GUIDELINES FOR MANAGEMENT OF SPECIFIC CATEGORIES OF ASSETS AND LIABILITIES

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Glossary of terms

Abbreviation	Full meaning
ACARS	Aircraft Communications Addressing & Reporting Systems
ACH	Automated Clearing House
AIE	Authority to Incur Expenditure
BOOM	Building Organisation & Operations Manual
CAK	Communications Authority of Kenya
CBK	Central Bank of Kenya
CEC	County Executive Committee
CG	County Government
CMTE	Chief Mechanical & Transport Engineer
EFT	Electronic Funds Transfer
FIFO	First In First Out
GBE	Government Business entities
GFS	Government Financial Statistics
GOV	Government Owned Vehicle
GLV	Government Leased Vehicle
GRN	Goods Received Note
GVCU	Government Vehicle Check Unit
HELB	Higher Education Loans Board
IAC	Inspection and Acceptance Committee
IAS	International Accounting Standards
ICT	Information Communication and Technology
ICTA	ICT Authority
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
IP	Internet Protocol
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
ITSM	Information Technology Service Management
KAA	Kenya Airports Authority
KAGRC	Kenya Animal Genetics Resources Centre
KCAA	Kenya Civil Aviation Authority
KEFRI	Kenya Forestry Research Institute
KeNHA	Kenya National Highways Authority
KEPHIS	Kenya Plant Health Inspectorate Services
KeRRA	Kenya Rural Roads Authority
KETRACO	Kenya Electrical Transmission Company Limited
KIPI	Kenya Industrial Property Institute
KPA	Kenya Ports Authority
KPLC	Kenya Power & Lighting Company

Abbreviation	Full meaning
KRC	Kenya Railways Corporation
KURA	Kenya Urban Roads Authority
KWS	Kenya Wildlife Services
MDAs	Ministries, Departments and Agencies
MOTIHUD	Ministry of Transport, Infrastructure, Housing and Urban Development
NALM	National Assets and Liabilities Management
NCA	National Construction Authority
NEMA	National Environmental Management Authority
NG	National Government
NHC	National Housing Corporation
NHIF	National Hospital Insurance Fund
NMK	National Museums of Kenya
NSSF	National Social Security Fund
NTSA	National Transport & Safety Authority
OAG	Office of the Auditor General
PFM	Public Finance Management
PIPM	Public Investments & Portfolio Management
PIN	Personal Identification Number
POS	Point of Sale
PPAD	Public Procurement and Asset Disposal
PPE	Property, Plant & Equipment
PPP	Public Private Partnership
PPRA	Public procurement Regulatory Authority
PSASB	Public Sector Accounting Standards Board
REA	Rural Electrification Authority
SARPS	Standard and Recommended Practices
SCOA	Standard Chart of Accounts
TCP	Transmission Control Protocol
UFA	Unclaimed Financial Assets
UFAA	Unclaimed Financial Assets Authority
UNESCO	United Nations Educational, Scientific and Cultural Organisation
WIP	Work-In-Progress
WRMA	Water Resources Management Authority

1. LAND

This guideline covers the following areas:

1.1 Introduction
1.2 General management and administration of land
1.3 Accounting for land
1.4 Transitional provisions
1.5 Applicable accounting standards
1.6 Legislative authority
1.7 Implementation of guideline

1.1 Introduction

1.1.1 Preamble

(1) Land is the surface or crust of the earth, which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees.

(2) Land in Kenya is governed by the Constitution as well as legislation enacted by parliament. Matters relating to land are documented under Chapter 5, Part 1 of the Constitution. Article 260, defines land as:

a) "The surface of the earth and the subsurface rock;
b) Any body of water on or under the surface;
c) Marine waters in the territorial sea and exclusive economic zone;
d) Natural resources completely contained on or under the surface; and
e) The airspace above the surface".

(3) For purposes of this guideline, land is considered to consist of the ground, including the soil covering and any associated surface waters, over which ownership rights are enforced and from which economic benefits can be derived by their owners by holding or using them. The associated surface water includes any reservoirs, lakes, rivers, and other inland waters over which ownership rights can be exercised and that can, therefore, be the subject of transactions between units. However, water bodies from which water is regularly extracted, against payment, for use in production (including for irrigation) are included not in water resources associated with land but as subsoil assets.

(4) This guideline excludes the following:

a) Buildings and other structures constructed on the land or through it, such as roads, office buildings, and tunnels – this is covered under the buildings, investment property and infrastructure guidelines;
b) Land improvements and the costs of ownership transfer on land – These are covered in the relevant guideline based on the main asset to which they are attached e.g. buildings;
c) Cultivated components of vineyards, orchards, and other plantations of trees, animals, and crops. These are covered under the biological assets guideline;
d) Natural resources contained on or under the surface; these are covered in the subsoil assets guideline;
e) Non-cultivated biological resources which are covered under the biological assets guideline; and
f) Water resources below the ground which are covered in the subsoil assets guideline.

(5) The bodies involved in the management and oversight over land in Kenya include:

Table 1.1

<table>
<tr><th>GoK Body</th><th>Role</th></tr>
<tr><td>Ministry of Lands and Physical Planning</td><td>The Ministry of Lands and Physical Planning is responsible for the efficient administration, equitable access, secure tenure and sustainable management of land resources in the country. In accordance with Executive Order No. 1 of 2018, the Ministry is charged with the following functions;
National Lands Policy and Management;
Physical Planning for land use;
Land Transactions;
Survey and Mapping;
Land Adjudication;
Settlement Matters;
Rural Settlement Planning;
Land Registration;
National Spatial Infrastructure;
Land and Property Valuation Services Administration;
Administration of Public Land as Designated by the Constitution;
Land Information Systems; and
Maintenance of a public land bank</td></tr>
<tr><td>National Land Commission</td><td>The mandate of the commission as per Article 67 of the Constitution and section 5 of the National Land Commission Act No. 3 of 2012 is to:
manage public land on behalf of the National and County Governments;
recommend a National Land Policy to the National Government;
advise the National Government on a comprehensive program for registration of title in land throughout Kenya;
conduct research related to land and the use of natural resources and make recommendations to appropriate authorities;
initiate investigations on its own initiative or on a complaint into present or historical land injustices and recommend appropriate redress;
encourage the application of traditional dispute resolution mechanisms in land conflicts;
assess tax on land and premiums on immovable property in any area designated by law;
monitor and have oversight responsibility over land use planning throughout the country;
alienate public land;
monitor the registration of all the rights and interests in land;
ensure sustainable management of land for their intended purpose and for future generation; and
develop and maintain an effective public land information management system at National and County levels.</td></tr>
<tr><td>County Governments</td><td>Section 6 (2)(b) of the County Government Act, 2012 (Revised 2017) stipulates that “a county government may acquire, purchase or lease any land”. County Governments hold land in trust for the citizenry.</td></tr>
</table>

GoK Body	Role
	County governments took over land previously owned by the defunct local authorities.

1.1.2 Classification of land

(1) According to Article 61 of the Constitution, land in Kenya is classified as public, community or private. As per Article 62 of the Constitution, public land has a vast definition but it includes land occupied by a State organ, land transferred to the State, land to which no heir can be identified, minerals, forests, reserves, national parks, water catchment areas, sea, lakes, rivers, land between high water mark and low water mark, any land not classified as private land or community land. Public land is held by either a county or national Government in trust for the people of Kenya.

(2) Article 63 of the Constitution defines community land as *"land lawfully registered in the name of group representatives, land lawfully transferred to a specific community and any land declared to be community land by an Act of Parliament. Any unregistered community land shall be held in trust by county governments on behalf of the communities for which it is held, awaiting the operationalization of the Community Land Act, 2012."*

(3) Private Land, as defined by Article 64 of the Constitution is *"registered land held by any person under freehold tenure, land held by any person under leasehold tenure and any other land declared private land under any Act of Parliament."*

(4) The tenure of land may be either leasehold or freehold. The Land Act, 2012 defines freehold as *"the unlimited right to use and dispose of land in perpetuity subject to the rights of others and the regulatory powers of the national government, county government and other relevant state organs"*. Leasehold land is held under lease, where a lease is regarded as "*a contract that gives the lessee (the renter) the right to the use of property, plant or equipment for a fixed period of time with a fixed schedule of payments to the lessor (the owner),"* as defined by PFM Regulations, 2015.

1.1.3 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity asset register in order to facilitate consolidation into a Government register of assets. The guideline also aims to ensure uniformity in the management and administration of land by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for land and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to land. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

1.1.4 Documents of ownership

(1) Accounting officers should ensure that a public sector entity has documents of ownership for all its land. The documents of ownership for land include title deeds, certificates of title and certificates of lease. Conveyance indentures, reservation letters and occupation licences serve proof of ownership for land and are not documents of ownership. The same applies to gazette notices for irrigation schemes, forests, roads and other infrastructure. Letters of allotment, deed plans, letters of offer and scheme cards are documents issued in the processing of documents of title and do not serve as documents of title.

(2) Section 26 (1) of the Land Registration Act, 2012 provides that *"the certificate of title issued by the Registrar upon registration, or to a purchaser of land upon a transfer or transmission by the proprietor, shall be taken by all courts as prima facie evidence that the person named as proprietor of the land is the absolute and indefeasible owner, subject to the encumbrances, easements, restrictions and conditions contained or endorsed in the certificate and the title of that proprietor shall not be subject to challenge, except—*

a) *on the ground of fraud or misrepresentation to which the person is proved to be a party; or*
b) *where the certificate of title has been acquired illegally, unprocedurally or through a corrupt scheme."*

(3) Where an entity is a body corporate, the documents of ownership shall be in the name of the entity and shall be under the custody of the Accounting Officer of the respective corporate entity. In all other instances, the documents of ownership shall be in the name of Cabinet Secretary, National Treasury and shall be under the custody of the National Treasury.

1.1.5 Land improvements

(1) Land improvements are long-life attachments to parcels of land that increase the land's usefulness or value, have a limited useful life, and are depreciated. They include External Services (as defined under (2) below) and other items that are within the confines of a parcel of land (e.g. external services within school grounds, correctional facilities and ambulance stations etc).

(2) External services include the services above or below ground but external to buildings and which are within the confines of a parcel of land. These services are more appropriately classified as Land Improvements.

(3) The following are examples of items included in land improvements:

Table 1.2

• Covered Play Areas • Fountains • Landscaping and Improvements • Sheds • Parking Lots (bitumen car parks) • Parking Barriers • Retaining Walls • Centralised Energy Systems	• Roads, Footpaths, Paved Areas • Outbuildings and Covered Ways • Stormwater and Sewer Drainage • Water and Gas Supply • Fire Protection Systems • Electric Light & Power sytems • Communication Systems

(4) The above examples are not an exhaustive list. Public sector entities should record and depreciate land improvements assets as part of the main asset otherwise they are to be recorded and depreciated separately from the main asset.

(5) Land improvements are to be recognised in the same class as the main asset to which they are attached (e.g. Buildings).

1.1.6 Land under infrastructure

(1) Land under infrastructure include land under roadways, railways, road and railway reserves, as well as other infrastructure. The Ministry responsible for Lands issues gazette notices for land under infrastructure to facilitate the construction of the infrastructure.

(2) Land under roads as well as other infrastructure is to be recorded in the asset class 'Land' and therefore, recognized as assets irrespective of value.

1.1.7 Reference to Non-financial Asset Management Guidelines

(1) Land is a non-financial asset and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guideline has adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and,

disposal. The detailed guidelines with respect to the four phases have been documented in the Guidelines on asset and liability management in the public sector and are applicable to land.

1.2 General management and administration of land

(1) In addition to the management and administration aspects documented in the non-financial asset management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to land.

(2) According to the Land Registration Act, 2012 (Revised, 2016) "land administration" means the process of determining, recording, updating and disseminating information about the ownership, value and use of land.

1.2.1 Management of public land

(1) The provisions on the management of public land are documented under Part III of the Land Act, 2012 (Revised 2016).

(2) The National Land policy recognizes land as a central category of property under section 34. The Policy was formulated by the Ministry of Lands and adopted in 2009 to address the critical issues of land administration, access to land, land use planning, restitution of historical injustices, environmental degradation, conflicts, unplanned proliferation of informal urban settlements, outdated legal framework, institutional framework and information management.

1.2.2 Identification of Government owned land

(1) A public sector entity should have a complete database of land owned or held as finance leases. A search of the lands register should reveal:

a) Land clearly identified as registered to the public sector entity;
b) Land belonging to the public sector entity but incorrectly named, e.g. Land in the name of the defunct local authorities; and
c) Land belonging to a former entity that was amalgamated into the new public sector entity.

(2) Therefore, a review of the land databases (survey maps) should be part of the identification process for other assets. For example, when looking at an electrical power station, check the ownership of the land it is constructed on. The information on land databases will need to be examined and corrected. There may be a fee for correcting information with the relevant government agencies.

(3) Government owned land held as leasehold land is subject to an annual rent as prescribed by the Ministry responsible for Lands from time to time. Such rent is payable to the Ministry. Leasehold land is classified as government land.

(4) Non-formalised land which do not have title deeds and land-use agreements exist. Such land cannot be identified through a registry search. These can be identified from local knowledge and cross referenced by other asset identification processes. For example, land on which a school or a library building is situated may not be identified as public sector entity land. A public sector entity needs to do a risk analysis on the identified land issues and formalise the titles as required.

(5) The non-formalised land should also be included in the asset register with disclosure that documents of tittle do not exist.

1.2.3 Acquisitions of land

(1) The Accounting Officer shall notify The Cabinet Secretary, National Treasury or the CEC of the relevant county treasury before any acquisitions of land.

(2) According to section 7 of the Land Act, 2012, *"title to land may be acquired through allocation, land adjudication process, compulsory acquisition, prescription, settlement programs, transmissions, transfers, long term leases exceeding twenty-one years created out of private land, or any other manner prescribed in an Act of Parliament."*

1.2.4 Land donations or transfer

(1) Land donated or transferred by individuals, communities or other public sector entities shall be alienated and demarcated and title deeds obtained for the receiving public sector entity.

(2) Donations and transfers of land to a public sector entity shall be supported by proper documentation to facilitate processing of relevant documents of title by the receiving entity.

(3) No public funds shall be invested on land acquired, through donation or otherwise, where title has not passed to the receiving public sector entity.

1.2.5 Illegal allocations of public land

In instances where public land has been the subject of illegal/ irregular allocation (including schools, colleges, hospitals etc.), the responsibility of repossessing all illegally/irregularly allocated land and plots is that of the dispossessed institution. Accounting Officers shall notify the National Land Commission to initiate the necessary steps, for the repossession of such land.

1.2.6 Valuation of land

(1) The valuation process should be conducted in accordance with the approved land value indices, supporting regulations, generally recognised valuation practices and, other relevant valuation requirements and guidelines issued by the Ministry responsible for Lands.

(2) The valuation principles include:

a) generally recognised valuation practices;
b) physical inspection is the preferred option;
c) the possibility to use comparative and analytical reviews and systems, such as aerial photography;
d) the possibility to use "mass valuation" system or technique;
e) the possibility to exclude certain immovable equipment and machinery; and
f) the need to value each sectional-title unit.

1.2.7 Recording of land

(1) The Accounting Officer shall maintain a register of all land owned by the public sector entity and any land held as finance lease.

(2) According to section 143(2) of the PFM (National government) Regulations, 2015 and section 136(2) of the PFM (County Governments), Regulations, 2015 the register of land and buildings shall "*record each parcel of land and each building and the terms on which it is held, with reference to the conveyance, address, area, dates of acquisition, disposal or major change in use, capital expenditure, lease hold terms, maintenance contracts and other pertinent management details.*"

(3) The format of land register to be used for purposes of reporting to the National Treasury is attached under Appendix 6(c).

1.2.8 Disposal of land

(1) The disposal of assets, including land, is governed by Part XIV of the PPAD Act, 2015. Part VI of the PPAD Act, 2015 outlines the general procurement and disposal principles, including guidelines on asset disposal.

(2) The National Treasury and relevant County Treasury has the final responsibility for approving proposed disposals of land and buildings in accordance with Section 198 (11) of the PPAD Regulations, 2020. Section 198 (12) also requires the accounting officer to submit a disposal report on land and buildings to the National Treasury or relevant county treasury.

(3) The details on disposition of land are also documented under Part VI of the Land Registration (General) Regulations, 2017.

(4) Transfers of land from a public sector entity to other institutions shall be supported by proper documentation to facilitate processing of relevant documents of title by the receiving entity.

(5) Public sector entities shall submit a business case to the Cabinet Secretary, National Treasury or relevant county treasury, setting out the rationale and means of disposal, taking into account the

requirements of the PPAD Act, 2015 and Part VI of the Land Registration (General) Regulations, 2017.

(6) Decisions to dispose of land must take into account government objectives and demonstrate delivery of best value for money.

(7) The disposal value for land shall be based on a professional valuation of the land that shall not have been carried out more than 24 months from the date of disposal.

1.3 Accounting for land

Land shall be accounted for in accordance with IPSAS 17 and IAS 16 – Property, Plant and Equipment.

1.3.1 Recognition

(1) A public sector entity should recognise land as an asset when:

a) it has control over the land;
b) it is probable that the entity will have flows from future economic benefit or service potential as a result of the land; and
c) the cost or fair value of the land can be measured reliably.

1.3.2 Measurement

1.3.2.1 Measurement at initial recognition

(1) Expenditures to be capitalized as land include:

a) Original purchase price or fair market value at time of gift;
b) Commissions (e.g., brokers' commissions);
c) Professional fees (closing fees, title searches, legal, appraisal, surveying, environmental assessments, etc.);
d) Land excavation, fill, grading, drainage, and clearing;
e) Demolition of existing buildings and improvements (less salvage);
f) Removal, relocation, or reconstruction of property of others (railroad, telephone and power lines);
g) Accrued and unpaid taxes at date of purchase; and
h) Other costs incurred in acquiring the land.

(2) The value of land can vary enormously depending on its location and the uses for which it is suitable or sanctioned. As a result, these factors must be taken into account when the prevailing market price for the land is determined.

(3) In a number of instances, it may be difficult to separate the value of land from the value of structures erected on the land:

a) One method of estimating the value of land separately is to calculate ratios of the value of the site to the value of the structure from valuation appraisals and to deduce the value of land from the replacement cost of the buildings or from the value on the market of the combined land and buildings.
b) When the value of land cannot be separated from the building, structure, plantation etc., above it, the composite asset should be classified in the category representing the greater part of its value.

(4) Land donated by individuals, communities or other public sector entities shall be recognized at fair value at acquisition. The fair value will be determined by the guidelines developed by the ministry responsible for land.

(5) Land held for a currently undetermined future use, should not be included in PPE: Land and Buildings, but should be included in Investment Property.

1.3.2.2 Measurement after initial recognition

(1) Land shall be accounted for at cost or fair value and, shall not be depreciated. The fair value for purposes of inclusion of land in financial statements shall be in accordance with values provided by the Ministry of responsible for Lands.

(2) The revisions on valuations of land shall be based on revisions to the land value indices developed by the Ministry responsible for Lands.

(3) Land on which infrastructure and community assets are located shall be identified separately and disclosed.

(4) Land not registered in the name of a public sector entity but controlled by the entity by virtue of owner-occupied buildings thereon, shall be recognised at fair value.

1.3.3 Capitalisation threshold

All public sector land shall be included in the fixed assets register and accounting records, irrespective of value.

1.3.4 Depreciation

(1) Land is characterized as having an unlimited (indefinite) life and hence not subject to depreciation.

(2) Land held for the purpose of, say, mining coal or quarrying gravel will be dealt with for accounting purposes as subsoil assets. Consequently, although the land may have an infinite life, the deposits will have an economic life only as long as they can be profitably extracted. If the cost of extraction exceeds the potential profit from extraction and sale, the economic life of the quarry has ended.

1.3.5 Derecognition of land

(1) Land should be eliminated from the statement of financial position on disposal or when the land is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. The asset register must also be updated whenever land is disposed of.

(2) Gains or losses arising from the transfer or disposal of land should be determined as the difference between the net disposal proceeds and the carrying amount of the land. For the purposes of display in the financial statements, the gain or loss should be included in the statement of Comprehensive Income as an item of revenue or expense, as appropriate.

Note: The statement of comprehensive income is used by those entities using IFRS and IAS. For those entities using IPSAS, IPSAS 1 requires, among others, a statement of financial performance and a statement of changes in net assets/equity. Public sector entities shall therefore ensure that the relevant accounting records as required by the applicable standards.

1.3.6 Special considerations

1.3.6.1 Intangible land assets (servitudes)

There are instances when land is privately owned and a public sector entity has a servitude over it, e.g. pipe-line routes, rights of way, power-line easements, tunnel routes, etc. The value of these servitudes can vary dramatically and generally do not have an active market. Such assets should be categorized as intangible assets.

1.3.6.2 Valuing environmental reserves

Public sector entities usually manage environmental or public reserves like beaches, estuaries, nature reserves, wetlands, etc. The main challenge with respect to such resources is how to value these areas of land. From an accounting perspective, a public sector entity needs to apply the recognition criteria, in particular the criteria of "measured reliably" and "control".

1.3.6.3 Site rehabilitation and restoration costs

(1) IPSAS 17 & IAS 16 requires that the cost of an item of PPE should include: "the initial estimate of the costs of dismantling and removing an item and restoring the site …"

(2) Such site restoration costs will include the cost of rehabilitating landfill sites, mine sites, certain sites used by infrastructure, etc. These site rehabilitation and restoration costs should be accounted for in accordance with IPSAS 19 on "Provisions, Contingent Liabilities and Contingent Assets". These costs should also be discounted. For example, a land fill site will usually not need to be rehabilitated for a few decades.

1.3.7 Disclosure in financial statements

The same information as is provided for other property, plant and equipment should be included in the financial statements for land. The details of the specific items of disclosure are enumerated under IPSAS 17 and IAS 16.

1.4 Transitional provisions

(1) A public sector entity shall identify all land owned by the entity and those held as finance leases. The accounting Officer shall prepare a register of such land including all land in dispute. The register shall capture details of ownership, L. R No., location, acreage, whether freehold or leasehold, and details of any disputes, among others.

(2) An entity that adopts accrual accounting for the first time in accordance with International Accounting Standards shall initially recognize land at cost or fair value (as determined using zonal maps developed by the ministry responsible for lands). For land that was acquired at no cost, or for a nominal cost, cost is the land's fair value as at the date of acquisition.

(3) The entity shall recognise the effect of the initial recognition of land as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with IPSAS, IAS or IFRS.

(4) For entities that have already adopted accrual accounting, the Accounting Officer shall review the capitalization thresholds and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors.

1.5 Applicable accounting standards

- IPSAS 17 & IAS 16 – Property, plant and equipment
- IPSAS 13 & IAS 31 – Leases
- IPSAS 33 First – time Adoption of Accrual Basis IPSASs

1.6 Legislative authority

- Constitution of Kenya, 2010
- Cabinet Secretary to the Treasury (Incorporation) Act, Chapter 101
- Land Act, No. 6 of 2012
- Land Registration Act, No. 3 of 2012
- Land Registration (General) Regulations, 2017
- National Land Commission Act, No. 5 of 2012
- National Land use Policy 2017
- Trust of Land Act, 1941
- Urban Areas and cities Act, 2011
- The Community Lands Act, No. 27 of 2016
- Community Land Regulations, 2017
- National Land Policy, 2009
- PFM Act, 2012

- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015
- PPAD Act, 2015
- PPAD Regulations, 2020
- PPP Act, 2013
- Valuation of Rating Act, 2012, Revised 2015
- Survey Act, Cap 299

1.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 1.3

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

2. Buildings and building improvements

This guideline covers the following areas:

2.1 Introduction

2.1.1 Preamble

(1) A building is a structure that is permanently attached to the land and is not intended to be transportable or moveable. For purposes of this guideline, “a building” means a permanent structure comprising walls and a roof. Buildings are recognised as structures for which a public sector entity assumes responsibility over, to maintain for the use and /or benefit of the community. Buildings comprise a structure (timber frame and walls, brick walls, cement coverings, glass walls and windows), a foundation (support piers, structural columns, concrete slab, roof structure (tiles, timber support structure and colourbond steel) and air conditioning units (split and ducted).

(2) Building improvements relate to capital events that materially extend the useful life of a building or increase the value of a building, or both.

(3) Construction in progress (Also referred to as Work-In-Progress - WIP) refers to the economic construction activity status of buildings and other structures, infrastructure, additions, alterations, reconstruction, installation, and maintenance and repairs that are substantially incomplete.

(4) Fixtures to building, such as partitions, are to be considered as part of building. This guideline will therefore apply to all fixtures to buildings.

(5) The bodies involved in the management and oversight over public buildings in Kenya include:

Table 2.1

GoK Body	Role
State department for Housing, urban development and public works	The state department for housing, urban development and Public Works under MOTIHUD has the following functions in relation to buildings: • Housing policy management • Management of civil servants housing scheme • Public works policy and planning • Development and management of affordable housing • Management of building and construction standards and codes • National building inspection services • Registration and regulation of contractors, consultants for buildings, civil works and material suppliers • Registration of contractors and materials suppliers building research services • Coordination and delivery of the Big Four Agenda 500,000 new homes housing plan

GoK Body	Role
	• Setting and management of building and construction standards and codes • National secretariat for human settlement • Development and management of government housing • Shelter and slum upgrading • Urban planning and development • Maintenance of inventory of Government housing property • Provision of mechanical and electrical building services • Building research services • Registration and regulation of civil, building and electro-mechanical contractors • Development and management of public buildings • Other public works
National Construction Authority	The National Construction Authority (NCA) is a government organisation which regulates, streamlines and builds capacity in the construction industry. Its mandate is to regulate the construction industry and coordinate its development
National Housing Corporation	• The NHC is the Government's main agency through which public funds for low cost housing are channeled and for providing the technical assistance needed in the design and implementation of government housing schemes. • The primary mandate of NHC is to play a principal role in the implementation of the Government's Housing Policies and Programmes. • The Corporation's functions include promoting low-cost houses, stimulating the building industry and encouraging and assisting housing research.
Directorate of Occupational Safety & Health Services (DOSHS)	The mandate of the Directorate is to ensure compliance with the provisions of the Occupational safety and health Act, 2007 and promote safety and health of workers. The core functions with respect to buildings include: • Approving architectural plans of building intended for use as workplaces; • Inspecting workplaces to ensure compliance with safety and health law; • Examination and testing of steam boilers, air & steam receivers, gas cylinders, lifts, cranes chains and other lifting equipment; and • Investigation of occupational accidents and diseases with a view to preventing recurrence.
County Governments	County Governments took over buildings previously owned by the defunct local authorities and hence are responsible for their management.

2.1.2 Classifications of buildings

(1) Buildings can be owned by a public sector entity or leased from other parties. Only buildings owned by an entity and those leased as finance leases are to be included in the buildings register of an entity.

(2) Public buildings owned by public sector entities in Kenya can be categorised as either office or residential buildings.

(3) Office buildings may be further classified as either specialised or non-specialised. Non-specialised buildings refer to general purpose or buildings where there is a secondary market e.g. administration buildings. On the other hand, specialised buildings are buildings designed for a specific limited purpose e.g. emergency services buildings, buildings to house specialised infrastructure plant such as pump station buildings, depot buildings, sporting facility buildings (e.g. club houses and sports stadia) and some heritage properties.

(4) A building can also be classified based on the materials used to construct it, that is, permanent, semi-permanent or temporary.

(5) This guideline applies to all public buildings, irrespective of classification. office and residential buildings, permanent, semi-permanent and temporary buildings as well as specialised and non-specialised office buildings owned or leased by government entities for use in administration of provision of services. Buildings held to earn rentals or capital appreciation are referred to as investment property and hence dealt with in the relevant guideline.

2.1.3 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity asset register in order to facilitate consolidation into a Government register of assets. The guideline also aims to ensure uniformity in the management and administration of buildings and building improvements by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for building and building improvements and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to buildings and building improvements. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

2.1.4 Distinction between buildings, investment property and other property

(1) The classification of a building is based on management's judgement; the following criteria shall be applied to distinguish buildings from investment property or property held for resale:

Table 2.2

PPE (Buildings)	Investment property	Non-current assets held for sale
Rental income earned is below market value, and the asset is held for service delivery rather than to generate a commercial return	The asset generates its own cash flows in the form of rentals (on a commercial basis)	Land and other properties held for sale within the next 12 months.
The asset is held to achieve service delivery objectives rather than to earn rental or for capital appreciation	The asset is held for capital appreciation	
Property that is being constructed or developed for future use as investment property (until the asset meets the definition	Investment property that is being redeveloped for continued use as an investment property	

PPE (Buildings)	Investment property	Non-current assets held for sale
of investment property it is accounted for as PPE)		
Owner occupied-property such as office buildings and residential buildings occupied by staff members (assets used by employees, irrespective of whether or not the employees pay rent at market rates, are owner-occupied)	Land held for an undetermined use	

(2) If part of a building is used for getting of rental payments and capital growth, while another part is used for administrative purposes and such parts of a building can be operating independently from each other (or leased out independently), public sector entities shall be accounting for such property or their parts separately. If the parts of a building cannot be operated or disposed of separately, such property shall be considered as buildings only in such cases, if only their small portion (less than 10%) is designated for rental generation or capital appreciation purposes.

2.1.5 Documents of ownership

(1) Accounting officers should ensure that a public sector entity has documents of ownership for all its land. The documents of ownership for land include title deeds, certificates of title and certificates of lease. Conveyance indentures, reservation letters and occupation licences serve proof of ownership for land and are not documents of ownership. The same applies to gazette notices for irrigation schemes, forests, roads and other infrastructure. Letters of allotment, deed plans, letters of offer and scheme cards are documents issued in the processing of documents of title and do not serve as documents of title.

(2) Accounting Officers shall also ensure that they have documents of ownership for its buildings, where applicable. The documents of ownership for buildings include lease agreements for leased buildings and invoices raised by suppliers and/or contractors on acquisition of buildings.

(3) Where an entity is a body corporate, the documents of ownership shall be in the name of the entity and shall be under the custody of the Accounting Officer. In all other instances, the documents of ownership shall be in the name of Cabinet Secretary, National Treasury and shall be under the custody of the National Treasury.

(4) Accounting officers should ensure that all public buildings should be registered by the ministry responsible for office and residential buildings.

2.1.6 Reference to Non-financial Asset Management Guidelines

(1) Buildings are non-financial assets and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guidelines have adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and, disposal. The detailed guidelines with respect to the four phases have been documented in the Guidelines on asset and liability management in the public sector and are applicable to buildings and building improvements.

2.2 General management and administration of buildings and building improvements

In addition to the management and administration aspects documented in the non-financial asset management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to buildings and building improvements.

2.2.1 Planning, design and acquisition

(1) The procedures for design and construction of buildings are documented in the Building Organisation and Operations Manual (BOOM).

(2) Accounting officers must notify the ministry responsible for buildings before the construction and leasing of public buildings for purposes of facilitating the maintenance of records of office and residential buildings.

(3) Leasing of public buildings shall be guided by the buildings leasing policy developed by the ministry responsible for buildings.

(4) Processing of lease documents relating to buildings should be after approval of State department responsible for housing.

(5) All leases of buildings shall be registered and, encumbrances indicated on title deeds in instances of finance leases.

(6) The Accounting Officer shall notify The Cabinet Secretary, National Treasury or the CEC of the relevant county treasury before any acquisitions of buildings.

2.2.2 Building identification/ tagging

All government buildings should be registered in accordance with the Building Directive Circular No. 10/60 of 2 May 1960 and the Public Statistics Act Cap 112 (Buildings Statistics Regulations) of 1973. Although the circular is more than forty years old, its application has not been affected by the passage of time. The circular recommends a system of registration that accords each building a unique number comprising the institution and building classification, among others. The building identification number shall be prominently displayed on a board at the entrance or on the wall of the building.

2.2.3 General maintenance of buildings

The guidelines for general maintenance of buildings are detailed in the National Buildings Maintenance policy developed by the Ministry responsible for buildings. The policy provides guidance on the regularity of maintenance of buildings as well as maintenance of maintenance registers.

2.2.4 Valuation of buildings

(1) Valuation of a building depends on the type of the building, its structure and durability, on the situation, size, shape, frontage, width of roadways, the quality of materials used in the construction and prevailing prices of materials. Valuation also depends on the height of the building, height of the plinth, thickness of the wall, nature of the floor, roof, doors and windows.

(2) Data accuracy or acceptability will depend upon its source. An independent valuation by a professional valuer will obviously carry more weight than a calculation by an accountant or engineer using a generic valuation model. Cost versus benefit should be taken into account in all decisions.

(3) The valuation of a building is determined on working out its cost of construction at present day rate and allowing a suitable depreciation. There are six methods used for valuation of buildings:

a) Valuation based on the cost
b) Rental Method of Valuation
c) Direct Comparisons of the capital value
d) Valuation based on the profit
e) Development method of Valuation

f) Depreciation method of Valuation

(4) This guideline requires valuation of all public buildings to be conducted by the Government valuer for purposes of maintaining a buildings register.

2.2.5 Recording of buildings

(1) The accounting officer of every public sector entity shall ensure that a buildings register is maintained for all buildings owned by the entity. All buildings held as finance leases should be included in the asset register of the entity.

(2) Each accounting officer shall submit quarterly registers to the National Treasury of all buildings owned and those held as finance leases in accordance with the format attached under appendix 12.

(3) Each accounting officer shall maintain a register of WIP – buildings for all buildings that are not under construction, including any stalled projects.

(4) The accounting officer shall submit a register of all incomplete buildings to the National Treasury in the format of WIP register prescribed under appendix 6(m).

