>Other Gains/(Losses)</b>					
Gains/(Losses) on Sale of Assets		-	-	-	-
Gains/(Losses) on Sale of Investments at FVTSD					-
Gains/(Losses) on Foreign Exchange Transactions					-
Gains/(Losses) on reclassification of Financial Assets					-
Fair Value Gains/(Losses) on Investments at FVTSD					-
Gains/(Losses) on other instruments					-
Gain from Bargain Purchase					-
Fair Value Gains/(Losses) on Investment Property					-
Fair Value Gains / (Losses) on Other Assets					-
Total					-
Share of Surplus/(Deficit) of Associates and Joint Ventures					
<b>Surplus/(Deficit) for the year from continuing operations</b>					-
Surplus/(Deficit) for the year from discontinued operations					
<b>Surplus/(Deficit) for the year</b>					-
Attributable to:					
Surplus/ (Deficit) attributable to owners of the Controlling Entity					
Surplus/(Deficit) attributable to Non-Controlling Interests					
					-

Illustrative Structure of Statement of Financial Position for the year ended 30 June 202W.

	Notes	As at 30 <sup>th</sup> June 202X	As at 30 <sup>th</sup> June 202W
		Kshs	Kshs
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents		-	-
Receivables from Binding Arrangements		-	-
Inventories		-	-
Loans and Advances		-	-
Other Assets		-	-
<b>NON-CURRENT ASSETS</b>			
Land		-	-
Tangible Natural Resources		-	-
Other Naturally Occurring Assets		-	-
Buildings & Building Improvement			
Property, Plant & Equipment		-	-
Roads Infrastructure		-	-
Railway Infrastructure		-	-
Electricity Generation & Other Infrastructure			
Work In Progress			
Finance Lease/Right of Use Asset		-	-
Heritage And Cultural Assets		-	-
Biological Assets		-	-
Public-Private Partnership Assets		-	-
Service Concession Asset		-	-
Intangible Assets & Goodwill		-	-
<b>Total Assets</b>		-	-
<b><u>LIABILITIES</u></b>			
<b>CURRENT LIABILITIES</b>			
Accruals		-	-
Creditors/Suppliers (Pending Bills)		-	-
Court Awards		-	-
Third-Party Deposits		-	-
Service Concession Agreements		-	-
Tax Liabilities		-	-
Transfer Liabilities		-	-

Short-Term Employee Benefits Obligations		-	-
Social Benefit Liabilities		-	-
Deferred Tax Liabilities		-	-
Liabilities Arising Out of Assets Held for Sale		-	-
Other Liabilities		-	-
		-	-
<b>NON-CURRENT LIABILITIES</b>			
Public Sector Debt & Financial Guarantees		-	-
Issued Currency			
Leased Liabilities		-	-
Development Grant Liabilities		-	-
Defined Benefit Plans (Pensions)		-	-
Long-Term Employee Benefits Obligations		-	-
Provisions		-	-
Bank Overdraft		-	-
Other Liabilities		-	-
<b>Total Liabilities</b>		-	-
<b>Net Assets</b>		-	-
<b>NET ASSETS/EQUITY</b>			
Consolidated Fund (National Exchequer Account)		-	-
Special Funds		-	-
Receivers of Revenue		-	-
E-Citizen (Revenue Accounts)		-	-
East Africa Visa		-	-
Accumulated Surpluses/Deficits		-	-
Revaluation Reserve - PPE		-	-
Revaluation Reserve - Defined Benefit Plan		-	-
Other Reserves		-	-
<b>Total Net Assets/Equity attributable to owners</b>		-	-
Non-Controlling Interests		-	-
<b>Total Net Assets/Equity</b>		-	-

# 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<p><b>1.1. Basis of Reporting</b></p> <p><b>(i) Reporting Entity</b></p> <p>A reporting entity in the public sector is a government, department, agency, or organization that prepares general-purpose financial reports for users who depend on this information to assess resource allocation and accountability.</p> <p>The President issues an Executive Order – Organization of the Government of the Republic of Kenya - that lists Ministries (as per the Constitution), State Departments, State Corporations, Authorities, Sagas, and Funds of the National Government of Kenya. Governors do the same for County Governments.</p> <p>Section 4 of the Public Finance Management Act, 2012, states that the Cabinet Secretary, National Treasury, with the approval of the Cabinet and Parliament, by order in the Gazette, declares a state corporation, an authority, or any other body whose function falls under the national government to be a <b>national government entity</b>.</p> <p>Section 5 of the Public Finance Management Act, 2012, states that the CECM for Finance may, with the approval of the county executive committee and county assembly, by order in the Gazette, declare a county corporation, an authority, or any other body whose functions fall under the county government to be a <b>county government entity</b>.</p> <p>Chapter 4 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities defines a public sector reporting entity as a government entity that has the following characteristics:</p> <ul style="list-style-type: none"><li>• It is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and</li><li>• There are service recipients or resource providers dependent on General Purpose Financial Reports of the entity for information for accountability or decision-making purposes.</li></ul> <p>Articles 226(1) and (2) of the Constitution of Kenya provide for the designation of an accounting officer in every public entity at the national and county levels of government. The accounting officer of a national public entity is accountable to the National Assembly for its financial management, and the accounting officer of a county public entity is accountable to the county assembly for its financial management.</p> <p>Section 68 (2) (k) and Section 149 (2) (k) of the Public Finance Management Act, 2012, the accounting officer, not later than three months after the end of each financial year, prepares annual financial statements for that financial year and submits them to the Auditor-General for audit.</p> <p>Section 80 of the Public Finance Management Act, 2012, then mandates the National Treasury to prepare, for the national government, clear and comprehensible annual financial statements that consolidate the financial statements of all national government entities, in formats prescribed by the Accounting Standards Board.</p> <p>The consolidated financial statements of the Government of the Republic of Kenya mean:</p>	<p><i>b</i></p>
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- (a) The Budgetary Central Government Consolidation, which comprises Ministries, Departments & Agencies together with Extra Budgetary Units, Projects, and Funds as per the appropriation of the Appropriation Act, 2024;
- (b) Commercial State Corporations Consolidation
- (c) County Governments Consolidation as per Schedule 1 of the Constitution of Kenya;
- (d) Associates where the Government has significant influence (but not control) in other entities.

**(ii) Reporting Period**

The consolidated financial statements cover the financial year from 01 July 202X to 30 June 202Y, in accordance with IPSAS 1.63c and Article 260 of the Constitution of Kenya, or as may be prescribed by the enabling legislation.

**(iii) Authorization Date**

The financial statements must be authorized for issue by the Accounting Officer and the reporting accountant, who must be a member in good standing of the Institute of Certified Public Accountants of Kenya, and clearly dated accordingly.

**(iv) Basis of Preparation**

The financial statements must comply with International Public Sector Accounting Standards for accrual-based accounting as prescribed by the PSASB. The measurement base applied is historical cost, adjusted for asset revaluation. The financial statements must be prepared on a going concern basis, and these accounting policies must be applied consistently throughout the reporting period.

**A. Budget Estimates**

The budget estimates figures included in the financial statements are for the Budgetary Central Government and one-line Other Extra Budgetary Units. The budgets for County Governments and public-sector-controlled entities (where publicly available) that are not supported by the national budget have been excluded and reported separately.

The budget (currently on a cash basis) and accounting (on an accrual basis) may differ in valuation and element classification. The budget estimates of the Government of Kenya are appropriated by votes of expenditure on a cash basis, except for 'cost of borrowings', which is appropriated on an accrual basis, and 'carry-over of capital expenditure', where the amount earmarked in a fiscal year is carried over to a period not exceeding 3 months in the following fiscal year.

The budget estimates are classified by both economic and functional classifications, based, as far as possible, on the Government Finance Statistics Manual 2014.

This means that the statement of comparison of budget and actual amounts must be prepared on the same basis as the budget, currently on a cash basis.

The approved budget covers the fiscal year from 1 July 202X to 30 June 202Y.

The National Assembly approves the original budget on (date), [and a supplementary appropriation for (amount) was approved on (date)].

**B Financial Statements**

The five main elements typically measured in public sector financial statements are assets, liabilities, equity, income, and expenses. Of these elements, assets, liabilities, and equity are included in the Statement of Financial Position. Revenue and expenses are included in the Statement of Financial Performance.

The financial statements must be prepared on a historical cost basis, a fair value basis, or a current operational value basis, except for certain assets and liabilities that have been revalued as set out in these accounting policies.

The accounting policies must be applied consistently throughout the year. Where necessary and practicable, comparative figures will be restated to reflect changes in presentation or accounting policies in the current year. The Cabinet Secretary, National Treasury, must duly approve a change in presentation or accounting policy.

The statement of financial position and statement of financial performance will be prepared on an accrual basis.

The cash flow statement will be prepared using the direct method for all public entities.

#### (v) Statement of Compliance

The Statement of Compliance with IPSAS or IFRS is mandatory. It confirms that public entity financial statements are prepared in accordance with IPSAS/IFRS, ensuring high-quality, transparent, and comparable financial reporting.

Public sector entity must include the following components in the Statement of Compliance:

- **Explicit Statement:** The financial statement should clearly state they comply with ALL requirements of the relevant IPSAS.
- **Basis of Preparation:** Specify whether the statements are prepared on an Accrual Basis or a cash basis.
- **Compliance with Legislation:** Ensure this statement links IPSAS compliance with Kenya legislation, in particular the PFM Act, 2012.
- **Departure from Standards:** If any, departures must be disclosed and justified.
- **Transitional Provisions:** If the public entity is adopting IPSAS for the first time, the statement must include disclosures regarding transitional provisions in line with IPSAS 33.

### 1.2. Basis of Consolidation

The consolidated table of public entities will be disclosed in the consolidated financial statements in accordance with IPSAS 22 – Disclosure of Financial Information about the General Government Sector and IPSAS 35 -Consolidated Financial Statements.

A public entity that controls one or more other entities (controlled entities) must present consolidated financial statements by adhering to the principles of control provided hereunder and the accounting requirements for the preparation of consolidated financial statements.

#### (i) Controlled Entities

These are entities over which the Government has control. The Government will be said to control an entity if and only if it has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity, and can affect those returns through its power to direct the entity's activities.

The Government reassesses whether it controls an entity if facts and circumstances indicate changes to one or more of the three elements of controls listed above.

The Government's right to direct the financial and operating policies of another entity is often used as an indicator of power. The Government considers only substantive rights in determining power.

Controlled entities are consolidated from the date the Government obtains control and cease to be consolidated when the Government loses control. Like items of assets, liabilities, net assets/equity, revenue, expenses, and cash flows of the Public Sector entity are consolidated, intra-economic entity transactions and balances are eliminated in full. The carrying amount of the Government's investment in each controlled entity and the Government's portion of net assets/equity of each regulated entity is eliminated. When necessary, adjustments are made to the financial statements of controlled entities to align their accounting policies with those of the Government.

The Government attributes the surplus or deficit and each gain or loss recognized directly in net assets/equity to the non-controlling interests and the owners of the controlling entity.

## (ii) Associates

Where the Government has significant influence (but not control) in other entities, it is classified as an associate.

*IPSAS 36.8*

Associates are initially recognized in the consolidated statement of financial position at cost.

*IPSAS 36.16*

Subsequently, associates are accounted for using the equity method, in which the Government's share of the investee's surplus or deficit after the date of acquisition is recognized in the consolidated statement of financial performance. The Government also acknowledges in its net assets/equity, the share of changes in the investee's equity that have not been recognized in the investee's surplus or deficit.

*IPSAS 36.16*

Gains and losses arising on transactions between the Government and its associates are recognized only to the extent of unrelated investors' interests in the associate. The Government's share of the associate's gains and losses arising from these transactions is eliminated against the associate's carrying value.

*IPSAS 36.31*

Any premium paid for an associate above the fair value of the Government's share of the identifiable assets, liabilities, and contingent liabilities acquired is capitalized and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

*IPSAS 36.35(a)*

*IPSAS 36.43*

Any excess of the share of the Government of the net fair value of the investee's identifiable assets over the cost of the investment is included as revenue in the determination of the Government's share of the associate's surplus or deficit in the period in which the asset is acquired.

*IPSAS 36.35(b)*

### Judgement

Where the Government holds less than 20% of voting rights in an investment but retains the power to exercise significant influence, the investment is treated as an associate.

*IPSAS 36.11*

In the opposite situation, where the Government holds over 20% of voting rights (but not over 50%) and does not exercise significant influence, the investment is treated as an available-for-sale investment.

