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All Accounting Officers -

Ministries, Departments, and Agencies,

Constitutional Commissions and Independent Offices,

County Executives, County Assemblies, and other County Government Entities

Dear **AM**

**GUIDELINES ON TRANSITION FROM CASH TO ACCRUAL ACCOUNTING BY THE
NATIONAL GOVERNMENT, COUNTY GOVERNMENTS AND THEIR RESPECTIVE
ENTITIES**

1.0 INTRODUCTION

On 7th March 2024, the Cabinet approved the transition from cash to accrual accounting for the National Government, County Governments, and their respective entities. Subsequently, the transition to accrual accounting was gazetted vide Gazette Notice Number 11033, dated 30th August 2024. The Cabinet Secretary of the National Treasury and Economic Planning appointed a National Steering Committee to coordinate the transition project, which was gazetted vide Gazette Notice Number 10892, dated 30th August 2024.

The National Steering Committee's (the Committee) primary mandate includes providing overall direction and coordination for the project transitioning from cash to accrual accounting. This involves adopting a roadmap for the transition and appointing technical committees or working groups to handle the project's day-to-day implementation, communication, stakeholder engagement, and monitoring compliance, among other activities as outlined in the Committee's terms of reference.

The Committee has since approved the three-year Transition Roadmap, the Standard Chart of Accounts, the Terms of Reference for the five workstreams of the Technical Committee, the IFMIS re-engineering budget, and the public sector capacity building training plan for the next three years.

To execute its mandate, the Committee is supported by a Technical Committee comprising five work streams, which include: -

- (1) IFMIS Re-engineering work-stream;
- (2) Accounting, Budgeting, and Reporting work-stream;
- (3) Assets Management work-stream;
- (4) County Governments work-stream;
- (5) Training, Communication, Stakeholder engagement, and Monitoring/Compliance work-stream.

Each workstream has a diverse membership drawn from various agencies and is led by a member of the National Steering Committee.

1.1 Purpose

The purpose of this Circular is to:

1. Update the Accounting Officers of transitioning public entities on the National Steering Committee's progress in implementing accrual accounting and their role in the transition process.
2. Provide specific guidance in the transition to accrual accounting project at the public entity level.
3. Provide clarity on the support the National Treasury will provide to Accounting Officers during the transition period.
4. Provide implementation timelines for implementing entities to observe.

The National Steering Committee will issue guidelines on a regular basis over the three-year transition on various matters related to the transition from cash to accrual accounting by the National Government, County Governments, and their respective entities.

2.0 SPECIFIC GUIDELINES ON TRANSITION

2.1 PROJECT MANAGEMENT TEAMS AT THE ENTITY LEVEL

2.1.1 Formation of the Entity Steering Committee

Each Accounting Officer of an implementing public entity (both National and County government) is required to establish a cash-to-accrual transition committee at entity level. This committee shall oversee and direct the transition process over three years at the entity level. The committee shall have clear terms of reference, and members should be drawn from various Departments/Directorates of the implementing entity. The Committee may comprise members from accounts, finance, supply chain, public works, human resources, communication, ICT, internal audit, and asset management, among others.

2.1.2 Appointment of Entity Project Manager – Transition to Accrual Accounting

The Accounting Officer should appoint a project manager from among the serving staff to oversee the transition from cash to accrual accounting project. The project manager will be the liaison between the Steering Committee and the technical committee and shall report to the Accounting Officer on the progress of the transition at the entity level. The project manager should be a senior staff member with an understanding of the project and the ability to work with the various workstreams to deliver results.