2.2.6 Disposal of buildings

(1) The disposal of assets, including buildings, is governed by Part XIV of the PPAD Act, 2015. Part VI of the PPAD Act, 2015 outlines the general procurement and disposal principles, including guidelines on asset disposal.

(2) The disposal of buildings is particularly guided by MOW Circular No. 2/58 of 1 March 1958. According to the circular, a building can be disposed of for a number of reasons such as:

a) When the building or house is beyond economic repair due to normal wear and tear.

b) To give way for new development.

c) Change of user e.g. from residential to office accommodation

d) When the building/house has been destroyed by natural catastrophes e.g. earthquakes, floods or fire and is beyond economic repair.

(3) The National Treasury and relevant County Treasury has the final responsibility for approving proposed disposals of land and buildings in accordance with Section 198 (11) of the PPAD Regulations, 2020. Section 198 (12) also requires the accounting officer to submit a disposal report on land and buildings to the National Treasury or relevant county treasury

(4) Public sector entities shall submit a business case to the Cabinet Secretary, National Treasury, setting out the rationale and means of disposal, taking into account the requirements of the PPAD Act, 2015.

(5) Decisions to dispose of buildings must take into account government objectives and demonstrate delivery of best value for money.

(6) The disposal value for a building shall be based on a professional valuation of the building that shall not have been carried out more than 24 months from the date of disposal.

2.3 Accounting for buildings and building improvements

Buildings and building improvements shall be accounted for in accordance with IPSAS 17 and IAS 16 – Property, Plant and Equipment.

2.3.1 Recognition

(1) In accordance with IPSAS 17 and IAS 16, land and buildings are separable assets and are accounted for separately, even when they are acquired together.

(2) Only public buildings that meet the asset recognition criteria should be recognised in an entity's fixed asset records, i.e.

a) Government entity has control over the asset;

b) It is probable that future economic benefits or probable future service potential associated with the asset will flow to the government entity; and

c) Cost or fair value can be measured reliably.

(3) WIP on incomplete buildings shall be recorded in a separate account and only transferred to the buildings account when the building is ready for use.

2.3.2 Measurement

2.3.2.1 Measurement at initial recognition

(1) For initial valuation purposes a building could be treated as a single asset. In the case of a building complex, the public sector entity should split a "complex" into individual buildings. These individual buildings may be structures that are loosely joined to the complex but can stand and function alone even if other parts of the complex were to be demolished. These individual buildings should be separately recorded in the asset register.

(2) A building that is an integral part of an infrastructure network should be included in the value of the network, e.g. the building of a water pump station. These buildings should be shown as a separately depreciable component(s) of that infrastructure complex.

(3) Buildings should initially be valued at cost or fair value. The initial valuation of buildings based on the various methods of acquisition shall be as follows:

a) *Acquisition by Purchase* - Buildings acquired by purchase should be capitalised at acquisition cost with the purchase price and associated closing costs allocated between land and buildings on the basis of current appraised values. Additional costs incurred for the purpose of renovating or modifying the building's structure in order to place it in service should also be capitalised.

b) *Acquisition by Construction* - Initial capitalisation includes construction costs of the building structure, including all internal piping, wiring, and permanent fixtures associated with the distribution of utilities within the building. Costs should also include architectural and engineering fees, inspection fees and permits, bid advertising expenses, construction financing / interest expense, and insurance costs incurred during the construction period.

c) *Acquisition through finance lease* – Finance leases shall be capitalized and recognised in an organisation's fixed asset register while operating leases are expensed and hence not recognised in the asset register.

(i) Where the public sector entity is a lessee of a building, the finance lease shall be recognised as an asset and liability at the lower of the present value of minimum lease payments and the fair value of the asset, determined at the inception of the lease. The discount rate applicable for calculating the present value shall be the interest rate implicit in the lease or the incremental borrowing rate.

(ii) On the other hand, where the public sector entity is the lessor of an operating lease, the building held for operating leases shall be presented in the lessor's statement of financial position according to the nature of the asset.

d) *Acquisition through receipt/ transfer of buildings from other government entities* - Where a government entity receives a building from another government entity, the building shall be recorded by the receiving entity at book value.

(4) Any transactions for constructions and renovations that is not completed within the financial year are transferred to Capital Work in Progress – Buildings Account, until the asset is completed. The total acquisition costs are then recognised in the financial year that construction is completed.

2.3.2.2 Measurement after initial recognition

(1) IPSAS 17 and IAS 16 propose two models of measurement of property, plant and equipment after initial recognition:

a) **Cost model** - After recognition as an asset, the asset shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

b) **Revaluation model** - The revaluation model recognises assets at their fair value only if that can be measured reliably. If an asset is revalued, its value is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

(2) Special consideration should be given to the interior furnishing of a building which are fixed to the building which can include interior walls, interior ceilings, floor covering, and internal plant and equipment, such as air conditioners. The expenditure on interior furnishings should be recognised as part of the building and depreciated over the expected life of the building. In addition, the interior furnishings of a leased building can only be recognised over the lesser of:
a) life of the lease, or
b) useful life.

(3) Where the interior furnishings represent an enhancement to the building, they should be capitalised to the building.

The provisions of this paragraph on use of revaluation model, will remain inactive, until further notification. All revaluations, other than those relating to disposal of assets, shall be carried out by the Government valuer.

2.3.3 Subsequent Expenditure

(1) Subsequent expenditure relating to a building that has already been recognised should be added to the carrying amount of the building when it is probable that future economic benefits or service potential over the total life of the building, will flow to the entity in excess of the most recently assessed estimate of useful life. All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.

(2) Subsequent expenditure on buildings is only recognised as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its most recently assessed standard of performance. The appropriate accounting treatment for expenditure incurred subsequent to the acquisition of a building depends on the circumstances, which were taken into account on the initial measurement and recognition of the related investment, and whether subsequent expenditure is recoverable. For instance, when the carrying amount of a building already takes into account a loss in future economic benefits or service potential, subsequent expenditure to restore the future economic benefits or service potential expected from the asset is capitalised. This is also the case when the purchase price of an asset reflects the entity's obligation to incur expenditure that is necessary in the future to bring the asset to its working condition. An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditure is added to the carrying amount.

(3) *Major Renovations and Leasehold Improvements* - Renovations and improvements should be added to the capitalised value of the existing structure being impacted. Such additions would include the following:
   (i) Ramps, truck doors, fire escapes and other appurtenances.
   (ii) Improvements requiring modifications of the structure to comply with current fire, health and safety codes.
   (iii) Improvements undertaken to convert unusable floor space into usable floor space; or upgrade the use of floor space, (i.e. converting storage areas to office space).
   (iv) Modernisation of the structure as a whole, and not merely a rearrangement of selective office areas.
   (v) When the renovation project involves a significant razing of the existing structure, the cost of the portion that was razed should be removed from the asset. If the original cost figures are unavailable, a reasonable estimate of the original cost should be used.

(4) All further expenses shall be recognised as expenses for the period when they were incurred including:
a) Expenses related to repairs and operation of buildings, incurred for the purpose of maintaining of the building in proper technical condition; and
b) Expenses on repairs and restoration of buildings as a result of breakages and impairment of buildings as a result of incorrect use or operation.

2.3.4 Capitalisation thresholds

All buildings owned by public sector entities and those leased as finance leases shall be recognised in an entity's fixed asset records, irrespective of value.

2.3.5 Depreciation and useful life

(1) The useful life of a building depends on:

a) Materials used in construction - Different materials can be used in construction such as soil blocks, stabilised soil blocks, natural stones, timber, iron sheets and wattle.
b) Use of buildings – A building may be used for administration or industrial use by the lessee.
c) State of repair/ regular maintenance – A property that is regularly maintained will have a longer useful life compared to another that is not regularly maintained.

(2) The useful life to be used for purposes of depreciation of a building held as investment property shall be as follows:

Table 2.3

Type of building	Estimated useful life
Permanent - e.g. constructed using natural stones and concrete	50 – 70 years
Semi-permanent - e.g. constructed using timber and iron sheets	15 – 20 years
Temporary – e.g. constructed using soil blocks and mud	10 – 15 years

(3) The above useful lives are based on the assumption that the building is used for the purpose for which it was built; and that it is maintained on a regular basis in accordance with the National Buildings Maintenance Policy developed by the Ministry responsible for buildings.

(4) Buildings owned by government entities shall be depreciated over their estimated useful lives. In accordance with IPSAS 17 and IAS 16, an increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

(5) Finance leases shall be capitalised in an entity's financial records while operating leases are expensed. Finance leases shall be depreciated over the remaining period of the lease.

2.3.6 Impairment

(1) The carrying amounts of buildings in the asset register can be reduced following impairment tests. The fixed asset register and the accounting records shall be updated with changes in the condition of buildings following instances of impairment.

(2) Recognition of impairment of buildings by public sector entities shall be guided by IPSAS 21, 26 and IAS 36.

2.3.7 Derecognition of buildings and building improvements

(1) Buildings and building improvements can be disposed of through sale, demolition/decommissioning/ destruction or through transfer to other government entities. The asset register must be updated whenever a building is disposed of. Replacement or derecognition of minor components in buildings should generally not be recorded in the asset register due to materiality.

(2) Building and building improvements should be eliminated from the statement of financial position on disposal or when the building or building imporvement is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

(3) Gains or losses arising from the retirement or disposal of buildings and building improvements should be determined as the difference between the net disposal proceeds and the carrying amount of the building. For the purposes of display in the financial statements, the gain or loss

should be included in the statement of Comprehensive Income as an item of revenue or expense, as appropriate.

Note: The statement of comprehensive income is used by those entities using IFRS and IAS. For those entities using IPSAS, IPSAS 1 requires, among others, a statement of financial performance and a statement of changes in net assets/equity. Public sector entities shall therefore ensure that the relevant accounting records as required by the applicable standards.

2.3.8 Disclosure in financial statements

The financial statements should disclose all necessary information with respect to buildings as outlined in IPSAS 17 and IAS 16.

2.4 Transitional provisions

(1) A public sector entity shall identify all buildings under their ownership and those held under finance leases. The Accounting Officer shall prepare a register of buildings including the document of title on which the building stands, location, plinth area and the materials of construction, among others.

(2) A public sector entity that adopts accrual accounting for the first time in accordance with International Accounting Standards shall initially recognize buildings at cost or fair value (as determined by the ministries responsible for lands and housing). For buildings that were acquired at no cost, or for a nominal cost, cost is the building's fair value as at the date of acquisition.

(3) The public sector entity shall recognise the effect of the initial recognition of buildings as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with IPSAS or IAS.

(4) For entities that have already adopted accrual accounting, the Accounting Officer shall review the capitalization thresholds, useful lives/ depreciation rates as well as depreciation methods used and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors.

2.5 Applicable accounting standards

- IPSAS 17 & IAS 16 – Property, Plant and Equipment
- IPSAS 21 or 26 and, IAS 36 - 'Impairment of Assets'
- IPSAS 33 - First time adoption of accrual basis IPSAS.
- IPSAS 3 & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

2.6 Legislative authority

- Cabinet Secretary to the Treasury (Incorporation) Act, Cap 101
- Transfer of Property Act 1882, Revised 2010
- Planning and Building Regulations, 2009
- Building Surveyors Act, No. 19 of 2018
- Physical Planning Act, 2015
- Built Environment Bill
- National Buildings Leasing policy – Draft
- Public Works Policy - Draft
- National Housing Policy, 2015
- Housing Bill
- National Slum Upgrading and Prevention Policy, 2017
- Architects and quantity surveyors Act, Cap 525
- PPAD Act, 2015

- PPAD Regulations, 2020
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015

2.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 2.4

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

3 Investment Property

This guideline covers the following areas:

3.1 Introduction
3.2 General management and administration of investment property
3.3 Accounting for investment property
3.4 Transitional provisions
3.5 Applicable accounting standards
3.6 Legislative authority
3.7 Implementation of guideline

3.1 Introduction

3.1.1 Preamble

(1) Investment property can be defined as a property that is not occupied by the owner, usually purchased specifically to generate profit through rental income and/or capital gains.

(2) In some instances public sector entities may hold property to earn rental income and capital appreciation. For example, a public sector entity may be established to manage a property portfolio on a commercial basis. In this case, the property held by the entity, unlike property held for resale in the ordinary course of operations, is defined as investment property. Other entities may also hold property for rental or capital appreciation and use the cash thus generated to finance their other (service-delivery) activities. For example, a national government or county government entity may own a building for the purpose of leasing it on a commercial basis to external parties in order to generate revenue, rather than to produce or supply goods and services. This property would also meet the definition of investment property.

(3) IPSAS 16 and IAS 40 define investment property as: property (land or a building – or part of a building – or both) held to earn rentals or for 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.

(4) A building can be classified based on the materials used to construct it, that is, it could be permanent, semi-permanent or temporary.

(5) Section 140(7) of the PFM (National government) Regulations, 2015 and section 133(7) of the PFM (County governments) Regulations stipulate that the Accounting Officer of a public sector government entity “shall in consultation with a technical department review, at least annually when finalizing the budget, all fees, charges, rates, tariffs or scales of fees or other charges relating to the letting of state property to ensure sound financial planning and management”.

(6) The bodies involved in the management and oversight over investment property (land and buildings) in Kenya include:

Table 3.1

GoK Body	Role
Ministry of Lands and Planning	The Ministry of Lands and Physical Planning is responsible for the efficient administration, equitable access, secure tenure and sustainable management of land resources in the country. In accordance with Executive Order No. 1 of 2018, the Ministry is charged with the following functions; • National Lands Policy and Management; • Physical Planning for land use; • Land Transactions; • Survey and Mapping;

<table>
<tr><th>GoK Body</th><th>Role</th></tr>
<tr><td></td><td>Land Adjudication;
Settlement Matters;
Rural Settlement Planning;
Land Registration;
National Spatial Infrastructure;
Land and Property Valuation Services Administration;
Administration of Public Land as Designated by the Constitution;
Land Information Systems; and
Maintenance of a public land bank</td></tr>
<tr><td>National Land Commission</td><td>The mandate of the commission as per Article 67 of the constitution and section 5 of the National Land Commission Act No. 3 of 2012 is to:
manage public land on behalf of the National and County Governments;
recommend a National Land Policy to the National Government;
advise the National Government on a comprehensive program for registration of title in land throughout Kenya;
conduct research related to land and the use of natural resources and make recommendations to appropriate authorities;
initiate investigations on its own initiative or on a complaint into present or historical land injustices and recommend appropriate redress;
encourage the application of traditional dispute resolution mechanisms in land conflicts;
assess tax on land and premiums on immovable property in any area designated by law;
monitor and have oversight responsibility over land use planning throughout the country;
alienate public land;
monitor the registration of all the rights and interests in land;
ensure sustainable management of land for their intended purpose and for future generation; and
develop and maintain an effective public land information management system at National and County levels.</td></tr>
<tr><td>State Department of Housing, Urban Development and Public Works</td><td>The state department for housing, urban development and Public Works under MOTIHUD has the following functions in relation to buildings:
Housing policy management
Management of civil servants housing scheme
Public works policy and planning
Development and management of affordable housing
Management of building and construction standards and codes
National building inspection services
Registration and regulation of contractors, consultants for buildings, civil works and material suppliers
Registration of contractors and materials suppliers building research services</td></tr>
</table>

GoK Body	Role
	• Coordination and delivery of the Big Four Agenda 500,000 new homes housing plan • Setting and management of building and construction standards and codes • National secretariat for human settlement • Development and management of government housing • Shelter and slum upgrading • Urban planning and development • Maintenance of inventory of Government housing property • Provision of mechanical and electrical building services • Building research services • Registration and regulation of civil, building and electro-mechanical contractors • Development and management of public buildings • Other public works
National Housing Corporation	• The primary mandate of NHC is to play a principal role in the implementation of the Government's Housing Policies and Programmes. • The Corporation functions include promoting low-cost houses, stimulating the building industry and encouraging and assisting housing research. • The NHC is the Government's main agency through which public funds for low cost housing would be channeled and for providing the technical assistance needed in the design and implementation of their housing schemes.
National Construction Authority	• The National Construction Authority (NCA) is a government organisation which regulates, streamlines and builds capacity in the construction industry. Its mandate is to To regulate the construction industry and coordinate its development
Directorate of Occupational Safety & Health Services (DOSHS)	The mandate of the Directorate is to ensure compliance with the provisions of the Occupational safety and health Act, 2007 and promote safety and health of workers. The core functions with respect to buildings include: • Approving architectural plans of building intended for use as workplaces; • Inspecting workplaces to ensure compliance with safety and health law; • Examination and testing of steam boilers, air & steam receivers, gas cylinders, lifts, cranes chains and other lifting equipment; and • Investigation of occupational accidents and diseases with a view to preventing recurrence.
County Governments	County Governments took over investment property previously owned by the defunct local authorities.

3.1.2 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity asset register in order to facilitate consolidation into a Government register of assets. The

guideline also aims to ensure uniformity in the management and administration of investment property by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for investment property and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to investment property. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

3.1.3 Characteristics of investment property

(1) Investment property is held to earn rentals or for capital appreciation or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by public sector entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, public sector entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services and the cash flows are attributable not merely to the building, but also to other assets used in the production or supply process.

(2) Based on the foregoing, in order to classify an asset as an Investment Property it must:

- a) Meet the definition of an asset;
- b) Be a non-monetary asset;
- c) Have a physical substance (be a tangible asset);
- d) Be held for capital appreciation or rental to others;
- e) Not be occupied by the owner of the building, meaning:
  - (i) It should not be used in the production or supply of goods or services or for administrative purposes; or
  - (ii) It should not be held for sale in the ordinary course of the business; or
  - (iii) The asset is held to deliver a social service that also generates cash inflows (i.e. rent to vulnerable individuals and groups).

(3) The following are examples of investment property:

- a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a public sector entity for capital appreciation, which may be sold at a beneficial time in the future;
- b) Land held for a currently undetermined future use. (If an entity has not determined that it will use the land either as owner-occupied property, including occupation to provide services such as those provided by national parks to benefit current and future generations, or for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation);
- c) Land purchased or held for future commercial investment;
- d) A building owned by the reporting entity (or held by the reporting entity under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, an entity may own a building that it leases on a commercial basis to external parties; and
- e) A building that is vacant but is held to be leased out under one or more operating lease on a commercial basis to external parties.

3.1.4 Distinction between investment property and other property

(1) The classification of an investment property is based on management's judgement; the following criteria shall be applied to distinguish investment property from owner-occupied property or property held for resale:

Table 3.2

Investment property	PPE (Buildings)	Non-current assets held for sale
The asset generates its own cash flows in the form of rentals (on a commercial basis)	Rental income earned is below market value, and the asset is held for service delivery rather than to generate a commercial return	Land and other properties held for sale within the next 12 months
The asset is held for capital appreciation	The asset is held to achieve service delivery objectives rather than to earn rental or for capital appreciation	
Investment property that is being redeveloped for continued use as an investment property	Property that is being constructed or developed for future use as investment property (until the asset meets the definition of investment property it is accounted for as PPE)	
Land held for an undetermined use	Owner occupied-property such as office buildings and residential buildings occupied by staff members (assets used by employees, irrespective of whether or not the employees pay rent at market rates, are owner-occupied)	

(2) If part of a property is used for getting of rental payments and capital growth, while another part is used for administrative purposes and such parts of a buildings can be operating independently from each other (or leased out independently), public sector entities shall be accounting for such property or their parts separately. If the parts of a building cannot be operated or disposed of separately, such property shall be considered as investment property only in such cases, if only their small portion (less than 10%) is designated for administrative purposes.

3.1.5 Custody of documents of ownership

(1) The accounting officer should ensure that a public sector entity has documents of ownership for all its investment property. The documents of ownership for land include title deeds, certificates of title and certificates of lease. Conveyance indentures, reservation letters and occupation licences serve proof of ownership for land and are not documents of ownership. The same applies to gazette notices for irrigation schemes, forests, roads and other infrastructure. Letters of allotment, deed plans, letters of offer and scheme cards are documents issued in the processing of documents of title and do not serve as documents of title.

(2) The documents of ownership for buildings include lease agreements for leased buildings and invoices raised by suppliers and/or contractors on acquisition of buildings.

(3) Where an entity is a body corporate, the documents of ownership shall be in the name of the entity and shall be under the custody of the Accounting Officer. In all other instances, the documents of ownership shall be in the name of Cabinet Secretary, National and shall be under the custody of the National Treasury.

(4) Accounting officers should ensure that all public buildings should be registered by the ministry responsible for office and residential buildings.

3.1.6 Reference to Non-financial Asset Management Guidelines

(1) Investment property is a non-financial asset and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guidelines have adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and, disposal. The detailed guidelines with respect to the four phases have been documented in the Guidelines on asset and liability management in the public sector and are applicable to investment property.

3.2 General management and administration of investment property

In addition to the management and administration aspects documented in the non-financial asset management guidelines in the Guidelines on asset and liability management in the public sector, the specific matters relating to land and, to buildings and building improvements apply to investment property.

3.2.1 Acquisition of investment property

(1) Public sector entities will only acquire investment if it is in their mandate to do so.
(2) The Accounting Officer shall notify The Cabinet Secretary, National Treasury or relevant county treasury before any acquisitions of investment property.

3.2.2 Recording of investment property

(1) The accounting officer of every public sector entity shall ensure that an investment property register is maintained for all investment property owned by the entity. All investment property held as finance leases should be included in the asset register of the entity.
(2) Each accounting officer shall submit quarterly registers to the National Treasury of all investment property owned and those held as finance leases in accordance with the format attached under appendix 6 (c), 6(d) or 12, as applicable.

3.2.3 Valuation of investment property

The Accounting Officer shall liaise with the Government valuer for purposes of determining the value of investment property to the reflected in the asset register and in books of account.

3.2.4 Disposal of investment property

(1) The disposal of assets, including investment property, is governed by Part XIV of the PPAD Act, 2015. Part VI of the PPAD Act, 2015 outlines the general procurement and disposal principles, including guidelines on intangible assets disposal.
(2) The National Treasury and relevant county treasury has the final responsibility for approving proposed disposals of land and buildings, including investment property, in accordance with Section 198 (11) of the PPAD Regulations, 2020. Section 198 (12) of the Regulations, 2020 also requires the accounting officer to submit a disposal report on land and buildings to the National Treasury or relevant county treasury.
(3) Public sector entities shall submit a business case to the Cabinet Secretary, National Treasury or the CEC of the relevant county treasury, setting out the rationale and means of disposal, taking into account the requirements of the PPAD Act, 2015.
(4) Decisions to dispose of investment property must take into account government objectives and demonstrate delivery of best value for money.
(5) The disposal value for investment property shall be based on a professional valuation of the property that shall not have been carried out more than 24 months from the date of disposal.

3.3 Accounting for investment property

Investment property shall be accounted for in accordance with IPSAS 16 and IAS 40 – Investment Property.

3.3.1 Recognition

Investment property is recognised as an asset, when:

a) a public sector entity expects to derive future economic benefits or potential of services, from the investment property; and
b) Cost or fair value of investment property can be established reliably.

3.3.2 Measurement

3.3.2.1 Measurement at recognition

(1) Investment property should be measured initially at its cost (transaction costs should be included in this initial measurement).

(2) Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

(3) The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

(4) The value of investment property shall not be increased by the following expenses:
   a) Initial/ start-up costs (except such expenses, which are necessary to be incurred for the purpose of bringing of property into operational condition in accordance with its functional designation);
   b) Initial operating losses incurred before the investment property achieves the planned level of occupancy; and
   c) Excessive use of materials, labour or other resources in the course of construction or reconstruction of property.

(5) An investment property may be received as gift or contributed to the entity. For example, a national government may transfer at no charge a surplus office building to another public sector entity, which then lets it out at market rent. An investment property may also be acquired for no cost, or for a nominal cost, through the exercise of powers of repossession. In these circumstances, the cost of the property is its fair value as at the date it is acquired.

(6) Where an entity initially recognises its investment property at fair value in accordance with the allowed alternative where no cost value is available (as allowed by IPSAS 16, Investment Property), the fair value is the cost of the property. The entity may decide, subsequent to initial recognition, to adopt either the fair value model or the cost model.

(7) The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 28 of IPSAS 13, i.e., the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability in accordance with that same paragraph. Initial value of investment property, retained for financial lease, shall be determined at the lower of fair value or discounted value of minimal rental payments and the equivalent amount is recognised as commitment.

3.3.2.2 Measurement after initial recognition

IPSAS 16 and IAS 40 propose two models of measurement of property, plant and equipment after initial recognition:

a) Cost Model

After initial recognition, an entity that chooses the cost model should measure all of its investment property using the benchmark treatment and the guidelines for normal assets as stated in the previous section that is, at cost less any accumulated depreciation and any accumulated impairment losses.

b) Revaluation/ Fair Value Model

(1) A gain or loss arising from a change in the fair value of investment property should be included in net surplus/deficit for the period in which it arises.

(2) The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction and hence the fair value of investment property is usually its market value.

(3) Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale (certain of above mentioned circumstances may not apply to the public sector at large but are noted for the sake of completeness and explanation of the principle involved).

(4) An entity determines fair value without any deduction for transaction costs that the entity may incur on sale or other disposal.

(5) The fair value of investment property should reflect the actual market state and circumstances as of the reporting date, not as of either a past or future date.

(6) If an entity has previously measured an investment property at fair value, the entity should continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of operations) even if comparable market transactions become less frequent or market prices become less readily available.

(7) For purposes of this guideline, fair value of land shall be determined using zonal maps developed by the ministry responsible for lands while the fair value of buildings shall be determined after engagement of the Government valuer.

3.3.3 Subsequent Expenditure

(1) Subsequent expenditure relating to an investment property that has already been recognised should be added to the carrying amount of the investment property when it is probable that future economic benefits or service potential over the total life of the investment property, will flow to the entity in excess of the most recently assessed estimate of useful life. All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.

(2) Subsequent expenditure on investment property is only recognised as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its most recently assessed standard of performance. The appropriate accounting treatment for expenditure incurred subsequent to the acquisition of an investment property depends on the circumstances, which were taken into account on the initial measurement and recognition of the related investment, and whether subsequent expenditure is recoverable. For instance, when the carrying amount of an investment property, especially a building, already takes into account a loss in future economic benefits or service potential, subsequent expenditure to restore the future economic benefits or service potential expected from the asset is capitalised. This is also the case when the purchase price of an asset reflects the entity's obligation to incur expenditure that is necessary in the future to bring the asset to its working condition. An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditure is added to the carrying amount.

(3) All further expenses shall be recognised as expenses for the period when they were incurred including:

a) Expenses related to repairing and operation of investment property, incurred for the purpose of maintaining of property in proper technical condition; and
b) Expenses on repairing and restoration of investment property as a result of breakages and impairment of investment property as a result of incorrect operation.

3.3.4 Capitalisation thresholds

All investment property owned by an entity and those leased as finance leases should be recognised in an entity's fixed asset records, irrespective of value.

3.3.5 Depreciation and useful life

(1) Land held as investment property shall not be depreciated.
(2) The useful life of buildings held as investment property will be based on the same guidelines as that accepted for other buildings, treated as property, plant and equipment.
(3) The useful life of a building held as investment property depends on:
a) Materials used in construction - Different materials can be used in construction such as soil blocks, stabilised soil blocks, natural stones, timber, iron sheets and wattle.
b) Use of buildings – A building may be used for administration or industrial use by the leesses.
c) State of repair/ regular maintenance – A property that is regularly maintained will have a longer useful life compared to another that is not regularly maintained.
(4) The useful life to be used for purposes of depreciation of a building held as investment property shall be as follows:

Table 3.3

Type of building	Estimated useful life
Permanent - e.g. constructed using natural stones and concrete	50 – 70 years
Semi-permanent - e.g. constructed using timber and iron sheets	15 – 20 years
Temporary – e.g. constructed using soil blocks and mud	10 – 15 years

(5) The above useful lives are based on the assumption that the property is used for the purpose for which it was built; and that it is maintained on a regular basis in accordance with the National Buildings Maintenance Policy developed by the Ministry of Transport, Infrastructure, Housing & Urban Development.
(6) In accordance with IPSAS 17 and IAS 16, an increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the property.

3.3.6 Impairment

(1) The carrying amounts of buildings held as investment property in the asset register can be reduced following impairment tests. The fixed asset register shall be updated with changes in the condition of buildings following instances of impairment.
(2) The recognition of impairment in the financial records of a public sector entity shall be guided by IPSAS 21 or 26 and, IAS 36.

3.3.7 Transfers and disposals

3.3.8 Transfers

(1) Transfers to, or from, investment property should be made when, and only when, there is a change in use, evidenced by:
a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;

b) Commencement of development with a view to sale, for a transfer from investment property to inventories;
c) End of owner-occupation, for a transfer from owner occupied property to investment property;
d) Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or
e) End of construction or development, for a transfer from property in the course of construction or development.

(2) Public sector entities, accounting for investment property by the cost model shall conduct transfers of investment property to the category of fixed assets or inventory without modification of the book value of the property, or the value of the property for the purpose of valuation and information disclosure. The transfer of a fixed asset, accounted for by actual costs into the category of investment property, accounted for by actual costs, shall be conducted by writing off of accumulated amortization and depreciation reserve on fixed assets.

(3) When an owner-occupied property becomes an investment property carried at fair value, an entity continues to depreciate the property and to recognise any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property under and its fair value in the same way as a revaluation. This means that:

a) Any resulting decrease in the carrying amount of the property is recognised in net surplus/deficit for the period. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that revaluation surplus; and
b) Any resulting increase in the carrying amount is treated as follows:
    (i) to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in net surplus/deficit for the period. The amount recognised in net surplus/deficit for the period does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised; and
    (ii) any remaining part of the increase is credited directly to equity under the heading of revaluation surplus. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to accumulated surpluses or deficits. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through the statement of financial performance.

3.3.9 Derecognition of investment property

(1) An investment property should be eliminated from the statement of financial position on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

(2) Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the carrying amount of the asset. For the purposes of display in the financial statements, the gain or loss should be included in the statement of financial performance as an item of revenue or expense, as appropriate.

3.3.10 Disclosures in financial statements

The same information as is provided for other land and buildings should be included in the financial statements with an indication that the property is investment property. The details of the specific items of disclosure are enumerated under IPSAS 16 and IAS 40.

3.4 Transitional provisions

(1) A public sector entity shall identify all investment property owned by the entity and those held as finance leases. The accounting Officer shall prepare a register of such investment including all land in dispute. The investment register shall capture details of ownership, L. R No., location,

acreage, whether freehold or leasehold, and details of any disputes, among others. It will also include details of buildings such as the document of title on which the building stands, location, plinth area and the materials of construction, among others.

(2) An entity that adopts accrual accounting for the first time in accordance with International Accounting Standards shall initially recognize investment property at cost or fair value. For investment properties that were acquired at no cost, or for a nominal cost, cost is the investment property's fair value as at the date of acquisition.

(3) The entity shall recognise the effect of the initial recognition of investment property as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with IPSAS, IAS or IFRS.

(4) For entities that have already adopted accrual accounting, the Accounting Officer shall review the capitalization thresholds, useful lives/ depreciation rates as well as depreciation methods used and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors.

3.5 Applicable accounting standards

- IPSAS 16 & IAS 40 - Investment Property
- IPSAS 17 & IAS 16 – Property, Plant and Equipment
- IPSAS 21 or 26 and, IAS 36 - Impairment of Assets
- IPSAS 33 First time adoption of accrual basis IPSAS
- IPSAS 3 & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

3.6 Legislative authority

- Constitution of Kenya, 2010
- Cabinet Secretary to the Treasury (Incorporation) Act, Chapter 101
- Land Act, No. 6 of 2012
- Land Registration Act, No. 3 of 2012
- Land Registration (General) Regulations, 2017
- National Land Commission Act, No. 5 of 2012
- National Land use Policy 2017
- Trust of Land Act, 1941
- Urban Areas and cities Act, 2011
- The Community Lands Act, No. 27 of 2016
- Community Land Regulations, 2017
- National Land Policy, 2009
- Transfer of Property Act 1882, Revised 2010
- Planning and Building Regulations, 2009
- Building Surveyors Act, No. 19 of 2018
- Physical Planning Act, 2015
- Built Environment Bill
- National Buildings Leasing policy – Draft
- Public Works Policy - Draft
- National Housing Policy, 2015
- Housing Bill
- National Slum Upgrading and Prevention Policy, 2017
- Architects and quantity surveyors Act, Cap 525
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015

- PPAD Act, 2015
- PPAD Regulations, 2020
- PPP Act, 2013
- Valuation of Rating Act, 2012, Revised 2015
- Survey Act, Cap 299

3.7 Implementation of guideline

The dates of implementation of this guideline are as follows:

Table 3.4

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

4 Intangible assets

This guideline covers the following areas:

4.1 Introduction

4.1.1 Preamble

(1) IPSAS 31 Intangible Assets, defines intangible assets as: "An identifiable non-monetary asset without physical substance". IAS 38 also defines intangible assets as "identifiable non-monetary assets without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes". Under the IAS 38 approach, intangible assets must therefore meet both the general definition of an asset and the additional requirements of the definition. An item hence meets the definition of an intangible asset if it meets all of the following:

a) Identifiability;
b) Non-monetary;
c) Without physical substance;
d) Control; and
e) Future economic benefits or service potential.

a) Identifiability

An asset is identifiable if it either:

(i) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(ii) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

(iii) It is important to note that even though the definition given would qualify goodwill as an intangible asset, only goodwill that is acquired is recognised as an asset.

b) Non- monetary

A non-monetary asset is one that does not involve hard cash. A monetary asset or liability is defined as the right to receive a fixed or determinable number of currency units. A non-monetary asset or liability is one that does not involve such a sight or obligation. As such, intangible assets are non-financial rather than financial.

c) Without physical substance

This means that the asset exists but cannot be touched or seen, like other assets such as inventory and equipment.

d) Control of an Asset

(i) An entity controls an asset if the entity has the power to obtain the future economic benefits or service potential flowing from the underlying resource and to restrict the access of others to those benefits or that service potential. The capacity of an entity to control would normally stem from legal rights that are enforceable in a court of law.

e) *Future Economic Benefits or Service Potential*

The future economic benefits or service potential flowing from an asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity.