<p><b>(iii) Joint Arrangements</b></p> <p>The Government is a party to a joint arrangement when there is a binding agreement conferring joint control over the arrangement's relevant activities. Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.</p> <p>The Government classifies its interests in joint arrangements as either:</p> <ul style="list-style-type: none"> <li>- Joint operations: where the Government has both the rights to assets and obligations for the liabilities of the joint arrangement; or</li> <li>- Joint ventures: where the Government has rights to only the net assets of the joint arrangement.</li> </ul> <p>In assessing the classification of interests in joint arrangements, the Government considers:</p> <ul style="list-style-type: none"> <li>- The structure of the joint arrangement;</li> <li>- The legal form of joint arrangements structured through a separate vehicle;</li> <li>- The terms of the binding arrangement; and</li> <li>- Any other facts and circumstances.</li> </ul> <p>The Government accounts for its interests in joint operations by recognizing its share of assets, liabilities, revenues, and expenses in accordance with the rights and obligations conferred on it. In compliance with IPSAS 37-Joint Arrangements, the Government applies the principles of acquisition accounting in IPSAS 40 Public Sector Combinations when it acquires an interest in a joint operation that constitutes an operation.</p> <p>The Government accounts for its interests in joint ventures in the same manner as investments in associates (i.e., using the equity method – refer to Associates).</p> <p>Any premium paid for an investment in a joint venture above the fair value of the Government's share of the identifiable assets, liabilities, and contingent liabilities acquired is capitalized and included in the carrying amount of the investment in the joint venture. Where there is objective evidence that the investment in a joint venture has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.</p> <p><u><i>Judgement</i></u></p> <p>For all joint arrangements structured in separate vehicles, the Government must assess the substance of the joint arrangement to determine whether it is a joint venture or a joint operation. This assessment requires the Government to consider whether it has rights to the joint arrangement's net assets (in which case it is classified as a joint venture) or rights to and obligations for specific assets, liabilities, expenses, and revenues (in which case it is classified as a joint operation).</p> <p>Factors the Government must consider include:</p> <ul style="list-style-type: none"> <li>- Legal form</li> <li>- Binding arrangement</li> </ul>	<p><i>IPSAS 37.9,10</i></p> <p><i>IPSAS 37.12</i></p> <p><i>IPSAS 37.19</i> <i>IPSAS 37.7</i></p> <p><i>IPSAS 37.7</i></p> <p><i>IPSAS 37.20</i></p> <p><i>IPSAS 37.23</i> <i>IPSAS 37.24 (A)</i></p> <p><i>IPSAS 37.27</i></p> <p><i>IPSAS 37.20</i></p>
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<p>- Other facts and circumstances.</p> <p>Upon consideration of these factors, the Government has determined that all of its joint arrangements structured through separate vehicles give it rights to the net assets and are therefore classified as joint ventures.</p>	
<p><b>(iv) Changes in Ownership Interests</b></p> <p>The Government treats transactions with non-controlling interests that do not result in a loss of control as transactions with owners in their capacity as owners. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the controlled entity. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in net assets/equity attributable to owners of the controlling entity.</p> <p>When the Government ceases to consolidate or equity-account for an investment because of a loss of control, joint control, or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in the surplus or deficit. This fair value becomes the initial carrying amount and is subsequently accounted for as a retained interest in an associate, a joint venture, or a financial asset. In addition, any amounts previously recognized in net assets/equity in respect of that entity are accounted for as if the Government had directly disposed of the related assets or liabilities.</p> <p>If the ownership interest in a joint venture or an associate is reduced, but joint control or significant influence is retained. In that case, the proportionate share of the amounts previously recognized in net assets/equity is transferred directly to accumulated surpluses or deficits.</p>	<p><i>IPSAS 35.51</i></p> <p><i>IPSAS 35.54(b)(iii)</i></p> <p><i>IPSAS 35.52(b)</i></p> <p><i>IPSAS 35.55</i></p> <p><i>IPSAS 36.28</i></p>

<p><b>1.3. Public Sector Combination</b></p> <p>A public sector combination can be either an amalgamation or an acquisition.</p> <p><b>(i) Amalgamation</b></p> <p>The Government accounts for public sector combinations using the modified pooling of interest method of accounting if the public sector combination gives rise to a resulting entity and is either:</p> <ul style="list-style-type: none"> <li>(a) a public sector combination in which no party to the combination gains control of one or more operations; or</li> <li>(b) a public sector combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination has the economic substance of an amalgamation.</li> </ul> <p>The resulting entity recognizes the assets, liabilities, and any non-controlling interests as at the amalgamation date in the financial statements of the combining operations. It measures them at their carrying amounts in the financial statements of the combining operations. The resulting entity recognizes the difference between the assets and liabilities assumed in an amalgamation as one or more components of net assets/equity.</p>	<p><i>IPSAS 40.15, 40.17</i></p> <p><i>IPSAS 40.7</i></p> <p><i>IPSAS 40.8</i></p> <p><i>IPSAS 40.21, 40.26</i></p> <p><i>IPSAS 40.37, 40.38</i></p>
<p><b>(ii) Acquisition</b></p> <p>The Government accounts for public sector combinations using the acquisition method when control is transferred to the Government and the economic substance of the public sector combination is not that of an amalgamation.</p> <p>The consideration transferred in the acquisition is measured at fair value. It comprises only the consideration transferred for the acquired operation, and the assets acquired and liabilities assumed in the exchange for that operation.</p> <p>Any contingent consideration is measured at fair value at the date of acquisition. Suppose an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as a component of net assets/equity. In that case, it is not remeasured, and settlement is accounted for within net assets/equity. Otherwise, contingent consideration is remeasured at fair value at each reporting date, and subsequent changes in its fair value are recognized in surplus or deficit.</p> <p>The Government also measures the identifiable net assets acquired.</p> <p>Acquisition-related costs are expensed as incurred, except when related to the issuance of debt or securities.</p>	<p><i>IPSAS 40.8</i></p> <p><i>IPSAS 40.95</i></p> <p><i>IPSAS 40.97, 40.117 (a)</i> <i>IPSAS 40.117(b)</i></p> <p><i>IPSAS 40.72</i></p> <p><i>IPSAS 40.111</i></p>

<p><u>Goodwill</u></p> <p>Goodwill arising from an acquisition is initially measured at cost (being the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquired operation, and the fair value of the Government’s previously held equity interest over the net of the amounts of the identifiable assets acquired and liabilities assumed).</p> <p>The Government recognizes goodwill to the extent that an acquisition results in cash flows or reduces the Government’s net cash outflows. Any additional excess is recognized as a loss in the statement of financial performance.</p> <p>After initial recognition, goodwill is measured at cost less any accumulated impairment losses.</p>	<p><i>IPSAS 40.85 (a)</i></p> <p><i>IPSAS 40.86</i></p> <p><i>IPSAS 40.AG107</i></p>
<p><u>Impairment of Goodwill</u></p> <p>For impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Government’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.</p> <p>Where goodwill is acquired in an acquisition of a non-cash generating operation that results in a reduction in the net cash outflows of the Government, the Government is considered a cash-generating unit.</p> <p>A cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the Government recognizes an impairment loss.</p> <p>Goodwill is not amortized.</p>	<p><i>IPSAS 26.90 A</i></p> <p><i>IPSAS 26.90 K</i></p>
<p><u>Bargain Purchase</u></p> <p>The Government recognizes a gain in the statement of financial performance if the net of the amounts of the identifiable assets acquired and the liabilities assumed exceeds the aggregate of any consideration transferred, the amount of any non-controlling interest in the acquired operation, and the fair value of the acquirer’s previously held equity interest</p> <p><u>Non-Controlling Interest</u></p> <p>The Government recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest’s proportionate share of the acquired entity’s net identifiable assets.</p>	<p><i>IPSAS 40.88</i></p> <p><i>IPSAS 40.73</i></p>

## 1.4. Foreign Currencies

Public sector financial statements are presented in Kenyan Shillings (Kshs), which is the functional currency. All amounts have been rounded to the nearest shilling.

Transactions in foreign currencies are initially translated at the foreign exchange rates prevailing on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, as well as from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the statement of financial performance.

*IPSAS 4.24*

Non-monetary assets and liabilities measured at historical cost in foreign currency are translated at the transaction date exchange rate. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate as of the date the fair value was determined.

## 1.5. Cash and Cash Equivalent

Cash and cash equivalents comprise cash on hand, cash balances with banks, both local and overseas, deposits on call, digital money, and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

*IPSAS 2.8, 2.9*

Cash and cash equivalents are stated at nominal value or amortized cost, which approximates fair value due to their short-term nature. Public entities must disclose separately restricted cash and bank overdrafts that are repayable on demand.

Balances that are not freely available for general use (e.g., earmarked funds for specific projects or donor-funded projects) must be disclosed separately.

Cash held in foreign currency is translated into the functional currency at the reporting date exchange rate.

All public entities must disclose the components of cash and cash equivalents and present a reconciliation of the amounts in their cash flow statements with the equivalent items reported in the statement of financial position.

*IPSAS 2.56*

## 1.6. Financial Assets (Excluding Derivatives)

### (i) Initial Recognition and Measurement

A public entity shall recognize a financial asset in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

*IPSAS 41.10*

Financial assets are classified based on the public entity's business model for managing them and the contractual cash flow characteristics. Financial assets are recognized initially at fair value. Subsequent measurements depend on classification: amortized cost, fair value through surplus or deficit (FVTSD), or fair value through net assets/equity (FVTNAE).

*IPSAS 41.39*

*IPSAS 41.60*

*IPSAS 41.61*

Financial assets are classified into models:

*IPSAS 41.39*

- held to collect contractual cash flows;
- held to collect contractual cash flows and sell; or
- held for trading/other management

All public sector entities must apply an expected credit loss model to determine impairment on financial assets.

A public entity shall derecognize a financial asset when, and only when:

- the contractual rights to the cash flows from the financial asset expire or are waived, or
- It transfers the financial asset, and the transfer qualifies for derecognition.

*IPSAS 41.14*

Short-term receivables, at initial recognition, are measured at the original invoice amount (nominal value) provided the effect of discounting is immaterial. All other financial assets are measured at fair value, plus transaction costs directly attributable to the acquisition or issue of the financial asset, except for financial assets not at fair value through surplus or deficit.

*IPSAS 41.57*

Financial assets that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a management model whose objective is to hold financial assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

*IPSAS 41.41*

Financial assets that meet the following conditions are measured subsequently at fair value through net assets/equity:

- The financial asset is held within a management model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

*IPSAS 41.43*

<p>By default, all other financial assets are measured subsequently at FVTSD. The management may make the following irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTSD to present subsequent changes in fair value in net assets/equity.</p> <p>Despite the foregoing, at initial recognition, management can irrevocably designate a financial asset as measured at FVTSD if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing gains and losses on them, on different bases.</p>	<p><i>IPSAS 41.44</i></p>
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## (ii) Subsequent Measurement

### (a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Impairment losses are recognized in surplus or deficit.

IPSAS 41.69

For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition. Financial assets measured at amortized cost include the following:

- Receivables from binding arrangements (including current portion of long-term receivables, loans, and placements);
- Receivables from non-binding arrangements (e.g., transfers and taxes);
- Loans;
- Advances;
- Debt instruments at amortized cost; and
- Investments such as **deposits with financial institutions**.

### (b) Financial Assets measured at fair value through net assets/equity

Financial assets measured through net assets/equity consist of:

- Equity instruments (including instruments where an irrevocable election is made at initial recognition to recognize subsequent changes in fair value through net assets/equity)
- Debt instruments

#### i) Financial asset designated at fair value through net assets/equity (Equity Instruments)

Upon initial recognition, election can be made to classify irrevocably equity investments that would otherwise be measured at fair value through surplus or deficit, to present subsequent changes in fair value in net assets/equity, provided the equity instrument is not held for trading. This election is made on an instrument-by-instrument basis. Such an investment is not a monetary item. Accordingly, the gain or loss that is presented in net assets/equity includes any related foreign exchange component.

IPSAS  
41.AG226

IPSAS  
41.106

Gains and losses on these financial assets are not subsequently transferred to surplus or deficit. Dividends or similar distributions on such investments are recognized in surplus or deficit, unless the dividend represents a recovery of part of the investment's cost.

IPSAS  
41.AG222

#### ii) Financial assets at fair value through net assets/equity (Debt Instruments)

For debt instruments at fair value through Net Assets/Equity, interest income, foreign exchange gains or losses, and impairment losses are recognized in the statement of surplus or deficit and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in Net Assets/Equity. Upon derecognition, the cumulative fair value change recognized in Net Assets/Equity is recycled to surplus or deficit.