2.2 APPROVED TRANSITION FROM CASH TO ACCRUAL ACCOUNTING ROADMAP

2.2.1 Cash to Accrual Accounting Transition Roadmap

The National Steering Committee has approved the transition from cash to the accrual basis of accounting road map and the standard chart of accounts. Both documents can be accessed from the National Treasury website. The Cash to Accrual Accounting Transition Roadmap is a phased transition expected to be completed within three years (from 1st July 2024 to 30th June 2027). The phased approach taken is in line with IPSAS 33: First-time Adoption of Accrual Basis IPSAS and outlines the assets and liabilities to be onboarded onto an entity's balance sheet for each year during the transition phase as follows:

Year	Financial Year	Financial Statements
0	FY 2023/2024 - 1 st July 2024	Audited IPSAS cash-based financial statements Opening Statement of Financial Position
1.	FY 2024/2025- 30 th June 2025	The first transitional IPSAS accrual financial statements include financial assets and financial liabilities. Financial assets include cash and cash equivalents, receivables, and prepayments, while financial liabilities include payables (commonly referred to as pending bills) and third-party deposits. This is mandatory for the FY 2024/2025 financial statements. Entities that will have identified some or all other assets and liabilities may include them in the first transitional IPSAS accrual Statement of Financial Position and disclose the same.
2.	FY 2025/2026- 30 th June 2026	The second transitional IPSAS accrual financial statements will include all financial assets and financial liabilities, and all inventories as a minimum requirement. Entities that have identified all or some of the non-financial assets and other liabilities can include them in the balance sheet and make relevant disclosures.
3.	FY 2026/2027- 30 th June 2027	Fully compliant IPSAS Accrual financial statements that include all assets and all liabilities. All exceptions will have been exhausted, and each public entity must comply with all applicable IPSAS.

Transitioning public entities are required to develop a detailed roadmap outlining the key milestones at the entity level. This entity-specific roadmap should be aligned with the approved roadmap adopted by the National Steering Committee. The National Treasury, vide this circular, has provided the approved roadmap issued by the National Steering Committee to guide the transitioning entities as they develop entity-specific roadmaps. The approved roadmap can be accessed on the National Treasury website.

2.2.2 Self-Assessment Checklist

The National Steering Committee has developed a self-assessment checklist to guide entities in self-assessing their readiness to transition from cash to accrual accounting. This checklist identifies key components of the transition process that include the formation of project management teams, budget requirements, communication, training, identification and valuation of assets and liabilities, and monitoring compliance. Entities are encouraged to assess their readiness to transition from cash to accrual accounting. The assessment results will guide the entities in formulating their entity-specific roadmap.

Progressively, transitioning entities are encouraged to regularly assess themselves to identify the gaps and develop ways of addressing them to ensure they fully comply with IPSAS accrual by 30th June 2027. The checklist is also available on the National Treasury website, www.treasury.go.ke.

2.3 GUIDELINES ON SPECIFIC AREAS OF TRANSITION ROADMAP FOR FY 2024/2025

Recognition of financial assets and financial liabilities

Financial assets are economic assets held by an entity, such as cash and cash equivalents, bank balances, imprests, accounts receivable, and prepayments.

Cash and cash equivalents include money in hand, money at the bank, and mobile money. Accounts receivable include money owed to the public entity for goods and services provided. Prepayments are prepaid expenses for goods and services to be received in the future, such as insurance or rent.

Financial liabilities are obligations that the public entity has to transfer cash resources to another entity in settlement of an existing obligation.

Financial liabilities to be included in the first transitional IPSAS accrual financial statements for FY 2024/2025 are accounts payable (pending bills), accrued expenses, deferred income, third-party deposits (i.e., retention money for contracts), and public debt.

Although most of these items are classified as current assets or liabilities (since they are either consumed or settled within the entity's normal operating cycle), some may be classified as non-current assets (e.g., receivables that have long-term contractual obligations) or debt that is repayable over a long period of time.

The approved transition roadmap provides that financial assets and financial liabilities should be reported in the first transition year ending 30th June 2025.

These financial assets and financial liabilities will be classified as either current or non-current in the statement of financial position with respect to their timing of receipt or settlement.

Opening Statement of Financial Position

On 1st July 2024, all public entities transitioning to the accrual basis of accounting shall prepare and present an opening statement of financial position. This is the starting point of transitioning to accrual accounting. The accrual templates for FY 2024/2025 will have the opening statement of financial position as the comparative year column to the statement of the financial position at 30th June 2025.