(2) Even though intangible assets have no physical characteristics, they have value because of the advantages or exclusive privileges and rights they provide to an entity. Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance, or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes, or systems, licences, intellectual property and trademarks. The most common examples of items encompassed by these broad headings are computer software, patents, copyrights, trademarks and licences.

(3) Examples of intangible assets held by public sector entities include:

a) rights under licensing agreements for films, videos, plays, and manuscripts, in entities such as broadcasting, tourism, arts and culture;
b) patents and copyrights held by government entities in fields such as tourism, research, education, health, agriculture, archives;
c) databases and database management software created and maintained by government entities, such as those containing information on the demographic statistics of the population, land ownership, private sector entity ownership and registers of securities and charges;
d) airport landing rights;
e) licenses to operate radio or television stations;
f) import/export licenses;
g) Brand names;
h) Permits;
i) fishing quotas;
j) right to control the extraction of mineral resources;
k) agreements with other entities which give that other entity a right to provide utilities; and
l) rights to issue rights, licenses and quotas.

(4) This guideline applies to the treatment of all intangible assets in the financial statements of public sector entities. Any exceptions relating to intangible assets are defined under IPSAS 31 and IAS 38.

(5) The bodies involved in the management and oversight over intangible assets in Kenya include:

Table 4.1

GoK Body	Role
The State Law Office and Department of Justice/ Office of the Attorney General	According to Article 156 of the Constitution, the Attorney General in Kenya is the principal legal advisor for the national government. He or she is responsible for representing the national Government in court or any other legal proceedings to which the national Government is a party (other than criminal proceedings). With respect to intangible assets, the Office of the Attorney General reviews contracts drawn between public sector entities for rights, licences, intellectual property and software development. In accordance with Executive Order No. 1 of June 2018, the Office also plays the following roles: • Legislative drafting • Drafting and vetting of agreements

GoK Body	Role
	• Public Trustee • Official Receiver • Custodian of enemy property
Ministry of Information, Communication and Technology (ICT)	According to Executive Order No. 1 of 2018, the mandate of the Ministry of Information, Communication and Technology (ICT) comprises the formulation of policies and laws that regulate standards and services in the ICT sector, Telecommunications and the Media industry. It is also charged with the responsibility of promotion of e-Government, promotion of software development industry, development of national communication capacity and infrastructure, management of National Fibre Optic infrastructure, developing and administering ICT standards, building capacity of mass media and ICT, and the dissemination of public information, including the issuance of broadcasting licences to media players.
ICT Authority	The following are the functions of the ICT Authority relating to the management of intangible assets: • Set and enforce ICT standards and guidelines for the human resource, infrastructure, processes and system and technology for the public office and public service; • Facilitate and regulate the design, implementation and use of ICTs in the public service; • Establish, develop and maintain secure ICT infrastructure and systems; and • Supervise the design, development and implementation of critical ICT projects across the public service.
KEPHIS	Kenya Plant Health Inspectorate Service (KEPHIS) is the government parastatal whose responsibility is to assure the quality of agricultural inputs and produce to prevent adverse impact on the economy, the environment and human health. One of its strategic objectives is to support compliance to market requirements. In this respect, KEPHIS issues licences to importers.
Kenya Industrial Property Institute	Kenya Industrial Property Institute (KIPI) is a government parastatal established on 2nd May 2002 upon the coming into force of the Industrial Property Act 2001. The functions of the Institute are to: • Administer industrial property rights; • Provide technological information to the public; • Promote inventiveness and innovativeness in Kenya; and • Provide training on Industrial property.
Kenya Copyright Board	The Kenya Copyright Board is a State Corporation that was established under Section 3 of the Copyright Act Cap 130 of the Laws of Kenya to administer and enforce copyright and related rights in Kenya.
Kenya Civil Aviation Authority	Kenya Civil Aviation Authority's (KCAA) primary functions include; Regulation and oversight of Aviation Safety & Security; Economic regulation of Air Services and development of Civil Aviation; Provision of Air

GoK Body	Role
	Navigation Services, and Training of Aviation personnel KCAA; as guided by the provisions of the convention on international civil aviation, related International Civil Aviation Organisation Standards and Recommended Practices (SARPs), the Kenya Civil Aviation Act, 2013 and the civil aviation regulations. This includes the regulation of landing rights at Kenyan airports.
Communication Authority of Kenya	The Communications Authority of Kenya (CA) is the regulatory authority for the communications sector in Kenya. The Authority is responsible for facilitating the development of the information and communications sectors including; broadcasting, cybersecurity, multimedia, telecommunications, electronic commerce, postal and courier services. Its responsibility with respect to intangible assets include: • Licensing all systems and services in the communications industry, including; telecommunications, postal, courier and broadcasting. • Managing the country's frequency spectrum and numbering resources. • Facilitating the development and management of a national cyber security framework. • Type approving and accepting communications equipment meant for use in the country. • Regulating retail and wholesale tariffs for communications services. • Monitoring the activities of licensees to enforce compliance with the licence terms and conditions as well as the law.
Anti-Counterfeit Authority	The Anti-Counterfeit Authority was established under the Anti-Counterfeit Act 2008 as a State Corporation with the mandates to enlighten and inform the public on matters relating to counterfeiting, combat counterfeiting, trade and other dealings in counterfeit goods, devise and promote training programs to combat counterfeiting and co-ordinate with national, regional or international organizations involved in combating counterfeiting. The Authority is responsible for the enforcement of Intellectual Property Rights in Kenya, by handling Intellectual Property Rights complaints.
County Governments	County governments have made investments in intangible assets, especially computer software. The county governments may also issue licences and access rights to service users in their jurisdictions.

4.1.2 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity asset register in order to facilitate consolidation into a Government register of assets. The guideline also aims to ensure uniformity in the management and administration of intangible assets by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for intangible assets and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to intangible assets. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

4.1.3 Documents of ownership

(1) Accounting officers should ensure that a public sector entity has documents of ownership for all its intangible assets. Intangible assets include software, patents, copyrights, rights of way and rights of access to resources such as minerals, water and timber, among others.

(2) The documents of ownership in the case of intellectual property would be documents obtained from relevant bodies. For rights of access to resources and internally generated intangible assets an entity should have signed contracts. Accounting Officers should ensure that such contracts have adequate safeguards to protect the ownership of the assets by public sector entities.

(3) Where an entity is a body corporate, the documents of ownership shall be in the name of the entity and shall be under the custody of the Accounting Officer. In all other instances, the documents of ownership shall be in the name of Cabinet Secretary, National Treasury and shall be under the custody of the National Treasury.

4.1.4 Reference to Non-financial Asset Management Guidelines

(1) Intangible assets are non-financial asset and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guidelines have adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and, disposal. The detailed guidelines with respect to the four phases have been documented in the Guidelines on asset and liability management in the public sector and are applicable to intangible assets.

4.2 General management and administration of intangible assets

In addition to the management and administration aspects documented in the non-financial asset management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to intangible assets.

4.2.1 Acquisition of intangible assets

(1) Intangibles can be acquired:

a) by separate purchase ;
b) as part of a business combination;
c) by a government grant;
d) by exchange of assets; or
e) by self-creation (internal generation).

(2) Accounting officers shall ensure that all contracts relating to intangible assets and that could result in a contingent liability on the part of the national government or the entity itself are reviewed by the Office of the Attorney General to ensure adequate risk mitigation.

(3) Accounting Officers should ensure that such contracts have adequate safeguards to protect the ownership of the assets by public sector entities. In particular, contracts for internally generated software should ensure that all access rights are handed over by service providers to public sector entities at the end of the contract.

4.2.2 Classification of software

(1) Computer software can be classified as either a tangible asset, i.e. as property, plant and equipment or an intangible asset, depending on the level of integration with the related hardware.

(2) In cases where software is an integral part of the related hardware, i.e. the hardware cannot operate without the software e.g. software such as Microsoft Office. In such an instance, the software will be treated as property, plant and equipment (under the relevant class of ICT equipment) together with the related hardware already recognised, which will normally be

computer equipment, a laboratory computer equipment (e.g. computer hardware and related operating systems are recognised under PPE). In such a case, the Guidelines on ICT equipment shall apply.

(3) In cases where the software is not an integral part of the related hardware, i.e. the hardware can operate without the software, an entity determines whether the asset meets the definition and recognition criteria of an intangible asset, and if met, capitalize the cost as an intangible asset (e.g. IFMIS software, Sage Accounting etc.).

(4) The software classification with the attendant recognition can be depicted as below:

Table 4.2

Types of Software	Classification
Software integrated with hardware	Classified as part of Property, Plant and Equipment under the relevant class of ICT equipment
Stand-alone software	Classified as intangible asset

4.2.3 Disposal of intangible assets

The disposal of assets, including intangible assets, is governed by Part XIV of the PPAD Act, 2015. Part VI of the PPAD Act, 2015 outlines the general procurement and disposal principles, including guidelines on asset disposal.

4.3 Accounting for intangible assets

Intangible assets shall be accounted for in accordance with IPSAS 31 and IAS 38 – Intangible Assets.

4.3.1 Recognition

(1) An item that meets the definition of an intangible asset shall be recognised and reported in the Financial Statements of the entity if, and only if, the following two recognition criteria are met:

a) It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
b) The cost or fair value of the asset can be measured reliably.

(2) An entity shall assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

(3) In order to demonstrate how an intangible asset will generate probable future economic benefits or service potential, an entity assesses the future economic benefit or service potential to be received from the asset utilising the principles in IPSAS 21, 26 and IAs 36 on Impairment of Cash and Non-Cash Generating Assets.

4.3.2 Measurement

4.3.2.1 Measurement at initial recognition

(1) Intangible assets may be purchased or internally generated and should be identifiable (either being separable or arising from contractual or other legal rights).

(2) Identifiable intangible assets can be sold or acquired separately from other assets, for example patents, databases and concessions. Identifiable intangible assets may be referred to as having a marketable value.

(3) IAS 38 and IPSAS 31 requires that identifiable intangible assets be initially measured at cost. In order to satisfy the criterion of measurability, this generally means that intangible assets need to be supported by an appropriate costing system or purchase price. An entity will therefore need to

review the adequacy of costing systems and records for identifiable intangible assets. The acquisition cost is measured by:

a) The amount of cash paid/disbursed or the fair value of other assets distributed,
b) The present value of amounts to be paid for liabilities incurred,
c) The fair value of consideration received for stock issued.

(4) Where the cost of an acquired intangible asset is not available at the time of first recognition, the asset is to be recognised at its fair value as at the date it is first recognised as an asset in the financial statements. This value will be determined by reference to an active market, or in the absence of an active market, by a professional valuer.

(5) The costs of intangible assets that are developed internally, as well as the costs of maintaining or restoring intangible assets that have indeterminate lives or that are inherent in a continuing business and related to the entity as a whole, are to be expensed as incurred.

(6) The costs of maintaining or restoring intangible assets that have a finite useful life are capitalised or expensed under the same conditions as those described for fixed assets.

(7) Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition, shall be measured at its fair value as at on that date.

4.3.2.2 Measurement after initial recognition

After initial recognition, intangible assets could be measured using either the cost or revaluation model.

a) Cost Model

After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Cost / Fair Value	*less*	Accumulated Amortisation and Impairment Losses	=	Carrying Amount

b) Revaluation Model

(1) After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation.

(2) For revaluation purposes under this guideline, fair value shall be determined by reference to an active market. Revaluations shall then be made with sufficient regularity, within a period of maximum three to five years ensuring that at the reporting date the carrying amount of the asset does not differ materially from its fair value. If the fair value of a revalued asset differs materially from its carrying amount, further revaluation is necessary.

Revalued Amount	*less*	Accumulated Amortisation and Impairment Losses	=	Carrying Amount

(3) When an intangible asset is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.

(4) If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortisation and impairment losses. In case where an active market no longer exists for a revalued asset this may indicate that the intangible asset may be impaired.

(5) Revaluation of an intangible asset shall be conducted in adherence with the same principles, as in case of accounting of other non-financial assets:

a) Increase in value shall be credited to the account of net assets/capital "reserve for revaluation of intangible assets";

b) Reduction in value must be accounted for in the expenses for the period, except for cases when it is compensated by previously recognised increase in value;
c) All intangible assets within category should be revaluated.

(6) If as a result of revaluation the value of the class of assets increases, such increase shall be allocated to the reserve for revaluation of intangible assets. If previously reduction of value of the class of assets was recognised, in case of increase of the value of the same class of assets as a result of further revaluation, reduction of value shall be recovered.

(7) If a book value of a class of asset is reduced as a result of revaluation, such reduction is recognised on the reserve for revaluation of intangible assets in the amount of any credit balance, if previously the increase of value of assets was recognised.

The provisions of this paragraph on use of revaluation model, will remain inactive, until further notification. All revaluations, other than those relating to disposal of assets, shall be carried out by the Government valuer.

4.3.3 Application of recognition criteria and initial measurement

4.3.3.1 Separate Acquisition of an Intangible Asset

(1) Separately acquired intangible assets (e.g. a licence agreement etc.) shall be recognised at cost, provided that the recognition criteria are fulfilled.

(2) The cost of the separately acquired intangible assets comprises:
a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
b) Any directly attributable cost of preparing the asset for its intended use (e.g. cost of employee benefits and professional fees arising directly from bringing the asset to its working condition and cost of testing whether the asset is functioning properly).

(3) When an intangible asset is in the condition necessary for it to be capable of operating in the manner intended by management, then the recognition of any direct costs ceases. In addition, the following costs are excluded:
a) Advertising and promotion costs, relocation expenses, administration and other general overhead costs are excluded from the cost of the intangible asset and are treated as expenses when they are incurred;
b) Borrowing costs are expensed off when they are incurred;
c) Costs of annual licences for operation of software; and
d) Annual management contract fees for the operation of the asset.

(4) The future economic benefits or service potential are assumed in the case of separately acquired intangible assets (while for internally generated intangible assets this should be actively demonstrated).

4.3.3.2 Acquisition of an Intangible Asset on Acquisition of an Entity

(1) The cost of the intangible asset acquired in an acquisition is its fair value at the acquisition date, provided that the recognition criteria are fulfilled.

(2) Additionally, an acquirer recognises at the acquisition date, separately from goodwill, an intangible asset of the acquired operation, irrespective of whether the asset had been recognised by the acquired operation before the acquisition. In such a case the acquirer recognises an in-process research and development project of the acquired operation if the project meets the definition of an intangible asset.

(3) Subsequent expenditure on an acquired in-process research and development project which has been recognised as an intangible asset and incurred after the acquisition date, shall be accounted for in accordance with the provisions for internally generated intangible assets.

4.3.3.3 Intangible Assets Acquired Through Non-Exchange Transactions

An intangible asset which has been acquired through a non-exchange transaction shall be recorded at its fair value at the date it is acquired. Such items include transfers between entities like licenses to operate radio or television stations, import licenses, airport landing rights, or quotas or rights to access other restricted resources.

4.3.3.4 Exchanges of Assets

In cases where an intangible asset is acquired in exchange for a non-monetary asset(s) or a combination of a non-monetary and monetary asset(s), then the acquired intangible asset is measured at its fair value or at the given up asset's fair value; unless the fair value of neither the asset received nor the asset given up is reliably measurable. In such a case it must be measured at the carrying amount of the given up asset(s).

4.3.3.5 Internally Generated Intangible Assets

(1) The cost of an internally generated intangible asset is to include all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to creating, producing and preparing the asset for its intended use.

(2) Overheads are to be included in the cost of the asset but only to the extent that they are necessary to generate the asset and can be allocated to the asset on a reasonable and consistent basis.

(3) Internally generated goodwill, internally generated brands, logos, banners, magazine mastheads, publishing titles, lists of users of a service and items similar in substance are not to be recognised as intangible assets, because such expenditure cannot be distinguished from expenditure to develop the entity's operations as a whole.

(4) In order to assess whether an internally intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into two phases:

a) Research phase - During the research phase an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits or service potential. Consequently, this expenditure is recognised as an expense when it is incurred.

b) Development phase - An entity shall recognise an internally generated intangible asset arising from the development phase if, and only if all of the following criteria are demonstrated:

i) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

ii) Its intention to complete the intangible asset and use or sell it;

iii) Its ability to use or sell the intangible asset;

iv) How the intangible asset will generate probable future economic benefits or service potential;

v) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

vi) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

(5) If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only (i.e. as an expense).

Cost of an Internally Generated Intangible Asset

(6) The cost of an internally generated intangible asset will be recognised from the day it meets the specific recognition criteria. Any expenditure previously expensed cannot be capitalised subsequently.

(7) The cost of an internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. It comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management, such as:

a) Costs of materials and services used or consumed in generating the intangible asset, such as third-party development fees, software purchase costs, and travel costs related to development work;
b) The payroll costs of those employees directly associated with generation of the intangible asset;
c) Fees to register a legal right; and
d) Amortisation of patents and licenses that are used to generate the intangible asset.

(8) The following costs are excluded:
a) Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
b) Identified inefficiencies and initial operating deficits incurred before the asset achieves planned performance;
c) Expenditure on training staff to operate the asset; and
d) Borrowing costs that are expensed off when they are incurred.

4.3.4 Subsequent expenditure

Subsequent expenditure on intangible assets, including upgrades, shall be capitalized and included in the cost of the asset if the expenditure leads to:

a) An increase in the asset's useful function or service capacity;
b) An extension of its useful life;
c) An improvement to the quality of the service(s) delivered through utilisation of the asset;
d) A reduction in future operating costs; or
e) The upgrade or enhancement becoming an integral part of the asset.

4.3.5 Useful life and armotisation

4.3.5.1 Useful life

(1) An entity shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of that useful life. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for, or provide service potential to, the entity.

(2) The useful life of an intangible asset that arises from binding arrangements (including rights from contracts or other legal rights) shall not exceed the period of the binding arrangement (including rights from contracts or other legal rights) but, may be shorter depending on the period over which the entity expects to use the asset. If the binding arrangements (including rights from contracts or other legal rights) are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

(3) The useful life of:
a) A license or similar right previously granted by one combining operation to another combining operation that is recognised by the resulting entity in a merger; or
b) A re-acquired right recognised as an intangible asset in an acquisition, is the remaining period of the binding arrangement (including rights from contracts or other legal rights) in which the right was granted and shall not include renewal periods.

(4) The following should be considered when determining the useful lives of an intangible asset:
a) The expected use of the asset by the entity
b) The expected useful life of another asset or group of assets to which the useful life of the asset in question may relate
c) Legal, regulatory or contractual provisions that may limit the asset's useful life
d) Legal, regulatory or contractual provisions that enable renewal or extension of the useful life without significant cost

e) The effects of obsolescence, demand, competition and other economic factors
f) The level of maintenance expenditures required to obtain the expected future cash flows from the asset.

(5) All intangible assets are to be reviewed periodically to determine that the estimated useful lives and classifications are appropriate. Any change in the estimated useful life of an intangible asset is to be accounted for prospectively.

4.3.5.2 Amortisation

(1) Amortisation is the accounting process of allocating the intangible asset's capitalised cost to expense in a systematic and rational manner to those periods expected to benefit from the use of the asset.

(2) Amortisation is not a matter of valuation but a means of cost allocation. Intangible assets are not amortised on the basis of a decline in their fair market value, but on the basis of systematic charges to expense. An intangible asset that has an indefinite useful life is not amortised if there are no legal, contractual, regulatory, technological, or other factors that limit its useful life. If any of these limitations exist, the intangible asset is amortised over its estimated useful life. The following shall be applied with respect to armotisation of intangible assets:
(i) The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.
(ii) Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
(iii) Amortisation shall cease at the date the asset is derecognised.
(iv) The amortisation method to be used is the straight-line method (historical cost less residual value, divided by useful life).
(v) The amortisation charge for each period shall be recognised in surplus or deficit unless this or another Accounting Standards permits or requires it to be included in the carrying amount of another asset.

(3) Residual value - The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:
a) There is a commitment by a third party to acquire the asset at the end of its useful life; or
b) There is an active market for the asset, and:
i) Residual value can be determined by reference to that market; and
ii) It is probable that such a market will exist at the end of the asset's useful life.

(4) The residual value, the amortisation period and the amortisation method of an intangible asset shall be reviewed at least at each reporting date. Any changes shall be accounted for as changes in accounting estimates in accordance with the IPSAS 3 and IAS 8 on Accounting Policies, Changes in Accounting Estimates and Errors.

(5) For purposes of armotisation, there are two categories of intangible assets.
a) Category 1 – Assets with finite lives
b) Category 2 – Assets with indefinite useful lives

4.3.5.3 Category 1 – Assets with finite lives

(1) The life of these assets, such as patents, copyrights and most franchises, is usually established by law or by contract.

(2) Intangible assets with finite useful lives are amortised over these lives. The basis for amortisation is the cost less the residual value, if any, i.e.

Cost/Fair Value *less* Residual value = Depreciable Amount

(3) Periodically, the remaining amortization period should be reviewed to determine:
a) If the useful life assumption is still valid - if it is valid, the amortisation should be continued over the original useful life;

b) If the useful life assumption is no longer valid the amortisation should be computed prospectively over the revised useful life.

4.3.5.4 Category 2 – Assets with indefinite useful lives

(1) The expected period of benefit for these assets, such as trademarks, goodwill and perpetual franchises, is indefinite at the date of acquisition.

(2) Intangibles with indefinite useful lives are not amortised until their useful life is determined to no longer be indefinite.

(3) At each reporting period, the nature of the intangible asset should be reviewed:

a) If the assumption of the indefinite life is still valid, there is no change;

b) If the assumption of indefinite life is no longer valid, the asset should be amortised over its remaining useful life.

4.3.6 Capitalisation thresholds and useful lives

The following table provides a list of intangible assets, capitalisation thresholds and useful lives recommended for use by all public sector entities. If a state organisation determines that a shorter useful life is appropriate for software, then the method for estimating the useful life must be formally documented by the organisation.

Table 4.3

Asset Description	Capitalisation Threshold Kshs	Useful Life
Software	100,000	5 - 8 years
Easements/ Right of way	100,000	Number of years defined in contract
Quotas, licences, rights e.g water, logging and minerals, airport landing etc.	100,000	Number of years rights held based on the contract agreement
Patents*	100,000	7 - 10 years
Copyrights	100,000	In accordance with section 23 of the Copyright Act of 2001 (Revised 2017)** - see below
Industrial design*	100,000	5 - 15 years
Utility models*	100,000	5 – 12 years

* The useful lives have been derived from the provisions of the Industrial Property Act No. 3 of 2001, Revised 2016

** Useful lives have been defined from the Copyright Act as below:

Type of Work	Date of Expiration of Copyright
1. Literary, musical or artistic work other than photographs	Fifty years after the end of the year in which the author dies.
2. Audio-visual works and photographs	Fifty years from the end of the year in which the work was either made, first made available to the public, or first published, whichever date is the latest.
3. Sound recordings	Fifty years after the end of the year in which the recording was made.
4. Broadcasts	Fifty years after the end of the year in which the broadcast took place.

4.3.7 Impairment

(1) The provisions of IPSAS 21 and 26, and IAS 36 for Impairment on Cash Generating Assets and the Impairment on Non-Cash Generating Assets, respectively should be applied to determine impairment of intangible assets. The standards explain when and how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, as appropriate, and when it recognises or reverses an impairment loss.

(2) A common indicator of impairment for internally generated intangible assets is development stoppage, such as stoppage of development of computer software due to a change in the priorities of management. Internally generated intangible assets impaired from development stoppage should be reported at the lower of carrying value or fair value.

4.3.8 Derecognition of intangible assets

(1) An intangible asset shall be de-recognised:
- a) On disposal (including disposal through a non-exchange transaction); or
- b) When no future economic benefits or service potential are expected from its use or disposal.

(2) The gain or loss arising from de-recognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

(3) Any gain or loss arising from de-recognition shall be recognised in surplus or deficit when the asset is de-recognised.

4.3.9 Disclosures in financial statements

4.3.9.1 General Disclosures

(1) An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:
- a) Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;
- b) The amortisation methods used for intangible assets with finite useful lives;
- c) The gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- d) The line item(s) of the statement of financial performance in which any amortization of intangible assets is included;
- e) A reconciliation of the carrying amount at the beginning and end of the period showing:
  - i) Additions, indicating separately those from internal development and those acquired separately;
  - ii) Assets classified as held for sale or included in a disposal group classified as held for sale;
  - iii) Increases or decreases during the period resulting from revaluations if the revaluation model is applied;

iv) Impairment losses recognised (or reversed) in surplus or deficit during the period in accordance with Accounting Standards on Impairment of Cash and Non-Cash Generating Assets (if any);

v) Any amortisation recognised during the period;

vi) Net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and

vii) Other changes in the carrying amount during the period.

4.3.9.2 Additional Disclosures

(1) An entity shall also disclose:

a) For an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life.

b) A description, the carrying amount, and remaining amortisation period of any individual intangible asset that is material to the entity's financial statements.

c) For intangible assets acquired through a non-exchange transaction and initially recognised at fair value:

i) The fair value initially recognised for these assets;

ii) Their carrying amount; and

iii) Whether they are measured after recognition under the cost model or the revaluation model.

d) The existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.

e) The amount of contractual commitments for the acquisition of intangible assets.

Intangible Assets Measured after Recognition using the Revaluation Model

(2) If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:

a) By class of intangible assets:

i) The effective date of the revaluation;

ii) The carrying amount of revalued intangible assets; and

iii) The carrying amount that would have been recognised had the revalued class of intangible assets been measured after recognition using the cost model;

b) The amount of the revaluation surplus that relates to intangible assets at the beginning and end of the reporting period, indicating the changes during the reporting period and any restrictions on the distribution of the balance to owners; and

c) The methods and significant assumptions applied in estimating the asset's fair values.

Research and Development Expenditure

(3) An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period.

4.4 Transitional Provisions

(1) The Accounting Officer shall identify all intangible assets owned by the entity and prepare a register of such assets. The register shall capture details of documents of ownership, nature of asset, cost, and expected useful life, among others.

(2) On first-time adoption of Accrual Accounting, an entity will be required to recognise all intangible assets, except for internally generated intangible assets, at a deemed cost.

(3) A first-time adopter shall measure the intangible assets at their fair value when reliable cost information about the assets is not available and use that fair value as the deemed cost for intangible assets, other than internally generated intangible assets that meets the recognition criteria in this guideline (excluding the reliable measurement criterion).

(4) An internally generated asset shall be recognised if it meets the definition of an intangible asset and the recognition criteria in this guideline, including the costs occurred for development of the specific asset previously written off.

(5) For entities that have already adopted accrual accounting, the Accounting Officer shall review the capitalization thresholds, useful lives/ depreciation rates as well as depreciation methods used and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors.

4.5 Applicable accounting standards

This guideline is based on the following internationally recognised accounting standards:

- IPSAS 31 & IAS 38 - Intangible Assets
- IPSAS 5 - Borrowing Costs
- IPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors
- IPSAS 33 - First – Time Adoption of Accrual Basis IPSASs

4.6 Legislative authority

- Cabinet Secretary to the Treasury (Incorporation) Act, Chapter 101
- Industrial Property Act No. 3 of 2001, Revised 2016
- Protection of Traditional Knowledge and Cultural Expressions Act, 2016
- Copyright Act No. 12 of 2001, Revised 2017
- PPAD Act, 2015
- PPAD Regulations, 2020
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015

4.7 Implementation of guideline

The dates of implementation of the guideline as follows:

Table 4.4

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

5 Heritage assets

This guideline covers the following areas:

5.1 Introduction

5.1.1 Preamble

(1) A heritage asset is a tangible or intangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by a public sector entity in pursuit of its overall objectives in relation to the maintenance of the heritage.

(2) Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, museum and gallery collections and works of art. Heritage assets also include heritage collections in libraries.

(3) A heritage collection in a library is a permanently retained collection which has heritage, cultural or historic value that is worth preserving indefinitely and to which sufficient resources are committed to preserve and protect the collection and its service potential.

(4) Heritage collections are generally held for public exhibition, education, or to provide a service to the community. Heritage collections are not usually available for sale, for redeployment or for an alternative use.

(5) Section 4 of the Protection of Traditional Knowledge and Cultural Expressions Act, 2016 outlines the responsibilities of county governments with respect to heritage assets including maintenance of repositories of such assets, preservation and conservation, protection and promotion as well as allocation of financial resources for the promotion of such assets.

(6) The bodies involved in the management and oversight over heritage assets in Kenya include:

Table 5.1

GoK Body	Role
Ministry of Sports, Culture and Heritage	In accordance with Executive Order No. 1 of 2018, the functions of the state department for Culture and Heritage under the Ministry of Sports, Culture and Heritage include: • National Heritage Policy and Management • National Archives / Public Records Management • Management of National Museums and Monuments • Historical Sites Management • Library Services • Research and Conservation of Music • Management of Culture Policy • Policy for development of Fine, Creative and Performing Arts
Ministry of Tourism and Wildlife	According to Executive Order No. 1 of 2018, the mandate of the Ministry of Tourism and Wildlife with respect to heritage assets includes:

GoK Body	Role
	a) Wildlife Conservation and Protection Policy; b) Protection of Wildlife Heritage; c) Management of National Parks, Reserves and Marine Parks; d) Wildlife Biodiversity Management and Protection; and e) Management of Wildlife Dispersal Areas in collaboration with Partners.
National Museums of Kenya (NMK)	National Museums of Kenya (NMK) is a state corporation established by an Act of Parliament, the Museums and Heritage Act 2006. NMK is a multi-disciplinary institution whose role is to collect, preserve, study, document and present Kenya's past and present cultural and natural heritage. This is for the purposes of enhancing knowledge, appreciation, respect and sustainable utilization of these resources for the benefit of Kenya and the world, for now and posterity. NMK's mutual concern for the welfare of mankind and the conservation of the biological diversity of the East African region and that of the entire planet demands success in such efforts.
Kenya National Archives	One of the key functions of the Kenya National Archives is to acquire and preserve valuable public and private records which form part of the national documentary heritage.
Kenya Wildlife Service (KWS)	• KWS is a state corporation with the mandate to conserve and manage wildlife in Kenya, and to enforce related laws and regulations. • KWS undertakes conservation and management of wildlife resources across all protected areas systems in collaboration with stakeholders. It is our goal to work with others to conserve, protect and sustainably manage wildlife resources. The community wildlife program of KWS in collaboration with others encourages biodiversity conservation by communities living on land essential to wildlife, such as wildlife corridors and dispersal lands outside parks and reserves.
Kenya National Library Services Board	Kenya National Library Service Board is a statutory body of the Government of Kenya established by an Act of Parliament, Cap 225 of the Laws of Kenya. The Board's mandate is to develop, promote, establish and equip libraries in Kenya.
County Governments	County governments hold heritage assets located in their jurisdictions in trust for the citizenry. This include historical sites and monuments.

5.1.2 Classification and characteristics of heritage assets

(1) Heritage assets can be classified as either cultural or natural.

a) Cultural heritage consists of man-made heritage items that could be either tangible or intangible. Examples of tangible cultural heritage include:
   (i) Monuments, archaeological sites, historic buildings, works of art, and scientific collections;
   (ii) Underwater cultural heritage, for example, buildings that are beneath the water or sunken ships; and
   (iii) Natural history collections such as collections of insects, or mineral collections.

b) The National Museums and heritage Act, No. 6 of 2006, Revised 2012, defines cultural heritage as:
   (i) monuments;

(ii) architectural works, works of monumental sculpture and painting, elements or structures of an archaeological nature, inscriptions, cave dwellings and combinations of features, which are of universal value from the point of view of history, art or science;
(iii) groups of separate or connected buildings which, because of their architecture, their homogeneity or their place in the landscape, are of outstanding value from the point of view of history, art or science; and
(iv) works of humanity or the combined works of nature and humanity, and areas including archaeological sites which are of outstanding value from the historical, aesthetic, ethnological or anthropological point of view, and includes objects of archaeological or palaeontological interest, objects of historical interest and protected objects.

c) Natural heritage covers natural features or areas. Examples include natural features such as mountains, naturally occurring rock formations, and bodies of water such as lakes or waterfalls.

d) The National Museums and Heritage Act, No. 6 of 2006, Revised 2012, defines natural heritage as:
(i) natural features consisting of physical and biological formations or groups of such formations, which are of outstanding universal value from the aesthetic or scientific point of view;
(ii) geological or physiographical formations of special significance, rarity or beauty;
(iii) precisely delineated areas which constitute the habitat of threatened species of animals and plants of outstanding universal value from the point of view of science, conservation or natural beauty; or
(iv) areas which are or have been of religious significance, use or veneration and which include but are not limited to Kayas.

(2) Heritage assets can also be classified as either tangible or intangible.

a) 'Tangible Cultural Heritage' refers to physical artefacts produced, maintained and transmitted inter-generationally in a society. It includes artistic creations, built heritage such as buildings and monuments, and other physical or tangible products of human creativity that are invested with cultural significance in a society. 'Intangible Cultural Heritage' indicates 'the practices, representations, expressions, knowledge, skills – as well as the instruments, objects, artefacts and cultural spaces associated therewith – that communities, groups and, in some cases, individuals recognize as part of their Cultural Heritage' (UNESCO, 2003). Examples of intangible heritage are oral traditions, performing arts, local knowledge, and traditional skills.

b) Tangible heritage assets include monuments and collections of objects. On the other hand, intangible cultural heritage includes traditions or living expressions inherited from our ancestors and passed on to our descendants, such as oral traditions, performing arts, social practices, rituals, festive events, knowledge and practices concerning nature and the universe or the knowledge and skills to produce traditional crafts. The importance of intangible cultural heritage is not the cultural manifestation itself but rather the wealth of knowledge and skills that is transmitted through it from one generation to the next.