IPSAS 41.111

IPSAS 41.112

ii) **Financial assets designated at fair value through surplus or deficit**

Financial assets at FVTSD are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of financial performance.

This category includes derivative instruments and equity investments.

The Public Sector had not irrevocably elected to classify at fair value through Net Assets/Equity. Dividends on equity investments are recognized as other income in the statement of financial performance when the right of payment has been established.

IPSAS 41.102

The Government financial assets measured at FVTSD (including financial assets irrevocably designated at FVTSD at initial recognition) are as follows:

- Equity instruments
- Debt instruments
- IMF –SDR Deposit
- IMF-Reserve Tranche (quota subscription)

IMF SDR Deposits are translated at year-end exchange rates with any gains/losses arising on re-measurement recognized in the Statement of Financial Performance in the period in which they occur.

Reserve Tranche transactions, i.e., subscriptions, purchases, and sales, are initially translated at the exchange rate on the date of the transaction. At year-end, the SDR

Reserve Tranche Position is translated using year-end exchange rates and any gains/losses recognized in the Statement of Performance as foreign exchange gains or losses.

**Commentary**

The Government measures equity instruments at FVTSD and has not made an irrevocable election, at initial recognition, to recognize subsequent changes in fair value through net assets/equity (IPSAS 41.43).

d) **Impairment of Financial Assets**

The Public Sector recognizes a loss allowance for expected credit losses (ECL) on financial assets measured at amortized cost or fair value through net assets/equity, lease receivables, loan commitments, and financial guarantee contracts.

IPSAS 41.73

However, the loss allowance for financial assets measured at fair value through net assets/equity shall be recognized in net assets/equity. It shall not reduce the carrying amount of the financial asset in the statement of financial position.

IPSAS 41.74

<p>The Public Sector recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, suppose the credit risk on the financial instrument has not increased significantly since initial recognition. In that case, the Public</p> <p>The sector measures the loss allowance for that financial instrument at the 12-month ECL.</p> <p>Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is likely to result from default events on a financial instrument occurring within 12 months after the reporting date.</p> <p>For loan commitments and financial guarantee contracts, the date on which the Public Sector becomes a party to the irrevocable commitment is treated as the date of initial recognition for the purposes of assessing the financial instrument for impairment. In determining whether there has been a significant increase in credit risk since the initial recognition of a financial guarantee contract, the Public Sector considers changes in the risk that the specified debtor will default under the contract.</p> <p>When measuring ECL, the Public Sector considers the risk or probability of a credit loss occurring, reflecting both the possibility of a loss and the possibility of no loss, even if the likelihood of a loss is very low.</p> <p>The Public Sector recognizes in surplus or deficit, as an impairment gain or loss, the amount of ECL (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is needed to be recognized except for the loss allowance for financial assets measured at fair value through net assets/equity for which the loss allowance is recognized in net assets/equity and shall not reduce the carrying amount of the financial asset in the statement of financial position.</p> <p>The Public Sector measures the loss allowance at an amount equal to lifetime expected credit losses for:</p> <ul style="list-style-type: none"> <li>• Receivables that result from binding or non-binding arrangements, transactions that are within the scope of IPSAS 47.</li> <li>• Lease receivables that result from transactions that are within the scope of IPSAS 43, if the entity chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses.</li> <li>•</li> </ul> <p><i>Significant increase in credit risk</i></p> <p>In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Public Sector compares the risk of default on the financial instrument at the reporting date with the risk at the date of initial recognition. In making this assessment, the Public Sector considers reasonable and supportable information available without undue cost or effort that is indicative of significant increases in credit risk since initial recognition.</p> <p><i>Purchased or Originated Credit-impaired financial assets</i></p> <p>The Public Sector, at the reporting date, recognizes the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.</p>	<p><i>IPSAS 41.75 &amp; 77</i></p> <p><i>IPSAS 41.78</i></p> <p><i>IPSAS 41.74</i></p> <p><i>IPSAS 41.87</i></p> <p><i>IPSAS 41.81</i></p> <p><i>IPSAS 41.85</i></p>
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<p><b>e) De-recognition</b></p> <p>A financial asset (or, where applicable, a part of a financial asset or part of a government of similar financial assets) is primarily derecognized (i.e., removed from the consolidated statement of financial position) when:</p> <ul style="list-style-type: none"> <li>• The rights to receive cash flows from the asset have expired or are waived; or</li> <li>• The Government has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either <ul style="list-style-type: none"> <li>• the Government has transferred all the risks and rewards of the asset,</li> </ul> </li> </ul> <p style="text-align: center;">or</p> <ul style="list-style-type: none"> <li>• the Government has neither transferred nor retained all the risks and rewards of the asset substantially, but has transferred control of the asset.</li> </ul> <p><b>f) Prepayment</b></p> <p>Prepayments are recognized as assets when payment for goods or services is made in advance of obtaining the right to access them.</p> <p><b>g) Inventories</b></p> <p>These are current assets, such as materials and supplies, to be consumed in the production process. To be consumed or distributed in the rendering of services, held for sale or distribution in the ordinary course of operation</p> <p>a. Those that are still in production for sale or distribution.</p> <p>Inventories encompass goods purchased and held for resale, such as merchandise purchased by an entity and held for resale, as well as land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge or for a nominal charge, for example, educational books produced by a health authority for donation to schools. In many public sector entities, inventories relate to the provision of services rather than to goods purchased and held for resale or manufactured for sale.</p> <p>Inventories in the public sector may include:</p> <p>(a) Ammunition; (b) Consumable stores; (c) Maintenance materials; (d) Spare parts for plant and equipment, other than those dealt with in standards on Property, Plant and Equipment; (e) Strategic stockpiles (for example, energy reserves); (f) Stocks of unissued currency; (g) Postal service supplies held for sale (for example, stamps); (h) Work-in-progress, including: (i) Educational/training course materials; and</p> <p>Inventories are measured at the lower of cost and net realizable value. To the extent inventory was received through non-exchange transactions (at no or nominal cost), its cost is its fair value at the date of acquisition. Inventories of agricultural produce</p>	<p><i>IPSAS 41.14</i></p> <p><i>IPSAS 41.16</i></p> <p><i>IPSAS 40.17</i></p> <p><i>IPSAS 12.9</i></p> <p><i>IPSAS 12.11</i></p> <p><i>IPSAS 12.12</i></p>

harvested from biological assets are measured on initial recognition at fair value less costs to sell at the point of harvest.

IPSAS 12.15  
12.16

Inventories held for distribution at no charge, for a nominal charge, or for consumption in the process of goods to be distributed at no charge or for a nominal charge are, however, measured at the lower of cost and current replacement cost.

IPSAS 12.29

Donated inventories from non-exchange transactions for nil or nominal consideration are initially measured at their fair value at the date of receipt.

IPSAS 12.17

Cost includes all costs of purchases, the cost of conversion, and other expenses incurred in bringing the inventories to their present location and condition. Current replacement cost represents the cost the Public Sector would incur to acquire the asset on the reporting date.

IPSAS 12.31

The cost of inventory is stated using the First-in, First-out method.

IPSAS 12.18

When inventories are sold or consumed, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized/ the expense relates. If there is no related revenue, the expense is recognized when the goods are distributed, or the related service is rendered, per IPSAS 48, *Transfer of Expenses*.

IPSAS 12.35

The amount of any write-down of inventories to current replacement cost (due to obsolescence, damage, or other reasons) and all inventory losses are recognized as an expense in the period the write-down or loss occurs.

IPSAS 12.44

#### Commentary

**According to IPSAS 12.35, the cost of inventories shall be assigned using the first-in, first-out or weighted average cost formulas.**

The Government has opted for the First-in, First-out Method.

## h) Investment Property

Investment property is property (land or a building, or part of a building or both) held for rentals or capital appreciation, or both, rather than for:

- (a) Use in the production or supply of goods or services, or for administrative purposes; or
- (b) Sale in the ordinary course of operations.

IPSAS 16.7

Investment properties are measured initially at cost, including transaction costs. Investment properties acquired through a non-binding arrangement or transaction are measured at the current operational value at the date of acquisition.

After initial recognition, investment properties are stated at fair value.

Current operational values are determined by an annual valuation conducted by an accredited valuer from the State Department for Works or the State Department for Lands, using a valuation model recommended by the International Valuation Standards Committee.

IPSAS 16.26  
16.27

Gains or losses arising from changes in the current operational values of investment properties are included in surplus or deficit in the period in which they occur.

*IPSAS 16.39*

Investment properties are derecognized when they are disposed of or permanently withdrawn from use, and no future economic benefit or service potential is expected from their disposal. The difference between the net disposal proceeds and the asset's carrying amount is recognized in the surplus or deficit in the period of derecognition.

*IPSAS 16.86 a*

Transfers are made to (or from) investment property only when there is a use change.

*IPSAS 16.44*

#### Commentary

**Under IPSAS 16.39, an entity has a policy choice for the measurement of investment property after initial recognition. An entity may choose either the historical cost model or the current value model for all its investment properties.**

*IPSAS 16.77  
16.80*

The Government has elected to use the current value model. Even if the historical cost model is selected, the fair value of the investment property still needs to be disclosed unless it is unable to determine the fair value reliably (IPSAS 16.90(e)).

*IPSAS 16.66*

## i) Property, Plant & Equipment

### (j) Recognition and initial Measurement

An item of property, plant, and equipment shall be recognized if, and only if:

- a. It is probable that future economic benefits or service potential associated with the item shall flow to the entity. The item can be measured reliably
- b. The entity has control

On initial measurement, property, plant, and equipment are stated at historical cost or deemed cost. Property, plant, and equipment acquired through non-binding arrangements shall be measured at deemed cost.

The cost of an item of property, plant, and equipment shall comprise

- (a) Its purchase price, including import duties and non-refundable purchase taxes, after discounting trade discounts and rebates
- (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- (c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

*IPSAS 45.9*

*IPSAS 45.11  
IPSAS 45.12*

When significant parts of property, plant, and equipment are required to be replaced at intervals, the public sector recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed,

*IPSAS 45.14*

its cost is recognized in the plant and equipment's carrying amount as a replacement if the recognition criteria are met.

All other repair and maintenance costs are recognized in surplus or deficit as incurred.

Where an asset is acquired in a non-exchange transaction for nil or nominal consideration, the asset is initially measured at its deemed cost.

Government land is recognized at the government valuer's estimated value. Land, other than government land, is recognized at a value estimated by the external valuer.

#### Commentary

**Under IPSAS 45.24, an entity has a policy choice for the measurement of property, plant, and equipment after initial recognition. An entity may choose either the historical cost model or the current value model for entire classes of property, plant, and equipment.**

The Government has elected on the following:

Land- Current value model (for fairer presentation)

Other Assets (comprising Trained Sniffer Dogs, Bearer Plants, and Plants to maintain the ecosystem) Current value model

All other property, plant, and equipment- Historical cost model

IPSAS 45.15

IPSAS 45.12

### *(a) Vested Asset*

The public sector recognizes assets vested in it through a non-exchange transaction when *it gains control of the asset; it is probable that the future economic benefits or service potential associated with the asset will flow to the Public Sector*, and the fair value can be reliably measured. These assets are measured at their fair value at the date of acquisition.

### *(b) Classes of Assets*

A class of assets means a grouping of assets of a similar nature or function in a public entity operation that is shown as a single item for disclosure in the financial statements.

