

# **EXPLANATORY MEMORANDUM**

## **EXPLANATORY MEMORANDUM FOR ACCOUNTING POLICIES FOR THE PUBLIC SECTOR**

### **PART I**

**Name of instrument:** Accounting Policies for the Public Sector

**Name of Parent Act:** The Public Finance Management Act, *Cap 412 A*.

**Enacted Pursuant to:** Section 12 (1) (e) of the Public Finance Management Act, *Cap 412 A*

**Name of Ministry:** The National Treasury & Economic Planning

**Gazetted on:** To be advised by the Hon. Attorney-General

**Tabled on:** To be advised by the Clerk of the National Assembly

### **PART II**

#### **1. Purpose of the Statutory Instrument**

The publication of these accounting policies marks a significant milestone for our country. The publication of these accounting policies is important because the country is transitioning from a cash-basis of accounting to an accrual-basis.

Public resources are entrusted to the government 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 will reinforce the government's 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 a government 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 International Financial Reporting Standards (IFRS) or International Public Sector Accounting Standards (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.

## **2. Legislative Context**

The transition to accrual accounting in Kenya, approved by the Cabinet on March 7, 2024, and set for full implementation by 2027, is a major legislative and governance reform. The transition was officially gazetted on August 30, 2024 (Gazette Notice No. 11033), providing the legal mandate for all national and county government entities to switch to accrual accounting.

Article 201 of the Constitution requires openness, accountability, and public participation in financial management. Section 12 (1) (e) of the Public Finance Management Act, Cap 412 A, empowers the National Treasury to “*design and prescribe an efficient financial management system for the national and county governments and ensure transparent financial management and standard financial reporting as contemplated by Article 226 of the Constitution.*” The transition to accrual accounting is mandated under Section 194(1)(f) of the Public Finance Management Act,

2012, which empowers the Public Sector Accounting Standards Board (PSASB) to issue standards, with the concurrence of the Cabinet Secretary, National Treasury.

Unlike the cash basis, accrual accounting legally mandates the recognition of assets (including public land and infrastructure) and liabilities (such as debt, pension liabilities, and pending bills) in the financial statements.

The Public Audit Act, 2015, alongside the Public Finance Management Act, enables the Office of the Auditor-General (OAG) to use these new standards for stricter scrutiny of the use of public resources.

These policies are therefore developed in accordance with Section 12 (1) (e) of the Public Finance Management Act, Cap 412 A, and the procedure for public participation provided under the Statutory Instrument Act 2013.

### **3. Policy Background**

In the year 2010, the Constitution of Kenya was promulgated, and Chapter 12 focused on public finance management. The Public Finance Management Act, Cap 412 A, was enacted in 2012 to operationalize Chapter 12 of the Constitution.

Kenya immediately thereafter updated its Standard Chart of Accounts and Accounting Policies, adopting various reporting standards for public entities. Kenya Gazette Notice No. 5440, published on August 8, 2014, officially prescribed the accounting standards for public sector entities, requiring the adoption of International Financial Reporting Standards (IFRS) for commercial entities and International Public Sector Accounting Standards (IPSAS) for non-commercial entities.

This directive formalized cash basis reporting for MDAs and Counties, effective from the 2013/2014 financial year. State Corporations were required to use either IPSAS Accrual or IFRS reporting standards, depending on their mandate.

The National Treasury published its first set of consolidated financial statements in Fy 2013/2014, as required by Section 80 of the Public Finance Management Act, Cap 412 A. Since then, due to the limitations of the cash-basis of accounting, the National Treasury began transitioning to accrual accounting in FY 2017/2018. These steps included revising the

Standard Chart of Accounts, publishing the policy on Asset and Liabilities Management, increasing the number of reporting public entities, developing the roadmap for transitioning to accruals accounting, and reengineering IFMIS.

The Cabinet subsequently approved, in March 2024, a phased three-year transition roadmap for all National and County Government entities. Full accrual reporting is required for the financial year 2026/27. The shift, spearheaded by the National Treasury, addressed the need to manage assets and liabilities (pending bills) more effectively and enhance long-term financial planning.

#### **4. Guidance**

The National Treasury and Economic Planning shall sensitize the National Assembly, the general public, and the preparers and users of financial statements on the purpose and objectives of the **Accounting Policies for the Public Sector**.

#### **5. Stakeholder Consultations**

In line with the provisions of Section 5 of the Statutory Instruments Act, 2013, the National Treasury and Economic Planning undertook public participation before publication of these Accounting Policies.

The National Steering Committee responsible for preparing and developing these Accounting Policies held targeted consultations with key stakeholders, and their input was considered before finalizing and publishing these Policies.

The mode of public participation included inviting key stakeholders via an advertisement posted on the National Treasury website and published in MyGov on 24<sup>th</sup> March 2026. Written responses/emailed submissions on the Policies were sent to [ps@treasury.go.ke](mailto:ps@treasury.go.ke) and copied to [jona.wala@treasury.go.ke](mailto:jona.wala@treasury.go.ke)

#### **6. Review**

The National Treasury shall monitor the application of these Policies. This shall be done through the quarterly and annual reports prepared by the various public entities and forwarded to the National Treasury.

**7. Contact**

The contact person shall be the Cabinet Secretary or Principal Secretary, the National Treasury & Economic Planning.

Made on the....., 2026

**HON. CPA JOHN MBADI NG'ONGO, EGH**  
*Cabinet Secretary for the National Treasury & Economic Planning*