(3) Heritage assets can be non-operational or operational. Non-operational heritage assets are those that are held primarily for maintenance of the heritage. Operational heritage assets are those that, in addition to being held for their characteristics as part of the nation's heritage, are also used by the public sector entity for other activities or to provide other services (the most common example being buildings).

5.1.3 Entity holding of heritage assets

(1) Public sector entities' objectives for holding heritage assets can include providing services either directly or indirectly to individuals or institutions. The objectives of an entity holding heritage items may include, for example:

a) Providing access to heritage items directly to individuals (for their education, appreciation, etc.);
b) Holding heritage items indefinitely in a custodial capacity;
c) Preserving heritage items to benefit the whole community; or
d) Promoting heritage-related tourism.

(2) Heritage items may also provide services that contribute to achievement of an entity's objectives, for reasons other than their heritage characteristics. For example, a heritage building can be used as office space.

5.1.4 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity asset register in order to facilitate consolidation into a Government register of assets. The guideline also aims to ensure uniformity in the management and administration of heritage assets by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for heritage assets and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to heritage assets. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

5.1.5 Documents of ownership

(1) Accounting officers should ensure that a public sector entity has documents of ownership for all its heritage assets, especially for land held as a heritage asset. The documents of ownership for land held under heritage assets include title deeds, letters of allotment, occupation licenses, letters of offer, certificates of ownership, scheme cards and certificates of lease.

(2) Where an entity is a body corporate, the documents of ownership shall be in the name of the entity and shall be under the custody of the Accounting Officer. In all other instances, the documents of ownership shall be in the name of Cabinet Secretary, National Treasury and shall be under the custody of the National Treasury.

5.1.6 Reference to Non-financial Asset Management Guidelines

(1) Heritage assets are non-financial assets and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guidelines have adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and, disposal. The detailed guidelines with respect to the four phases have been documented in the Guidelines on asset and liability management in the public sector and are applicable to heritage assets.

5.2 General management and administration of heritage assets

In addition to the management and administration aspects documented in the non-financial asset management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to heritage assets.

5.2.1 Acquisition of heritage assets

(1) The National Museums and heritage Act, No. 6 of 2006, Revised 2012 provides guidance on the acquisition of heritage assets, for example,

a) Part IV of the National Museums and Heritage Act, 2006, Revised 2012 gives the Cabinet Secretary responsible for heritage and culture the power to make declarations of heritage assets after consultation with the National Museums of Kenya. The Part details the process of converting an item or place as a heritage asset after declaration by the Cabinet Secretary;

b) Part V of the National Museums and heritage Act, No. 6 of 2006, Revised 2012 gives guidance on searches and discoveries;

c) Section 35 of the Act provides guidance on compensation for the owner of protected land;

d) Section 38 of the Act avers that "the National Museums may purchase or take on lease or accept a gift or bequest of a monument or antiquity"; while

e) Section 50 of the Act provides for the compulsory acquisition of antiques and protected objects.

5.2.2 Management of movable heritage assets

(1) This section describes the process of managing movable heritage assets.

(2) The National Museums and heritage Act, No. 6 of 2006, Revised 2012 provides guidance on the management on specific categories of heritage assets including protected areas (Part VI), monuments (Part VII) and, antiquities and protected objects (Part VIII). The Act gives guidance on access controls, inspection and maintenance, protection agreements and prohibition of sale, among others.

(3) Part II and III of the Protection of Traditional Knowledge and Cultural Expressions Act, 2016 also provides guidance on the protection of traditional knowledge and, cultural expressions, respectively.

(4) The Accounting officer should ensure the following:

a) heritage collections are identified and protected;

b) the heritage value of these assets is assessed; and

c) a record of these assets that includes accurate information on their nature and condition is kept.

(5) The effective management of movable heritage assets has five steps:

1. identification;
2. determination of heritage value;
3. documentation;
4. management; and
5. maintenance.

5.2.2.1 Identification

(1) The identification of items is the first step in the management of movable heritage assets. Public sector entities should:

a) develop and maintain a mechanism to flag heritage assets in their movable asset inventories on a regular basis; and

b) ensure that personnel who assess the assets have the necessary skills to identify potential movable heritage items.

5.2.2.2 Determination of heritage value

(1) Public sector entities should:

a) assess, in consultation with functional specialists with the appropriate skills, the heritage value of an asset;

b) perform documentary and physical analysis of the item using the appropriate research tools and resources, such as reports, photographs, plans, and newspapers; and

c) following the initial assessment, evaluate the item in the context of other similar items or types of items.

(2) It is important to note that the significance of an item should be documented.

5.2.2.3 Documentation

(1) Section 26 of the National Museums and heritage Act, 2006, Revised 2012, stipulates that "the National Museums shall maintain a register or registers of—

a) all collections of all museums, and all instruments under its control;

b) all declarations made or deemed to have been made by the Minister
c) under this Act,

which register or registers the public may search".

(2) The above should be applied by all public sector entities holding heritage assets.

(3) Section 8 of the Protection of Traditional Knowledge and Cultural Expressions Act, 2016 also provides guidance on the maintenance of registers for traditional knowledge.

(4) Documentation creates a record of the item's location, condition, heritage criteria and significance, physical characteristics, ownership, and use. When an item is removed from its original context, documentation helps to identify its history, trace its use, and, under the appropriate circumstances, reinstate it to its original context. Public sector entities should:
   a) retain copies of the item's documentation near the items as well as in a central information bank;
   b) photograph the item in detail, showing it in its original context;
   c) record the item's relationship to the place and people of its original context; and
   d) record how the item was used, who owned it, and where it came from.

(5) It is important for the Accounting Officer to note the following:
   a) Talk to people who used the item or who remember its history.
      (i) record any information or documentation that is or may be missing from the existing documentation;
      (ii) research and document the local history of the region and community of the item's original context;
   b) Researching local history provides a context for understanding the item and the reasons it is important.
      (i) research and document historical changes and uses that have influenced the design or current condition of the item; and
      (ii) examine and document the condition of the item with reference to the following:
         - evidence of wear and tear; and
         - evidence of repairs and restorative attempts.
   c) Monetary value is not a criterion to be considered. If the object is an antique or work of art, however, it may be important to record fair market value, particularly if the item may be transferred to another institution in the future.

5.2.2.4 Management

(1) Once items of heritage value are assessed, a conservation plan should be prepared for items considered of significant heritage value, especially before any decisions are made that could have an adverse effect on the condition of the item. A conservation plan can help provide clear direction, ensure a consistent approach, and identify management objectives and responsibilities. The conservation plan can establish the appropriate actions to manage a heritage asset and provide mechanisms for the decision makers about the future use of the asset.

(2) Public sector entities should prepare an asset conservation management plan for the asset and follow its recommendations before making decisions on moving, disposing or restoring items.

(3) It is important to note that:
   a) Conservation objectives, management responsibilities, and appropriate management techniques should be clearly defined. Exercise minimal intervention and reversibility.
   b) Ensure that internal procedures are established to meet the reporting requirements of the PSASB for heritage assets.
   c) Consult with other government public sector entities in determining mechanisms for the following:
      (i) identifying heritage assets;
      (ii) assessing the heritage value of the assets;
      (iii) ensuring the protection of heritage assets; and

(iv) ensuring that records including accurate information about the nature and condition of heritage assets are maintained in individual public sector entity.

d) Ensure that performance measures are in place for the following:
   (i) the identification process;
   (ii) the protection of heritage assets; and
   (iii) record - keeping mechanisms.

5.2.2.5 Maintenance

(1) A movable heritage item can usually survive for a long period in its original context or in storage that follows international guidelines and standards and museums as long as basic security, protection, and shelter from the elements are provided. Items can be easily damaged through hasty or poorly informed actions.

(2) The risks of poor heritage asset management can be mitigated through the development of and adherence to maintenance plans. Public sector entities should:
   a) follow the asset's conservation management plan.
   b) ensure that any maintenance and restoration work or proposal for removal is based on an understanding of the item's significance to the people of Kenya.
   c) ensure that maintenance and repairs are undertaken using the same materials and techniques that were used originally, unless there are good practical and economic reasons for a divergence based on specialist advice.

(3) It is important to note the following:
   a) Repairs should be approached with caution because certain techniques can cause irreversible damage. Consider seeking the advice of a specialist before undertaking repairs.
   b) Conserve movable heritage assets by minimizing direct physical access, which can put items at risk of wear, damage, disturbance, and theft.
   c) Because movable heritage assets are portable, they can be easily sold, relocated, or discarded during changes in management. For this reason, movable heritage assets are also vulnerable to loss, damage, theft, and disposal, often before their heritage significance is appreciated.
      (i) keep heritage items in their original place and context whenever possible or, if this is not possible, keep the items in managed collections;
      (ii) consider storing important archival records in a central information bank for future reference;
      (iii) secure and store items during conservation work on the building or site that houses them;
      (iv) remove small and valuable items to protect them during conservation work;
      (v) record any conservation work in notes and take "Before" and "After" photographs of the items;
      (vi) add these notes and photos to each item's documentation file;
      (vii) seek advice from experts before applying treatments to items; and
      (viii) consider that when public sector entities determine that they do not have the mandate or resources to maintain an asset they may decide to dispose of it by offering it to museums or similar institutions or other government public sector entities.
   d) Conservation treatment of art and artifacts of significant heritage value must be performed by trained conservation professionals. Heritage assets of lesser significance, such as collections of heritage case goods or public monuments, can be preserved and repaired following conservation principles (i.e. minimal intervention and reversibility) under the general guidance and supervision of a conservation professional.
   e) Repainting and other seemingly standard maintenance can damage or destroy original materials, as can repairs, reconstruction, and the addition of new parts to make an item operational.

5.2.3 Protection and preservation of heritage assets

(1) The historical and cultural assets of the nation should be preserved as a living part of our community life and development in order to give a sense of orientation to the Kenyan people.

(2) The preservation of this irreplaceable heritage is in the public interest so that its vital legacy of cultural, educational, aesthetic, inspirational and economic benefits will be maintained and enriched for future generations.

(3) It shall be the responsibility of every public sector entity, in cooperation with other entities and in partnership with other countries, county governments, local communities and private organizations and individuals to:

a) use measures, including financial and technical assistance, to foster conditions under which our modern society and our prehistoric and historic resources can exist in productive harmony and fulfill the social, economic, and other requirements of present and future generations;

b) provide leadership in the preservation of the prehistoric and historic resources of the country and of the international community of nations and in the administration of the national preservation program in partnership with other countries, county governments, local communities;

c) administer owned, administered, or controlled prehistoric and historic resources in a spirit of stewardship for the inspiration and benefit of present and future generations;

d) contribute to the preservation of nationally owned prehistoric and historic resources and give maximum encouragement to organizations and individuals undertaking preservation by private means;

e) encourage the public and private preservation and utilization of all usable elements of the nation's historic built environment; and

f) assist county governments, local communities and the National Museums of Kenya to expand and accelerate their historic preservation programs and activities.

5.2.4 Recovery of stolen artefacts

Accounting Officers shall ensure that all stolen artefacts that have stolen from their custody in the past are repossessed. Where necessary, the Accounting Officers shall liaise with the ministry responsible for foreign affairs, the Office of the Attorney General and other relevant agencies to facilitate the recovery of such items.

5.2.5 Disposal of heritage assets

(1) An Accounting Officer shall obtain approval for disposal of heritage assets from the Cabinet, through the Cabinet Secretary, National Treasury. The Accounting Officer shall present a business case to the National Treasury to justify the disposal of the asset.

(2) The disposal of assets, including heritage assets, is governed by Part XIV of the PPAD Act, 2015. Part VI of the PPAD Act, 2015 outlines the general procurement and disposal principles, including guidelines on assets disposal.

5.3 Accounting for heritage assets

(1) According to IPSAS 17 entities are not required to recognize heritage assets. If an entity chooses to recognize heritage assets it may, but is not required to, apply the measurement requirements of the Standard.

(2) In principle, heritage assets should be accounted for in the same way as any other asset under IPSAS 17 and IAS 16 – Property, Plant and Equipment. There are, however, certain characteristics associated with heritage assets that give rise to the need for interpretation of IPSAS 17 and IAS 16:

a) Their value to government and the public in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value derived from a market mechanism or price.

b) Established custom and, in many cases, primary statute and trustee obligations impose prohibitions or severe restrictions on disposal by sale.

c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates.
d) They may require significant maintenance expenditure so that they can continue to be enjoyed by future generations.
e) Their life might be measured in hundreds of years.
f) Antiques and other works of arts held by public sector entities outside the main collections should be classified as heritage assets only when they fulfil the above requirements. Otherwise, antiques and other works of art should be accounted for in the same way as other assets.

(3) Heritage assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes. Their value in cultural, educational and historical terms is unlikely to be fully reflected in a financial value, they are often irreplaceable and it is difficult to estimate their useful lives.

(4) The concept paper issued by IPSASB in April 2017 excludes living plants and organisms from the definition of heritage items while the National Museums and Heritage Act, No. 6 of 2006, Revised 2012, defines natural heritage as natural features consisting of physical and biological formations or groups of such formations, which are of outstanding universal value from the aesthetic or scientific point of view. The recognition of wildlife as heritage assets by public sector entities in Kenya is therefore dependent on the issuance of a final pronouncement by the PSASB.

5.3.1 Recognition

Heritage assets are recognised as assets, when:

a) It is probable, that a public sector entity shall derive future economic benefits or potential of services, related to heritage assets; and
b) Cost or fair value of heritage assets can be established reliably.

5.3.2 Measurement

5.3.2.1 Measurement at initial recognition

(1) Operational heritage assets should be valued in the same way as other assets of that general type (buildings, for example).

(2) Non-operational heritage assets should be valued subject to the requirements set out below.

a) Where information is available on the cost or fair value of heritage assets:
   (i) they should be presented in the Statement of Financial Position separately from other tangible assets;
   (ii) the Statement of Financial Position or the notes to the accounts should identify separately those classes of heritage assets being reported at cost and those at fair value; and
   (iii) changes in the valuation should be recognised in the Statement of Income and expenditure, except impairment losses that should be recognised in accordance with IPSAS 21 or 26 and IAS 36.
b) The accounting convention in this guideline is to recognise heritage assets at either current value in existing use or fair value but, where exceptionally, it is not practicable to obtain a fair value, the heritage assets may be reported at historical cost.
c) If no original costs or fair values are available in the case of one or more or all heritage assets, the Accounting Officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the Asset Register without an indication of the costs or fair value concerned. In this case, the assets will not be recognised in the Statement of Financial Position and the disclosure required by this guideline should be made.
d) Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. However, where heritage assets are reported at valuation, the carrying amount should be reviewed with sufficient frequency to ensure the valuations remain current.

e) A public sector entity shall not recognize in the accounting records cultural heritage assets if:
   (i) Their cultural, ecological and educational value cannot be fully expressed in financial terms, based on the market prices;
   (ii) Legal obligations may envisage restrictions and prohibitions on retirement of an asset through its selling;
   (iii) Quite often such assets are accounted for independently and their value may increase with time even though their physical condition may deteriorate; and
   (iv) It is hard to determine the period of useful life of such assets, which sometimes can be several hundred years.

f) The receipt of donations of heritage assets should be recognised as revenue/ income and taken through the Statement of Comprehensive Income where there are no conditions specifically relating to the operating activities of the entity or recognised as deferred income in the Statement of Financial Position. Where exceptionally, it is not practicable to obtain a valuation for a donated heritage asset, the reasons why should be stated. Disclosures should also be provided on the nature and extent of significant donations.

Note: The statement of comprehensive income is used by those entities using IFRS and IAS. For those entities using IPSAS, IPSAS 1 requires, among others, a statement of financial performance and a statement of changes in net assets/equity. Public sector entities shall therefore ensure that the relevant accounting records as required by the applicable standards.

5.3.2.2 Measurement after initial recognition

(1) Heritage assets are valued at fair value, or where fair value is not available cost, less accumulated depreciation and accumulated impairment losses. No depreciation shall be charged against heritage assets with indefinite lives. If the cost price of heritage assets is not known, then the heritage asset will be valued at fair value.

(2) If no original costs or fair values are available in the case of one or more or all heritage assets, the Accounting Officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the Asset Register without an indication of the costs or fair value concerned.

5.3.3 Subsequent expenditure

Entities could expend large amounts directly on preserving heritage assets. For example, parts of heritage buildings deteriorate; those parts need to be replaced, using similar materials, to maintain their historic character. Subsequent expenditures are recognised, increasing the carrying amount of the relevant asset, if it is probable that they confer future economic benefits or service potential for the entity and can be measured reliably.

5.3.4 Capitalisation thresholds

5.3.4.1 General

All heritage assets shall be capitalised and included in the fixed assets register, irrespective of value.

5.3.4.2 Works of art and historical treasures

1) Works of art and historical treasures include collections or individual items of cultural, aesthetic, or historical value and significance. Collections are generally held by reporting organisations such as museums, libraries, historic sites, botanical gardens, zoos, etc. Such items and collections owned by a public sector entity should generally be capitalized at historical cost or fair value at the date of donation.

2) Capitalization of a collection (or additions to it) is encouraged but not required if the collection meets all of the following criteria:
   a) It is held for public exhibition, education, or research in furtherance of public service rather than for financial gain.
   b) It is protected, cared for or preserved.

c) It is subject to an organisational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

3) Although capitalization of such collections is not required, the guideline is to capitalize all future works of art and historical treasure acquisitions, unless they are held for financial gain. If a collection is not capitalized, the public sector entity that owns it must maintain a description of the collection and the reasons for not capitalizing it (e.g., it is held for sale/financial gain and meets the capitalization exception criteria, etc.). Donations of works of art and historical treasures should be recognised as revenues or deferred revenues. When donated collection items are added to non-capitalized collections, reporting organisations should recognize program expense equal to the amount of revenue recognised.

4) Examples of costs to be capitalized as works of art and historical treasures:
   a) Collections of rare books, manuscripts
   b) Maps, documents and recordings
   c) Works of art such as paintings, sculptures, and designs
   d) Artifacts, memorabilia, exhibits
   e) Unique or significant structures

5.3.5 Depreciation and impairment

(1) Depreciation is not required on heritage assets which have indefinite lives.

(1) Only exhaustible works of art and historical collections should be depreciated, that is, those whose useful lives are diminished by display or educational or research applications. Inexhaustible items or collections should not be depreciated.

(2) The carrying amount of an asset should be reviewed where there is evidence of impairment, for example, where it has suffered physical deterioration or breakage or new doubts arise as to its authenticity. Any impairment recognised should be dealt with in accordance with the recognition and measurement requirements of IPSAS 21 or 26 and, IAS 36 - Impairment of Assets.

5.3.6 Derecognition of heritage assets

(1) Heritage assets can be disposed of through sale, demolition/decommissioning/ destruction or through transfer to other government entities. Part IX of the National Museums and Heritage Act, 2006, Revised 2012 provides guidance on the export of movable heritage assets.

(2) The asset register must be updated whenever a heritage asset is disposed of.

(3) A heritage or cultural asset should be eliminated from the statement of financial position on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential are expected from it.

(4) Gains or losses arising from the retirement or disposal of heritage assets should be determined as the difference between the net disposal proceeds and the carrying amount of the building. For the purposes of display in the financial statements, the gain or loss should be included in the statement of comprehensive income as an item of revenue or expense, as appropriate.

Note: The statement of comprehensive income is used by those entities using IFRS and IAS. For those entities using IPSAS, IPSAS 1 requires, among others, a statement of financial performance and a statement of changes in net assets/equity. Public sector entities shall therefore ensure that the relevant accounting records as required by the applicable standards.

5.3.7 Disclosures in financial statements

(1) The disclosures required for heritage assets are set out below and apply to all heritage assets:
   a) An entity's financial statements should contain an indication of the nature and scale of heritage assets held by the entity;
   b) The financial statements should set out the entity's guideline for the acquisition, preservation, management and disposal of heritage assets. This should include a description of the records maintained by the entity of its collection of heritage assets and information on the extent to

which access to the assets is permitted. The information required by this paragraph may alternatively be provided in a document that is cross-referenced from the financial statements;

c) The accounting policies adopted for an entity's holding of heritage assets should be stated, including details of the measurement bases used;
d) For heritage assets that are not reported in the Statement of Financial Position, the reasons why should be explained and the notes to the financial statements should explain the significance and nature of those assets that are not reported in the Statement of Financial Position; and
e) The disclosures relating to assets that are not reported in the Statement of Financial Position should aim to ensure that, when read in the context of information about capitalised assets, the financial statements provide useful and relevant information about the entity's overall holding of heritage assets.

(2) Where heritage assets are reported in the Statement of Financial Position, the following should be disclosed:

b) the carrying amount of heritage assets at the beginning of the financial period and at the Statement of Financial Position date, including an analysis between those classes or groups of heritage assets that are reported at cost and those that are reported at valuation; and
c) where assets are reported at valuation, sufficient information to assist in an understanding of the valuations being reported and their significance. This should include:
    (i) the date of the valuation;
    (ii) the methods used to produce the valuation;
    (iii) whether the valuation was carried out by external valuers and, where this is the case, the valuer's name and professional qualification, if any; and
    (iv) any significant limitations on the valuation.

An example of a limitation to be disclosed under (d) above would be where an asset has a particular provenance/ attribution, the effect of which is not fully captured by valuation.

(3) Information that is available to the entity and is helpful in assessing the value of those heritage assets that are not reported in the entity's Statement of Financial Position should be disclosed.

(4) The financial statements should contain a summary of transactions relating to heritage assets disclosing, for the accounting period and each of the previous four accounting periods:

a) the cost of acquisitions of heritage assets;
b) the value of heritage assets acquired by donation
c) the carrying amount of heritage assets disposed of in the period and the proceeds received; and
d) any impairment recognised in the period.

This summary should separately show transactions in assets that are reported in the Statement of Financial Position and those that are not.

(5) The disclosures required above may be presented in aggregate for groups or classes of heritage assets provided this aggregation does not obscure significant information. Separate disclosures should be provided for those assets reported at cost and those reported at valuation. Amounts in respect of assets that are not reported in the Statement of Financial Position should not be aggregated with amounts for assets that are recognised at cost or valuation.

5.4 Transitional provisions

(1) A public sector entity shall identify all heritage assets owned by the entity. The Accounting Officer shall prepare a register of land held as heritage assets including all land in dispute. The register shall capture details of ownership, L.R No., location, acreage, whether freehold or leasehold, and details of any disputes, among others. For other assets, the register should capture details of the nature of asset, location, special features of the asset, valuation (where known), significance of the asset, among others.

(2) On first-time adoption of Accrual Accounting, an entity shall recognise all heritage assets.

(3) A first-time adopter shall measure the heritage assets at their fair value when reliable cost information about the assets is not available and, use that fair value as the deemed cost for heritage assets.

(4) For entities that have already adopted accrual accounting, the Accounting Officer shall review the capitalization thresholds, useful lives/ depreciation rates as well as depreciation methods used and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors.

5.5 Applicable accounting standards

- IPSAS 17 & IAS 16 – Property, plant and equipment
- IPSAS 21 or 26 and, IAS 36 - Impairment of Assets
- IPSAS 3 & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
- IPSAS 33 - First time adoption of accrual basis IPSAS

5.6 Legislative authority

- Cabinet Secretary to the Treasury (Incorporation) Act, Chapter 101
- National Museums and Heritage Act, 2006 (Revised 2012)
- Protection of Traditional Knowledge and Cultural Expressions Act, 2016
- Public Archives and Documentation Service Act, 1965, Revised 2018
- Manual for records management, Kenya National Archives
- Principles of arrangement and description of archival materials, Kenya National Archives
- Nairobi City County Cultural Heritage Act, 2017
- PPAD Act, 2015
- PPAD Regulations, 2020
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015

5.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 5.2

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

6 Biological Assets

This guideline covers the following areas:

6.1 Introduction

6.1.1 Preamble

(1) "Biological assets" means live plants and animals. The common examples of biological assets include animals such as goats, sheep, cows, buffaloes, calves, and fish. Biological assets include plants such as vegetables, crops, vineyards, trees, micro-organisms and fruit orchards.

(2) Biological assets transform over time. They grow, degenerate and produce. As a result quantitative or qualitative changes occur in the nature of biological assets. Such changes are known as biological transformation.

(3) The harvested product of changes in the nature of biological assets is known as agricultural produce. The examples of agricultural produce include milk, mutton, beef, fruits, coffee beans etc.

(4) Usually, biological assets are of primary importance in farm-related entities. These entities may generate income from their biological assets therefore these biological assets need to be recognized in the balance sheet and the revenues from them also need to be recognized in the income statement.

6.1.2 Definitions

(1) The following terms are used in this Guideline with the meanings specified:

a. Agricultural activity is the management by a public sector entity of the biological transformation and harvest of biological assets for:
   i. Sale;
   ii. Distribution at no charge or for a nominal charge; or
   iii. Conversion into agricultural produce or into additional biological assets for sale or for distribution at no charge or for a nominal charge.

b. Agricultural produce is the harvested product of the entity's biological assets.

c. A biological asset is a living animal or plant.

d. Biological transformation comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.

e. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Disposal may occur through sale or through distribution at no charge or for a nominal charge.

f. A group of biological assets is an aggregation of similar living animals or plants.

g. Harvest is the detachment of produce from a biological asset or the cessation of a biological asset's life processes.

(2) Agricultural activity covers a diverse range of activities; for example, raising livestock, forestry, annual or perennial cropping, cultivating orchards and plantations, floriculture, and aquaculture (including fish farming). Certain common features exist within this diversity:

a. *Capability to change*. Living animals and plants are capable of biological transformation;

b. *Management of change*. Management facilitates biological transformation by enhancing, or at least stabilizing, conditions necessary for the process to take place (for example, nutrient levels, moisture, temperature, fertility, and light). Such management distinguishes agricultural activity from other activities. For example, harvesting from unmanaged sources (such as ocean fishing and deforestation) is not agricultural activity; and

c. *Measurement of change*. The change in quality (for example, genetic merit, density, ripeness, fat cover, protein content, and fiber strength) or quantity (for example, progeny, weight, cubic meters, fiber length or diameter, and number of buds) brought about by biological transformation or harvest is measured and monitored as a routine management function.

(3) Biological transformation results in the following types of outcomes:

a. Asset changes through
   i. growth (an increase in quantity or improvement in quality of an animal or plant),
   ii. degeneration (a decrease in the quantity or deterioration in quality of an animal or plant), or
   iii. procreation (creation of additional living animals or plants); or

b. Production of agricultural produce such as latex, tea leaf, wool, and milk.

6.1.3 Objective of the guideline

The objective of this guideline is to:

a. Standardize management and administration of biological assets
b. Aid in the development of an inventory of government biological assets;
c. Aid in the standardization of the management and reporting of biological assets; and
d. Prescribe the appropriate treatment and disclosures for agricultural activity and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to biological assets.

6.1.4 Scope

(1) A public sector entity that prepares and presents financial statements under the accrual basis of accounting shall apply this guideline for the following:

a. Biological assets; and
b. Agricultural produce at the point of harvest.

(2) This Guideline does not apply to:

a. Land related to agricultural activity (see IPSAS 16, Investment Property and IPSAS 17, Property, Plant, and Equipment);
b. Intangible assets related to agricultural activity (see IPSAS 31, Intangible Assets); and
c. Biological assets held for the provision or supply of services.

(3) When biological assets are used for research, education, transportation, entertainment, recreation, customs control or in any other activities that are not agricultural activities, those biological assets are not accounted for in accordance with this Guideline. Where those biological assets meet the definition of an asset, other IPSASs should be considered in determining the appropriate accounting (e.g., IPSAS 12, Inventories and IPSAS 17).

(4) This guideline is applied to agricultural produce, which is the harvested product of the entity's biological assets, only at the point of harvest.

Examples showing the distinction between biological assets, agricultural produce, and products that are the result of processing after harvest:

Table 6.1

Biological asset(s)	**Agricultural Produce**	**Products that are the result of processing after harvest**
Sheep	Wool	Yarn, Carpet
Trees in a plantation forest	Felled trees	Logs, lumber
Plants	Cotton	Thread, Clothing

Biological asset(s)	Agricultural Produce	Products that are the result of processing after harvest
	Harvested cane	Sugar
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Bushes	Leaf	Tea, cured tobacco
Vines	Grapes	Wine

(5) This guideline applies to all public sector entities other than Government Business Enterprises.

(6) The Preface to International Public Sector Accounting Standards issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB.

6.1.5 Reference to Non-financial Asset Management Guidelines

(1) Biological assets are non-financial assets and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guidelines have adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and, disposal. The detailed guidelines with respect to the four phases have been detailed in the Guidelines on asset and liability management in the public sector and are applicable to railway infrastructure assets.

6.2 General Management and administration of biological assets

6.2.1 Institutional framework

The following are some of the key institutions that drive the policies in country with regards to management of biological assets.

Table 6.2

Institution	Role
Ministry of Agriculture, Livestock, fisheries and irrigation.	The Strategic Objectives for the Ministry are to: 1. To create an enabling environment for Agricultural development 2. To increase productivity and outputs in agricultural sector 3. To enhance national food security 4. To improve market access and trade 5. To strengthen Institutional capacity
Kenya Forest Service	Relevant strategic objectives • Increase net forest cover • Enhance conservation, sustainable management and utilisation of forests by improving livelihoods in rural areas
Kenya Wildlife Service (KWS)	KWS manages about 8 per cent of the total landmass of the country. This land contains 22 National Parks, 28 National Reserves and 5 National Sanctuaries KWS undertakes conservation and management of wildlife resources across all protected areas systems in collaboration with stakeholders. The community wildlife program of KWS in collaboration with others encourages biodiversity conservation by communities living on land essential to wildlife, such

Institution	Role
	as wildlife corridors and dispersal lands outside parks and reserves. The premise is that " if people benefit from wildlife and other natural resources, then they will take care of these resources.
County Governments	Management of Parks under the county government.
KALRO	The mandate of KALRO as stated in the Act is to: a) Promote, streamline, coordinate and regulate in Kenya research in crops, livestock, genetic resources and biotechnology; b) Promote, streamline, coordinate and regulate research in crops and animal diseases c) Expedite, equitable, access to research information, resources and technology and promote the application of the research findings and technology in the field of agriculture **Strategic Objectives** 1. To improve crop production, productivity and utilization 2. To improve livestock production, productivity and products utilization 3. To develop environmentally friendly technologies and natural resource systems for sustainability 4. To develop appropriate agricultural machinery and equipment/implements 5. To support and promote use of biotechnology applications in agricultural development
Entities under the County and National government dealing with biological assets	These are entities dealing with biological assets e.g. Nyayo tea zones, Nyayo tea zones, Kenya Tea Development Authority (KTDA),Kenya Plant Health Inspectorate Service (KEPHIS) etc. Such entities deal with and manage biological assets otherwise relating to the government.

6.2.2 Documents of ownership

In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning.

The documents of ownership should be in the name of the entity and under the custody of the Accounting Officer.

6.2.3 Maintenance of biological assets

The accounting officers are responsible for ensuring that biological assets attain the maximum service potential for which the government entity holds them.

The accounting officers must maintain technical expertise in management and operation of the biological assets as may be deemed economically sustainable for the government entity.

The accounting officer must at all times maintain a full list of all biological assets owned and controlled by the government entity. This list must be updated on a real time basis as and when necessary.

6.2.4 Disposal of biological assets

(1) This is the final phase in the life cycle of a biological asset. At this phase the biological asset is identified as being ready to be disposed of. As with all phases in the life-cycle approach to Asset Management, the accounting officer will need to develop and implement an annual Biological Asset Disposal Plan that will be updated during the year as circumstances change. The set intervals needed for updating the Biological Asset Disposal plan must be decided on and clearly indicated on the plan.

The plan should also include the various disposal methods and how each method should be initiated, evaluated, operationalised and concluded, including how gains and losses, as a result of the disposal, will be handled. The accounting officer should include the various asset type categories in the disposal plan and investigate and recommend the most appropriate form of disposal per asset type category.

(2) It is recommended that the Accounting Officer appoints a Biological Asset Disposal Committee, whose function it will be to make recommendations regarding the disposal of any biological asset within the department.

(3) Any recommendation made by the committee must be submitted to the Accounting Officer to approve the disposal of biological assets, unless the Accounting Officer has given this committee chair person the delegated authority. The details of this manager and his/her delegated authority should be included in the Biological Asset Disposal plan.

(4) Where the disposal of a biological asset forms part of the production process, i.e. where chickens are slaughtered after reaching a certain age/weight the disposal process would have to be set up in such a way that authority to dispose of is obtained from an authorized official without having to set up and obtain recommendations from a committee. If pre-arranged procedures are necessary, this should be recorded in the Biological Assets Disposal Plan.

(5) The Biological Asset Disposal Plan should clearly document the actual steps in the disposal process, in line with Supply Chain Management initiatives

(6) The methods of disposal must be fair, equitable, transparent, cost-effective and should include but are not limited to the following methods of disposal;

a. Sale
b. Transfer to other departments
c. Slaughter
d. Euthanasia (ending a life to relieve pain and suffering)

(7) The method of disposal that is chosen must include a proper cost evaluation of the associated costs related to the disposal method in relation to the benefits expected to be accrued as a result of the disposal.

(8) Should the sale of a biological asset not be at a market-related value, as per price quotation, competitive bid or auction, the reasons for the disposal should be motivated, certified and recorded and approved by the accounting officer.