- ✦ Land
  - Public land - Freehold
  - Public land - Leasehold
  - Community
- ✦ Infrastructure
  - Roads (including motorways) and Bridges;
  - Dams and Feeder Canals;
  - Rail Network;
  - Water Infrastructure, including Water Supply Facilities, Irrigation Facilities, and Waste Water Infrastructure;
  - Stadiums & Gymnasiums;
  - Electricity Generation; and
  - Other structures;
- ✦ Tangible Natural Resources held for Conservation
- ✦ Buildings & Building Improvement

<ul style="list-style-type: none"> <li>• Permanent</li> <li>• Semi-Permanent</li> <li>• Temporary</li> </ul> <p>‡ Property, Plant and Equipment</p> <ul style="list-style-type: none"> <li>• Motor Vehicles and Other Transport Equipment</li> <li>• Computers and Other ICT Equipment</li> <li>• Office Equipment</li> <li>• Furniture and Fittings</li> <li>• Plant and Machinery</li> <li>• Bearer Plants</li> </ul> <p>‡ Finance lease/Right of Use Asset</p> <p>‡ Heritage &amp; Cultural Assets</p> <p>‡ Biological Assets</p> <ul style="list-style-type: none"> <li>• Trained Sniffer Dogs</li> <li>• Sheep</li> <li>• Dairy Cattle</li> <li>• Pigs</li> <li>• Cotton Plants</li> <li>• Sugarcane</li> <li>• Tobacco plants</li> <li>• Tea bushes</li> <li>• Coffee trees</li> <li>• Plants to maintain ecosystems</li> <li>• Trees</li> <li>• Plantations</li> <li>• Livestock</li> </ul> <p>Agricultural produce at the point of harvest</p> <ul style="list-style-type: none"> <li>• Wool</li> <li>• Felled trees</li> <li>• Milk</li> <li>• Carcass</li> <li>• Harvested cotton</li> <li>• Harvested cane</li> <li>• Picked leaves</li> <li>• Picked Fruits</li> <li>• Harvested Latex</li> </ul> <p>Products that are the result of processing after harvest</p> <ul style="list-style-type: none"> <li>• Yarn, carpet</li> <li>• Logs, lumber</li> <li>• Cheese</li> <li>• Sausages, cured hams</li> <li>• Thread, clothing</li> <li>• Sugar</li> <li>• Cured tobacco</li> <li>• Tea</li> <li>• Wine</li> <li>• Processed fruit</li> <li>• Palm oil</li> </ul> <p>‡ Public Private Partnership Assets</p> <ul style="list-style-type: none"> <li>• Assets provided by the operator performing a public function</li> </ul>	<p><i>IPSAS 45.5,45.6 Article 61(2) of the Constitution IPSAS 45.5, 45.6</i></p> <p><i>IPSAS 45.5, 45.6</i></p> <p><i>IPSAS 45.5,45.6</i></p> <p><i>IPSAS 43.23 IPSAS 45.6 IPSAS 27.6</i></p> <p><i>IPSAS 27.6</i></p>
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Asset Category	Valuation Method	Ownership	Depreciation Method	Depreciation Rate@ Sub-Item	Capitalization threshold
<b>Non-Produced Fixed Assets</b>					
<b>Land (IPSAS 45)</b>					
Freehold	Historical cost/Ministry of Lands Valuation	Title/Vesting Documents or Control of Access	Nil	Nil	1 Kshs
Leasehold	Historical cost/Ministry of Lands Valuation	Title/Vesting Documents or Control of Access	Reducing balance	Amortization for the remaining period	1 Kshs
Community	Historical cost/Ministry of Lands Valuation	Title/Vesting Documents or Control of Access	Nil	Nil	1 Kshs
<b>Tangible natural resources</b>					
Natural resources with finite lives	Historical Cost/Current Operational Value (deemed cost at point of initial recognition)	Title/Vesting Documents or Control of Access	Based on the type of asset	Based on the type of asset	1 Kshs
Natural resources with infinite lives	Historical Cost/Current Operational Value (deemed cost at point of initial recognition)	Title/Vesting Documents or Control of Access	Assess impairment	Based on impairment	1 Kshs
<b>Other naturally occurring assets</b>	Historical Cost/Current Operational Value (deemed cost at point of	Title/Vesting Documents or Control of Access	Based on the type of asset	Based on the type of asset	1 Kshs

<b>Intangible assets (IPSAS 31)</b>					
Software purchased	Historical Cost/Current Operational Value	Receipts/Vesting Order	Amortization for the remaining period Below 5 years 5 – 8 years	12.5% 20%	Kshs 1
Easements, Licenses, & Rights	Historical Cost/Current Operational Value	Receipts/Vesting Order	Number of years in the contract	As applicable	Kshs 1
Patents	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance Below 7 years 7-10 years	10% 14.3%	Kshs 1
Copyrights	Deemed cost	For 50 years after the author/recording/work dies/ends	As applicable	As applicable	Kshs 1
Industrial Design	Deemed cost	Owned for 5 years & below Owned for 5 to 15 years	Reducing balance	6.67% 20%	Kshs 1
Utility models	Deemed cost	Owned for 5 years & below Owned for 5 to 15 years	Reducing balance	6.67% 20%	Kshs 1
Other intellectual	Deemed cost	Owned for 5 years & below Owned for 5 to 15 years	Reducing balance	6.67% 20%	Kshs 1
<b>PRODUCE D FIXED ASSETS</b>					

Roads Infrastructure IPSAS 45					
Land under the road and within road reserves	Historical Cost/Current Operational Value	Title/Vesting Documents or Control of Access	Reducing balance	Amortization for the remaining period	1 Kshs
Roads and Bridges	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Seal Coat – 20% Gravel – 20% Asphalt – 10% Concrete – 3.3 Bridge Timber – 10% Bridge Metal – 3.33% Bridge Concrete – 2% Bridge Movable- 2% Timber redecking – 8.33% Concrete redecking – 4% Formation – 2% Pavement (structure) – 2% Pavement (surface) – 10% Tunnels – 4%	1 Kshs



Road Traffic Control installations	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Signals - 6.67% Traffic facilities - 6.67%	1 Kshs
Road furniture	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Street Trees & Vegetation - 2% Bike lanes- 10% Public Art - 2% Parklet - 10% Outside seating -25% Sidewalk - 10%	1 Kshs
Work in Progress	Historical Cost/Current Operational Value	Receipts/Vesting Order	N/A	N/A	1 Kshs
<b>Railway Infrastructure</b> <b>IPSAS 45</b>					
Land under railways/railway reserves	Historical cost/Current Operational Value	Title/Vesting Documents or Control of Access	Reducing balance	2%	1 Kshs
Railways and Bridges	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	SGR -2% Meter Gauge 2% Railway Infrastructure 2% Buildings 2% Capital Work in Progress 0%	1 Kshs

Railway Traffic Control Installations	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	2%	1 Kshs
Railways furniture	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	2%	1 Kshs
<b>Electricity Generation &amp; Other Infrastructure</b> <b>IPSAS 45</b>					
Electricity Generation	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Geothermal stations 10% Hydro stations 10% Wind farms 10% Solar Generations 10%	1 Kshs
Electricity Distribution	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Electricity distribution networks 10%	1 Kshs
<b>Water Infrastructure</b> <b>IPSAS 45</b>	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Collection 2% Purification 10% Storage 10% Pipeline 10% Drainage 10%	1 Kshs



<b>Solid Waste &amp; Sewage Disposal</b> IPSAS 45	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Buildings 2% Waste facilities 10% Pipe network 10% Drainage 10%	1 Kshs
<b>Sea Walls &amp; Jetties</b> IPSAS 45	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Buildings 2% Sea Walls & Jetties 5%	1 Kshs
<b>Other Infrastructure</b> IPSAS 45	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	10%	1 Kshs
<b>Leased assets (under finance lease/right of use)</b> IPSAS 43					
Leased assets	Present Value	Lease agreement	Reducing balance	Based on the lease period	1 Kshs
Right of Use	Present Value	Lease agreement	Reducing balance	Based on the lease period	1 Kshs
<b>Heritage and cultural assets</b> IPSAS 45					
Historical sites	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Finite useful life- based on the type of asset Indefinite useful life- assess for impairment	1 Kshs
Archaeological sites	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Finite useful life- based on the type of asset Indefinite useful life-	1 Kshs

Paleontological items	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Finite useful life- based on the type of asset Indefinite useful life- assess for impairment	1 Kshs
Monuments	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Finite useful life- based on the type of asset Indefinite useful life- assess for impairment	1 Kshs
National Library Collections	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Finite useful life- based on the type of asset Indefinite useful life- assess for impairment	1 Kshs
National Archives	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Finite useful life- based on the type of asset Indefinite useful life- assess for impairment	1 Kshs
Other heritage assets	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Finite useful life- based on the type of asset Indefinite useful life- assess for impairment	1 Kshs
<b>Biological assets</b> <b>IPSAS 27</b>					
Livestock	Fair value less costs to sell	N/A	N/A	N/A	1 Kshs



Crops	Fair value less costs to sell	N/A	N/A	N/A	1 Kshs
Agricultural produce	Fair value less costs to sell	N/A	N/A	N/A	1 Kshs
Trees & Plants	Fair value less costs to sell	N/A	N/A	N/A	1 Kshs
Fish in aquaculture	Fair value less costs to sell	N/A	N/A	N/A	1 Kshs
Other biological	Fair value less costs to sell	N/A	N/A	N/A	1 Kshs
<b>Public-Private Partnership assets</b>					
PPP Assets created by a Private Entity					
Public Assets Used by Private Entity					
<b>BUILDINGS &amp; BUILDING IMPROVEMENT</b>					
Permanent	Historical Cost/Current Operational Value	Title/Vesting Documents or Control of Access	Reducing balance	Housing Stock 2% School property 2% Hospitals 2% Prisons 2% Fire Stations 2% Police Stations 2% Offices' 2%	Kshs 1
Semi-Permanent	Historical Cost/Current Operational Value	Title/Vesting Documents or Control of Access	Reducing balance	5%	Kshs 1
Temporary	Historical Cost/Current Operational Value	Title/Vesting Documents	Reducing balance	10%	Kshs 1



<b>Property, Plant, and Equipment</b> <b>IPSAS 45</b>					
Motor Vehicles and other transport equipment	Historical Cost/Current Operational Value	Logbook/Vesting Documents or Control of Access	Reducing balance	Saloon vehicles 16.67% Heavy-duty utility vehicles 12.5% Lorries 10% Aircraft 10% Ships 10% Others 10%	Kshs 1
Computers and other ICT equipment	Historical Cost/Current Operational Value	Receipts/Vesting Documents or Control of Access	Reducing balance	Computers 33.3% Laptops 33.3% Printers 33.3% Others 33.3%	Kshs 1
Office equipment	Historical Cost/Current Operational Value	Receipts/Vesting Documents or Control of Access	Reducing balance	Safes 12,5% Air conditioners 12.5% Shredders 12.5% Storage Equip 12.5% Others 12.5%	Kshs 1
Furniture and Fittings	Historical Cost/Current Operational Value	Receipts/Vesting Documents or Control of Access	Reducing balance	Furnishings 12.5% Desks 12.5% Tables 12.5% Chairs 12,5% Bookshelves 12.5% Others 12.5%	Kshs 1

Plant & Machinery	Historical Cost/Current Operational Value	Receipts/Vesting Documents or Control of Access	Reducing balance	Plant & Equipment	Kshs 1
<b>Inventories</b> <b>IPSAS 12</b>	Lower of cost or net realizable/current replacement cost	Receipts/Vesting Documents or Control of Access	N/A	Consumable stores Finished goods Raw materials Goods in transit	Kshs 1
<b>Service Concession Arrangements</b> <b>IPSAS 32</b>	Fair Value	N/A	N/A	Tangible Intangible (Depreciation based on underlying assets)	Kshs 1

Roads Infrastructure IPSAS 45					
Land under the road and within road reserves	Historical Cost/Current Operational Value	Title/Vesting Documents or Control of Access	Reducing balance	Amortization for the remaining period	1 Kshs
Roads and Bridges	Historical Cost/Current Operational Value	Receipts/Vesting Order	Reducing balance	Seal Coat – 20% Gravel – 20% Asphalt – 10% Concrete – 3.3 Bridge Timber – 10% Bridge Metal – 3.33% Bridge Concrete – 2% Bridge Movable- 2% Timber redecking – 8.33% Concrete redecking – 4% Formation – 2% Pavement (structure) – 2% Pavement (surface) – 10% Tunnels – 4%	1 Kshs

<p>Land is not depreciated.</p> <p>The depreciation charge for each period is recognized in surplus or deficit, unless it is included in the carrying amount of another asset. Depreciation is calculated from the month the asset is capitalized and ceases at the earlier of the date the asset is classified as held for sale (or included in a disposal Government that is classified as held for sale) under IPSAS 44 and the date the asset is derecognized/disposed of.</p> <p>Depreciation methods, useful lives, and residual values, if not insignificant, are reviewed at each reporting date and adjusted as appropriate.</p> <p>Each component of an infrastructure asset with a materially different useful life from other components is accounted for as a separate asset and depreciated over its useful life.</p> <p><b>Donated Assets</b></p> <p>When an asset is acquired under a non-binding arrangement for nil or nominal consideration, it is initially measured at its fair value at the date of acquisition and subsequently depreciated over its remaining useful life.</p>	<p><i>IPSAS 45.53</i>  <i>AG.32</i>  <i>IPSAS 45.45</i></p> <p><i>IPSAS 45.</i>  <i>AG27</i></p> <p><i>IPSAS 45.58</i></p>
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## Subsequent Measurement

### **(a) Land**

After recognition, land is stated in the statement of financial position at its revalued amount, being the current operational value as of the date of revaluation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using current operational values at the end of the reporting period.