Presentation of Financial Statements – for FY 2024/2025

The Steering Committee has elected that there will be no accrual-based comparative figures in FY 2024/2025. Consequently, for FY 2024/ 2025, there will be:

- a) One Statement of Financial Position as at 30th June 2025 and an opening Statement of Financial Position as at 1st July 2024.
- b) One Statement of Financial Performance for FY 2024/ 2025 (no comparative figures).
- c) One Statement of Changes in Net Assets/Equity.
- d) One Cash Flow Statement.
- e) A Statement on Budget Information that compares budget and actual amounts for the FY 2024/2025.
- f) Related accounting policies, notes, and disclosures of narrative information about material adjustments.
- g) Reconciliation of the public entity's balance of net asset/equity reported on the modified cash basis of accounting to its opening balance of net asset/equity as at 1st July 2024. A reconciliation of the public entity's audited surplus or deficit on the modified cash basis for the year ending 30th June 2024 to its opening balance surplus or deficit as at 1st July 2024.

Accounting Policies

On 1st July 2024, all public entities transitioning to accrual accounting shall apply the requirements of all IPSAS retrospectively, except if required or otherwise permitted by IPSAS 33. Transactions in IFMIS that are currently on a cash basis will be translated to an accrual basis as per the MS Excel template provided.

Except as provided for in the table above, all public entities shall, in their opening Statement of Financial Position (1st July 2024),

- a) Recognize assets and liabilities whose recognition is required by IPSAS and as per the transition roadmap.
- b) Not to recognize as items, assets, or liabilities if IPSAS do not permit such recognition.
- c) Apply IPSAS to measure all recognized assets and liabilities.

The accounting policy used in the first year of transitioning may differ from that used in the final year of transitioning. The National Treasury and the PSASB will reflect those accounting policy changes in the revised reporting templates.

Exceptions in Measurement

All Accounting Officers of public entities shall apply the guidance provided by IPSAS 46 – Measurement when measuring assets and/or liabilities. The Steering Committee guidance is for historical cost and or current operational value to be used for assets, and cost to fulfillment to be used for liabilities.

All public entities may need to make estimates in accordance with IPSAS on 1st July 2024 or during the period of transition that were not required at that date under the cash basis of accounting. To achieve consistency with IPSAS 14, those estimates shall reflect conditions that existed at the date of adoption of accrual accounting (1st July 2024) or the date during the transition period. In particular, estimates determined by market prices, interest rates, or foreign exchange shall reflect market rates at that date. For non-financial assets, such as property, plant, and equipment, estimates about an asset's useful life, residual value, or condition reflect the public entity accounting officer's expectations and judgment on 1st July 2024 or at any date during the transition period.

Fair Presentation and Compliance with IPSAS during the Transition Period

In accordance with para.29 of IPSAS 1, fair presentation is achieved in virtually all circumstances by compliance with applicable IPSAS. The exemptions provided in the table above provide relief from the recognition, measurement, presentation, and disclosure requirements in IPSAS on the date of adoption of IPSAS and during the transition period. Accounting Officers, at a minimum, must adopt exemptions as per the table above. This will affect the fair presentation of financial statements. The National Steering Committee guides that the exemptions in the table above are minimum requirements. Accounting Officers can exceed these requirements and include other assets and liabilities in FY 2024/25 and FY 2025/26.

2.3.1 Opening Balances for financial Liabilities – account payables (Pending Bills) and Third-Party Deposits

Accounts payable refer to the amount a public entity owes suppliers for goods, services, and works delivered or rendered, which remain unpaid at the end of each reporting period. For the opening balance for these liabilities, the National Steering Committee guided as follows:

1. Accounting Officers are required to circularize all their suppliers, obtain supplier statements as of 30th June 2024, and reconcile these to their records to ensure completeness of trade and other payables. These bills should be verified and supported adequately with all the relevant documentation. These bills will form the opening balances as of 1st July 2024 and will be subject to audit by the Office of the Auditor General.
2. For third-party deposits, Accounting Officers are required to reconcile the third-party deposit registers with the actual amounts held in the bank account.