(9) The Biological Asset Disposal Plan may be updated at any time during a year with any changes that will enhance the plan, provided that the changes to the plan are authorised by the Accounting Officer.

(10) The animals/plants listed on the Biological Asset Disposal report must be subject to the various requirements of the latest version of the Biological Asset Disposal plan and must include information such as the animal/plant description, specifications, planned disposal date, purchase price, disposal method identified during planning for that category of asset, the estimated revenue/loss to be expected due to the disposal and any information regarding further use/benefits that can be derived from the biological asset.

(11) Any assets listed on the Biological Asset Disposal list must be kept in a safe and secure location prior to the disposal and should the biological asset need to be moved to another secure location, the signatures from the current custodian as well as receiver custodian must be obtained. This transfer to a new location must also be updated on the asset register.

6.3 Accounting for biological assets

This section has the following subsections

(1) Recognition
(2) Capitalisation
(3) Measurement
(4) Determination of fair value
(5) Gains and losses
(6) Disclosures in financial statements
(7) Additional Disclosures for Biological Assets Where Fair Value Cannot Be Measured Reliably

6.3.1 Recognition

(1) A public sector entity shall recognize a biological asset or agricultural produce when and only when:
   a. The entity controls the asset as a result of past events;
   b. It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
   c. The fair value or cost of the asset can be measured reliably.
   d. Fair value is above the capitalization threshold.

(2) A planted crop meets the definition of a biological asset when the seeds (or seedlings) are planted

(3) In agricultural activity, control may be evidenced by, for example, legal ownership of cattle and the branding or otherwise marking of the cattle on acquisition, birth, or weaning.

(4) The future benefits or service potential are normally assessed by measuring the significant physical attributes.

(5) The fair value of an asset is based on its present location and condition. As a result, for example, the fair value of cattle at a farm is the price for the cattle in the relevant market less the transport and other costs of getting the cattle either to that market or to the location where it will be distributed at no charge or for a nominal charge.

6.3.2 Capitalisation

(1) The fundamental underlying principle for distinguishing between capital and current expenditure is whether the cumulative purchase of the biological assets or their fair value is less than, equals or exceeds Kshs 200,000.

(2) Asset expenditure or fair values that equals or exceeds Kshs 200,000 is classified as capital expenditure and asset expenditure or fair values less than Kshs 200,000 is classified as current expenditure.

(3) All subsequent expenditures are treated as cost of production and not capitalised.

6.3.3 Measurement

(1) A biological asset shall be measured on initial recognition and at each reporting
date at its fair value less estimated point-of-sale costs, except for cases where the fair value cannot be measured reliably. If the fair value cannot be measured reliably at its initial recognition, the biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses. Once the fair value becomes reliably measurable again, a department shall measure it at its fair value less estimated point-of-sale costs. Measuring a biological asset at cost less depreciation and impairment shall only be on initial recognition and any biological asset that has previously been measured at its fair value less estimated point-of-sale costs shall continue to do so until disposal.

(2) If a biological asset is acquired at no or nominal cost, the biological asset shall be measured according to the fair value of the asset.

(3) Agricultural produce that is harvested from a department's biological asset shall be measured at its fair value less any estimated point-of-sale costs at the point of harvest
Point-of-sale costs include commissions to brokers and dealers, levies by regulatory
agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale cost excludes the transport and other costs necessary to get the biological asset to a market.

6.3.4 Determination of fair value

(1) The determination of the fair value of a biological asset or agricultural produce may
be facilitated by grouping biological assets or agricultural produce according to the significant attributes of the asset; e.g. sorted by age or quality. Departments may select the attributes corresponding to the attributes used in the market as a basis for pricing. If an active market exists for a biological asset or agricultural produce, the quoted market price is appropriate for determining the fair value. If there is no active market for a biological asset or agricultural produce one of the following valuations may be applied:

a. The most recent market transaction price, provided that the market has not significantly changed since that transaction;
b. The market prices for similar assets with adjustments to reflect differences; and
c. Sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare and value of cattle expressed per kilogram of meat.

(2) A number of different conclusions may be obtained when calculating the fair value of an asset using different methods. The reasons for the differences must be considered in order to achieve the most reliable estimate of the fair value of the biological asset.

(3) In some instances the actual cost of the biological asset may be deemed the approximate fair value of the asset, for example, the cost of seedling trees that are planted immediately before a reporting date.

(4) Biological assets are often attached to land such as tree plantations. There may be no market for the separated assets but an active market for the combined assets (the tree and the land). In determining the value of the biological assets the fair value of the raw land and the fair value of land with improvements may be deducted from the fair value of the combined assets to arrive at the fair value of the biological assets.

The hierarchy may be summarised as follows:

- ✓ Price for the asset in an active market.
- ✓ Recent transaction price for the asset if there is no active market.
- ✓ Market prices for similar assets, adjusted for the points of difference.
- ✓ Sector benchmarks.
- ✓ Present value of the future cash flows expected to be generated from the asset

6.3.5 Gains and Losses

(1) A gain or loss arising on initial recognition of a biological asset at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs a biological asset shall be included in surplus or deficit for the period in which it arises.

(2) Changes in fair value may be due to both physical changes and price changes in the market.

(3) A reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the period is required.

(4) Entities should present separately in the reconciliation the gains and losses due to physical changes and price changes. Separate reconciliations of changes in fair value for both mature and immature assets should also be presented.

(5) A consolidated reconciliation is also acceptable.

6.3.6 Disclosures in financial statements

(1) A public sector entity shall disclose the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less estimated point of sale costs of biological assets. This should distinguish the fair value changes due to physical changes and due to price changes.

(2) A public sector entity shall provide a quantified and narrative description of biological assets that distinguishes:
a) Between consumable (held for harvest as agricultural produce or for sale) and bearer biological assets (used repeatedly or continuously for more than one year in an agricultural activity);
b) between biological assets held for sale and those held for distribution at no charge or for a nominal charge.
c) between mature (attained harvestable specifications) and immature biological assets, as appropriate.

(3) A public sector entity shall describe:
a. The nature of its activities involving each group of biological assets; and

b. Non-financial measures or estimates of the physical quantities of:
    i. Each group of the entity's biological assets at the end of the period; and
    ii. Output of agricultural produce during the period.

(4) The methods and significant assumptions applied in determining the fair value of each group of agricultural produce at the point of harvest and each group of biological assets.

(5) The fair value less costs to sell of agricultural produce harvested during the period, determined at the point of harvest.

(6) A public sector entity shall disclose:
  a. The existence and carrying amounts of biological assets whose title is restricted, and the carrying amounts of biological assets pledged as security for liabilities;
  b. The nature and extent of restrictions on the entity's use or capacity to sell biological assets;
  c. The amount of commitments for the development or acquisition of biological assets; and
  d. Financial risk management strategies related to agricultural activity.

(7) A public sector entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:
  a. The gain or loss arising from changes in fair value less costs to sell, disclosed separately for bearer biological assets and consumable biological assets;
  b. Increases due to purchases;
  c. Increases due to assets acquired through a non-exchange transaction;
  d. Decreases attributable to sales and biological assets classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the relevant international or national standard dealing with non-current assets held for sale and discontinued operations;
  e. Decreases due to distributions at no charge or for a nominal charge;
  f. Decreases due to harvest;
  g. Increases resulting from entity combinations;
  h. Net exchange differences arising on the translation of financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity; and
  i. Other changes.

(8) Agricultural activity is often exposed to climatic, disease and other natural risks. If an event occurs that gives rise to a material item of revenue or expense (e.g. climatic, disease and other natural risks), the nature and amount of that item are disclosed.

6.3.7 Additional Disclosures for Biological Assets Where Fair Value Cannot Be Measured Reliably

(1) If a public sector entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses at the end of the period, the entity shall disclose for such biological assets:
  a. A description of the biological assets;
  b. An explanation of why fair value cannot be measured reliably;
  c. If possible, the range of estimates within which fair value is highly likely to lie;
  d. The depreciation method used;
  e. The useful lives or the depreciation rates used; and
  f. The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.

(2) If, during the current period, a public sector entity measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses, a public sector entity shall disclose any gain or loss recognized on disposal of such biological assets and the reconciliation shall disclose amounts related to such biological assets separately. In addition, the reconciliation shall include the following amounts included in surplus or deficit related to those biological assets:
  a. Impairment losses;
  b. Reversals of impairment losses; and

c. Depreciation.

(3) If the fair value of biological assets previously measured at their cost less any accumulated depreciation and any accumulated impairment losses becomes reliably measurable during the current period, a public sector entity shall disclose for those biological assets:

a. A description of the biological assets;
b. An explanation of why fair value has become reliably measurable; and
c. The effect of the change.

6.4 Transitional provisions

(1) Where a public sector entity initially recognizes biological assets or agricultural produce on the first-time adoption of the accrual basis of accounting, the entity shall report the effect of the initial recognition of those assets, and that produce as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which this guideline is first adopted.

(2) If an public sector entity has been recognizing biological assets, the resultant changes in carrying values of biological assets arising from adoption of this guideline shall be adjusted through the accumulated surpluses or deficits for the period in which this guideline is first adopted.

6.5 Applicable accounting standards

- IPSAS 1 & IAS 1 - Presentation of Financial Statements
- IPSAS 12 & IAS 2 - Inventories
- IPSAS 16, IAS 40 – Investment Property
- IPSAS 17 & IAS 16 – Property, Plant and Equipment
- IPSAS 19 & IAS 37 - Provisions, Contingent Liabilities and Contingent Assets
- IPSAS 27 & IAS 41 – Agriculture
- IPSAS 31 & IAS 38 – Intangible Assets

6.6 Legislative authority

- Agriculture Act, Cap 318, Revised 2012 (1986)
- Agriculture, Fisheries and Food Authority Act, no.13 of 2013, Revised 2015
- The Wildlife (Conservation and Management) Act, Cap 376 Revised 2009 (1985)
- PPAD Act, 2015
- PPAD Regulations, 2020
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015
- CS Treasury incorporation Act.

6.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 6.3

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

7 Railway Infrastructure Assets management

This guideline covers the following areas:

7.1 Introduction

7.1.1 Preamble

Railways in Kenya are under the Ministry Transport, Infrastructure, Housing and Urban Development. This role has however been actualized through Kenya Railways which is established as a corporate body under the Kenya Railways Act.

(1) According to the Kenya Railways Act 2012(1979), a railway means "the whole or any portion of the lines of railway operated by the Kenya Railways Corporation and all other movable and immovable property used, or placed at the disposal of the Corporation for use, in connection therewith. **"Trains"** includes locomotive engines, tenders, motors, coaches, wagons, trolleys and rolling stock of all kinds used, whether separately or in conjunction, on a railway Components

(2) Kenya Railways Corporation has other land assets in addition to land under railways and within railway reserves, particularly:

a) Land acquired for future railway works; and
b) Land used for management purposes (offices, depots, etc).

7.1.2 Objective of the guideline

The objective of this guideline is to:

a) Standardize management and administration of railways infrastructure assets
b) Aid in the development of an inventory of government railways infrastructure assets;
c) Aid in the standardization of the management and reporting of railways infrastructure assets; and
d) Prescribe the appropriate treatment and disclosures for railways infrastructure assets and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to railways infrastructure.

7.1.3 Reference to Non-financial Asset Management Guidelines

(1) Railway infrastructure assets are non-financial assets and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guidelines have adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and, disposal. The detailed guidelines with respect to the four phases have been detailed in the Guidelines on asset and liability management in the public sector and are applicable to railway infrastructure assets.

7.2 General Management and administration of railways infrastructure assets

Kenya Railways was established by an Act of Parliament (Cap 397) of the Laws of Kenya, to manage railways operations in Kenya.

1. Provide skills and technology for the railway sector
2. Provide efficient and effective railway services
3. Leverage our assets to grow business
4. Promotion, facilitation and participation in national and metropolitan railway network development

7.2.1 Private sector provided infrastructure

This majorly relates to the railway infrastructure created under Public Private Partnerships. This infrastructure reverts to the government after the period agreed upon in the contract with the private actor. This will be referred to as private sector provided railway infrastructure. At the point of transfer, the accounting officer must ensure that all the terms and conditions in the agreement are met before acceptance. The private actor must ensure that the asset is handed over to the government after it has met the quality conditions in the agreement.

7.2.2 Documents of title and ownership of railway infrastructure assets

(1) All land under railways and within railway reserves should to have titles deeds. The land under railways and within railway reserves should also be supported by the land maps.

(2) The documents of ownership of land under railways should be under the custody of the Corporation or any other body mandated within the law.

7.3 Accounting for railways infrastructure assets

7.3.1 Recognition

(1) A public sector entity shall recognise railway infrastructure assets when:

a) it has control over the assets;
b) it is probable that the entity will have flows from future economic benefit or service potential as a result of the assets; and
c) the cost of the assets can be measured reliably.

(2) All railways infrastructure assets shall be recognized as assets irrespective of the cost. Railways infrastructure assets shall be recognised in the financial statements under five categories:

a) Permanent way/Right of way (Land under railways and within railway reserves);
b) Railways and Bridges;
c) Work in progress;
d) Traffic control installations; and
e) Amenities

7.3.2 Land under railways and within railway reserves

(1) Purchase of land for railway or right-of-way will be set up in a separate fixed asset account, by year, which will not be depreciated. The valuation is done by the National Lands Commission before the payout are made to the owners of the lands. This becomes the value of the land under railways and within railway reserves. Any purchase of land or right-of-way, prior to 2018, for which the railway authority has documentation of purchase price should be included. Where there is no available purchase price, a management estimate should be used.

(2) Railway authorities typically have other land assets in addition to land under railways and within railway reserves, particularly:

a) Land acquired for future railway works; and
b) Land used for management purposes (offices, depots, etc).

7.3.3 Measurement at initial recognition

(1) Railway infrastructure assets should be measured initially at its cost (transaction costs should be included in this initial measurement).

(2) Where a railway infrastructure asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.
(3) The value of land under railways and within railway reserves is included in railway infrastructure assets
(4) The value of land other than land under railways is included in property assets.

7.3.4 Railways and bridges

(1) The railway infrastructure asset costs included in the fixed assets register and the financial statements include:

Table 7.1

Phase	Costs
Design phase costs	• Prefeasibility tests cost • Feasibility cost • Detailed design cost • Procurement cost
Construction phase costs	• Construction costs • Commissioning costs
Operation phase	• Capital maintenance cost

(2) The design phase costs are not reported as an asset if the railways and bridges in question are not constructed. These costs are only capitalized when the railways and bridges are constructed. They are as such recognized as work in progress and expensed if the resultant report does not lead to construction of the railways and bridges or capitalized when the railway and bridges are constructed.
(3) The cost of railways and bridges also includes the cost of drainage structures on the railways. The related costs are included in the railway construction contracts as part of railway construction and are therefore not separated while accounting for the same.

7.3.5 Work in progress

Work in Progress (WIP) refers to capitalisable expenditure incurred in relation to the construction, rehabilitation or rejuvenation of railway assets that have yet to be commissioned or are not yet ready for use. When the construction work is complete the costs in Capital Work in Progress will be transferred to the relevant asset classification. Projects are considered complete when they have been approved by the project sponsor as being ready for use.

7.3.6 Traffic control installations

These include guard rails and traffic signs and lighting. The initial installation of guardrails and traffic signs and lighting will be included with the project cost, in accordance with the capitalization thresholds.

7.3.7 Amenities

(1) Section 13 of the Kenya Railways Act "Powers of the Corporation as a statutory body" states that Without prejudice to section 11A, the Corporation shall have power to provide within Kenya such other amenities or facilities for passengers carried by the Corporation and other persons making use of the services performed or the facilities provided by the Corporation as may appear to the Board necessary or desirable
(2) The amenities include ports and railway stations. Specific provisions for accounting purposes are as below:
a) The buildings are treated in line with the buildings guideline.
b) Access roads are treated in line with the roads infrastructure assets guideline.
c) Any other amenities e.g. seats and shelters at the stations are capitalized in line with the capitalization thresholds.
d) Wagons are treated in line with motor vehicles and other transport assets guideline.

7.3.8 Measurement after initial recognition

7.3.8.1 Cost Model

After initial recognition, an entity that chooses the cost model should measure all of its railway infrastructure assets using the benchmark treatment and the guidelines for normal assets as stated in the previous section that is, at cost less any accumulated depreciation and any accumulated impairment losses.

7.3.8.2 Measurement at fair value

(1) A gain or loss arising from a change in the fair value of railway infrastructure assets should be included in net surplus/deficit for the period in which it arises.

(2) The fair value of railway infrastructure assets is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction and hence the fair value of railway infrastructure assets is usually its market value.

(3) Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale (certain of above mentioned circumstances may not apply to the public sector at large but are noted for the sake of completeness and explanation of the principle involved).

(4) An entity determines fair value without any deduction for transaction costs that the entity may incur on sale or other disposal.

(5) The fair value of railway infrastructure assets should reflect the actual market state and circumstances as of the reporting date, not as of either a past or future date.

(6) If an entity has previously measured its railway infrastructure assets at fair value, the entity should continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of operations) even if comparable market transactions become less frequent or market prices become less readily available.

(7) Revaluation can only be done on assets that are being used. Only railway infrastructure assets in use should be re-valued and disclosed

7.3.9 Subsequent Expenditure

Additional expenditure on railway infrastructure assets must be capitalised (i.e. added to the carrying amount of the asset) when it improves the condition of the asset beyond its originally assessed standard of performance or capacity. In general, work that includes upgrades, enhancements and additions to an asset would fall into the category of capital expenditure when it results in any of the following:

a) An increase in the asset's useful function or service capacity;
b) An extension of its useful life;
c) An improvement to the quality of the service(s) delivered through utilisation of the asset;
d) A reduction in future operating costs; and
e) The upgrade or enhancement becoming an integral part of the asset.

7.3.10 Capitalisation thresholds

All railway infrastructure assets owned by an entity shall be recognised in an entity's fixed asset records, irrespective of value.

7.3.11 Physical and conditional assessment of the railway infrastructure assets

(1) All railway infrastructure assets owned by an entity shall be verified annually.

(2) The accounting officer shall ensure that all railway infrastructure assets are secure, and this should be confirmed during the annual asset verification.

7.3.12 Depreciation and useful life

(1) Railway assets are long-lived capital assets that normally are stationary in nature and can normally be preserved for a significantly greater number of years than most capital assets.

(2) Land under railways and within railway reserves and Work in progress shall not be depreciated.
(3) Straight line method of depreciation shall be used. The useful life in years for depreciation will be 50 years.

7.3.13 Impairment

(1) Railway Infrastructure assets will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.
(2) The carrying amount of a railway will be considered impaired when the railway is being undone and redone on the same land. The cost of re-doing the railway becomes the new cost included in the financial statements.

7.3.14 Transfers, decommissioning and disposal

7.3.14.1 Transfers

(1) An Authority or a county government may transfer any railway assets or function relating to railways in accordance with the provisions of Article 187 of the Constitution and Part III of the Intergovernmental Relations Act, 2012.
(2) The transfer is always through a gazette notice. In such instances, once a notice is gazetted, the ownership and maintenance of the railways infrastructure immediately transfers to the other entity as at the date of the notice.
(3) The documents of ownership should be transferred to such other entities as the case may be. A hand over agreement should be drawn and kept by both parties.
(4) Railway assets can only be leased but cannot be transferred to a third party.

7.3.14.2 Decommissioning

(1) A decommissioned railway is a railway that has been removed from service, has been shut down, or has had its authorization as a government railway removed. Decommissioning can include the complete or partial demolition or abandonment of an old railway structure because the old railway has lost its utility.
(2) The decommissioning of a railway should be through a gazette notice. It should be removed from the books and the inventory records. In this case, the land under railways and railway reserves is not written off. It remains in the records and is treated as the other land.

7.3.14.3 Disposal of railways infrastructure assets

Disposal is not provided for with regards to Kenyan railways. Under no circumstance would a Kenyan Railway be sold.

7.3.15 Disclosures in financial statements

(1) The same information as is provided for other property, plant and equipment should be included in the financial statements with an indication that the assets are railway infrastructure assets. The details of the specific items of disclosure are enumerated under IPSAS 17 and IAS 16.
(2) Disclosure on railways infrastructure assets that are not being used or that have been decommissioned should also be made in the financial statements.

7.4 Transitional provisions

(1) An entity that adopts accrual accounting for the first time in accordance with International Accounting Standards shall initially recognize railway infrastructure assets at cost or fair value. For assets that were acquired at no cost, or for a nominal cost, cost is the railway infrastructure asset's fair value as at the date of acquisition.
(2) The entity shall recognise the effect of the initial recognition of railway infrastructure assets as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with IPSAS, IAS or IFRS.

7.5 Applicable accounting standards

- IPSAS 17 & IAS 16 – Property, Plant and Equipment
- IPSAS 21 or 26 and, IAS 36 - Impairment of Assets
- IPSAS 33 First time adoption of accrual basis IPSAS.

7.6 Legislative authority

- Kenya Railways Act 2007
- Public Roads and Roads of Access Act, Chapter 399, Revised Edition 2010 [1972] "
- East Africa Land Regulations, 1897, the Crown Lands Act, 1902
- Land Act, No. 6 of 2012
- Land Registration Act, No. 3 of 2012
- National Land Commission Act, No. 5 of 2012
- Trust of Land Act, 1941
- Urban Areas and cities Act, 2011
- PPAD Act, 2015
- PPAD Regulations, 2020
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015
- Scrap Disposal Act

7.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 7.2

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

8 Information and Communication Technology (ICT) Asset/Equipment

This guideline covers the following areas:

8.1 Introduction

8.1.1 Preamble

(1) Information and Communication Technology (ICT), the term is generally accepted to mean all devices, networking components, applications and systems that combined allow people and organizations (i.e., businesses, nonprofit agencies, governments and criminal enterprises) to interact in the digital world.

(2) This ICT guideline does not cover software as this has been dealt with under intangible assets.

8.1.2 Institutional framework

Table 8.1

Institution	Mandate in relation to ICT
Ministry of ICT	The Ministry of Information, Communications and Technology (ICT) has responsibility for formulating, administering, managing and developing the Information. It formulates policies and laws that regulate standards and services in the Information, Communication and Technology (ICT) sector, Telecommunications and the Media industry. It is also charged with the responsibility of developing and administering ICT standards, building capacity of mass media and ICT, and the dissemination of public information through the Kenya Broadcasting Corporation (KBC).
Communications Authority of Kenya	The Communications Authority of Kenya (CA) is the regulatory authority for the communications sector in Kenya. The Authority is responsible for facilitating the development of the information and communications sectors including; broadcasting, cybersecurity, multimedia, telecommunications, electronic commerce, postal and courier services. This responsibility entails: ✓ Licensing all systems and services in the communications industry, including; telecommunications, postal, courier and broadcasting. ✓ Managing the country's frequency spectrum and numbering resources. ✓ Facilitating the development and management of a national cyber security framework. ✓ Facilitating the development of e-commerce. ✓ Type approving and accepting communications equipment meant for use in the country. ✓ Protecting consumer rights within the communications environment. ✓ Managing competition within the sector to ensure a level playing ground for all players.

Institution	Mandate in relation to ICT
	✓ Regulating retail and wholesale tariffs for communications services. ✓ Managing the universal access fund to facilitate access to communications services by all in Kenya. ✓ Monitoring the activities of licensees to enforce compliance with the licence terms and conditions as well as the law.
ICT Authority	The Information and Communication Technology (ICT) Authority is a State Corporation under the Ministry of Information Communication and Technology tasked with rationalising and streamlining the management of all Government of Kenya ICT functions. This entails enforcing ICT standards in Government and enhancing the supervision of its electronic communication. ICTA also promotes ICT literacy, capacity, innovation and enterprise in line with the Kenya National ICT Masterplan 2017.
IFMIS	The IFMIS department of the National Treasury roles amongst others are to: ✓ Provide a framework for training and capacity building of government officers to enable effective use of the IFMIS system; ✓ Ensure seamless integration or interfacing of IFMIS with other relevant financial management sub-systems including Central Bank of Kenya and Kenya Revenue Authority systems, among other stand-alone systems; ✓ Ensure sustainability of the IFMIS system in driving the PFM agenda through adoption of continuous improvement, knowledge transfer, business continuity management and proper governance mechanisms.
Information technology infrastructure library	Information Technology Infrastructure Library, is a set of detailed practices for IT service management (ITSM) that focuses on aligning IT services with the needs of business.

8.1.3 Reference to Non-financial Asset Management Guidelines

(1) Information and Communication Technology (ICT) equipment are non-financial assets and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guidelines have adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and, disposal. The detailed guidelines with respect to the four phases have been detailed in the Guidelines on asset and liability management in the public sector and are applicable to Information and Communication Technology (ICT) equipment.

8.2 Management and administration of ICT

8.2.1 Planning for ICT assets

(1) Planning for ICT assets at National level shall be guided by this guideline and any guidelines/policies issued by the ICT Ministry.

(2) Each County should centralise the ICT needs from all departments and sub counties and centrally procure the assets.

(3) All other entities will ensure that procurements are done as per the procurement plans taking into considerations value for money through bulk procurements.

8.2.2 Distribution of ICT assets procured centrally

(1) The inspection and acceptance committees shall ensure that the goods are received in line with the purchase orders. Goods shall only be accepted when and only when they meet all the specifications.

(2) Each accounting officer must ensure that all ICT assets procured are received and that they are in line with the specifications needed and, in the quantities, ordered.

8.2.3 Custody of documents of ownership

For the purposes of proof of ownership by public sector entities, copies of warranties, receipts, delivery notes and invoices shall be maintained by the accounting officer.

8.2.4 Asset register

Asset details shall be kept in entity's asset register for all capitalised Information and Communication Technology (ICT) equipment Accuracy of details supporting capitalised assets shall be the responsibility of the entity's accounting officer and the asset officer assigned to that asset. The relevant asset officer will be responsible for communicating to the accountant any changes to the asset in a timely manner.

A copy of the asset register is included under Appendix 6(a), standard asset register.

8.2.5 Disposal

(1) The accounting officer must ensure best value for money is achieved on disposal of assets.

(2) The ministry of ICT and NEMA will enact laws on sectors of society to enforce environmentally friendly disposal of ICT hardware products.

(3) Accounting officers must ensure responsible disposal of ICT hardware that is harmful to the environment. This should be in line with the enacted laws.

8.3 Accounting for ICT assets

8.3.1 Recognition

A public sector entity shall recognise Information and Communication Technology (ICT) equipment when:

a) it has control over the assets;
b) it is probable that the entity will have flows from future economic benefit or service potential as a result of the assets; and
c) the cost of the assets can be measured reliably.

8.3.2 Measurement at initial recognition

8.3.2.1 An internally/Own assembled/manufactured ICT

(1) The capitalization cost of an ICT asset assembled or manufactured by a GoK entity for own use shall include:

a) Cost of the materials used in assembly/manufacturing of the asset;

b) Direct labour cost employed in the assembly/manufacturing of the asset; and

c) An appropriate proportion of the fixed and variable overheads cost entailed in the assembly/manufacturing of the asset.

(2) Whenever the assembling or manufacturing is not completed within a given financial year, the associated cost shall be transferred to Capital Work in Progress – ICT Account, until the motor Asset is completed. The total acquisition costs are then recognised in the financial year that assembly or manufacture is completed.

8.3.2.2 Acquired Information and Communication Technology (ICT) equipment

Information and Communication Technology (ICT) equipment acquired by a government entity shall be recorded using the cost method of accounting which is the fair value given as consideration plus costs incidental to acquisition including all other costs incurred in preparing the asset ready for use.

8.3.2.3 Contributed Information and Communication Technology (ICT) equipment

An item of Information and Communication Technology (ICT) equipment may be gifted or contributed to a government entity. The cost of the item is its fair value as at the date it is acquired.

8.3.2.4 Transfer of Information and Communication Technology (ICT) equipment between public institutions/ entities

When a transfer for Information and Communication Technology (ICT) equipment has occurred, the transferring entity shall remove the asset from its records while the receiving entity shall record the assets in its records at book value where this is available, otherwise fair value shall be used.

8.3.3 Measurement after initial recognition

8.3.3.1 Cost Model

After recognition as Information and Communication Technology (ICT) equipment, the assets shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses. This method is preferred.

8.3.3.2 Fair value model

(1) After recognition as an asset, an item whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. If an item of office equipment, furniture and fittings is revalued, the entire class of Information and Communication Technology (ICT) equipment shall be revalued.

(2) The Accounting Officer shall be responsible for the maintenance and accuracy of the data relevant to the asset information in the asset register as well as ensuring that revaluations occur regularly in accordance with IPSAS 17 & IAS 16, where applicable.

8.3.4 Subsequent Expenditure

Additional expenditure on Information and Communication Technology (ICT) equipment must be capitalised (i.e. added to the carrying amount of the asset) when it improves the condition of the asset beyond its originally assessed standard of performance or capacity and its value is above the capitalisation threshhold. In general, work that includes upgrades, enhancements and additions to an asset would fall into the category of capital expenditure when it results in any of the following:

a) An increase in the asset's useful function or service capacity;
b) An extension of its useful life;
c) An improvement to the quality of the service(s) delivered through utilisation of the asset;
d) A reduction in future operating costs; and
e) The upgrade or enhancement becoming an integral part of the asset.

8.3.5 Capitalisation thresholds

(1) Expenditure, or other transactions relating to Information and Communication Technology (ICT) equipment, which result in the creation of future economic benefits which are controlled by government entities are to be capitalized if the amount involved is equal to or above Kshs 50,000.

8.3.6 Depreciation and useful life

(1) Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Straight line depreciation is the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset class of office equipment, furniture and fittings.

(2) Accounting officers are responsible for reviewing the useful lives of assets they have responsibility for annually and advising the Accountant of any changes.

(3) The useful life of all Information and Communication Technology (ICT) equipment shall be 3.33 years. As such, each year shall be depreciated at 30%.

8.3.7 Impairment

(1) Information and Communication Technology (ICT) equipment will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(2) An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (which is the higher of the present value of future cash outflows or value in use).

8.3.8 Transfers and disposals

(1) Asset disposal will be guided by the PPAD Act, 2015, any subsequent legislation in relation to procurement and asset disposal and the PPAD Regulations, 2020.

(2) The carrying amount of an item of ICT shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition/disposal of an item of ICT shall be included in statement of comprehensive income when the item is derecognized or disposed.

Note: The statement of comprehensive income is used by those entities using IFRS and IAS. For those entities using IPSAS, IPSAS 1 requires, among others, a statement of financial performance and a statement of changes in net assets/equity. Public sector entities shall therefore ensure that the relevant accounting records as required by the applicable standards.

8.3.9 Disclosures in financial statements

The same information as is provided for other property, plant and equipment should be included in the financial statements under the category of Information and Communication Technology (ICT) equipment. The details of the specific items of disclosure are enumerated under IPSAS 17 and IAS 16.

8.4 Transitional provisions

(1) An entity that adopts accrual accounting for the first time in accordance with International Accounting Standards shall initially recognize Information and Communication Technology (ICT) equipment at cost or fair value. For assets that were acquired at no cost, or for a nominal cost, cost is the Information and Communication Technology (ICT) equipment's fair value as at the date of acquisition.

(2) The entity shall recognise the effect of the initial recognition of Information and Communication Technology (ICT) equipment as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with IPSAS, IAS or IFRS.

(3) If an public sector entity has been recognizing ICT assets, the resultant changes in carrying values of ICT assets arising from adoption of this guideline shall be adjusted through the accumulated surpluses or deficits for the period in which this guideline is first adopted.

8.5 Applicable accounting policies

- IPSAS 17 & IAS 16 – Property, Plant and Equipment
- IPSAS 21 or 26 and, IAS 36 - Impairment of Assets
- IPSAS 33 First time adoption of accrual basis IPSAS.

8.6 Legislative authority

- PPAD Act, 2015
- PPAD Regulations, 2020
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015
- National ICT policy

8.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 8.2

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

9 Road Infrastructure Assets

This guideline covers the following areas:

9.1 Introduction

9.1.1 Preamble

(1) According to the Kenya Roads Act 2007 "a road" means a public road as defined under the Public Roads and Roads of Access Act (Cap. 399)

(2) According to the "Public Roads and Roads of Access Act, Chapter 399, Revised Edition 2010 [1972] "public road" means:

a) Any road which the public had a right to use immediately before the commencement of this Act;
b) All proclaimed or reserved roads and thoroughfares being or existing on any land sold or leased or otherwise held under the East Africa Land Regulations, 1897, the Crown Lands Act, 1902, or the Government Lands Act (Cap. 280), at any time before the commencement of this Act; and
c) All roads and thoroughfares hereafter reserved for public use.

(3) The gazette notice of January 2016 on reclassification of roads defines classification of roads and the road networks in Kenya at the time of development of this guideline. The classification of roads will be as guided by this gazette notice and any subsequent legislation.

(4) The fourth schedule of the constitution of Kenya 2010, part 1 (18) defines transport and communication to include construction and operation of national trunk roads and standards for construction and maintenance of other roads by counties.

9.1.2 Objective of the guideline

The objective of this guideline is to:

(1) Guide the preparation of a standardized public sector entity asset register in order to facilitate consolidation into a Government register of assets. The guideline also aims to ensure uniformity in the management and administration of road infrastructure assets by all public sector entities.

(2) Prescribe the appropriate treatment and disclosures for road infrastructure assets and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to road infrastructure assets. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

9.1.3 Reference to Non-financial Asset Management Guidelines

(1) Road infrastructure assets are non-financial assets and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guidelines have adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and, disposal. The

detailed guidelines with respect to the four phases have been detailed in the Guidelines on asset and liability management in the public sector and are applicable to road infrastructure assets.