Any revaluation increase arising on the revaluation of land is recognized directly to revaluation surplus, except to the extent that it reverses a revaluation decrease for the same class of asset previously recognized in surplus or deficit, in which case the increase is credited to surplus or deficit to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land is recognized in surplus or deficit to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that class of asset.

### **(b) All other property, plant, and equipment**

After initial recognition, assets are carried at cost less accumulated depreciation and any accumulated impairment losses.

### **(c) Other Assets**

After initial recognition, these are measured at their current operational value as of each reporting date.

### **(d) Buildings**

After initial recognition, buildings are carried at cost less accumulated depreciation and any accumulated impairment losses. Periodically, buildings are revalued at current operational values less accumulated depreciation and any impairment loss.

Depreciation of these assets commences when they are ready for their intended use and is on the same basis as for other property assets.

## **Commentary**

Budgetary Central Government is currently using the cost model for the valuation of buildings, which will be aligned with the current operational value in the future. Entities using the cost model must change their policy to the current operational value model.

<p><i>(e) Impairment of asset</i></p> <p><i>(iii) De-Recognition</i></p> <p>Property, plant, and equipment and/or any significant part of an asset are derecognized upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the surplus or deficit when the asset is derecognized.</p>	<p><i>IPSAS 45.59</i></p> <p><i>IPSAS 45.62</i></p> <p><i>IPSAS 45.63</i></p>
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<p>1.11. Impairment of Non-Financial Assets</p> <p><i>(i) Impairment of Cash Generating Assets</i></p> <p>The Public Sector assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Public Sector estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or the governments of assets.</p> <p><i>(a) Value in Use</i></p> <p>In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the asset's specific risks.</p> <p><i>(b) Current Operational Value Less Cost to Sell</i></p> <p>In determining Current Operational Value, less costs to sell, recent replacement transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.</p> <p><i>(c) Recognizing and Measuring Impairment Loss</i></p> <p>Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.</p> <p>Impairment losses are recognized in the surplus or deficit, except for impairment losses on a revalued asset, which is treated as a revaluation decrease.</p> <p><i>(d) Reversal of Impairment Losses</i></p> <p>For assets excluding goodwill, an assessment is made at each reporting date of whether there is any indication that previously recognized impairment losses may no longer exist or have decreased in amount. If such an indication exists, the recoverable amount is estimated.</p> <p>A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss</p>	<p><i>IPSAS 26.22, 26.77, 26.78, 26.13</i></p> <p><i>IPSAS 45.36, 45.37</i></p> <p><i>IPSAS 45.26</i></p> <p><i>IPSAS 26.72, 26.73 21.52, 21.54</i></p> <p><i>IPSAS 45.59</i> <i>IPSAS 26.22, 26.77, 26.78, 26.13</i> <i>IPSAS 45.61, 45.63</i></p>
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<p>was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized as a surplus or a deficit, except for assets carried at revalued amounts.</p> <p>After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.</p>	
<p><b>(ii) Impairment of Non-Cash Generating Assets</b></p> <p>The Public Sector assesses at each reporting date whether there is an indication that a non-cash generating asset may be impaired. If any indication exists, the Public Sector estimates the asset's recoverable service amount.</p>	<p><i>IPSAS 21.25</i></p>
<p>An asset's recoverable service amount is the higher of the non-cash generating asset's fair value less costs to sell and its value in use.</p>	<p><i>IPSAS 21.26A</i></p>
<p><b>(a) Fair Value Less Costs to Sell</b></p> <p>In determining fair value less costs to sell, the price of the assets in a binding agreement in an arm's-length transaction, adjusted for incremental costs directly attributable to the disposal of the asset, is used. If there is no binding agreement, but the asset is traded on an active market, the fair value less cost to sell is the asset's market price less the cost of disposal. If there is no binding sale agreement or active market for an asset, the Public Sector determines fair value less cost to sell based on the best available information.</p>	<p><i>IPSAS 21.40</i></p>
<p><b>(b) Value in Use</b></p> <p>In assessing value in use, the Public Sector has adopted the depreciation replacement cost approach. Under this approach, the present value of an asset's remaining service potential equals its depreciated replacement cost. The depreciated replacement cost is measured as the lower of the asset's reproduction or replacement cost, less accumulated depreciation calculated on the basis of that cost, to reflect the service potential of the asset that has already been consumed or expired.</p>	<p><i>IPSAS 21.44</i></p>
<p>Where the carrying amount of an asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable service amount. The impairment loss is recognized in surplus or deficit, except for a revalued asset, where it is treated as a revaluation decrease.</p>	<p><i>IPSAS 21.45</i></p>
<p><b>(c) Reversal of Impairment</b></p> <p>For each asset, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the Public Sector estimates the asset's recoverable service amount.</p> <p>A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable service amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable service amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized as a surplus or a deficit.</p>	<p><i>IPSAS 21.35</i></p> <p><i>IPSAS 21.59, 21.60</i></p>

<p><b>1.12. Intangible Assets</b></p> <p>Intangible assets are initially recorded at cost, except for those acquired in a non-exchange transaction, which are measured at fair value at the date of acquisition.</p> <p>Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.</p> <p>Expenditure incurred during the research phase of an internally generated intangible asset is expensed when incurred. Intangible assets arising from the development phase of an intangible asset are capitalized if the following criteria are met: technical feasibility; ability to complete the asset; intention and ability to sell or use; ability of the asset to generate probable future economic benefits or service potential; availability of resources to complete development; and development expenditure can be reliably measured.</p> <p>The useful lives of intangible assets are assessed as either finite or indefinite.</p> <p>The intangible assets of the Public Sector comprise licenses, computer software, and IT projects acquired, developed, or under development. These intangible assets have finite useful lives and are amortized using the reducing-balance method over their useful lives. Typically, the estimated useful life of these intangible assets ranges from 2 to 8 years. The amortization charge for each period is recognized in surplus or deficit. Intangible assets in the development phase are recognized at cost, and no amortization is charged until the asset is available for use.</p> <p>The amortization period and method for an intangible asset with a finite useful life are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate. They are treated as changes in accounting estimates.</p> <p>Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the asset's carrying amount. They are recognized as a surplus or a deficit when the asset is derecognized.</p>	<p><i>IPSAS 31.31</i></p> <p><i>IPSAS 31.73</i></p> <p><i>IPSAS 31.87</i></p> <p><i>IPSAS 31.52,31.55</i></p> <p><i>IPSAS 31.96</i></p> <p><i>IPSAS 31.103</i></p> <p><i>IPSAS 31.112</i></p>
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**Commentary**

Under IPSAS 31.71, an entity has a policy choice for the measurement of intangible assets after initial recognition. An entity may choose either the historical cost model or the current value model for entire classes of intangible assets unless there is no active market for those assets. The Government has elected to use the historical cost model for all classes of intangible assets as it is the easier and cheaper option.

<p>1.13. Biological Assets</p> <p>Biological assets are split into the following categories:</p> <ul style="list-style-type: none"> <li>(a) Bearer Biological Assets (other than bearer plants);</li> <li>(b) Consumable Biological Assets; and</li> <li>(c) Agricultural Produce.</li> </ul> <p>Bearer biological assets (other than bearer plants) are those biological assets that are used repeatedly or continuously for more than one year in an agricultural activity.</p> <p>Consumable biological assets are those that are held for harvest as agricultural produce or for sale or distribution at no charge or for a nominal charge, such as animals and plants, for one-time use.</p> <p>Agricultural produce is the harvested output of the entity's biological assets, such as crops grown on bearer plants.</p> <p>The Government recognizes biological assets or agricultural produce when, and only when, the Government controls the assets as a result of past events, future economic benefits associated with such assets will probably flow to the Government, and the fair value or cost of the assets can be measured reliably.</p> <p>Bearer biological assets (other than bearer plants) and consumable biological assets are measured at fair value less costs to sell, with any change therein recognized in surplus or deficit. Where fair value cannot be reliably determined, the asset is recorded at cost less accumulated depreciation and accumulated impairment losses.</p> <p>Agricultural produce harvested from the Government's biological assets is measured at fair value less cost to sell at the point of harvest. A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell is included in surplus or deficit.</p> <p>1.14. Non-Current Assets Held for Sale or Discontinued Operations</p> <p>The Public Sector classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.</p> <p>Assets held for sale are measured at the lower of the carrying amount and the fair value less costs to sell, and no depreciation is charged.</p> <p>When the sale is expected to occur more than one year from the date of the measurement, the entity shall measure the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in surplus or deficit as a financing cost.</p> <p>1.15. Service Concession Asset</p> <p>The Public Sector, as the grantor, recognizes a service concession asset if:</p> <ul style="list-style-type: none"> <li>a) it controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and</li> </ul>	<p><i>IPSAS 27.40</i></p> <p><i>IPSAS 27.13</i></p> <p><i>IPSAS 27.9</i></p> <p><i>IPSAS 27.13, 27.32</i></p> <p><i>IPSAS 27.30</i></p> <p><i>IPSAS 27.30</i></p> <p><i>IPSAS 44.11,44.12</i></p> <p><i>IPSAS 44.13</i></p> <p><i>IPSAS 32.9</i></p>
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<p>b) it controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement.</p>	
<p>The service concession asset is initially measured at fair value unless it relates to an existing asset that the Public Sector is reclassifying as a service concession asset.</p>	<p><i>IPSAS 32.11</i></p>
<p>After initial recognition, the service concession asset is accounted for as a separate class of assets per IPSAS 45 or IPSAS 31, as appropriate, i.e., using the historical cost method or revaluation method.</p>	<p><i>IPSAS 32.13</i></p>
<p>The Public Sector also recognizes a liability as described below, depending on the nature of the consideration exchanged between the Public Sector and the operator.</p>	<p><i>IPSAS 32.18</i></p>
<p><b>(i) <u>Financial Liability Model</u></b> If the Public Sector has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of the service concession asset, a financial liability is recognized.</p>	<p><i>IPSAS 32.21</i></p>
<p>The Public Sector allocates payments to the operator according to their substance as a reduction in the liability, a finance charge, and charges for services provided by the operator.</p>	<p><i>IPSAS 32.24</i></p>
<p><b>(ii) <u>Grant of a Right to the Operator Model</u></b> Suppose the Public Sector compensates the operator for construction by granting the operator the right to earn revenues from third-party users or access to another revenue-generating asset for the operator’s use. In that case, deferred revenue is recognized for any portion of the revenue that has not yet been earned.</p>	<p><i>IPSAS 32.25</i></p>
<p>Revenue is recognized in accordance with the economic substance of the service concession arrangement, and the liability is reduced as revenue is recognized.</p>	<p><i>IPSAS 32.26</i></p>
<p>The liability recognized is initially measured at the same amount as the service concession asset.</p>	
<p>1.16. Financial Liabilities (Excluding Derivatives)</p>	
<p><b>(i) <u>Initial Recognition and Measurement</u></b> A financial liability is recognized when the Public Sector becomes a party to the contractual provisions of the instrument.</p>	
<p>Upon initial recognition, short-term payables are recognized at the original invoice amount if the effect of discounting is immaterial. All other financial liabilities are measured at their fair value, plus transaction costs directly attributable to the acquisition or issue of the financial liabilities, except when the financial liabilities are measured at fair value through surplus or deficit.</p>	<p><i>IPSAS 1.80</i></p> <p><i>IPSAS 41.10</i></p>
<p><b>(ii) <u>Subsequent Measurement</u></b> All financial liabilities are subsequently measured at amortized cost using the cost-effective interest method, except for financial liabilities at fair value through surplus or deficit, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach</p>	<p><i>IPSAS 41.60,</i></p>