2.3.2 Opening Balance for Financial Assets – Cash and Cash Equivalents, Bank Balances, receivables, and investments

Current assets include cash and cash equivalents, digital money, bank balances, receivables, prepayments, and investments. For the opening balance for these assets, the Steering Committee guided as follows:

1. Accounting Officers should ensure the board of survey is done and all bank balances as at 30th of June 2024, are then captured in the opening statement of financial position and subsequent statements, including bank balances held in commercial banks.
2. Circularize all debtors (where applicable) as at 30th June 2024 (for opening balance) and reconcile this information to the underlying records to ensure completeness and accuracy of debtors/ receivables.
3. Ensure any staff advances are accurately identified and recorded as at 30th June 2024. The Accounting Officer should update the advances registers.
4. All investments, such as T-bills and short-term fixed deposits, should be identified and recorded as part of the opening balances as of 1st July 2024. The Accounting Officer should maintain an updated investment register.

2.3.3 Integrated Financial Management Information System (IFMIS)

IFMIS is an Oracle-based system currently configured to support the cash basis of accounting. To support the transition from cash to accrual accounting, the IFMIS system is undergoing a re-engineering process. The reengineering process has commenced, and the accrual-based system is expected to go live starting 1 July 2025.

Transitioning entities are required to prepare the first-year transitional IPSAS financial statements by having cash basis figures captured in IFMIS adjusted for accrued elements. To facilitate this process, PSASB and the National Treasury have provided accrual-based financial reporting templates in MS Word and MS Excel. These templates can be accessed from the PSASB and National Treasury websites, and officers from the Accounting Services Department are on hand to provide further guidance and support. You can send your request for support to ipsasaccrual@treasury.go.ke.

2.3.4 Revised Standard Chart of Accounts (SCOA)

The National Steering Committee has approved the revised SCOA for application by all entities applying the old SCOA. The SCOA can be assessed through the National Treasury website. The revised SCOA will be configured in IFMIS to allow entities to capture their transactions in an accrual-based environment. To facilitate a smooth transition to the new SCOA, the National Treasury will conduct regular in-depth training and workshops over the transition period.

2.3.5 Identification, Valuation, and Recognition of Non-Financial Assets

Non-financial assets are those assets that have a physical form and are expected to be used or held by an entity for more than one reporting period. They are not intended for immediate consumption or sale in the ordinary course of operations. This includes Property, Plant and

Equipment, Biological assets, Intangible assets, Investment property, Buildings, Land, Roads Infrastructure, Electricity Infrastructure, Water Infrastructure, and Rail Infrastructure. These assets are classified as non-current assets in the statement of financial position.

The Steering Committee has approved 17 categories of non-current assets. Non-current assets will be included in the Statement of Financial Position in the financial year 2026/2027 as mandatory items within the transition plan for the three years. Accounting Officers with fixed asset registers are encouraged to include non-current assets from FY 2024/2025.

For these non-current assets, guidance is provided as follows: -

1. In FY 2024/2025, Accounting Officers are required to identify all the assets in their control or use, irrespective of proof of ownership and whether or not they can determine their values. Entities are required to report on all assets under their control.
2. In line with the transition roadmap, all non-current assets must be recognized and displayed in the Statement of Financial Position in year 3 (FY 2026/2027).
3. The non-current assets are to be recorded in IFMIS under the guidance of the National Assets and Liabilities Management Department at the National Treasury. Entities that have completed this exercise should ensure their records are current.
4. Where entities can identify and determine the values of assets, these should be recorded in the financial statements as early as possible. The roadmap issued alongside this circular guides the recognition and subsequent measurement, including asset depreciation rates.
5. All assets acquired during the transition period shall be identified in the year of acquisition.
6. Asset measurement and valuation will be based on either the historical cost model or the current operational value, where the historical cost is unavailable, as guided in the transition roadmap document.
7. Transitioning entities are allowed to early- adopt IPSAS 45 - Property, Plant, and Equipment early, effective 1st July 2024.
8. Accounting Officers are required to appoint an Asset Management Officer to support the transition to accrual accounting for assets.