9.2 Management of road infrastructure assets in Kenya

9.2.1 Institution framework

(1) In Kenya, road infrastructure assets are managed by the authorities below:

a) Ministry of Transport, Infrastructure, Housing and Urban Development - In Kenya and at the time of formulation of these policies, roads are under the Ministry of Transport, Infrastructure, Housing and Urban Development. Within the ministry, roads are premised under the State Department for Infrastructure whose functions are described as below:
   - (i) National roads development policy
   - (ii) Development, standardization and maintenance of roads
   - (iii) Mechanical and transport services
   - (iv) Enforcement of axle load control
   - (v) Materials testing and advice on usage
   - (vi) Maintenance of security roads
   - (vii) Protection of road reserves
   - (viii) Registration of Engineers

b) The Kenya Roads Board - The Kenya Roads Board was established by section 4 of the Kenya Roads Board Act 1999. The object and purpose for which the Board is established is to oversee the road network in Kenya and coordinate the maintenance, rehabilitation and development funded by the Road Maintenance Levy Fund and to advise the Minister (now Cabinet Secretary) on all matters related thereto.

(2) The following authorities (relevant to construction and maintaining of roads) have been established by the Kenya Roads Act 2007:

a) Kenya National Highways Authority (KeNHA) – KENHA is a body corporate, established under the Kenya Roads Act 2007 with the responsibility for the management, development, rehabilitation and maintenance of national roads including:
   - (i) International trunk roads linking centres of international importance and crossing international boundaries or terminating at international ports (Class A road);
   - (ii) National trunk roads linking internationally important centres (Class B roads); and
   - (iii) Primarily roads linking provincially important centres to each other or two higher-class roads (Class C roads).

b) Kenya Rural Roads Authority (KeRRA) - KeRRA is a body corporate tasked with the development, rehabilitation, maintenance and management of rural roads in the country.
   - (i) Constructing, upgrading, rehabilitating and maintaining rural roads.
   - (ii) Controlling reserves for rural roads and access to roadside developments.
   - (iii) Implementing road policies in relation to rural roads.
   - (iv) Ensuring adherence by motorists to the rules and guidelines on axle load control prescribed under the Traffic Act or any other existing regulations.
   - (v) Ensuring that the quality of road works is in accordance with such standards as may be defined by the Minister (now Cabinet Secretary).
   - (vi) In collaboration with the Ministry responsible for Transport and the Police Department, overseeing the management of traffic on rural roads and issues related to road safety.

c) Kenya Urban Roads Authority (KURA) - KURA is a body corporate established by the Kenya Roads Act, 2007 (revised 2012) with the core mandate of Management, Development, Rehabilitation and Maintenance of all public roads in the cities and municipalities in Kenya except where those roads are national roads. Other functions of KURA include:
   - (i) Constructing, upgrading, rehabilitating and maintaining roads under its control;

(ii) Controlling urban roads reserves and access to roadside developments;
(iii) Implementing road policies in relation to urban roads;
(iv) Ensuring adherence by motorists to the rules and guidelines on axle load control prescribed under the Traffic Act CAP 403 and any regulations under the Act;
(v) Ensuring that the quality of road works is in accordance with such standards as may be defined by the Cabinet Secretary;
(vi) In collaboration with the Ministry responsible for transport and the Police Department, oversee the management of traffic and road safety on urban roads;
(vii) Monitoring and evaluating the use of urban roads;
(viii) Planning the development and maintenance of urban roads;
(ix) Collecting and collating all such data related to the use of urban roads as may be necessary for efficient forward planning under this Act;
(x) Preparing the roads works programmes for all urban roads;
(xi) Liaising and coordinating with other road authorities in planning and on operations in respect of roads;
(xii) Advising the Cabinet Secretary on all issues relating to urban roads; and
(xiii) Performing such other functions related to the implementation of this Act as may be directed by the Cabinet Secretary

d) Kenya Wildlife Service – Responsible for Managing roads within the National parks on behalf of the other authorities.

(3) Currently the Kenya Roads Act is being reviewed under the Kenya roads bill 2017, currently undergoing the legislative process and has established 3 road authorities at the National level with a dedicated network of 40,000 kms and devolved to the county government county roads of about 120000 kms. Counties are expected to model their investment plans under the County Integrated development plans while accessing a portion of the fuel levy for maintenance of the maintainable road networks. This is pegged at 15% on the constitutional provision under article 203 (2).

(4) Based on a five-year road investment programme approved by the Minister (Cabinet Secretary) and the Minister for Finance ((Cabinet Secretary National Treasury), an annual worplan is derived and the board determines the allocation of financial resources from the Fund or from any other source available to the Board as prioritised by road agencies for the maintenance, rehabilitation and development of the road network to ensure that the allocation of funds is pegged to the network maintenance needs. The Act provides that from the fuel levy, KRB shall ensure that a maximum of ten percent of all monies allocated to each road agency is utilized for development purposes by the said agency.

(5) The 5-year Road sector investment programme also defines the government priorities in relation to road infrastructure assets and is also key in road asset planning.

9.2.2 Private sector provided infrastructure

This majorly relates to the road infrastructure created under Public Private Partnerships. This infrastructure reverts to the government after the period agreed upon in the contract with the private actor. This will be referred to as private sector provided infrastructure. At the point of transfer, the accounting officer must ensure that all the terms and conditions in the agreement are met before acceptance. The private actor must ensure that the asset is handed over to the government after it has met the quality conditions in the agreement.

9.2.3 Documents of title and ownership of roads infrastructure assets

(1) All land under roads and within road reserves including walkways should be gazetted.

(2) All land under roads and within road reserves are supposed to have titles deeds. The land under roads and within road reserves should also be supported by the land maps.

(3) The documents of ownership of land under roads should be under the custody of the CS Treasury.

9.2.4 Development of roads by agencies that are not road agencies

When any entity which is not a road agency develops road infrastructure assets, these assets are to be transferred to the relevant road agencies when such developments are completed. The road agency should include this infrastructure assets in their records at fair value.

9.3 Accounting for road infrastructure assets

9.3.1 Recognition

(1) A public sector entity shall recognise road infrastructure assets when:
   a) it has control over the assets;
   b) it is probable that the entity will have flows from future economic benefit or service potential as a result of the assets; and
   c) the cost of the assets can be measured reliably.

(2) All road infrastructure assets shall be recognized as assets irrespective of the cost. Road infrastructure assets shall be recognised in the financial statements under five categories:
   a) Right of way (Land under roads and within road reserves);
   b) Roads and Bridges including Weigh Bridges and Virtual way bridges;
   c) Work in progress;
   d) Traffic control installations;
   e) Amenities.

9.3.1.1 Land under roads and within road reserves

(1) Purchase of land for roadway or right-of-way will be set up in a separate fixed asset account, by year, which will not be depreciated. The valuation is done by the National Lands Commission before the payout are made to the owners of the lands. This becomes the value of the land under roads and within road reserves. Any purchase of land or right-of-way, prior to 2018, for which the road authority has documentation of purchase price should be included. Where there is no available purchase price, a management estimate should be used.

(2) Road authorities typically have other land assets in addition to land under roads and within road reserves, particularly:
   a) Land acquired for future roadworks; and
   b) Land used for management purposes (road camps, offices, depots, etc).

9.3.1.2 Measurement at initial recognition

(1) Road infrastructure assets should be measured initially at its cost (transaction costs should be included in this initial measurement).

(2) Where a road infrastructure asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

(3) The value of land under roads and within road reserves is included in road infrastructure asset valuation, whereas the value of other land is included in property assets.

9.3.1.3 Roads and bridges

(1) The road infrastructure asset costs included in the fixed assets register and the financial statements include:

Table 9.1

Phase	Costs
Design phase costs	• Prefeasibility tests cost • Feasibility cost • Detailed design cost

Phase	Costs
	• Procurement cost
Construction phase costs	• Construction costs • Commissioning costs
Operation phase	• Capital maintenance cost

(2) The design phase costs are not reported as an asset if the roads and bridges in question are not constructed. These costs are only capitalized when the roads and bridges are constructed. They are as such recognized as work in progress and expensed if the resultant report does not lead to construction of the roads and bridges or capitalized when the road and bridges are constructed.

(3) The cost of roads and bridges also includes the cost of drainage structures on the roads. The related costs are included in the road construction contracts as part of road construction and are therefore not separated while accounting for the same.

9.3.1.4 Work in progress

Work in Progress (WIP) refers to capitalisable expenditure incurred in relation to the construction, rehabilitation or rejuvenation of road assets that have yet to be commissioned or are not yet ready for use. When the construction work is complete the costs in Capital Work in Progress will be transferred to the relevant asset classification. Projects are considered complete when they have been approved by the project sponsor as being ready for use.

9.3.1.5 Traffic control installations

These include guard rails and traffic signs and lighting. The initial installation of guardrails and traffic signs and lighting will be included with the project cost, in accordance with the capitalization thresholds.

9.3.1.6 Amenities

The amenities include bus stations, bus stops, passenger resting seats at bus stops etc. Specific provisions for accounting purposes are as below:

a) The buildings are treated in line with the buildings guideline. This would include police posts built as part of the roads contract.
b) Any other amenities e.g. seats and shelters at the stations are capitalized in line with the capitalization thresholds.

9.3.2 Measurement after initial recognition

9.3.2.1 Cost Model

After initial recognition, an entity that chooses the cost model should measure all of its road infrastructure assets at cost less any accumulated depreciation and any accumulated impairment losses.

9.3.2.2 Fair Value Model

(1) A gain or loss arising from a change in the fair value of road infrastructure assets should be included in net surplus/deficit for the period in which it arises.

(2) The fair value of road infrastructure assets is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction and hence the fair value of road infrastructure assets is usually its market value.

(3) The fair value of road infrastructure assets should reflect the actual market state and circumstances as of the reporting date, not as of either a past or future date.

(4) If an entity has previously measured an road infrastructure assets at fair value, the entity should continue to measure the property at fair value until disposal (or until the property becomes owner-

occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of operations) even if comparable market transactions become less frequent or market prices become less readily available.

9.3.3 Subsequent Expenditure

(1) Paragraph 24 of IPSAS 17 states that “Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years. An entity recognizes in the carrying amount of a road, the cost of replacing part of the road when that cost is incurred and if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions under IPSAS 17 (paragraphs 82 to 87).

(2) Additional expenditure on road infrastructure assets must be capitalised (i.e. added to the carrying amount of the asset) when it improves the condition of the asset beyond its originally assessed standard of performance or capacity. In general, work that includes upgrades, enhancements and additions to an asset would fall into the category of capital expenditure when it results in any of the following:

a) An increase in the asset’s useful function or service capacity;
b) An extension of its useful life;
c) An improvement to the quality of the service(s) delivered through utilisation of the asset;
d) A reduction in future operating costs; and
e) The upgrade or enhancement becoming an integral part of the asset.

9.3.4 Capitalisation thresholds

All road infrastructure assets owned by an entity shall be recognised in an entity’s fixed asset records, irrespective of value.

9.3.5 Depreciation and useful life

(1) Road assets are long-lived capital assets that normally are stationary in nature and can normally be preserved for a significantly greater number of years than most capital assets.

(2) Land under roads and within road reserves and Work in progress shall not be depreciated.

(3) In the case of road infrastructure, the dominant factor in the loss of service potential is wear and tear from physical use. As such, this is the factor which should be considered in assessing the useful life of a road infrastructure asset for depreciation purposes.

(4) Straight line method of depreciation shall be used. The useful life in years for depreciation will be as below:

Table 9.2

	Type	Useful life
Roads		
	Seal Coat	5 years
	Gravel Surface	5 years
	Asphalt Surface	10 years
	Concrete Surface	30-40 years
Traffic Signals		

Type		Useful life
	Traffic Signals:	15 Years
Bridges		
	Timber Bridge	10 years
	Timber Redecking	12 years
	Metal Structure Bridge	30 years
	Concrete Bridge	50 years
	Concrete Redecking	25 years
	Movable Bridge	50 years

9.3.6 Impairment

(1) Road Infrastructure assets will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(2) The carrying amount of a road will be considered impaired when the road is being undone and redone on the same land. The cost of re-doing the road becomes the new cost included in the financial statements.

9.3.7 Transfers, decommissioning and disposal

9.3.7.1 Donation of road assets

Where a road is donated by a government authority to a road agency:

1. An agreement shall be drawn between the two parties in relation to the subject of the road being donated;
2. The donating agency shall de-recognise the road in their books;
3. The road agency shall recognize the road in their books using the same value that was in the donating agency's records; and
4. If the road had not been recognized in the records, the road agency shall recognize the road at cost if available or at fair value.

No improvements shall be made on the road infrastructure assets before all the documents of ownership have been transferred and received by the road agency.

9.3.7.2 Transfers

(1) An Authority or a county government may transfer any function relating to roads in accordance with the provisions of Article 187 of the Constitution and Part III of the Intergovernmental Relations Act, 2012.

(2) Transfer of roads between public entities occurs whenever there is a policy change which creates a new road authority, merges the existing authorities, transfers some functions of a road authority to another authority/government entity or removes an existing authority. The transfer is always through a gazette notice. In such instances, once a notice is gazetted, the ownership and maintenance of the roads immediately transfers to the other entity as at the date of the notice.

(3) The documents of ownership should be transferred to such other entities as the case may be. A hand over agreement should be drawn and kept by both parties.

9.3.7.3 Decommissioning

(1) A decommissioned road is a road that has been removed from service, has been shut down, or has had its authorization as a government road removed. Decommissioning can include the complete or partial demolition or abandonment of an old road structure because the old roadway has lost its utility, but such is not always the norm.

(2) The decommissioning of a road should be through a gazette notice. It should be removed from the books and the inventory records. In this case, the land under roads is not written off. It remains in the records and is treated as land in line with the land guideline.

(3) Amalgamation of schemes also lead to change of roads initial set out as public roads to private roads. The authorities responsible should ensure that the roads are removed from the asset register and derecognized in the books. This should happen as soon as the amalgamated land ownership documents have been processed and the public road removed from the land maps.

9.3.8 Disposal of roads infrastructure assets

(1) Disposal is not provided for with regards to Kenyan roads. Under no circumstance would a Kenyan Road be sold.

9.3.8.1 Derecognition

(1) Road infrastructure assets shall be derecognized when the assets are no longer useful or they have been decommissioned through a gazette notice.

(2) The loss arising from the derecognition of an item of a road infrastructure asset shall be determined as the carrying amount of the road infrastructure assets (no proceeds are expected at derecognition).

9.3.9 Disclosures in financial statements

The same information as is provided for other property, plant and equipment should be included in the financial statements with an indication that the assets are road infrastructure assets. The details of the specific items of disclosure are enumerated under IPSAS 17 and IAS 16.

9.4 Transitional provisions

(1) An entity that adopts accrual accounting for the first time in accordance with International Accounting Standards shall initially recognize road infrastructure assets at cost or fair value. For assets that were acquired at no cost, or for a nominal cost, cost is the road infrastructure asset's fair value as at the date of acquisition.

(2) The entity shall recognise the effect of the initial recognition of road infrastructure assets as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with IPSAS, IAS or IFRS.

(3) Valuation of existing road - The valuation of existing road will be based on the fair value of the roads at the point at which they are first recognized in the books.

9.5 Applicable accounting standards

- IPSAS 17 & IAS 16 – Property, Plant and Equipment
- IPSAS 21 or 26 and, IAS 36 - Impairment of Assets
- IPSAS 33 First time adoption of accrual basis IPSAS.

9.6 Legislative authority

- Kenya Roads Act 2007
- Public Roads and Roads of Access Act, Chapter 399, Revised Edition 2010 [1972] “

- East Africa Land Regulations, 1897
- The Crown Lands Act, 1902
- Land Act, No. 6 of 2012
- Land Registration Act, No. 3 of 2012
- National Land Commission Act, No. 5 of 2012
- Trust of Land Act, 1941
- Urban Areas and cities Act, 2011
- PPAD Act, 2015
- PPAD Regulations, 2020
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015

9.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 9.3

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

10 Other infrastructure assets

This guideline covers the following areas:

10.1 Introduction

10.1.1 Preamble

Other infrastructure assets include the following:

Table 10.1

Other infrastructure asset	Definition
Electricity generation & supply infrastructure	Refers to infrastructure assets in the power grid which is an interconnected network for delivering electricity from producers to consumers. It consists of: • Water collection point (above or below ground) where the water accumulates; • Water tunnels • Geothermal wells • Generating stations/systems that produce electrical power e.g. wind farms, nuclear stations, geothermal stations, solar stations, hydro-electronic stations, Coal stations etc. • Step down sub- stations • High voltage transmission lines that carry power from distant sources to demand centers; and • Distribution lines that connect individual customers.
Flood mitigation and drainage infrastructure	Refers to: • Underground and surface drainage; and • Planned overland flow paths, channels and open spaces, which carry excess floodwater away from houses.
Water infrastructure	Refers to water supply system or water supply network. This is a system of engineered hydrologic and hydraulic components which provide water supply. A water supply system typically includes: • A raw water collection point (Surface or ground) where the water accumulates; • Boreholes; • Water purification facilities including pipes; • Water storage facilities such as reservoirs, water tanks, or water towers. • Additional water pressurizing components such as pumping stations;

Other infrastructure asset	**Definition**
	• A pipe network for distribution of water to the consumers (which may be private houses or industrial, commercial or institution establishments) and other usage points. • Hydrologic system – River gauging stations for capturing data
Solid waste management and sewerage disposal infrastructure	Refers to: • Solid waste sorting and management facilities, close dumps, constructed or refurbished landfills and transfer stations. • Waste water treatment plants. • Connections to the sewers (underground pipes, or aboveground ditches)
Aerodromes and Airstrips	An aerodrome or airdrome is a location from which aircraft flight operations take place, regardless of whether they involve cargo, passengers, or military. Aerodromes include small general aviation airfields, large commercial airports, and military airbases
Sea Walls and Jetties	Structure made of concrete, masonry or sheet piles, built parallel to the shore at the transition between the beach and the mainland or dune, to protect the inland area against wave action and prevent coastal erosion.
Telecommunication infrastructure	Refers to telecommunication grid which is an interconnected network employed to transmit and receive information by electrical or electronic means. It consists of: • **Computer networks -** Digital telecommunications network which allows nodes to share resources. In computer networks, computing devices exchange data with each other using connections (data links) between nodes. These data links are established over cable media such as wires or optic cables, or wireless media such as Wi-Fi. • **The Internet -** global system of interconnected computer networks that use the Internet protocol suite (TCP/IP) to link devices worldwide. • **The telephone network -** A **telephone network** is a telecommunications network used for telephone calls between two or more parties. • **The global Telex network -** The **telex** network was a public switched network of teleprinters similar to a telephone network, for the purposes of sending text-based messages. • **The aeronautical ACARS network** – (**aircraft communications addressing and reporting system**) is a digital datalink system for transmission of short messages between aircraft and ground stations via airband radio or satellite. • **Fibre optic -** Optical fibers are used as a means to transmit light between the two ends of the fiber and find wide usage in fiber-optic communications, where they permit transmission over longer distances and at higher bandwidths than electrical cables.
Oil and gas pipeline infrastructure	A pipeline refers to a tube or system of tubes used for transporting crude oil or gas from a field or to a refinery. This category also includes refineries, pumping stations etc.
Other Infrastructure and Civil Works	Refers to all other public utility infrastructures not covered above and by the roads and railways infrastructure assets e.g. Security lighting infrastructure, Border walls

10.1.2 Objective of the guideline

The objective of this guideline is to:

a. Standardize management and administration of other infrastructure assets
b. Aid in the development of an inventory of government other infrastructure assets;
c. Aid in the standardization of the management and reporting of other infrastructure assets; and
d. Prescribe the appropriate treatment and disclosures for other infrastructure assets and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to other infrastructure assets.

10.1.3 Reference to Non-financial Asset Management Guidelines

(1) Other infrastructure assets are non-financial assets and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guidelines have adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and, disposal. The detailed guidelines with respect to the four phases have been detailed in the Guidelines on asset and liability management in the public sector and are applicable to other infrastructure assets.

10.2 General Management and administration of other infrastructure assets

10.2.1 Entities involved in the management of other infrastructure assets

The entities that are involved in the management of other infrastructure assets include:

Table 10.2

Other infrastructure asset	Definition
Electricity generation & supply infrastructure	**Ministry of Energy, Kenya** The Ministry of Energy, on behalf of the National Government, is responsible for energy policy and regulation of electricity and gas reticulation (pattern or arrangement of interlacing lines resembling a net) while County Governments are responsible for planning and development of electricity and gas reticulation and regulation. The State Department of Energy is mandated to undertake the following functions: 1. National Energy and Policy management 2. Hydro-power Development 3. Geothermal Exploration and Development 4. Rural Electrification Programme 5. Promotion of Renewable Energy 6. Energy Regulation, Security, and Conservation **KENGEN** KENGEN is a power generation company in the country. The company uses various sources of energy to generate electricity ranging from hydro, geothermal, thermal and wind. **KPLC**

Other infrastructure asset	Definition
	KPLC is in the business of power supply and hence its distribution to homes and business to ensure smooth running of day-to-day activities. **Kenya Power** is responsible for ensuring that there is adequate line capacity to maintain supply and quality of electricity across the country. **KETRACO** KETRACO develops new high voltage electricity transmission infrastructure which forms the backbone of the National Transmission Grid. Its core business is to plan, design, build and maintain electricity transmission lines and associated substations **REA** The Rural Electrification Authority was established under Section 66 of the Energy Act, 2006 (No 12 of 2006) as a body corporate. It was created in order to accelerate the pace of rural electrification in the country, a function which was previously undertaken by the Ministry of Energy. **GDC** GDC was formed in 2008 as a Special Purpose Vehicle (SPV) to accelerate the development of geothermal resources in **Kenya**. **GDC** is tasked with developing steam fields and selling geothermal steam for electricity generation to KenGen and to private investors. Nuclear....
Flood mitigation and drainage infrastructure	**County governments** Among *the responsibilities* of the *county* governments is to formulate the Flood mitigation and drainage needs of the country and to spear head the excess water disposal **Ministry of Water and Sanitation** The Ministry of Water and Irrigation is in charge of policies for water supply, while the Ministry of Public Health and Sanitation is in charge of policies for sanitation **Ministry of Transport, Infrastructure, Housing and Urban Development** Whilst in charge of transport sector in Kenya, MOTIHUD constructs and maintains road infrastructures with drainage systems.
Water infrastructure	Ministry of Water and Sanitation and relevant institutions – The Ministry of Water and Irrigation is in charge of policies for water supply, while the Ministry of Public Health and Sanitation is in charge of policies for sanitation Development of water policies is the preserve of the national government under the ministry of Water and Irrigation **WRMA** Kenya's Water Resources Management Authority (WRMA) is a state corporation under the Ministry of Water and Irrigation established under the Water Act 2002 and charged with being the lead agency in water resources management in the country **County governments** Water supply is a devolved function and therefore counties are in charge of the same and the enabling infrastructure. **WASREB**

Other infrastructure asset	Definition
	The main mandate is the development of rules and enforcement of the rules within the water sector and this are geared towards ensuring the access to efficient, affordable and sustainable services
Solid waste and sewerage disposal infrastructure	**National government** The National government is responsible for the policy development on solid waste management. **County governments and their agencies** Solid waste disposal is a devolved function and therefore counties are in charge of the same and the enabling infrastructure. **NEMA** There is a National Solid Waste Management Strategy which guides on sustainable solid waste management in Kenya to ensure a healthy, safe and secure environment for all. The Strategy is a deliberate and visionary commitment for the country in the management of solid waste.
Aerodromes and Airstrips	**Ministry of Transport, Infrastructure, Housing and Urban Development – State Departments of Transport and Infrastructure** The mandate of the Ministry of Transport and Infrastructure is to: • Develop and maintain sustainable transport and infrastructure to facilitate efficient movement of goods and people. • Develop and enforce regulations and standards to ensure safe, secure and efficient transport and infrastructure systems. **KAA** Provides facilitative infrastructure for aviation services between Kenya. Its main functions are: Administer, control and manage aerodromes. **KCAA** KCAA is responsible for regulating the aviation industry in Kenya and for providing air navigation services in the Kenya flight region. The KCAA offers training in the aviation professions through its affiliated East African School of Aviation.
Sea Walls and Jetties	**Ministry of Transport, Infrastructure, Housing and Urban Development - State Department for Public Works** One of the strategic objectives of the state department is "To protect land and property from sea wave action, flooding and erosion; enhance accessibility in and out of waters; and enhance communication between human settlements and in areas of difficult terrain." **KPA** Kenya Ports Authority (KPA) is a state corporation with the responsibility to "maintain, operate, improve and regulate all scheduled seaports" on the Indian Ocean coastline of Kenya, including principally Kilindini Harbour at Mombasa **KRC** The overall mandate of the Corporation then was to provide a coordinated and integrated system within Kenya of rail and inland waterways transport services and inland port facilities.

Other infrastructure asset	Definition
	Maritime Authority The role of the Kenya Maritime Authority is to strengthen national maritime administration through enhancement of regulatory and institutional capacities for safety and security, fostering effective implementation of international maritime conventions and other mandatory instruments on safety & security, promoting maritime training, coordinating Search and Rescue, preventing marine pollution and promoting preservation of the marine environment as well as promoting trade facilitation and maritime investments. **Meteorological department** One of the functions of the Meteorological department is the Provision of meteorological services to shipping in the western Indian Ocean including the issuing of cyclone warnings for the safety of merchant and other ships.
Telecommunication infrastructure	**Ministry of ICT** The mandate of the Ministry comprises the formulation of policies and laws that regulate standards and services in the Information, Communication and Technology (ICT) sector, Telecommunications and the Media industry. It is also charged with the responsibility of developing and administering ICT standards, building capacity of mass media and ICT, and the dissemination of public information through the Kenya Broadcasting Corporation (KBC). **ICT Authority** The Authority is tasked with rationalising and streamlining the management of all Government of Kenya ICT functions. The mandate entails enforcing ICT standards in Government and enhancing the supervision of its electronic communication **Communication Authority** The Communications Authority of Kenya (CA) is the regulatory body for the communications sector in Kenya. the Authority is responsible for facilitating the development of the Information and Communications sectors including; broadcasting, multimedia, telecommunications, electronic commerce, postal and courier services.
Oil and gas pipelines	**Kenya Pipeline Corporation** The main objective is to provide efficient, reliable, safe and cost effective means of transporting petroleum products from Mombasa to the hinterland. In pursuit of this objective, the Company constructed pipeline network, storage and loading facilities for transportation, storage and distribution of petroleum products. The Company's other mandate includes • To build a pipeline for the conveyance of petroleum or petroleum products from Mombasa to Nairobi. • To own, manage or operate such pipelines and any other pipelines and associated ancillary facilities. • To market, process, treat, deal in petroleum products and other products and goods and provide transport and other distributive facilities, outlets and services in connection therewith.
Other Infrastructure and Civil Works	Any other relevant Ministry as the case may be.

10.2.2 Custody of documents of ownership

(1) All land under other infrastructure assets must be gazetted

(2) All land under other infrastructure assets must have titles deeds supported by the land maps.

(3) The documents of ownership of land under other infrastructure assets should be under the custody of the authorities in charge of the other infrastructure assets. These should be maintained by the accounting officer in charge of the relevant authority.

10.2.3 Private sector provided infrastructure

(1) This mainly relates to the other infrastructure created under Public Private Partnerships. This infrastructure reverts to the government after the period agreed upon in the contract with the private actor. This will be referred to as private sector provided infrastructure. At the point of transfer, the accounting officer must ensure that all the terms and conditions in the agreement are met before acceptance. The private actor must ensure that the asset is handed over to the government after it has met the quality conditions in the agreement.

10.3 Accounting for other infrastructure assets

10.3.1 Recognition

(1) A public sector entity shall recognise other infrastructure assets when:

a) it has control over the assets;
b) it is probable that the entity will have flows from future economic benefit or service potential as a result of the assets; and
c) the cost of the assets can be measured reliably.

(2) All other infrastructure assets shall be recognized as assets irrespective of the cost.

10.3.2 Measurement at initial recognition

(1) Other infrastructure assets should be measured initially at its cost (transaction costs should be included in this initial measurement).

(2) Where other infrastructure asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

(3) The value of land under the other infrastructure asset is included in other infrastructure asset valuation, whereas the value of other land is included in property assets.

10.3.3 Acquired other infrastructure assets

Other infrastructure assets acquired by a government entity shall be recorded using the cost method of accounting which is the fair value given as consideration plus costs incidental to acquisition including all other costs incurred in preparing the asset ready for use.

10.3.4 Internally constructed other infrastructure assets

(1) The cost of Other infrastructure assets constructed by a government entity shall include the cost of all materials used in construction, direct labour employed and an appropriate proportion of variable and fixed overheads.

(2) Work in Progress (WIP) refers to capitalisable expenditure incurred in relation to the construction, rehabilitation or rejuvenation of Other infrastructure assets that have yet to be commissioned or are not yet ready for use. When the construction work is complete the costs in Capital Work in Progress will be transferred to the relevant asset classification.

10.3.5 Contributed Other infrastructure assets

An item of Other infrastructure assets may be donated or contributed to a government entity. The cost of the item is its fair value as at the date it is acquired.

10.3.6 Transfer of Other infrastructure assets between public institutions/ entities

When a transfer for Other infrastructure assets has occurred, the transferring entity shall remove the asset from its records while the receiving entity shall record the assets in its records at book value.

10.3.7 Measurement after initial recognition

10.3.7.1 Cost Model

After recognition as Other infrastructure assets, the assets shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

10.3.7.2 Fair value model

(1) After recognition as an asset, an item whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. If an item of Other infrastructure assets is revalued, the entire class of Other infrastructure assets shall be revalued.

(2) The Accounting Officer shall be responsible for the maintenance and accuracy of the data relevant to the asset information in the asset register as well as ensuring that revaluations occur regularly in accordance with IPSAS 17 & IAS 16, where applicable.

10.3.8 Subsequent Expenditure

Additional expenditure on Other infrastructure assets must be capitalised (i.e. added to the carrying amount of the asset) when it improves the condition of the asset beyond its originally assessed standard of performance or capacity. In general, work that includes upgrades, enhancements and additions to an asset would fall into the category of capital expenditure when it results in any of the following:

a) An increase in the asset's useful function or service capacity;
b) An extension of its useful life;
c) An improvement to the quality of the service(s) delivered through utilisation of the asset;
d) A reduction in future operating costs; and
e) The upgrade or enhancement becoming an integral part of the asset.

10.3.9 Capitalisation thresholds

Expenditure, or other transactions relating to Other Infrastructure assets, which result in the creation of future economic benefits which are controlled by government entities are to be capitalized.

10.3.10 Depreciation and useful life

(1) Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Straight line depreciation is the method that most closely

reflects the expected pattern of consumption of the future economic benefits embodied in the asset class of office equipment, furniture and fittings.

(2) Accounting officers are responsible for reviewing impairment and the useful lives of assets they have responsibility for annually and advising the Accountant of any changes.

(3) The useful life of the Other infrastructure assets is as below:

Table 10.3

Other infrastructure asset	Definition	
Electricity generation & supply infrastructure	Straight line depreciation using the rates below:	
	Power station permanent building structures	2%
	Plants and Power turbines	5%
	Distribution and transmission lines	10%
Flood mitigation and drainage infrastructure	Straight line depreciation using the rates below:	
	Permanent building structures	2%
	Overland flow paths	20%
	Underground drainage	10%
Water infrastructure	Straight line depreciation using the rates below:	
	Water collection points/ Permanent building structures	2%
	Water purification facilities and machines	10%
	Water storage facilities	10%
	pipe network	20%
	Underground drainage	10%
Solid waste and sewerage disposal infrastructure	Straight line depreciation using the rates below:	
	Permanent building structures	2%
	Waste sorting and treatment facilities	10%
	Pipe network	20%
Aerodromes and Airstrips	Straight line depreciation using the rates below:	
	Permanent building structures	2%
	Aerodromes	10%
Sea Walls and Jetties	Straight line depreciation using the rates below:	
	Permanent building structures	2%
	Sea Walls and Jetties	5%
Other Infrastructure and Civil Works	Straight line depreciation using the rates below:	
	Permanent building structures	2%

Other infrastructure asset	Definition	
	Others	5-20% as necessary

10.3.11 Impairment

Other Infrastructure assets will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (which is the higher of the present value of future cash outflows or value in use).

10.3.12 Transfers and disposals

(1) When a transfer happens, the documents of ownership should be transferred to such other entities as the case may be. A hand over agreement should be drawn and kept by both parties.

(2) Asset disposal will be guided by the PPAD Act, 2015, any subsequent legislation in relation to procurement and asset disposal and the PPAD Regulations, 2020.

(3) The carrying amount of an item of Other Infrastructure assets shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition/disposal of an item of other Infrastructure assets shall be included in statement of comprehensive income when the item is derecognized or disposed.

Note: The statement of comprehensive income is used by those entities using IFRS and IAS. For those entities using IPSAS, IPSAS 1 requires, among others, a statement of financial performance and a statement of changes in net assets/equity. Public sector entities shall therefore ensure that the relevant accounting records as required by the applicable standards.

10.3.13 Disclosures in financial statements

The same information as is provided for infrastructure assets should be included in the financial statements under the category of other Infrastructure assets. The details of the specific items of disclosure are enumerated under IPSAS 17 and IAS 16.

10.4 Transitional provisions

(1) An entity that adopts accrual accounting for the first time in accordance with International Accounting Standards shall initially recognize other Infrastructure assets at cost. For assets that were acquired at no cost, or where cost is not available, or for a nominal cost, cost is the Other Infrastructure assets fair value as at the date of acquisition.

(2) The entity shall recognise the effect of the initial recognition of Other Infrastructure assets as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with IPSAS, IAS or IFRS.