<p>applies, financial guarantee contracts, and commitments to provide a loan at a below-market interest rate.</p> <p>The Public Sector’s financial liabilities include the following:</p> <p><b>(a) <u>Treasury Bills/Treasury Bonds</u></b>  Treasury Bills and Certificates are measured at amortized cost, which, due to the short-term nature of these liabilities, is equivalent to the amount payable at maturity to the holders of these instruments.</p> <p><b>(b) <u>Interest-Bearing Borrowings (Including Treasury Bills and Bonds) and IMF Special Drawing Rights (SDR) Allocations</u></b>  After initial recognition, interest-bearing borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus/deficit when liabilities are derecognized, as well as through amortization.  Amortized cost is calculated by taking into account any discount or premium at acquisition, as well as fees or costs that are integral to the effective interest rate.</p> <p>Interest-bearing borrowings that are expected to be settled within 12 months after the reporting period are classified as current liabilities.</p> <p><b>(c) <u>Concessionary Loans</u></b>  For concessionary loans received by the Public Sector, the difference between the loan proceeds and the fair value at initial recognition is recognized as revenue from non-exchange transactions. However, if a present obligation exists, a liability is recognized, and as the present obligation is satisfied, the liability is reduced, and an equal amount of revenue is recognized.</p> <p><b><u>d) Commitment to Provide a Loan at Below Market Interest Rate</u></b>  The commitment to provide loans at below-market interest rates is initially recognized as a liability at fair value. Subsequently, unless the liability has been designated at fair value through surplus or deficit, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date, and the amount initially recognized, less cumulative amortization.</p> <p><b>e) <u>Financial Guarantee Contracts</u></b>  Financial guarantee contracts issued by the Public Sector are contracts that require specified payments to be made to reimburse the holder for a loss it incurs when the specified debtor fails to make payment when due under the terms of a debt instrument.</p> <p>Financial guarantee contracts are recognized initially as liabilities at fair value, adjusted for transaction costs directly attributable to the issuance of the guarantee.</p> <p>Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognized, less cumulative amortization.</p>	<p>41.57</p> <p>IPSAS41.45</p> <p>IPSAS 41.9</p> <p>IPSAS 1.80 IPSAS 41 AG118</p> <p>IPSAS 41.57, 41.45(d)</p> <p>IPSAS 41.9</p> <p>IPSAS 41.57</p> <p>IPSAS 41.45</p>
<p><b>Commentary</b></p> <p>IPSAS 41.2(e) states that an entity applies IPSAS 41- Financial Instruments to financial guarantee contracts.</p>	

<p>Still, it shall use the relevant international accounting standard for insurance contracts if the issuer elects to apply it in recognizing and measuring these contracts.</p> <p>The Government has applied IPSAS 41 to financial guarantee contracts since applying Insurance Contracts is an election which can be made under certain circumstances, such as if the issuer has previously adopted an accounting policy that treated financial guarantee contracts as insurance contracts and has used accounting applicable to insurance contracts (IPSAS 41. AG4, IPSAS 41. AG5). The Government has not previously treated financial guarantee contracts as insurance contracts.</p>	
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<p><b><i>(f) Trade and Other Payables</i></b></p> <p>Short-term payables and deposits are initially recognized at their carrying amount, except when the discount impact is material.</p> <p>Long-term payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.</p>	<p><i>IPSAS 41.60</i></p> <p><i>IPSAS 41.57,</i> <i>41.45</i></p>
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<p><b>Commentary</b></p> <p>The Government has designated the above financial liabilities at FVTSD, as this would result in more relevant information because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.</p>
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<p><b>(iii) De-recognition</b></p> <p>A financial liability (or a part of a financial liability) is removed from the statement of financial position when the financial liability is extinguished – i.e., when the obligation specified in the contract is discharged, waived, cancelled, or expires.</p> <p><b>1.17. Derivative Financial Instruments</b></p> <p>The Public Sector may enter into a variety of derivative instruments. Some instruments may be held for trading, while others are held to manage exposure to interest rate, credit, and foreign exchange rate risks.</p> <p>Derivative instruments include forward contracts, spot positions, swaps, and options. These instruments are initially recognized at fair value at the date the derivative contract is entered and subsequently measured at their fair value at the reporting date. The gain or loss is recognized in surplus or deficit. They are reported as either assets or liabilities, depending on whether the derivative is in a net gain or a net loss position.</p> <p><b>1.18. Provisions</b></p> <p>Provisions are recognized when the Public Sector has a present obligation as a result of a past event, and the Public Sector will probably be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the reporting date.</p> <p>The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.</p> <p>Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.</p>	<p><i>IPSAS 41.35</i></p> <p><i>IPSAS 19.22</i></p> <p><i>IPSAS 19.64</i></p> <p><i>IPSAS 19.69</i></p>
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<p>1.19. Employee Benefits</p> <p><b>(i) Short-Term Employee Benefits</b></p> <p>Short-term employee benefits are benefits expected to be settled wholly within 12 months after the reporting period in which the employee renders the related service.</p> <p>The short-term employee benefits of the Public Sector include salaries, wages, salary compensation, overtime, travel and transport, end-of-year bonuses, social security contributions, passage benefits, and allowances instead of passage benefits.</p> <p>Passage benefits represent the estimated liability of state and public officers as per the Salaries and Remuneration Commission.</p> <p>Short-term employee benefits are expensed in the period the employee renders the service. A liability is recognized in respect of an amount not paid at the end of the financial year.</p> <p><b>(ii) Short-term paid leaves</b></p> <p>Non-accumulating paid leave (casual, portion of sick leave, maternity, and study leaves) are expensed in the period the leave is taken and are measured at the rates paid or payable.</p> <p>Accumulated paid leave (bank of sick leave and vacation leave) accrues during the period the employee renders service.</p> <p><b>(iii) Post-Employment Benefits:</b></p> <p><b>(a) Defined Contribution Plan</b></p> <p>Defined contribution plans are post-employment benefit plans under which the Public Sector pays fixed contributions into another entity, the Public Service Superannuation Scheme (PSSS) for full-time employees. The Public Sector has no further payment obligations once the contributions have been paid.</p> <p>These contributions are expensed in the period in which the employee renders the service, and a liability is recognized for the amount not paid at the end of the financial year.</p> <p><b>(b) Defined Benefit Plan</b></p> <p>The Public Sector operates Defined Benefit Plans for employees.</p> <p>The plans may be both funded/unfunded. The calculation of defined benefit obligations is performed every year by a qualified actuary.</p> <p>The cost of providing benefits is calculated by independent actuaries using the projected unit method. The benefits are then discounted to determine the present value of the defined benefit obligation and the current service cost. The fair value of any plan assets is deducted from the present value of the defined benefit obligation. This value is then adjusted for any effect of limiting a net defined benefit asset to the asset ceiling to obtain the net defined benefit liability (asset). Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable), and the return on plan assets (excluding interest), is reflected immediately in the net assets/equity.</p> <p>Remeasurement recognized in net assets/ equity is not reclassified to surplus or deficit in subsequent periods.</p>	<p><i>IPSAS 39.9</i></p> <p><i>IPSAS 39.11</i></p> <p><i>IPSAS 39.13(b)</i></p> <p><i>IPSAS 39.13(a), 39.16</i></p> <p><i>IPSAS 39.53</i></p> <p><i>IPSAS 39.59a b</i></p> <p><i>IPSAS 39.59d</i></p>
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<p>Current service cost, past service cost, and gain or loss on settlement, net interest on the net defined benefit liability (asset) are recognized in surplus or deficit.</p>	
<p><b>(iv) Termination Benefits</b></p>	
<p>Termination benefits result from either the Public Sector’s decision to terminate the employment or an employee’s decision to accept an entity’s offer of benefits in exchange for termination of employment.</p>	<p><i>IPSAS 39.124</i></p>
<p>The difference between the benefit provided for termination of employment at the employee's request and the higher benefit provided at the entity's request is a termination benefit.</p>	<p><i>IPSAS 39.59c</i></p>
<p>A liability and expense in relation to termination benefits are recognized at the earlier of:</p>	<p><i>IPSAS 39.162</i></p>
<ul style="list-style-type: none"> <li>• When the entity can no longer withdraw the offer of those benefits and</li> <li>• When the entity recognizes costs for a restructuring that is within the scope of IPSAS 19 and involves the payment of termination benefits.</li> </ul>	<p><i>IPSAS 39.163</i></p>
<p>Termination benefits are measured at initial recognition, and subsequent changes are recognized under the nature of employee benefits, provided that, when termination benefits are an enhancement to post-employment benefits, the requirements for post-employment benefits apply.</p>	<p><i>IPSAS 39.168</i></p>
<p>Termination benefits settled within 12 months are reported at the amount expected to be paid; otherwise, they are reported as the present value of the estimated future cash outflows.</p>	<p><i>IPSAS 39.172</i></p>
<p>1.20. Social benefits</p>	<p><i>IPSAS 42.5</i></p>
<p>Social benefits are cash transfers provided to specific individuals and/or households who meet eligibility criteria, mitigate the effects of social risks, and address society's needs as a whole.</p>	<p><i>IPSAS 42.5</i></p>
<p><b>(i) Initial Measurement</b></p>	<p><i>IPSAS 42.6</i></p>
<p>The Public Sector recognizes a liability for a social benefit scheme when it:</p>	<p><i>IPSAS 42.6</i></p>
<ul style="list-style-type: none"> <li>(a) has a present obligation for an outflow of resources that results from a past event; and</li> <li>(b) The present obligation can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general-purpose financial reports.</li> </ul>	<p><i>IPSAS 42.12</i></p>
<p>The initial measurement of the liability for a social benefit scheme is the best estimate of the costs, that is, the social benefit payments, that the Public Sector will incur in fulfilling the present obligations represented by the liability. The Public Sector also recognizes an expense for the social benefit scheme equal to the liability.</p>	<p><i>IPSAS 42.12</i></p>
<p>The recognition of a liability must involve an outflow of resources for it to be settled.</p>	<p><i>IPSAS 42.21</i></p>
<p>An obligation that can be settled without an outflow of resources is not a liability.</p>	<p><i>IPSAS 42.21</i></p>
<p>When the liability is not expected to be settled within 12 months after the end of the reporting period in which it is recognized, it is discounted using a discount rate that reflects the time value of money.</p>	<p><i>IPSAS 42.21</i></p>

<p>An expense is not recognized in respect of a social benefit scheme where a social benefit payment is made before all eligibility criteria for the next payment are satisfied.</p> <p><b>(ii) Subsequent Measurement</b></p> <p>The liability is reduced as social benefit payments are made, and any difference between the cost of making the social benefit payments and the carrying amount of the liability in respect of the social benefit scheme is recognized in surplus or deficit in the period in which the liability is settled.</p> <p>Where a liability is discounted, the liability is increased and interest expense recognized in each reporting period until the liability is settled, to reflect the unwinding of the discount.</p>	<p><i>IPSAS 42.7</i></p> <p><i>IPSAS 42.14</i></p> <p><i>IPSAS 42.11</i></p> <p><i>IPSAS 42.16</i></p> <p><i>IPSAS 42.17</i></p>
<p>1.21. Leases</p> <p><b>(i) Public Sector as Lessee: Finance lease</b></p> <p><u>Right-of-Use assets</u></p> <p>Rights-of-Use assets are initially measured at cost. The cost of Rights-of-Use assets includes the initial measurement of lease liabilities recognized, initial direct costs incurred by the lessee, and lease payments made at or before the commencement date, less any lease incentives received.</p> <p>After initial recognition, the recognized Rights-of-Use assets are measured at cost less any accumulated depreciation and accumulated impairment losses. Depreciation is charged on a reducing balance basis over the shorter of its estimated useful life and the lease term.</p>	<p><i>IPSAS 43.24, 43.25</i></p> <p><i>IPSAS 43.31, 43.33</i></p>

**Commentary**

**Under IPSAS 43.30, an entity has a policy choice for the measurement of right-of-use assets after initial recognition. An entity may choose either the historical cost model or the current operational value model for Right-of-Use assets that relate to a class of Property, Plant, and Equipment to which the revaluation model applies.**

**For Right-of-Use assets that meet the definition of Investment Property, where an entity uses the fair value model in IPSAS 16 – Investment Property for its investment property, the entity shall also apply the fair value model to those Right-of-Use assets.**

The Government has elected to use the historical cost model.



<p><b>(i) Public Sector as Lessee: Operating lease</b></p> <p>The Public Sector elects to treat a lease as an operating lease, which is short-term and of low value, and is expensed in surplus or deficit on a reducing-balance basis over the lease term.</p> <p><b>(ii) Public Sector as Lessor: Finance Lease</b></p> <p>At the commencement date, the Public Sector recognizes the assets held under the finance lease in the statement of financial position. Also, it recognizes a receivable equal to the net investment in the lease. The rate implicit in the lease is used to measure the net investment in the lease.</p> <p>Subsequently, it is recognized as finance revenue over the lease term based on the constant periodic rate of return on the entity's net investment in the lease.</p> <p><b>(iii) Public Sector as Lessor: Operating Lease</b></p> <p>The Public Sector recognizes lease payments under operating leases as revenue on a reducing-balance basis.</p>	<p><i>IPSAS 43.37</i></p> <p><i>IPSAS 43.6</i></p> <p><i>IPSAS 43.7</i></p> <p><i>IPSAS 43.71, 72, 73</i></p>
<p><b>1.22. Offsetting of Financial Instruments</b></p> <p>Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.</p>	<p><i>IPSAS 43.75</i></p>
<p><b>1.23. Contingent Assets and Liabilities</b></p> <p>The Public Sector does not recognize a contingent asset. Still, it discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Public Sector in the notes to these Consolidated financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements.</p> <p>Suppose it has become virtually certain that an inflow of economic benefits or service potential will arise, and the asset's value can be measured reliably. In that case, the asset and the related revenue are recognized in the consolidated financial statements of the period in which the change occurs.</p> <p>The Public Sector does not recognize a contingent liability. Still, it discloses details of any contingencies in the notes to these consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.</p>	<p><i>IPSAS 43.81</i></p> <p><i>IPSAS 28.47</i></p> <p><i>IPSAS 19.39, 19.41, 19.43</i></p> <p><i>IPSAS 19.35, 19.36</i></p>
<p><b>1.24. Nature and Purpose of Reserves</b></p> <p><b>(i) Consolidated Fund (CF)</b></p> <p>The Consolidated Fund (CF) is established by Article 206 of the Constitution of the Republic of Kenya.</p>	

(1) There is established the Consolidated Fund into which shall be paid all money raised or received by or on behalf of the national government, except money that-

- (a) is reasonably excluded from the Fund by an Act of Parliament and payable into another public fund established for a specific purpose; or
- (b) may, under an Act of Parliament, be retained by the State organ that received it to defray the expenses of the State organ.