2.3.6 Preparation of Statement on Budget Information

The budget in Kenya will continue to be prepared on a cash basis despite the approval for the transition from cash to an accrual basis of accounting. IPSAS 24 para. 34 on the presentation of budget information, envisions that an entity or a jurisdiction may have a different budgeting and accounting basis. In cases where the budget and accounting basis differ, entities must reconcile the actual amounts on a comparable basis in the budget statement and actual amounts in the financial statements according to IPSAS 24 para. 47.

Accounting Officers are, therefore, required to present the Statement on Budget Information in the financial statements on a cash basis. This means that transactions in the financial statements must be reconciled from an accrual basis to a cash basis to be compared with the cash-basis budget.

The National Treasury and PSASB have included this in the financial reporting templates.

2.3.7 Accrual-Based Financial Reporting Templates

The Public Sector Accounting Standards Board developed quarterly and annual accrual-based financial reporting templates, which were issued through National Treasury circular number 13/2024 on 3rd October 2024.

The transition is phased and requires entities to capture financial assets and financial liabilities in year one, inventories in year two, and all the other assets and liabilities in year three. It is important to note that the financial reporting templates are comprehensive, allowing entities with verifiable information on all assets and liabilities to capture them immediately.

PSASB will continue to revise the templates to incorporate any recommendations from users and other stakeholders and changes in the accounting standards. The templates are available in MS Word and MS Excel formats on the National Treasury website, www.treasury.go.ke, and the PSASB website.

2.4 TRAINING COMMUNICATION AND SUPPORT

2.4.1 Training and Sensitization

The Steering Committee will sensitize key stakeholders to create awareness about the transition project. Several training sessions have since been conducted for financial statement preparers. The training will use various modalities, including physical workshops, virtual forums, eLearning platforms, and on-the-job training.

The National Treasury and PSASB, among other stakeholders, will continue to collaborate to ensure that transitioning entities are well-trained and sensitized in all areas of the transition.

The targeted groups include the leadership of the transitioning entities, accountants, auditors, and other officers within the PFM implementation cycle.

A training calendar will be released each year and communicated to the transitioning entities.

2.4.2 Technical Support

The National Treasury, through the Accounting Services Directorate, has technical officers assigned to support implementing entities in financial reporting. Transitioning entities are urged to contact the officers for technical support in accrual accounting. Additionally, PSASB has released several guidelines on specific IPSAS standards, which are available on its website.

2.4.3 Trainers of Trainees (TOTs)

To ensure the knowledge on the accrual basis of accounting is disseminated to all relevant stakeholders, the Steering Committee has trained a pool of TOTs who will train financial statement preparers. The trainers consist of officers from PSASB, the National Treasury, and other public entities. A database of the TOTs is being finalized and will be provided to the transitioning entities to allow them to seek guidance from experts on various areas of the transition.

2.4.4 Communication

Over the transition period, the Steering Committee will provide regular updates and guidelines on the transition process through the following mediums of communication:

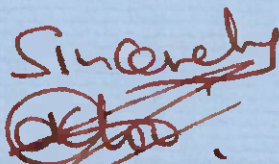
1. Circulars
2. Dedicated website for transition to accrual accounting
3. Social media pages for quick updates
4. Emails
5. Posting of guidance materials through the dedicated website
6. Print media communication
7. Newsletters and publications

2.4.5 Clarifications And Access to Accrual-Based Documents

To access documents related to the transition from cash to accrual basis, entities can log in to the National Treasury website and click the accrual accounting link under the Accountant General Desk <https://www.treasury.go.ke/accountant-generals-desk/>

Transitioning entities are encouraged to contact the Steering Committee at ipsasaccrual@treasury.go.ke for further clarification and feedback.

Yours



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