10.5 Applicable accounting standards

- IPSAS 17 & IAS 16 – Property, Plant and Equipment
- IPSAS 21 or 26 and, IAS 36 - Impairment of Assets
- IPSAS 33 First time adoption of accrual basis IPSAS.

10.6 Legislative authority

- PPAD Act, 2015
- PPAD Regulations, 2020
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015

10.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 10.4

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

11 Motor vehicles and other transport assets

This guideline covers the following areas:

11.1 Introduction

11.1.1 Preamble

This guideline applies to all motor vehicles (both specialised and non-specialised) employed in the course of official government transport services. These include:

a) Government Owned Motor Vehicles (GOVs) or Government Leased Motor Vehicles (GLVs) within the National Government (Executive, Judiciary and the Parliament); County Governments; and Commissions and Independent Offices, Departments and Agencies at both levels (national and county) of GoK.

b) Motor vehicles owned (under) by programmes and projects financed by Development Partners that are implemented by the Government of Kenya.

c) Other non-motorized assets used for transport including camels, donkeys etc.

11.1.2 Institutional framework

The GoK bodies involved in the management and offering oversight role over the motor vehicles serving in the public sector are described in the table below.

Table 11.1

GoK Body	Role
Government Fleet Management Unit (GFMU)	GFMU is under the Directorate of Public Investments and Portfolio Management (PIPM) of the National Treasury. Its main role shall be to develop and maintain standards and procedures on official government transport management. The Division shall also set up and maintain the required fleet management database.
Transport/Logistics Departments/Units within GoK entities	These are responsible for the day to running of the motor vehicles in the respective GoK entities. These shall operate under delegated powers from the respective accounting officers.
Ministry Transport, Infrastructure, Housing and Urban Development	The Ministry through the Chief Mechanical and Transport Engineer (CMTE) within the State Department of Transport carries out the following function related to transport (including but not limited to aspects on motor vehicles) in Kenya:

GoK Body	Role
	• Preparation of technical specifications and tender documents for purchase of vehicles, plant, tools, equipment machinery and other related materials. • Advisory on procurement and disposal of vehicles and equipment; • Pre-delivery inspection of vehicles, plant, tools, equipment and machinery to ensure adherence to the technical specifications. • Inspection of GoK vehicles, plant and equipment; • Inspection and identification of private garages suitable for repairing GoK vehicles, plant and equipment; • Valuation of vehicles, plant and equipment for the purposes of: o Determining resale value for disposal, o Placement as security in courts of law, o Insurance, o Loans for public servants desiring to purchase used vehicles. • Suitability/occupational testing of drivers, motor cyclists and plant operators for employment and promotion within GoK; • Maintenance, repair and disposal of vehicles, plant and equipment; • Post-repair inspection to check quality and conformity of repairs to the requirements; and • Inspection of damages and losses caused by accident, abuse and misuse of equipment with view to establish liability.
Traffic Police Department within National Police Service (NPS)	This Department is charged with ensuring observance of the traffic laws and regulations by all road users as required under the Traffic Act. The Department was established to support the functions of the Kenya Police Service in accordance with Section 24 of the National Police Service Act, 2011 and with respect to traffic laws and regulations, these are: a) Ensuring of free flow of traffic; b) Prevention of Road Accidents; c) Investigation of Accidents; d) Enforcement of all Laws, Rules and Regulations with which the department is charged; and e) Initiate road safety sensitization to the members of the public.
The Government Vehicle Check Unit (GVCU)	GVCU is under NPS and is charged with overseeing the use of GoK vehicles to ensure they are used in accordance with the authorization limits for the respective vehicles.
National Transport and Safety Authority (NTSA)	This body is established through NTSA Act, No 33 of 2012 and its function are to: • Advise and make recommendations to the Cabinet Secretary on matters relating to road transport and safety; • Advise the Government on national policy with regard to road transport sector,

GoK Body	Role
	• Implement policies relating to road transport and safety; • Plan, manage and regulate the road transport system in accordance with the provisions of the NTSA Act; • Ensure the provision of safe, reliable and efficient road transport services; and • Administer the Traffic Act, Cap 403 and any other written law in relation to transport.
Accounting officers	Prudent management on the use of the vehicle and transport assets

11.1.3 Reference to Non-financial Asset Management Guidelines

(1) Motor vehicle and other transport equipment are non-financial assets and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guidelines have adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and, disposal. The detailed guidelines with respect to the four phases have been detailed in the Guidelines on asset and liability management in the public sector and are applicable to motor vehicle and other transport equipment.

11.2 General Management and administration of Motor vehicles and other transport assets

11.2.1 Custody of documents of ownership

(1) The documents of ownership and/or custody for the motor vehicles shall be in the name of the entity where the entity is a body corporate, otherwise it should be under Cabinet Secretary to the Treasury of Kenya with reference made to the name of the GoK entity responsible for the purchase, lease or acquisition transaction.

(2) The documents of ownership and/or custody to the motor vehicles include:

a) Logbooks for the Government Owned Vehicles;
b) Lease agreements for the Government Leased Vehicles; and
c) Logbooks for the Project/Programme Owned Vehicles.

(3) The serial/reference numbers for the logbooks and lease agreements shall be included in the assets/inventory register of motor vehicles.

(4) The records in support of the ownership and/or custody documents include:

a) The purchase orders or agreements raised by the GoK entity at the point of purchase (ordering for the vehicles);
b) Invoices and delivery notes raised by suppliers and lessors on purchase or lease of the vehicles respectively;
c) The certificate of the Inspection and Acceptance issued by the Inspection and Acceptance Committee (IAC);
d) The documents referred to under (a), (b) & (c) above shall be attached to the payment voucher for ease of retrieval for reference purposes, as and when required.

(5) The accounting officer in every GoK entity shall ensure that all documents of ownership and/or custody to motor vehicles, either owned or leased by the entity are obtained and secured.

(6) The documents of ownership and/or custody to Government Owned Vehicles, Government Leased Vehicles and Project/Programme Owned Vehicles shall be kept under custody of the National Treasury for the Judiciary, Executive and Parliament.

(7) For the County Governments, the documents of ownership and/or custody to Government Owned Vehicles, Government Leased Vehicles and Project/Programme Owned Vehicles shall be kept under custody of the respective County Treasuries.

11.2.2 Insurance

All government vehicles must be insured.

11.2.3 Donated transport assets

(1) The accounting officer receiving donated assets must inspect them before they are accepted. The accounting officer must be able to quantify the maintenance costs associated with the asset and make a decision as to whether this can be accommodated within the entity's budgets.

(2) An agreement must be signed with the donating entity. No costs can be incurred on the donated asset before transfer of full ownership.

11.2.4 Operations and maintenance of transport assets

The accounting officer must ensure optimal usage of the available transport assets. The operations and maintenance must be in line with the provisions issued by the relevant authorities including the fleet unit of the National treasury.

11.2.5 Operations and maintenance of animal transport assets.

(1) The accounting officer must ensure optimal usage of the available animal transport assets. These must be kept safe and in line with animal safety regulations.

(2) The Prevention of Cruelty to Animals Act (2012) which was a revised version of the earlier law passed in 1983 aims to control the treatment of animals including their use in experiments. This law states that cruel behavior towards an animal is prohibited. This includes committing violence on the animal, overworking it while diseased, starvation and denial of water, abandonment, poisoning, careless surgery procedures, hunting and killing in a cruel manner, and prolonging the life of an animal in great pain.

(3) Training an animal in a cruel manner that inflicts pain and terror is prohibited.

11.2.6 Transfers and disposals

11.2.6.1 Disposal by transfer of Government Owned Vehicles (GOVs)

(1) The transfer of a GOV by one GoK entity to another GoK entity without financial consideration shall not be considered as a procurement event under Part VI of PPAD Act, 2015 and PPAD Regulations, 2020.

(2) When a transfer happens, the documents of ownership and/or custody shall be transferred to such other GoK entity as the case may be and the entire transfer process shall be under the framework of GoK Regulations governing transfer of government assets.

(3) A transfer agreement shall be entered to between the transferor (entity giving out) and transferee (entity receiving).

(4) The transferring entity shall remove the asset from its records while the receiving entity shall record the assets in its records at book value.

Note: *Subject to the requirements below (Other disposals for the Government Owned Vehicles (GOVs)), the disposal by transfer process shall be applicable to motor vehicles owned (under) by* *programmes and projects financed by Development Partners that are implemented by the Government of Kenya***.**

11.2.6.2 Other disposals for the Government Owned Vehicles (GOVs)

(1) The accounting officer of a GoK entity shall ensure that all assets disposal processes are handled by different officers with respect to identification, consolidation, preparation of a disposal plan, pricing and conduct of the actual disposal activities.

(2) Asset disposal shall be fully guided by Part VI of PPAD Act, 2015 and PPAD Regulations, 2020.

(3) All public officers or state officers involved in the procurement or asset disposal processes shall bear responsibility for their actions and omissions under the PPAD Act 2015 and PPAD Regulations, 2020.

(4) With respect to the GoK Policy and Guidelines Framework on motor vehicles, the actual disposal of GOVs shall be premised on the government fleet management policy.

Note: *Upon meeting all the requirements under this section (Other disposals for the Government Owned Vehicles (GOVs), the procedures and requirement described in this section shall be applicable to motor vehicles owned (under) by programmes and projects financed by Development Partners that are implemented by the Government of Kenya***.**

11.2.6.3 Disposal of Government Leased Vehicles (GLVs)

The disposal of GLVs shall be determined by the terms and conditions of the vehicle leasing agreement between a GoK entity (lessee) and the lessor (authorized motor vehicle dealer).

11.3 Accounting for Motor vehicles and other transport assets

11.3.1 Recognition

A motor vehicle shall be recognized as an asset by a public sector entity if:

a) The entity has control over the asset;
b) It is probable that future economic benefits/ social service associated with the asset will flow to the government entity;
c) Cost or fair value can be measured reliably; and
d) Cost or fair value of the asset exceeds entity's asset recognition threshold.

11.3.2 Measurement at initial recognition

11.3.2.1 Acquisition through purchase of a motor vehicle

(1) The motor vehicles acquired by a GoK entity shall be capitalised in the books of account using the cost method of accounting.

(2) The capitalisation shall be based on the cost of purchase plus costs incidental to the acquisition including all other costs incurred in preparing the asset ready for use.

11.3.2.2 Acquisition of a motor vehicle through a finance lease

(1) Finance leases shall be capitalized and recognized in a GoK entity's books of accounts and the fixed asset register.

(2) An operating lease shall be expensed and hence not recognized in a GoK entity's books of accounts and the fixed asset register.

(3) Where the GoK entity is a lessee of a motor vehicle in a finance lease arrangement, the finance lease shall be recognized as follows:

a) As an asset at the lower of the present value of minimum lease payments and the fair value of the asset, determined at the inception of the lease. The discount rate applicable for calculating the present value shall be the interest rate implicit in the lease or the incremental borrowing rate.

b) As a liability at the lower of the present value of minimum lease payments and the fair value of the asset, determined at the inception of the lease. The discount rate applicable for calculating the present value shall be the interest rate implicit in the lease or the incremental borrowing rate.

(4) Where the government entity is the lessor in an operating lease arrangement, the motor vehicle held for operating leases purposes shall be presented in the lessor's statement of financial position according to the nature of the asset.

11.3.2.3 Acquisition of a motor vehicle through transfer or receipt of a donation

Where a government entity receives a motor vehicle from another GoK entity (or from a donor/development partner including but not limited to situations when a donor funded project/programme comes to an end), the vehicle shall be recorded by the receiving entity at book value.

11.3.2.4 An internally/Own assembled/manufactured motor vehicle

(1) The capitalization cost of a motor vehicle assembled or manufactured by a GoK entity for own use shall include:

a) Cost of the materials used in assembly/manufacturing of the vehicle;

b) Direct labour cost employed in the assembly/manufacturing of the vehicle; and

c) An appropriate proportion of the fixed and variable overheads cost entailed in the assembly/manufacturing of the vehicle.

(2) Whenever the assembling or manufacturing is not completed within a given financial year, the associated cost shall be transferred to Capital Work in Progress – Motor Vehicle Account, until the motor vehicle is completed. The total acquisition costs are then recognised in the financial year that assembly or manufacture is completed.

11.3.3 Measurement after initial recognition

(1) IPSAS 17 & IAS 16 propose two models of measurement of assets after initial recognition:

a) Cost model - After recognition as an asset, the asset shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

b) Revaluation model - The revaluation model recognises assets at their fair value only if that can be measured reliably. If an asset is revalued, its value is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

(2) This guideline recommends the use of cost model for valuation of Government Owned Vehicles (GOVs).

(3) The officer delegated the responsibility over the maintenance and accuracy of the data relevant to the asset information in the asset register shall with the Accountant be responsible for ensuring revaluations occur regularly in accordance with IPSAS 17 & IAS 16.

11.3.4 Subsequent Expenditure

The cost of a major overhaul for a motor vehicle should be added to the capitalized value of an existing motor vehicle. The accounting treatment for such an overhaul shall be the same as that of an internally/own assembled/manufactured motor vehicle.

11.3.5 Capitalisation thresholds

All GoK owned motor vehicles and those leased under finance leases should be recognised in a GoK entity's books of account and included in the fixed asset records/register, irrespective of the value.

11.3.6 Depreciation and useful life

11.3.6.1 Government Owned Vehicles (GOVs)

(1) The useful life of a motor vehicle depends on:

a) Type of the vehicle.

b) Use of the vehicle.

c) State of repair/ regular maintenance.

(2) The useful life to be used for purposes of depreciating the motor vehicles shall be as described in the table below.

Table 11.2

Type of vehicle	Estimated useful life
Saloon vehicles and pick-ups	6 years
Heavy duty utility vehicles	8 years
Lorries and diesel propelled vehicles above 4500cc	10 years

(3) The above useful lives are based on the assumption that the vehicle is used for the purpose for which it was purchased for; and that it is maintained on a regular basis in accordance with the GoK Policy and Guidelines Framework on motor vehicles.

(4) Motor vehicles owned by government entities shall be depreciated over their estimated useful lives using the straight line method.

11.3.6.2 Government Leased Vehicles (GLVs) under finance lease

(1) Motor vehicles under a finance lease shall be capitalised in a GoK entity's financial records while those under operating lease expensed.

(2) The motor vehicles under finance lease shall be depreciated over the remaining period of the lease.

11.3.7 Impairment

(1) Motor vehicles and other transport equipment will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

(2) An impairment loss shall be recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(3) The fixed asset register shall be updated with changes in the condition of vehicles following instances of impairment.

11.3.8 Accounting treatment for disposals

(1) The carrying amount of an item of a motor vehicle shall be de-recognised on disposal or when no future economic benefits are expected from its use or disposal.

(2) The gain or loss arising from de-recognition/disposal of a motor vehicle shall be included statement of income and expenditure when the item is derecognized or disposed.

11.3.9 Disclosures in financial statements

The same information as is provided for other property, plant and equipment should be included in the financial statements under the category of motor vehicles and other transport assets. The details of the specific items of disclosure are enumerated under IPSAS 17 and IAS 16.

11.4 Transitional provisions

(1) An entity that adopts accrual accounting for the first time in accordance with International Accounting Standards shall initially recognize motor vehicles and other transport assets at cost or fair value. For assets that were acquired at no cost, or for a nominal cost, cost is the motor vehicles and other transport assets' fair value as at the date of acquisition.

(2) The entity shall recognise the effect of the initial recognition of motor vehicles and other transport assets as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with IPSAS, IAS or IFRS.

11.5 Applicable accounting standards

- IPSAS 17 & IAS 16 – Property, Plant and Equipment
- IPSAS 21 or 26 and, IAS 36 - Impairment of Assets
- IPSAS 33 First time adoption of accrual basis IPSAS.

11.6 Legislative authority

- PPAD Act, 2015
- PPAD Regulations, 2020
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015

11.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 11.3

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

12 Subsoil Assets/Mineral resources

This guideline covers the following areas:

12.1 Introduction

12.1.1 Preamble

(1) A mineral resource is "a concentration of naturally occurring solid, liquid, or gaseous material, in or on the earth's crust, in such form and amount that economic extraction of a commodity from the concentration is currently or potentially feasible"

(2) The size and nature of many mineral resources are well known, whereas others are undiscovered and totally unknown. Resources differ in their degree of certainty and they are commonly classified as

a. Measured, indicated, inferred, hypothetical, and speculative.
b. Economic (profitable today), marginally economic, sub economic, and other.

(3) Resources that are both currently profitable to exploit (economic) and known with considerable certainty (measured or indicated) are called reserves (or ores when referring to metal deposits). This means reserves are always resources, though not all resources are reserves.

12.1.2 Definitions

mineral right" means —

(a) a prospecting licence;
(b) a retention licence;
(c) a mining licence;
(d) a prospecting permit;
(e) a mining permit; or
(f) an artisanal permit.

"reconnaissance" means the operations and works to carry out the non-intrusive search for mineral resources by geophysical surveys, geochemical surveys, photo geological surveys or other remote sensing techniques and surface geology in connection therewith, but excludes drilling and excavations

12.1.3 Objective of the guideline

The objective of this guideline is to:

a. Support the development of an inventory of government subsoil/mineral assets;
b. Support standardization of the management and reporting of subsoil/mineral assets; and
c. Prescribe the appropriate treatment and disclosures for subsoil assets/mineral resources and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to subsoil assets.

12.1.4 Reference to Non-financial Asset Management Guidelines

(1) Sub soil assets are non-financial assets and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guidelines have adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and, disposal. The detailed guidelines with respect to the four phases have been detailed in the Guidelines on asset and liability management in the public sector and are applicable to sub soil assets.

12.2 General Management and administration of sub soil assets

12.2.1 Institutional framework as per the Kenya Mining and Minerals Policy 2016

In order to achieve the goal, objectives and strategies outlined in the Kenya Mining and Minerals Policy 2016 and actualize the potential of the mining industry, the Government is required to put in place a new and appropriate institutional framework as below:

Table 12.1

Institution	Roles
Directorate of Mines	In charge of administration and management of policies and laws affecting the sector; provision of technical services; automation of licensing for exploration and mining concessions; compilation and management of mining data; arbitration of mining disputes; and health, safety and environmental issues.
Directorate of Geological Surveys	Undertake using state of the art technology, a systematic geological mapping of the whole country to assess and provide information on the mineral wealth of the country; produce and publish geological reports and maps to assist in planning and investment in mining; undertake laboratory analysis of rocks, mineral ores, and precious and semi-precious metals; and undertake research related to geological and tectonic activities including monitoring of geological and mining hazards.
Directorate of Mineral Promotion and Value Addition	In charge of marketing opportunities in investments in minerals and promotion of value addition of minerals as well as providing technical assistance and extension services on mineral processing and value addition to small scale and artisanal miners
Directorate of Resource Surveys and Remote Sensing	Mandated to collect, store, analyze, update and disseminate geo-spatial information on natural resources, including land use and land cover mapping.
Internationally accredited Mineral Certification Laboratory and Geo-Data Bank.	Responsible for carrying out several functions such as analyzing and certification of minerals; identification of precious and semi-precious minerals; undertaking research on techniques for analysis of minerals; and provision of testing services (Assay and Lapidary Services).
Mineral Audit Agency	Determine the rightful royalties and taxes payable to Government from minerals produced; prevent the smuggling of minerals and evasion of royalties; monitor and audit minerals produced and exported; audit capital investments and operating costs of mining companies; and advise on competitiveness of Kenya's mining environment and fiscal regime in relation the rest of the world.
National Mining Corporation	Serves as the investment arm of the national government in the mining industry. It will be responsible for investing the proposed 10 percent free carry interest in large scale mining operations or purchase of shares on the Nairobi Securities Exchange on behalf of the government. It will carry out

Institution	Roles
	its business related to mining alone or in conjunction with any other person, firms or bodies.
National Mining Institute	Established to build capacity and address the skills gap which has over the years slowed down the growth of the mining sector. The Institute will offer technical training in extractive industry related disciplines and ensure the availability of adequate numbers of skilled personnel such as mining engineers, geologists, geophysicists and metallurgists. The Institute will also be tasked with undertaking innovative research on the extractive industry.
Mineral Rights Board	Advise and give recommendations in writing to the Cabinet Secretary Mining on various issues including: granting, rejection, renewal, revocation and transfer of Mineral Rights Agreements; areas suitable for small scale and artisanal mining; areas where mining operations may be excluded and restricted; declaration of certain minerals as strategic minerals; cessation, suspension or curtailment of production in respect of mining licenses; fees , charges and royalties payable for a mineral right or mineral; and other pertinent matters referred to it.

12.2.2 The mining value chain

The phases in mining are summarized in the table below:

Table 12.2

Phase	Comments
Phase 1: Exploration	Exploration means the search for resources suitable for commercial exploitation. It includes: • researching and analysing an area's historic exploration data; • conducting topographical, geological, geochemical and geophysical studies; and • exploratory drilling, trenching and sampling.
Phase 2: Evaluation	Evaluation' means determining the technical feasibility and commercial viability of a mineral resource. It includes: • assessing the volume and grade of deposits; • examining and testing extraction methods and metallurgical or treatment processes; and • surveying transportation and infrastructure requirements; and • conducting market and finance studies. The evaluation stage usually produces a feasibility study that identifies proved or probable reserves and leads to a decision to develop a mine.
Phase 3: Development	Development' means establishing access to and commissioning facilities to extract, treat and transport production from the mineral reserve, and other preparations for commercial production. It may include: • sinking shafts and underground drifts; • permanent excavations; • constructing roads and tunnels; and • advance removal of overburden and waste rock.
Phase 4: Production	Production' means the day-to-day activities of obtaining a saleable product from the mineral reserve on a commercial scale. It includes extraction and any processing before sale. Material extracted from mines are classified as either ore or waste. Ore represents material that, at the time of extraction, is expected to be processed into a saleable form and sell at a profit. Raw materials are comprised of both ore in stockpiles and ore on leach pads as processing is required to extract benefit from the ore.

Phase	Comments
	These are treated as Inventories and are valued at the lower of cost and net realizable value.
Phase 5: Closure and rehabilitation	Closure occurs after mining operations have ceased and includes restoration and rehabilitation of the site. Provisions for the cost of each closure and rehabilitation program are recognised at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass all closure and rehabilitation activity expected to occur progressively over the life of the operation and at the time of closure in connection with disturbances at the reporting date. Routine operating costs that may impact the ultimate closure and rehabilitation activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision.

12.2.3 Ownership

(1) The Mining Act, 2016 states that every mineral—

a. in its natural state in, under or upon land in Kenya;
b. in or under a lake, river, stream, or water courses in Kenya;
c. in the exclusive economic zone and an area covered by the territorial sea or continental shelf,

is the property of the Republic and is vested in the national government in trust for the people of Kenya. This provision applies despite any right or ownership of or by any person in relation to any land in, on or under which any minerals are found.

(2) The national government's control over minerals vested in it shall be exercised in accordance with the provisions of The Mining Act, 2016.

(3) All resources are under the custody and ownership of the Cabinet Secretary to the Treasury of Kenya, unless ownership is otherwise accorded through the mineral rights.

Part III, (11) of the Mining Act, 2016, provides for the following mineral licences/rights that could be issued to individuals or companies:

Table 12.3

Mineral right	Rights
Prospecting Licence	Any mineral acquired in the course of prospecting operations under a prospecting licence— • is the property of the National Government; and • shall not be disposed of or removed from Kenya without the written consent of the Cabinet Secretary. The holder of a prospecting permit shall enjoy the right to prospect for the mineral or minerals in the area specified in the permit
Retention Licence	This is issued when the holder of a prospecting licence has identified a mineral deposit that is of potential commercial significance within the prospecting area and the deposit cannot be developed immediately due to temporary adverse market conditions, economic factors, technical constraints, or other factors beyond the reasonable control of the holder of the licence
Mining Licence	The holder of a mining permit shall enjoy the exclusive rights to carry out mining operations in the area specified in the permit. Where a mineral right is for a large scale mining operation, the State shall acquire ten percent free carried interest in the share capital of the right in respect of which financial contribution shall not be paid by the State.

Mineral right	Rights
Artisanal Permit	A holder of an artisanal permit may mine and produce minerals in an effective and efficient method. The sale of minerals won by an artisanal miner shall be subject to the Regulations prescribed by the Cabinet Secretary
Reconnaissance Licence	Any mineral acquired in the course of reconnaissance operations under reconnaissance licence shall be the property of the National Government and shall not be disposed of or removed from Kenya without the written consent of the Cabinet Secretary. The holder of a reconnaissance permit shall enjoy the non-exclusive rights to conduct reconnaissance for the mineral or minerals in the area specified in the permit The term of a reconnaissance licence shall not exceed two years and is not renewable

12.3 Accounting for subsoil assets

12.3.1 Recognition and measurement

(1) An entity recognises an asset when it is probable that economic benefits will flow to the entity as a result of the expenditure. The economic benefits might be available through commercial exploitation of mineral reserves or sales of exploration findings or further development rights.

(2) Expenditures incurred in exploration activities should be expensed unless they meet the definition of an asset. Expenditures on an exploration property are normally expensed until:

a) the point at which the fair value less costs to sell of the property can be reliably determined as higher than the total of the expenses incurred and costs already capitalised (such as licence acquisition costs); and
b) an assessment of the property demonstrates that commercially viable reserves are present and hence there are probable future economic benefits from the continued development and production of the resource.

(3) Finance costs are generally expensed as incurred except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use.

(4) Finance costs are capitalised up to the date when the asset is ready for its intended use. The amount of finance costs capitalised for the period is determined by applying the interest rate applicable to appropriate borrowings outstanding during the period to the average amount of capitalised expenditure for the qualifying assets during the period.

12.3.2 Distinguishing costs between the phases

(1) The points at which one phase ends and another begins are important when accounting for the costs of each phase. The phases often overlap, and sometimes several phases may occur simultaneously.

12.3.2.1 Phases 1 & 2 - exploration and evaluation

(1) The costs of exploration are for discovering mineral resources; the costs of evaluation are for proving the technical feasibility and commercial viability of any resources found.

(2) Evaluation activities are further advanced than exploration and hence are more likely to meet the criteria for recognising an asset. However, each project needs to be considered on its merits. The amount of evaluation work required to conclude that a viable mine exists will vary for each area of interest.

12.3.2.2 Phases 2 & 3—evaluation and development

(1) The cut-off between evaluation and development is often critical when making capitalisation decisions. Development commences once the technical feasibility and commercial viability of extracting the mineral resource has been determined. Management will usually make a decision to develop based on receipt of a feasibility study (sometimes known as a 'bankable', 'definitive' or 'final' feasibility study).

(2) The feasibility study:

- establishes the commercial viability of the project;
- establishes the availability of financing;
- identifies the existence of markets or long-term contracts for the product; and
- decides whether or not the mine should be developed.

12.3.2.3 Phases 3 & 4 - development and production

(1) Assets must be 'available for use' before they can be depreciated. For mining entities, assets are 'available for use' when commercial levels of production are achieved.

(2) The decision on commercial production is usually made after discussions between the relevant technical officers, and may be based on a range of criteria, such as

- a nominated percentage of design capacity for the mine and mill;
- mineral recoveries at or near expected levels; and
- the achievement of continuous production or other output.

(3) The percentages and levels of recovery are nominated well before they occur. These factors need to be reconsidered in the event of any significant delays in development or if pre-determined commercial levels of production are not achieved.

(4) Development may continue after production has begun, such as:

- stripping costs where removal of overburden occurs before production in additional pits; and
- stripping activity which benefits both current and future activity.

(5) Similar examples occur in underground mining operations with the extension of a shaft or major underground excavations.

12.3.2.4 Phases 4 & 5—production and closure

(1) A mine's operational life is considered to end either when the ore body is depleted or when the mine is closed for other reasons and the normal ore feed to the plant stops or production ceases. The likely costs of the closure phase include employee severance costs, restoration and rehabilitation and environmental expenditure.

(2) When further development expenditure is incurred in respect of a mining asset after the commencement of production, such expenditure is carried forward as part of mining assets when it is probable that additional future economic benefits associated with the expenditure will flow to the entity. Otherwise, such expenditure is recognised as a cost of production.

12.3.3 Natural capital/resource accounting

(1) Natural capital accounting is the process of calculating the total stocks and flows of natural resources and services in a given ecosystem or region. Accounting for such goods may occur in physical or monetary terms. This process can subsequently inform government, corporate and consumer decision making as each relates to the use or consumption of natural resources and land, and sustainable behavior.

(2) The compilation of all-natural resource accounts (NRA) follows two basic steps, namely the development of physical accounts and the development of monetary accounts. The latter can only be compiled after resource values have been established.

12.3.3.1 Physical accounts

(1) For physical accounts, natural resource accounting describes in particular that part of the natural environment that is economically used (and affected) by economic activities and, shows the changes in natural assets in so far as those changes are important from an economic point of view. This includes recording physical flows from natural assets to the economy (use of natural assets) and flows back to the natural environment (residual flows).

(2) It is useful to describe the flows of natural resource inputs, products and residuals in a breakdown by type of input and output if existing classifications of production and consumption activities are detailed enough.

(3) Three alternative definitions and measures of the stock (reserves) of minerals are known i.e.:

a) Total stock of the mineral that is equal to the reserve.

b) Economically proven reserves defined as that proportion of the mineral resource that is economically feasible to extract.
Subtract from the second (economically proven reserves) any possible wastes that may occur during the extraction process.

(4) The second measure should be used for the Kenyan mineral accounts, meaning we only account for economically proven reserves.

12.3.3.2 Monetary accounts

(1) The changes in value between opening stock and closing stock are made up of the values of:

a) Discoveries
b) Extraction
c) Changes in extraction rate
d) Holding gains and
e) Holding losses.

(2) The value of the closing stock or resource asset (at the end of the period) in the monetary accounts for minerals resources will be calculated as follows:

Table 12.4

Item	Value	Guidance
Value of opening stock	XX	Equal to the value of the closing stock of the previous year
Value of the depleted stock	(XX)	Valued at the unit rate multiplied by the volume of depletion
Value of new discoveries, additions and other volume changes	XX	Valued at the changes in the present value due to the increase in the number of years over which production can go on at current extraction rates given these new volumes
Nominal holding gain/loss	XX/(xx)	Any revaluation due to time passing. These are changes in the prices or, more generally, the monetary values, of assets that themselves remain qualitatively and quantitatively unchanged during the period over which the holding gain/loss is measured
Value of closing stock	XX	

12.3.4 Depreciation of capitalized mining assets

12.3.4.1 Depreciation of mining assets

(1) For mining properties and leases and certain mining equipment, the consumption of the economic benefits of the asset is linked to the production level. These assets are depreciated on a units of production basis. In applying the units of production method, depreciation is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proved and probable

reserves and, for some mines, other mineral resources. These other mineral resources may be included in depreciation calculations in limited circumstances and where there is a high degree of confidence in their economic extraction.

(2) Assets within operations for which production is not expected to fluctuate significantly from one year to another or which have a physical life shorter than the related mine are depreciated on a straight-line basis.

(3) Development costs that relate to a discrete section of an ore body, and which only provide benefit over the life of those reserves, are depreciated over the estimated life of that discrete section. Development costs incurred which benefit the entire ore body are depreciated over the estimated life of the ore body.

12.3.4.2 Depreciation of non-mining assets

(1) Buildings and plant and equipment unrelated to production are depreciated using the straight-line method based on estimated useful lives..

(2) Where parts of an asset have different useful lives, depreciation is calculated on each separate part. Each asset or part's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

(3) The expected useful lives are estimated as follows:
Buildings - Refer to the buildings guideline
Plant and equipment - Refer to the plant and machinery guideline

(4) The net carrying amounts of land, buildings and plant and equipment are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amounts may not be recoverable. To the extent that these values exceed their recoverable amounts, that excess is fully provided against in the financial year in which this is determined.

(5) Where an item of property, plant and equipment is disposed of, it is derecognised and the difference between its carrying value and net sales proceeds is disclosed as a profit or loss on disposal in the income statement. Any items of property, plant or equipment that cease to have future economic benefits are derecognised with any gain or loss included in the income statement in the financial year in which the item is derecognised.

12.3.5 Disclosures on Mineral Resources

(1) Any assets recognised in respect of exploration and evaluation expenditure must be attributed to the relevant exploration/mining licence(s) and recognised as an intangible asset unless it is a physical asset e.g. drilling rig.

(2) The following are the classification to be used

a) Commercial classification which includes:
   i. proved reserves
   ii. unproved reserves which includes
      - probable; and
      - possible.

b) The potentially recoverable also referred to as contingent resources.

(3) Mining assets are included within the category 'Mining assets' of property, plant and equipment.

12.4 Transitional provisions

(1) Where a public sector entity initially recognizes subsoil assets on the first-time adoption of the accrual basis of accounting, the entity shall report the effect of the initial recognition of those assets, and that

produce as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which this guideline is first adopted.

(2) If a public sector entity has been recognizing sub soil assets, the resultant changes in carrying values of sub soil assets arising from adoption of this guideline shall be adjusted through the accumulated surpluses or deficits for the period in which this guideline is first adopted.

12.5 Applicable accounting standards

- IFRS 6 – Exploration and Evaluation of Natural Resources
- IPSAS 3 & IAS 8 - Accounting Policies, Changes in Accounting Estimates and Error
- IPSAS 17 & IAS 16 – Property, Plant and Equipment
- IPSAS 21 or 26 and, IAS 36 - Impairment of Assets
- IPSAS 31 & IAS 38 - Intangible Assets

12.6 Legislative authority

- The Mining Act No. 12 of 2016
- Kenya Mining and Minerals Policy, 2016
- PPAD Act, 2015
- PPAD Regulations, 2020
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015

12.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 12.4

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

13 Furniture, fittings and equipment

This guideline covers the following areas:

13.1 Introduction
13.2 General management and administration of furniture, fittings and equipment
13.3 Accounting for furniture, fittings and equipment
13.4 Transitional provisions
13.5 Applicable accounting standards
13.6 Legislative authority
13.7 Implementation of guideline

13.1 Introduction

13.1.1 Preamble

(1) The term furniture and fittings include all furnishings, desks, tables, chairs, book shelves etc. owned by government.