(2) Money may be withdrawn from the Consolidated Fund only -

- (a) in accordance with an appropriation by an Act of Parliament;
- (b) in accordance with Article 222 or 223; or
- (c) as a charge against the Fund as authorized by this Constitution or an Act of Parliament

The Consolidated Fund has, during the year under review, been:

- (a) credited with all the revenues of the Public Sector and all other money properly accruing to it;
- (b) charged with expenses on the authority of an Appropriation Act and a warrant issued by the President of Kenya;

**(ii) Special Fund**

Special Funds are monies that Article 206 (1) (b) of the Constitution of Kenya excludes from the Consolidated Fund. They include the Roads Maintenance Levy Fund, the Petroleum Development Levy Fund, the Railway Development Levy Fund, the East Africa Tourist Visa, and the Housing Fund. An Act of Parliament excluded these funds from the Consolidated Fund.

**(iii) General Fund**

The General Fund is the primary fund used by public sector entities to record all inflows and outflows not associated with special-purpose funds.

**(iv) Revaluation Reserve**

The revaluation reserve arises from the revaluation of land or other classes of assets at regular intervals. When a revalued asset is sold, the portion of the revaluation reserve that relates to that asset is transferred directly to accumulated surplus.

**(iv) Other Reserves**

Other reserves comprise net unrealized investment fair value reserve, net translation reserve, general reserve, net other reserve, restructuring reserve, and other funds.

**(v) Accumulated Surplus/(Deficits)**

This represents the accumulated surplus/(deficit) to date of the Public Sector, after making necessary adjustments for accrual accounting, as provided in the Consolidated Statement of Changes in Net Assets or Equity.

## 1.25. Revenue

Revenue is recognized when it is probable (probability greater than 50%) that

- a) Future economic benefits or service potential will flow to the public entity;
- b) These benefits can be measured reliably

Revenue is measured at the fair value of the consideration received or receivable. The amount of revenue arising from a transaction is usually determined by various Acts of Parliament and operationalized via a gazette notice issued by the National Treasury. Specific transactions are guided by an agreement between the public entity and the purchaser or user of the asset or service. It is measured net of any trade discounts and volume rebates allowed by the public entity. When the inflow of cash or cash equivalents is deferred beyond 12 months, the fair value of the consideration may be less than the nominal amount of the transaction. Discounting is determined to be immaterial in the public sector context.

A distinction is normally made between exchequer revenue and appropriation-in-aid revenue, with the former included in the public entity's Statement of Financial Performance in accordance with budgetary provisions. Exchequer revenue is accounted for by the respective Receivers of Revenue.

All government revenues are collected through the e-Citizen platform.

### Revenue for Binding Arrangements

Public Sector revenue may arise from transactions without binding arrangements or with binding arrangements. The majority of revenue of government and other public sector entities is typically derived from transactions without binding arrangements, or from transactions with binding arrangements that do not include transfers of distinct goods or services to external parties.

A binding arrangement is one that confers rights and obligations on the parties, enforceable through legal or equivalent means.

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the Public Entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners.

### Revenue from transactions without Binding Arrangements

When a Public Entity recognizes an inflow or a right to an inflow of resources as an asset for a revenue transaction without a binding arrangement, it recognizes revenue based on the nature of the requirements in that transaction.

Revenue shall initially be measured at its transaction consideration as at the date at which the criteria for asset recognition are satisfied. After initial recognition, public sector entities subsequently measured:

- (a) A receivable asset:

*IPSAS 47.9*

*IPSAS 47.4*

*IPSAS 47.5*

<ul style="list-style-type: none"> <li>• Within the scope of IPSAS 41 as a financial asset</li> <li>• Not within the scope of IPSAS 41 on the same basis as a financial asset, by analogy</li> </ul> <p>(b) All other assets as prescribed by the applicable IPSAS</p>	<p><i>IPSAS 47.29</i></p>
<p><u>Revenue from transactions with Binding Arrangements</u></p> <p>At the inception of the binding arrangement, a public sector entity assessed the goods or services promised in a binding arrangement with a resource provider and shall identify as a compliance obligation each promise to use resources internally for, or transfer to an external party or parties, either</p> <ul style="list-style-type: none"> <li>(a) A good or service that is distinct; or</li> <li>(b) A series of distinct goods or services that are substantially the same in characteristics and risks and that have the same pattern of use internally.</li> </ul>	<p><i>IPSAS 47.30</i></p> <p><i>IPSAS 47.31</i></p>
<p>When a public entity receives an inflow of resources in a revenue transaction with a binding arrangement, the public entity recognizes:</p> <ul style="list-style-type: none"> <li>(a) Revenue from any satisfied compliance obligations in respect of the same flows;</li> <li>(b) A liability for any unsatisfied compliance obligations in respect of the same inflows.</li> </ul>	<p><i>IPSAS 47.68</i></p>
<p>An asset in a revenue transaction with a binding arrangement shall be measured by the public entity at its transaction consideration as at the date on which the criteria for asset recognition are satisfied. An entity shall subsequently measure the asset in accordance with the above.</p>	<p><i>IPSAS 47.87</i></p> <p><i>IPSAS 47.106</i></p>

**(ii) Sale of Goods**

Revenue from the sale of goods is recognized when:

- the significant risks and rewards of ownership have been transferred to the buyer, usually when goods are delivered,
- when the amount of revenue incurred can be measured reliably,
- when the entity retains neither managerial involvement nor effective control over the goods sold,
- when the costs incurred can be measured reliably, it is probable that the economic benefits or service potential associated with the transaction will flow to the Public Sector.

**(iii) Royalties**

Royalties are recognized as earned per the terms of the relevant agreement.

**(iv) Dividends and Withdrawal of Income from Statutory Bodies and Similar Distributions**

Dividends and Withdrawal of Income from Statutory Bodies and Similar Distributions are recognized when the Public Sector's right to receive payment is established.

**(v) Rental Income**

Rental income arising from operating leases on investment properties, the lease of public land, and fishing leases is accounted for on a reducing-balance basis over the lease terms.

**(vi) Interest Income**

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The technique applies this yield to the principal outstanding to determine interest income each period.

*IPSAS 41.61*

**(vii) Revenue from Construction Contract**

***(a) Non-Commercial Contracts***

Contract costs are recognized as an expense under the percentage-of-completion method, measured by reference to the percentage of labor hours incurred to date relative to the estimated total labor hours for each contract. In some cases, specific construction activities and technical supervision have been subcontracted to private-sector contractors for a fixed completion-of-contract fee. Where this has occurred, the subcontracted costs are recognized as an expense under the percentage-of-completion method for each subcontract.

*IPSAS 47.98*

Contract revenue from complete cost recovery contracts and partial cost recovery contracts entered into by the Public Sector is recognized by reference to the recoverable costs incurred during the period, measured by the proportion that recoverable costs incurred to date bear to the estimated total recoverable costs of the contract.



	<p>Employment income not chargeable to PAYE is</p> <ul style="list-style-type: none"> <li>• Meals provided by employer up to a maximum of Kshs 5000 per month</li> <li>• Night out of Kshs 2000 per day</li> <li>• Medical cover</li> <li>• Various pension covers up to a maximum of Kshs 30000 per month</li> </ul> <p>There are various allowable deductions and tax reliefs.</p> <p>Revenue is recognized when the taxable activity takes place, based on income tax returns submitted by the taxpayer by 30 June of the following financial year.</p> <p>Any revenue for the current financial year declared after 30 June or relating to prior periods is recognized as revenue in the year that the returns are submitted.</p> <p>Revenue recognized represents the net amount payable by the taxpayer after any refund and deduction of any Pay as You Earn (PAYE) or Tax Deduction at Source (TDS).</p>
	<p><b>2. Income Tax- Companies &amp; Bodies Corporate</b></p> <p>Income tax for companies and public entities is a tax charged each year on all income received, whether resident or non-resident, that is accrued in or derived from Kenya. Entities exempted from Income Tax are listed on the First Schedule to the Income Tax Act, Cap. 470.</p> <p>The tax is recognized on an accrual basis.</p> <p>Turnover Tax is a tax charged on businesses whose gross turnover is more than Kshs 1 million but does not exceed or is not expected to exceed Kshs 25 million during any year of income. Turnover tax is a final tax levied at 1% on gross monthly sales.</p> <p>The tax is recognized on an accrual basis.</p>
	<p><b>3. Withholding Tax (WHT)</b></p> <p>This is a tax-deductible from certain classes of income at the time a payment is made to non-employees. These classes of income include:</p> <ul style="list-style-type: none"> <li>• Interest</li> <li>• Dividends</li> <li>• Royalties</li> <li>• Management or professional fees</li> <li>• Commissions</li> <li>• Rent received by non-residents</li> </ul> <p>Revenue is recognized in the financial year the taxable activity takes place, based on returns submitted in the current financial year. PAYE /TDS for June submitted up to the cut-off date of 31 July of the following year, the financial year is recognized</p>
Taxes on Property	Revenue is recognized on an accrual basis. Includes Rental Income, Capital Gains Tax, Stamp Duty, etc.

<p>Taxes on Goods : Services and Taxes International and Trade Transactions</p>	<p>1. <u>Value Added Tax (VAT)</u></p> <p>VAT is charged on the supply of taxable goods or services made or provided in Kenya and on the importation of taxable goods or services into Kenya. Annual revenue for a public entity must exceed Kshs 5 million for them to register for VAT. To facilitate compliance, KRA appoints agents to collect and remit VAT via Itax.</p> <p>Revenue is recognized in the year the taxable activity takes place based on returns relating to the current financial year submitted by the taxpayer during the financial year, net of any repayment.</p> <p>VAT returns are due on or before the 20<sup>th</sup> day of the following month. Therefore, returns for June are provided on 20<sup>th</sup> July after the financial year. VAT relating to prior periods is recognized as revenue, net of any repayment in the year in which the returns are submitted.</p>
	<p>2. <u>Excise Duties</u></p> <p>This is the duty of excise imposed on:</p> <ul style="list-style-type: none"> <li>• Goods manufactured in Kenya, or</li> <li>• Imported into Kenya and specified in the 1<sup>st</sup> Schedule to the Excise Duty Act, 2015.</li> </ul> <p>Revenue is recognized in the financial year the taxable activity takes place, based on the customs declarations submitted at customs.</p>
	<p>3. <u>Capital Gains Tax</u></p> <p>This is a tax chargeable on the whole of a gain accruing to a company or an individual upon the transfer of property situated in Kenya.</p> <p>Revenue is recognized and accrued when transactions occur and are declared in the taxpayer's returns during the financial year.</p>
<p>Other Taxes</p>	<p>1. <u>Stamp Duty</u></p> <p>Stamp duty is a tax charged on the transfer of properties, shares, and stock. It is collected by the Ministry of Lands, which has appointed the KRA as an agent.</p> <p>Revenue is recognized when the transaction occurs, and taxes are declared in the taxpayer's returns during the financial year.</p>
	<p>2. <u>Betting Tax</u></p> <p>Betting tax is chargeable on the gross gaming revenue of a bookmaker at the rate of 15% as provided by Section 29A of the Betting, Lotteries, and Gaming Act, 1966.</p> <p>Betting, gaming, and lottery businesses are required to withhold tax and remit to KRA 20% of the winnings being paid out to winners. Excise duty on betting is chargeable at the rate of 20% of the amount wagered or staked.</p> <p>Revenue is recognized when taxes are declared in the taxpayer's returns during the financial year.</p>

Penalties, interests, and surcharges arising in relation to taxation are recognized as revenue in the year when these charges are applied.

Revenue on assessments is recognized in the financial year in which the Assessment, Objection, or Appeal is finalized, i.e., after the resolution of the dispute.

**(ii) Grant with Conditions**

The Public Sector recognizes the grant money as both an asset and a liability, depending on the condition attached to the grant. As the Public Sector satisfies the condition, it reduces the liability and recognizes revenue in the period the liability is discharged.

<p><b>(iii) Grant/ Goods In-Kind /Gifts and Donation with No Conditions</b></p> <p>Revenues are measured at fair value and recognized on obtaining control of the asset (cash, goods, and property). If the transfer is free from conditions, and it is probable that the economic benefits or service potential related to the asset will flow to the Public Sector, and can be measured reliably.</p> <p><b>(iv) Debt Forgiveness</b></p> <p>Revenue is recognized in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven.</p> <p><b>(v) Fines, Fees, and Social Contributions</b></p> <p>Fines, fees, and social contributions are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.</p> <p><b>vi) Service In-kind</b></p> <p>The Public Sector does not recognize services in kind.</p>	<p><i>IPSAS 47.170, 47.AG 164,</i></p> <p><i>IPSAS 47.AG155</i></p> <p><i>IPSAS47.AG158</i></p> <p><i>IPSAS 47.AG159</i></p> <p><i>IPSAS 47.AG164</i></p>
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**Commentary**

**According to IPSAS 47.AG 166, an entity may, but is not required to, recognize services in-kind as revenue and as an asset.**

The Government has opted not to recognize services in kind.

**(vii) Concessionary Loan**

For concessionary loans, the difference between loan proceeds and the fair value of the loan on initial recognition is recognized as revenue. However, if a present obligation exists, a liability is recognized, and as the present obligation is satisfied, the liability is reduced, and an equal amount of revenue is recognized.

IPSAS  
47.124

1.27. Expenses

Expenses are recognized in the period to which they relate.

**(i) Grant and Subsidies**

Where grants and subsidies are at the Public Sector's discretion until payment, the expense is recognized when the payment is made. Otherwise, the cost is recognized when the specified criteria for the grant or subsidy have been fulfilled, and notice has been given to the Public Sector.

**(ii) Contributions and Social Benefits**

Contributions and social benefits are recognized in the period to which they relate.

**(iii) Operating Expenses**

These are recognized in the period when goods are received or services are rendered.

**(iv) Transfer Payments**

Transfer payments comprise mainly of pension payments, social aid, and grants to NGOs. These are recorded as an expense in the period in which the transfer is authorized, and the recipient has met all eligibility criteria. All other transfer payments are recognized on a cash basis.

**(v) Finance Costs**

Finance costs on financial liabilities measured at amortized cost are recognized in surplus or deficit using the effective interest rate method.

**(vi) Other Expenses**

Other expenses, except for transfer payments, are recognized in the period when goods are received or services are rendered.

## 1.28. Related Parties

The Public Sector regards a related party as a person or entity that can exert control, individually or jointly, or exercise significant influence over the Public Sector, or vice versa.

*IPSAS 20.4*

This includes relationships with entities in the public sector, key management personnel, and their close family members. Members of key management are regarded as related parties and comprise the Governors, Cabinet Secretaries, Speakers, Principal Secretaries, County Executive Members, Clerks, County Chief Officers, and other Accounting Officers, as well as the Senior Management of the Government.

*IPSAS 20.27*

Transactions between these related parties and the Public Sector is disclosed in these consolidated financial statements except for transactions that would occur within a normal supplier of client/recipient relationship on terms and conditions no more or less favorable than those which it is reasonable to expect the Public Sector would have adopted when dealing with that individual or entity at arm's length in the same circumstances.

Transactions between these related parties and the Public Sector is disclosed in these consolidated financial statements except for transactions that would occur within a normal supplier of client/recipient relationship on terms and conditions no more or less favorable than those which it is reasonable to expect the Public Sector would have adopted when dealing with that individual or entity at arm's length in the same circumstances.

## 1.29. Segment Reporting

The Public Sector has four reportable segments:

- Budgetary Central Government

This comprises the national government, State Departments, Parliament, Judiciary, Constitutional Offices, and Consolidated Fund.

- Extra Budgetary Units

This comprises national government Statutory Bodies, Universities, TVets, TTCs, National Authorities, and National Funds.

- Public Sector Corporations

These are entities controlled by the Government comprising Financial and Non-Financial Corporations.

The presentation of the segment information in note \_\_\_\_ is based on the same accounting information as that of the Public Sector.

*IPSAS 18.12*

### 1.31. Key Assumptions and Judgements

The preparation of the Public Sector's consolidated financial statements in conformity with IPSAS requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

*IPSAS 1.137, 1.140*

#### **(i) Judgements**

In the process of applying the Public Sector's accounting policies, management has made judgments, which have the most significant effect on the amounts recognized in these consolidated financial statements.

*IPSAS 1.137*

#### **(a) Provisions**

Provisions were raised, and management prepared an estimate based on the available information. Additional disclosure of these estimates of provisions is included in Note \_\_\_\_.

#### **(b) Assessment of significant influence**

Where the Public Sector holds less than 20% of voting rights in an investment but has the power to exercise significant influence, the investment is treated as an associate. In the opposite situation, where the Public Sector holds over 20% of voting rights (but not over 50%) and does not exercise significant influence, the investment is treated as an available-for-sale investment.

#### **(c) Assessment of De-Facto Control**

De facto control exists when the size of the Public Sector's voting rights relative to the size and dispersion of other vote holders gives the Public Sector the practical ability to direct the relevant activities of the company unilaterally.

Although the Public Sector owns less than half of Entity X\_ and has less than half of its voting power, management has determined that the Public Sector controls Entity X on a de facto basis, because the remaining voting rights in the investees are widely dispersed. There is no indication that all shareholders exercise their votes collectively.

#### **(d) Operating Lease Commitments – Public Sector as Lessor**

The Public Sector has entered into property leases of certain of its properties. The Public Sector has determined, based on an evaluation of the terms and conditions of the arrangements (such as the lease term not constituting a substantial portion of the economic life of the commercial property), that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

*IPSAS 1.140*

## **(ii) Estimates and Assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Public Sector based its assumptions and estimates on parameters available at the time these consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market developments or circumstances beyond the Public Sector's control. Such changes are reflected in the assumptions when they occur.

## **(a) Useful Lives and Residual Values**

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Public Sector
- The nature of the asset, its susceptibility, and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market about the asset

### *(b) Fair Value Estimation – Financial Instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including the discounted cash flow model and adjusted net asset method. The inputs to these models are taken from observable markets where possible, but when this is not feasible, judgment is required to establish fair values. Judgment involves considering inputs such as liquidity risk, credit risk, and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### *(c) Defined Benefit Obligations*

The Public Sector's estimate of the DBO is based on several critical underlying assumptions, such as standard rates of inflation, mortality, the discount rate, and anticipated future salary increases.

Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses (as analyzed in Note \_\_\_\_\_).

### *(d) Changes in Accounting Policies*

The Public Sector changes its accounting policies only if required by an IPSAS or if the change results in the financial statement providing faithfully representative and more relevant information.

Changes in accounting policy resulting from the initial application of an IPSAS are accounted in accordance with the specific transitional provisions, if any, in that standard. In the absence of specific transitional provisions, the Public Sector applies retrospectively.

*(e) Impairment of Non-Financial Assets – Cash-Generating Assets*

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require estimates and assumptions. It is reasonably possible that the assumptions may change, which may then impact management's estimations and require a material adjustment to the carrying value of non-financial assets.

The Public Sector reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Cash-generating assets are recognized at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates of expected future cash flows are prepared for each Government asset.

Expected future cash flows used to determine the value in use of nonfinancial assets are inherently uncertain and may change materially over time.

The Public Sector reviews and tests the carrying value of non-cash-generating assets when events or changes in circumstances suggest that the future service potential of the asset may be reduced. Where indicators of possible impairment are present, the Public Sector undertakes impairment tests that require the determination of the asset's fair value and its recoverable service amount. The estimation of these inputs for the calculation relies on estimates and assumptions.

Any subsequent changes to the factors supporting these estimates and assumptions may affect the reported carrying amount of the related asset.

*(f) Impairment of Held-To-Maturity Investments and Loans and Receivables*

The Public Sector assesses its loans and receivables (including trade receivables) and its held-to-maturity investments at the end of each reporting period. In determining whether an impairment loss should be recorded in the statement of financial performance, the Public Sector evaluates indicators in the market to determine whether they are indicative of impairment in its loans and receivables or held-to-maturity investments.

Where specific impairments have not been identified, the impairment for trade receivables, held-to-maturity investments, and loans and receivables is calculated on a portfolio basis using historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with portfolio defaults. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

*(g) Inventories*

The Public Sector estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices or future service potential.

*(h) Taxation Revenues*

Tax revenues, the related amounts receivable and payable, and the allowance for doubtful accounts are subject to measurement uncertainty due to estimates of amounts not yet assessed/reassessed and to objections filed by taxpayers.	
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## 1.32. Financial Risk Management

IPSAS 30.38

The Public Sector is exposed to interest rate risk, foreign exchange risk, equity price risk, credit risk, and liquidity risk. The individual Public Sector and the Ministry of Finance, Economic Planning, and Development manage these risks.

### (ii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Public Sector's exposure to changes in market interest rates primarily relates to its long-term debt obligations with floating interest rates. In general, interest rate risk is managed strategically by issuing a mix of fixed- and floating-rate debt.

### (ii) Foreign Exchange Risk

Foreign exchange risk is the risk of loss from adverse movements in foreign exchange rates.

The Public Sector undertakes transactions denominated in foreign currencies, and is hence exposed to exchange rate fluctuations. To minimize its exposure to this risk, the Public Sector holds bank accounts in various currencies, including USD and GBP.

### (iii) Equity Price Risk

The Public Sector's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The majority of these investment securities are held for strategic reasons; therefore, the equity price risk associated with them is not managed.

However, the Public Sector manages some equity price risk through diversification and by placing limits on individual and total equity holdings.

### (iv) Credit Risk

Credit risk is the risk of financial loss to the Public Sector if customers or counterparties to financial instruments fail to meet their contractual obligations, and it arises principally from the Public Sector's investments, loans, and receivables.

The Public Sector manages its exposure to credit risk by:

- Maintaining credit exposure only with highly rated institutions, for which the probability of default is low. The creditworthiness of counterparties is continuously monitored.
- In some instances, requiring collateral from counterparties.

The risk management of the Public Sector is further detailed in note \_\_\_\_\_.

### (v) Liquidity Risk

Liquidity risk is the risk that the Public Sector will not be able to meet its obligations as they fall due. The Public Sector's approach to managing liquidity risk is to ensure

that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or damaging its reputation.

The Public Sector ensures it has sufficient cash on hand to meet expected operating expenses by using cash flow forecasts. In addition, liquidity risk is managed on an individual entity basis, which generally requires entities to hold assets of appropriate quantity and quality to meet their obligations as they fall due.

### 1.33. Fair Value Measurement

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts primarily due to the short-term maturities of these instruments.
- The Public Sector evaluates long-term receivables based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer, and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the incurred losses of these receivables and market-related interest rates. As at 30 June 20XX and 20X1, respectively, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.
- The fair value of loans, borrowings, and other financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk, and remaining maturities.
- Fair value of financial assets is derived from quoted market prices in active markets, if available.
- Fair value of unquoted financial assets is estimated using appropriate valuation techniques (net asset value based on the latest audited financial statements).

#### *Fair Value Hierarchy*

The Public Sector uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

**Level 1:** Quoted (unadjusted) prices in active markets for identical assets or liabilities.

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices)

**Level 3:** Techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

*IPSAS 30.31  
(see 41)*

*IPSAS 30.32  
(see 41)*

### 1.34. Events After Reporting Date

The Public Sector makes adjustments for adjusting events after the reporting date, and disclosures are made for significant non-adjusting events after the reporting date.

*IPSAS 14.10,  
14.30*

## 1.35. Standards Issued but Not Yet Effective

At the date of authorization of these consolidated financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IPSASB.

*IPSAS 3.35*

Except for IPSAS XX (Note XX), these Standards, amendments, or Interpretations have not been adopted early by the Public Sector.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement.

The following standards are expected to have a material impact on the Public Sector's financial statements in the period of initial application:

To insert:

- Title of Standard
- Nature of Expected Change
- Impact
- Effective Date /Date of adoption by Public Sector

There are no other standards that are not yet effective, and that would be expected to have a material impact on the Public Sector in the current or future reporting periods and on foreseeable future transactions.