(2) Equipment includes all equipment not covered under ICT guideline and plant and Machinery guideline.

13.1.2 Reference to Non-financial Asset Management Guidelines

(1) Furniture, fittings and equipment are non-financial assets and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guidelines have adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and, disposal. The detailed guidance with respect to the four phases have been detailed in the Guidelines on asset and liability management in the public sector and are applicable to Furniture, fittings and equipment.

13.2 General management and administration of furniture, fittings and equipment

13.2.1 Planning

(1) Acquisition of an asset shall follow the approved need for it, and the approved availability of resources. This need is to be determined with the help of the government asset database, shortage identification, approval according to standards after an assessment, occupancy projections, economic planning and strategic investment with proven reduction of expenses.

(2) The acquisition plan for the year must be included in the budget estimates and approved in accordance with the relevant budget approval procedures for the government entity and ultimately must be included in the National Assembly approved budget for the financial year in question. More specifically, ***Part VI of PPAD Act, 2015*** — General Procurement and Asset Disposal Principles, Section 53, Procurement and asset disposal planning details the principles to be considered in procurement planning.

13.2.2 Acquisition

(1) Procurement of goods is guided by the PPAD Act, 2015 and the PPAD regulations, 2020 and other relevant legislation including:

a) Section 227 of the constitution of Kenya, 2010;
b) Section 30 and 121 of the PFM Act 2012; and
c) PPAD 2015, Part XIII — inventory control, asset and stores management and distribution, clearly defines the roles and responsibilities for the Receipt, and recording of goods, works and services.

(2) The accounting officer must ensure that the functions of ordering, receiving, accounting for and paying for goods and services appropriately segregated.

13.2.3 Operation and maintenance

The Accounting Officer will prepare a record of equipment obtained by various departments of the government entity and:

- Ensure that equipment is properly tagged and identified;
- Periodically validate the record by taking a physical inventory;
- Record equipment transactions;
- Provide a database which complies with government regulations and can be used for internal control and risk management; and
- Provide an annual shilling validation of capital equipment for financial purposes.

13.2.4 Custody of documents of ownership

(1) For the purposes of proof of ownership by public sector entities, copies of warranties, receipts and invoices shall be maintained by the accounting officer as the case may be.

(2) The details of furniture, fittings and equipment to be included in the asset register are as shown in appendix 6(a), the standard fixed assets register.

13.2.5 Capitalisation thresholds

Expenditure, or other transactions relating to Furniture and fittings, which result in the creation of future economic benefits which are controlled by government entities are to be capitalized if the total cost per item exceeds Kshs 10,000.

13.2.6 Asset Registers

(1) Furniture and fittings shall be included in the register of all assets which shall record individual assets in sufficient detail as to permit their identification and control. The assets registers shall be updated on a real time basis. The assets registers shall be used for the purpose of revaluing and depreciating assets and for stocktaking.

(2) Asset details shall be kept in entity's asset register for all capitalised Furniture and fittings. Accuracy of details supporting capitalised assets shall be the responsibility of the entity's accounting officer and the asset officer assigned to that asset. The relevant asset officer will be responsible for communicating to the accountant any changes to the asset in a timely manner.

(3) All Furniture and fittings recorded in the fixed asset register will be correctly entered and maintained according to the information management principles applicable such as their specific Asset Class, Asset Category and Asset Group., which result in the creation of future economic benefits which are controlled by government entities are to be capitalized in line with section 13.2.6

(4) Asset details shall be kept in entity's asset register for all capitalised Furniture and fittings. Accuracy of details supporting capitalised assets shall be the responsibility of the entity's accounting officer and the asset officer assigned to that asset. The relevant asset officer will be responsible for communicating to the accountant any changes to the asset on a timely manner.

(5) All Furniture and fittings recorded in the fixed asset register will be correctly entered and maintained according to the information management principles applicable such as their specific Asset Class, Asset Category and Asset Group.

13.2.7 Transfer and Disposal

(1) The transfer of assets being disposed off by one state organ or public entity to another state organ or public entity without financial consideration is not considered as a procurement under the PPAD Act, 2015.

(2) When a transfer happens, the documents of ownership should be transferred to such other entities as the case may be. A hand over agreement should be drawn and kept by both parties.

(3) All assets disposal processes shall be handled by different persons in respect of identification, consolidation, preparation of a disposal plan, pricing and the disposal itself.

(4) All public officers or state officers involved in the procurement or asset disposal processes shall bear responsibility for their actions and omissions under the PPAD Act, 2015.

(5) Asset disposal will be fully guided by the PPAD Act, 2015, any subsequent legislation in relation to procurement and asset disposal and the PPAD regulations, 2020.

13.3 Accounting for furniture, fittings and equipment

13.3.1 Recognition

A public sector entity shall recognise Furniture and fittings when:

a) it has control over the assets;
b) the useful life is over one year;
c) it is probable that the entity will have flows from future economic benefit or service potential as a result of the assets; and
d) the cost of the assets can be measured reliably.

13.3.2 Measurement at initial recognition

13.3.2.1 Acquired Furniture and fittings

Furniture and fittings acquired by a government entity shall be recorded using the cost method of accounting which is the fair value given as consideration plus costs incidental to acquisition including all other costs incurred in preparing the asset ready for use.

13.3.2.2 Internally constructed Furniture and fittings

(1) The cost of office equipment, furniture and fittings constructed by a government entity shall include the cost of all materials used in construction, direct labour employed and an appropriate proportion of variable and fixed overheads.

(2) Work in Progress (WIP) refers to capitalisable expenditure incurred in relation to the construction, rehabilitation or rejuvenation of Furniture and fittings that have yet to be commissioned or are not yet ready for use. When the construction work is complete the costs in Capital Work in Progress will be transferred to the relevant asset classification.

13.3.2.3 Contributed Furniture and fittings

An item of office equipment, furniture and fittings may be gifted or contributed to a government entity. The cost of the item is its fair value as at the date it is acquired.

13.3.2.4 Transfer of Furniture and fittings between public institutions/ entities

When a transfer for office equipment, furniture and fittings has occurred, the transferring entity shall remove the asset from its records while the receiving entity shall record the assets in its records at book value.

13.3.3 Measurement after initial recognition

13.3.3.1 Cost Model

After recognition as Furniture and fittings, the assets shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

13.3.3.2 Fair value model

(1) After recognition as an asset, an item whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. If an item of office

equipment, furniture and fittings is revalued, the entire class of office equipment, furniture and fittings shall be revalued.

(2) The Accounting Officer shall be responsible for the maintenance and accuracy of the data relevant to the asset information in the asset register as well as ensuring that revaluations occur regularly in accordance with IPSAS 17 & IAS 16, where applicable.

(3) For purposes of this guideline, furniture and fittings should not be revalued.

13.3.4 Subsequent Expenditure

Additional expenditure on Furniture and fittings may be capitalised (i.e. added to the carrying amount of the asset) when the capital expenditure is above the capitalisation thresholds and it results in any of the following:

a) An increase in the asset's useful function or service capacity;
b) An extension of its useful life;
c) An improvement to the quality of the service(s) delivered through utilisation of the asset;
d) A reduction in future operating costs; and
e) The upgrade or enhancement becoming an integral part of the asset.

13.3.5 Depreciation and useful life

(1) Straight line method of depreciation shall be used for office equipment, furniture and fittings.

(2) Accounting officers are responsible for reviewing the useful lives of assets they have responsibility for annually and advising the Accountant of any changes.

(3) The useful life of all office equipment, furniture and fittings shall be as below:

Table 13.1

Category	**Depreciation**	**Useful life**
Furniture	12.5%	8 years
Fittings	12.5%	8 years
Equipment	12.5%	8 years

13.3.6 Impairment

Office equipment, furniture and fittings will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (which is the higher of the present value of future cash outflows or value in use).

13.3.7 Transfers and disposals

(1) The transfer of assets being disposed of by a public sector entity to another without financial consideration is not considered as a procurement under the PPAD Act, 2015.

(2) When a transfer happens, the documents of ownership should be transferred to such other entities as the case may be. A hand over agreement should be drawn and kept by both parties.

(3) All assets disposal processes shall be handled by different persons in respect of identification, consolidation, preparation of a disposal plan, pricing and the disposal itself.

(4) All public officers or state officers involved in the procurement or asset disposal processes shall bear responsibility for their actions and omissions under the PPAD Act, 2015.

(5) Asset disposal will be guided by the PPAD Act, 2015, any subsequent legislation in relation to procurement and asset disposal and the PPAD Regulations, 2020.

(6) The carrying amount of an item of office equipment, furniture and fittings shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition/disposal of an item of office equipment, furniture and fittings

shall be included in statement of comprehensive income when the item is derecognized or disposed.
Note: The statement of comprehensive income is used by those entities using IFRS and IAS. For those entities using IPSAS, IPSAS 1 requires, among others, a statement of financial performance and a statement of changes in net assets/equity. Public sector entities shall therefore ensure that the relevant accounting records as required by the applicable standards.

13.3.8 Disclosures in financial statements

The same information as is provided for other property, plant and equipment should be included in the financial statements under the category of Furniture and fittings. The details of the specific items of disclosure are enumerated under IPSAS 17 and IAS 16.

13.4 Transitional provisions

(1) An entity that adopts accrual accounting for the first time in accordance with International Accounting Standards shall initially recognize Furniture and fittings at cost or fair value. For assets that were acquired at no cost, or for a nominal cost, cost is the Furniture, fittings and equipment fair value as at the date of acquisition.

(2) The entity shall recognise the effect of the initial recognition of Furniture and fittings as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with IPSAS, IAS or IFRS.

13.5 Applicable accounting standards

- IPSAS 17 & IAS 16 – Property, Plant and Equipment
- IPSAS 21 or 26 and, IAS 36 - Impairment of Assets
- IPSAS 33 First time adoption of accrual basis IPSAS.

13.6 Legislative authority

- PPAD Act, 2015
- PPAD Regulations, 2020
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015

13.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 13.2

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

14 Plant and Machinery

This guideline covers the following areas:

14.1 Introduction

14.1.1 Preamble

(1) A machine is a mechanical structure that uses power to apply forces and control movement to perform an intended action. Machines can be driven by animals and people, by natural forces such as wind and water, and by chemical, thermal, or electrical power, and include a system of mechanisms that shape the actuator input to achieve a specific application of output forces and movement. They can also include computers and sensors that monitor performance and plan movement, often called mechanical systems.

(2) Plant is a generic word used to state or represent a complete set of different machinery/machineries working to manufacture a product

(3) Plant and equipment is a grouping of assets of a similar nature or function in an entity's operations. A factory and the machinery therein are common examples of plant and machinery.

14.1.2 Institutional framework

Each accounting officer is responsible for managing and controlling plant and machinery in their entity.

14.1.3 Reference to Non-financial Asset Management Guidelines

(1) Plant and Machinery are non-financial assets and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guidelines have adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and, disposal. The detailed guidance with respect to the four phases have been detailed in the Guidelines on asset and liability management in the public sector and are applicable to plant and machinery.

14.2 General management and administration of plant and machinery

14.2.1 Design phase

This is the first step and it aims at analyzing the entity needs and establishing the required specifications. In this phase, the entity maps out the requirements and compares different equipment available before even checking out manufacturers themselves.

14.2.2 Development, manufacturing and implementation phase

(1) After the design phase and once the piece of equipment has been chosen, the entity proceeds to develop, assemble or procure and install the plant and machinery. During this time, the entity creates

technical documentation for the piece of equipment and the different ranges of maintenance interventions.

(2) At the end of this phase, the plant and machinery is launched, ready for use.

14.2.3 Operation phase

(1) This phase includes the utilization stage of the piece of equipment and the maintenance operations on the equipment.

(2) The Accounting Officer should implement a continuous improvement process, and adapt the functioning of the equipment according to several technical feedbacks (data analysis).

(3) The accounting officer must ensure that the maintenance plan is followed.

14.2.4 Custody of documents of ownership

For the purposes of proof of ownership by public sector entities, copies of warranties, receipts and invoices shall be maintained by the accounting officer as the case may be.

14.2.5 Depreciation

(1) Buildings and plant and equipment unrelated to production are depreciated using the straight-line method based on estimated useful lives.

(2) Where parts of an asset have different useful lives, depreciation is calculated on each separate part. Each asset or part's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

(3) The net carrying amounts of plant and equipment are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amounts may not be recoverable. To the extent that these values exceed their recoverable amounts, that excess is fully provided against in the financial year in which this is determined.

(4) Where an item of plant and equipment is disposed of, it is derecognised and the difference between its carrying value and net sales proceeds is disclosed as a profit or loss on disposal in the income statement.

(5) Any items of plant or equipment that cease to have future economic benefits are derecognised with any gain or loss included in the income statement in the financial year in which the item is derecognised.

14.2.6 Asset Register

Plant and Machinery shall be included in the register of all assets which shall record individual assets in sufficient detail as to permit their identification and control. The assets registers shall be updated on a real time basis.

14.2.7 Transfer and Disposal

(1) Once the equipment has reached the end of its lifespan it will be disposed. The accounting officer must ensure that the disposal is in line with the existing laws and regulations and that the entity gets best value for money at disposal.

(2) When a transfer happens, the documents of ownership should be transferred to such other entities as the case may be. A hand over agreement should be drawn and kept by both parties.

(3) All assets disposal processes shall be handled by different persons in respect of identification, consolidation, preparation of a disposal plan, pricing and the disposal itself.

(4) All public officers or state officers involved in the asset disposal processes shall bear responsibility for their actions and omissions under the PPAD Act 2015.

(5) Asset disposal will be fully guided by the PPAD 2015, any subsequent legislation in relation to procurement and asset disposal and the PPAD Regulations, 2020.

14.3 Accounting for Plant and Machinery

14.3.1 Recognition

A public sector entity shall recognise Plant and Machinery when:

a) it has control over the assets;
b) the useful life is over one year;
c) it is probable that the entity will have flows from future economic benefit or service potential as a result of the assets; and
d) the cost of the assets can be measured reliably.

14.3.2 Measurement at initial recognition

14.3.2.1 Acquired Plant and Machinery

Plant and Machinery acquired by a government entity shall be recorded using the cost method of accounting which is the fair value given as consideration plus costs incidental to acquisition including all other costs incurred in preparing the asset ready for use.

14.3.2.2 Internally constructed Plant and Machinery

(1) The cost of Plant and Machinery constructed by a government entity shall include the cost of all materials used in construction, direct labour employed and an appropriate proportion of variable and fixed overheads.

(2) Work in Progress (WIP) refers to capitalisable expenditure incurred in relation to the construction, rehabilitation or rejuvenation of Plant and Machinery that have yet to be commissioned or are not yet ready for use. When the construction work is complete the costs in Capital Work in Progress will be transferred to the relevant asset classification.

14.3.2.3 Contributed Plant and Machinery

An item of Plant and Machinery may be donated or contributed to a government entity. The cost of the item is its fair value as at the date it is acquired.

14.3.2.4 Transfer of Plant and Machinery between public institutions/ entities

When a transfer for Plant and Machinery has occurred, the transferring entity shall remove the asset from its records while the receiving entity shall record the assets in its records at book value.

14.3.3 Measurement after initial recognition

14.3.3.1 Cost Model

After recognition as Plant and Machinery, the assets shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

14.3.3.2 Fair value model

(1) After recognition as an asset, an item whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. If an item of Plant and Machinery is revalued, the entire class of Plant and Machinery shall be revalued.

(2) The Accounting Officer shall be responsible for the maintenance and accuracy of the data relevant to the asset information in the asset register as well as ensuring that revaluations occur regularly in accordance with IPSAS 17 & IAS 16, where applicable.

For purposes of this guideline, Plant and Machinery should not be revalued.

14.3.4 Subsequent Expenditure

Additional expenditure on Plant and Machinery may be capitalised (i.e. added to the carrying amount of the asset) when the capital expenditure is above the capitalisation thresholds and it results in any of the following:

a) An increase in the asset's useful function or service capacity;
b) An extension of its useful life;
c) An improvement to the quality of the service(s) delivered through utilisation of the asset;
d) A reduction in future operating costs; and
e) The upgrade or enhancement becoming an integral part of the asset.

14.3.5 Depreciation and useful life

(1) Straight line method of depreciation shall be used for Plant and Machinery.

(2) Accounting officers are responsible for reviewing the useful lives of assets they have responsibility for annually and advising the Accountant of any changes.

(3) The useful life of all Plant and Machinery shall be determined by the accounting officer. It shall be in line with the expected period of productivity of the plant and machinery.

14.3.6 Impairment

Plant and Machinery will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (which is the higher of the present value of future cash outflows or value in use).

14.3.7 Transfers and disposals

(1) The transfer of assets being disposed of by a public sector entity to another without financial consideration is not considered as a procurement under the PPAD Act, 2015.

(2) When a transfer happens, the documents of ownership should be transferred to such other entities as the case may be. A hand over agreement should be drawn and kept by both parties.

(3) All assets disposal processes shall be handled by different persons in respect of identification, consolidation, preparation of a disposal plan, pricing and the disposal itself.

(4) All public officers or state officers involved in the procurement or asset disposal processes shall bear responsibility for their actions and omissions under the PPAD Act, 2015.

(5) Asset disposal will be guided by the PPAD Act, 2015, any subsequent legislation in relation to procurement and asset disposal and the PPAD Regulations, 2020.

(6) The carrying amount of an item of Plant and Machinery shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition/disposal of an item of Plant and Machinery shall be included in statement of comprehensive income when the item is derecognized or disposed.

Note: The statement of comprehensive income is used by those entities using IFRS and IAS. For those entities using IPSAS, IPSAS 1 requires, among others, a statement of financial performance and a statement of changes in net assets/equity. Public sector entities shall therefore ensure that the relevant accounting records as required by the applicable standards.

14.3.8 Disclosures in financial statements

The same information as is provided for other property, plant and equipment should be included in the financial statements under the category of Plant and Machinery. The details of the specific items of disclosure are enumerated under IPSAS 17 and IAS 16.

14.4 Transitional provisions

(1) An entity that adopts accrual accounting for the first time in accordance with International Accounting Standards shall initially recognize Plant and Machinery at cost or fair value. For assets that were acquired at no cost, or for a nominal cost, cost is the Plant and Machinery's fair value as at the date of acquisition.

(2) The entity shall recognise the effect of the initial recognition of Plant and Machinery as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with IPSAS, IAS or IFRS.

14.5 Applicable accounting standards

- IPSAS 17 & IAS 16 – Property, Plant and Equipment
- IPSAS 21 or 26 and, IAS 36 - Impairment of Assets
- IPSAS 33 First time adoption of accrual basis IPSAS.

14.6 Legislative authority

- PPAD Act, 2015
- PPAD Regulations, 2020
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015

14.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 14.1

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

15 INVENTORIES, STOCKS AND CONSUMABLES

This guideline covers the following areas:

15.1 Introduction

15.1.1 Preamble

(1) Inventories are produced assets consisting of goods and services, which came into existence in the current period or in an earlier period, and that are held for sale, use in production, or other use at a later date. Inventories are classified as:
   a) Goods to be consumed directly or indirectly in production (raw materials and supplies);
   b) Goods in the course of production (work in progress); and
   c) Goods held for sale in the ordinary course of business (finished goods).

(2) Inventories consist of stocks of:
   a) Goods that are still held by the entities that produced them prior to their being further processed, sold, delivered to other units, or used in other ways
   b) Products acquired from other entities that are intended to be used in the production of market and nonmarket goods and services by units, or for resale without further processing
   c) Strategic stocks that are goods held for strategic and emergency purposes, goods held by market regulatory organisations, and other goods of special importance to the nation, such as grain, military inventories, and petroleum.

(3) Inventories should include items that are:
   a) Physically on hand;
   b) In transit to the entity with free on board shipping point terms;
   c) Held by a vendor when significant risk of ownership has passed to the entity;
   d) Held by others for storage, processing and shipment;
   e) Held by a customer when the significant risks of ownership have not yet passed to the customer.

(4) IPSAS 12 and IAS 2 define inventories as assets:
   a) in the form of materials or supplies to be consumed in the production process;
   b) in the form of materials or supplies to be consumed or distributed in the rendering of services;
   c) held for sale or distribution in the ordinary course of operations; or
   d) in the process of production for sale or distribution.

(5) The items that do not qualify as inventories are clearly detailed under IPSAS 12 and IAS 2.

(6) Within government entities, inventories are often held for use in service delivery or the production and sale of goods. Examples of inventories include:
   a) consumable stores (consisting of various kinds of stationery (excluding accounting forms and documents), computer supplies, office supplies etc.);
   b) maintenance materials, for example cleaning materials;
   c) spare parts for property, plant and equipment other than those dealt with under IPSAS 17 and IAS 16;
   d) strategic stockpiles (for example, maize reserves, energy reserves, ivory stockpiles);
   e) stocks of unissued currency for banks;
   f) preprinted official documents (for example passports, birth certificates)
   g) postal service supplies held for sale (for example, stamps);
   h) ammunition;
   i) property held for sale; and
   j) work in progress, including:

(i) educational/training course materials; and
(ii) client services (for example, architectural works architectural drawings that are in the process of completion or are completed and waiting for the building to which they relate to be started).

(7) Entities can choose to classify inventories by type as indicated under (6) above or by stage of completion (for example, raw materials, work in progress and finished goods). Each public sector entity shall identify all inventories that meet the definition in IPSAS 12 and IAS 2 and ensure that they are effectively managed within its internal systems and disclosed in the financial statements.

15.1.2 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity asset register in order to facilitate consolidation into a Government register of assets. The guideline also aims to ensure uniformity in the management and administration of inventories, stocks and consumables by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for inventories, stocks and consumables and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to inventories, stocks and consumables. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

15.1.3 Reference to Non-financial Asset Management Guidelines

(1) Inventories are non-financial asset and hence this guideline shall be read in conjunction with the non-financial asset management guidelines under Part IV (i) of Guidelines on asset and liability management in the public sector.

(2) The non-financial asset management guidelines provide detailed guidance on the administration and management of non-financial assets as well as their accounting treatment. The guidelines have adopted the life cycle approach to non-financial assets management. The four phases of the life cycle of a non-financial asset include planning, acquisition, operation and maintenance and, disposal. The detailed guidelines with respect to the four phases have been documented in the Guidelines on asset and liability management in the public sector and are applicable to inventories.

15.2 General management and administration of inventory, stocks and consumables

In addition to the management and administration aspects documented in the non-financial asset management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to inventory, stocks and consumables.

15.2.1 Planning and acquisition for inventory

(1) The planning and acquisition of inventories should be need driven and the Accounting Officers should ensure that optimal inventory levels are maintained at all times.

(2) Each Accounting Officer shall ensure that the public sector entity's inventory levels do not exceed optimal operational requirements in the case of items which are not readily available from suppliers, and emergency requirements in the case of items which are readily available from suppliers.

15.2.2 Recording of inventories, stocks and consumables

(1) In order to meet the objectives of inventory control, an entity needs to establish systems for ordering, storing, using or selling inventories and accounting for these activities. The objectives of inventory management are to ensure:

a) Avoidance of stock-outs to prevent disruption of operational activities.
b) Optimal inventories - to minimize funds tied-up.
c) Sound internal controls to prevent loss through damage, deterioration, unauthorized use or pilferage.

(2) For each type of stock, an inventory card should be maintained. The card should contain such information as the supplier, quantity purchased, issued to user departments (quoting the reference number of the related stock requisition), and at hand – stating the dates of occurrence and associated historical cost.

(3) In developing an accounting system for inventories, an entity could operate a perpetual or periodic system.
  a) Perpetual Inventory System - Inventory records are maintained in detail and updated on a regular basis with this system. Maintenance of the system requires a full set of inventory records with posting of each individual transaction. In addition, a physical check of perpetual records should be made periodically.
  b) Periodic Physical Counts - Under this system, inventory is determined by a physical count as of a specific date. The extent of records maintained depends upon the frequency of the counts. The inventory at year-end is determined by the physical count and is valued in accordance with the inventory (costing) used. The periodic inventory system is aligned with the purchases method for recording accounting activity since detailed inventory records are not needed until recording ending inventory. The periodic system is generally not compatible with the consumption method. Note: Under the consumption method of accounting for inventory, inventory is recorded as an asset when purchased and the recognition of an expense is deferred until the period the inventory is actually used.
  c) This guideline recommends the perpetual inventory system for maintenance of inventory records by all public sector entities.

(4) Where an entity is tracking the cost of particular processes or activities, the accounting system will also need to record the area or activity to which inventory is to be charged. Where inventories are significant, computer-based inventory management systems, purchasing systems and accounts payable systems may be required. Inventory management systems need to be linked with, or regularly reconciled to, the general ledger.

15.2.3 Stores accounts

(1) These are accounts kept by a public sector entity for the purpose of recording and maintaining stores.
(2) Each Accounting Officer shall issue directions to cover detailed procedures for stores accounting and control.
(3) Stores accounts should be built up from properly authorised vouchers recording stores transactions.
(4) In practice the amount of detail in stores accounts is likely to vary, and in devising systems, a public sector entity should pay regard to cost effectiveness. Factors to be taken into account will include the nature of the items being held, their value and attractiveness.
(5) Procedures issued by the Accounting Officer should enable separate orders to be traced through each of the order, receipt and payment processes, and for the necessary cross checks to be carried out.

15.2.4 Stocktaking

(1) Stocktakes are required to provide sufficient evidence of the existence and condition of inventories.
(2) The Accounting Officer shall ensure that the balances recorded in inventory/ consumable stores accounts are regularly checked by stocktaking. Section 162 (2) of the PPAD Act, 2015 requires delegated officers to conduct at least quarterly in each calendar year and, conduct quarterly and annual inventory and stock taking in order to ensure compliance with all respective governing laws and submit the report to the accounting officer.
(3) The internal auditors of an entity shall review the stock taking procedures to be used for stocktaking and also participate in the counts on a sample basis during the stock takes to confirm accuracy and completeness of the stock taking procedures as well as the results of the count.
(4) The Accounting officer shall notify the external auditors of the expected dates of stock taking to enable them participate in the stock taking exercise.
(5) The entity should document all discrepancies identified and any action taken such as write-offs and/or amendments to inventory records. A regular review of such discrepancies and the action taken may assist the entity in continually improving its inventory management procedures.

15.2.5 Stocktaking procedures

(1) The immediate purpose of stocktaking is to deter and detect losses by theft and fraud, to verify the accuracy of stock records, and to identify any weaknesses in custody arrangements. The accounting officer must ensure that the arrangements for stocktaking will provide management with an independent verification of

the contents and the state of stores. This is achieved by proper procedures for stocktaking issued by the accounting officer.

(2) In addition to taking a count of the physical count of inventories, the condition of goods should also be examined.

(3) The stocktaking will be carried out under the overall supervision of the Accounting Officer. If stores records or store keeping staff are required to assist, the Accounting Officer should ensure that this will not prejudice the independence of stocktaking.

(4) Discrepancies between stocktake and store records should be investigated by the Accounting Officer and store records amended if necessary.

(5) Any adjustments to store records shall be made only on the authority of the Accounting Officer of the public sector entity. Such adjustments shall be supported by reference to the relevant stocktaking reports and to the authority for the adjustments.

15.2.6 Inventory/ Stores management

(1) Stores management involves receiving, recording, storing, and issuing of goods received from suppliers to ensure that they are in safe custody up to the time the items are issued to the user department.

(2) Once the supplier delivers the goods then inventory/ stores management starts.

(3) The following steps should be followed to record, account and report inventory and stores transaction activities:

a) Inventories ordered are received as per requisition, LPO and in compliance with the PPAD Act, 2015 and PPAD Regulations, 2020.
b) Inspection and acceptance team inspects inventory to ensure that they are in accordance with the order.
c) The supplier forwards the invoice supported by copy of delivery note. This is processed through the public sector entity's payment process.
d) The received stock is entered in an inventory/ bin card prepared for every item at the store.
e) A stores requisition is received by the store keeper from user departments.
f) Once the requisitioned item is issued, the bin card is updated by the store keeper.
g) The store keeper issues stores requisition once a stocked item reaches the reorder level.
h) In the event of a loss of consumable stock item, the storekeeper should prepare and submit a report to the Accounting Officer.
i) Every quarter and at the end of every financial year there is a stock taking exercise.

15.2.6.1 Stores management systems

The Accounting Officer shall establish appropriate systems for inventory/ stores management to ensure that:

a) the right quantity and quality of supplies are ordered and received at the right time and price.
b) the supplies are properly stored for ease of access and security.
c) the right quantity and quality of supplies are available to the user departments at the right time.
d) proper records are kept for all supplies traded in the institution.
e) warehouse facilities have adequate physical security.
f) inventory stored is easily identifiable and countable.
g) inventory is protected from damage, theft and unauthorised access.
h) appropriate stock taking method is used to ascertain stock losses or gains, if any.

15.2.6.2 Receipt of stores

(1) All stores should be examined, by an inspection and acceptance committee appointed by the accounting officer of the public sector entity, in accordance with the PPAD Act, 2015 and PPAD Regulations, 2020, on receipt of goods to ensure that there is a valid purchase order, that the correct quantities and qualities have been received, and that they are in good condition.

(2) Appropriate action should be taken by the inspection and acceptance committee if unsolicited goods are received or if quantities or qualities are wrong, or if the goods are not in good condition.

(3) Receiving documents (e.g. Goods Received Note (GRN), Counter Receipt Voucher (S13 etc.) shall be raised and certified by the receiving officer to confirm that the ordered goods have been received in the right condition and as per specifications in the LPO.

(4) Where goods are received from within the public sector entity (i.e. from another departmental store) or from another public sector entity, the issuing store will prepare issuance documents (e.g. Counter Requisition and Stores Issue Voucher (S11)) and send copies to the recipient, who should return a signed copy. This signed copy of the issuance document voucher shall be kept by the issuing store for reconciliation of goods.

(5) The recipient should ensure that the goods are checked, that any discrepancies are resolved, and both the sender and the recipient will ensure that their records are updated.

15.2.6.3 Issue of stores

The accounting officer of every government entity shall develop procedures that lay down:

a) arrangements for demanding issue of goods from stores - these arrangements should, inter alia, specify those entitled to acquisition stores, the circumstances in which stores may be demanded, and the procedure for making demands (including the signing of requisitions);
b) procedures for issuing stores - these should cover, for example, instructions to store keepers on the conditions to be satisfied before stores may be released, and the arrangements for obtaining signed receipts;
c) procedures for recording stores issues; and
d) arrangements for reconciling stores demands and stores issues.

15.2.6.4 Segregation of duties

(1) Control of stores records rests with a delegated officer(s) within the government entity.

(2) While other people may be allowed access to the records for operational reasons, any adjustment of the stores accounts should only be made by the delegated officer(s).

(3) The tasks of ordering stores, checking deliveries, issuance of stores, approving payments and maintaining inventory records should be separated wherever possible.

15.2.6.5 Handing and taking over responsibility for stores

(1) When the responsibility of permanent and consumable stores in use is handed over by one officer to another, the physical stock must be checked against inventory records at the date of handing and taking over.

(2) A certificate of handing over should be filled and certified. Any discrepancies must be investigated without delay, reported to the supervising officer and action taken as per his/her instructions. The format of handover form is attached as Appendix 16.

15.2.7 Disposal of inventories, stocks and consumables

(1) The disposal of assets, including inventories, stocks and consumables, is governed by Part XIV of the PPAD Act, 2015. Part VI of the PPAD Act, 2015 outlines the general procurement and disposal principles, including guidelines on asset disposal.

(2) Under section 165(1) of the PPAD Act, 2015, inventories and consumable stores that are rendered unserviceable, obsolete or surplus shall be disposed of using the following methods:

a) Transfer to another public entity;
b) Sale by public tender;
c) Sale by public auction;
d) Trade –in; and
e) Waste disposal management.

(3) The accounting officer shall not dispose of inventories/ consumable stores to an employee of that public entity or a member of a board or committee of the public entity, except as expressly allowed under section 166 of the PPAD, 2015 and section 220 of the PPAD Regulations, 2020.

15.3 Accounting for inventories, stocks and consumables

Inventories, stocks and consumables shall be accounted for in accordance with IPSAS 12 and IAS 2 - Inventories.

15.3.1 Recognition

15.3.1.1 Recognition as an Asset (Statement of Financial Position)

(1) A public sector entity should recognise inventory as an asset when:

a) it has control over the inventory;

b) it is probable that the entity will have flows from future economic benefit or service potential as a result of the inventory; and

c) the cost or fair value of the inventory can be measured reliably.

(2) Goods or services purchased by the entity are usually recognized when title to the goods has passed to the entity or the services have been rendered, and there is a legal obligation to pay for the goods or services. The recognition of goods in transit will depend upon the terms of the agreement under which the inventories were purchased.

15.3.1.2 Recognition as an Expense (Statement of Comprehensive Income)

(1) When inventories are sold, exchanged, or distributed, the carrying amounts of those inventories shall be recognised as an expense in the period in which the related revenue is recognised.

(2) Where there is no related revenue, the expense is recognised when the goods are distributed or related service is rendered.

(3) The amount of any write-down of inventories and all losses of inventories shall be recognised as an expense in the period that the write-down or loss occurs.

(4) The amount of any reversal of any write-down of inventories shall be recognised as a reduction in the amount of inventories recognised and as an expense in the period in which the reversal occurs.

Note: The statement of comprehensive income is used by those entities using IFRS and IAS. For those entities using IPSAS, IPSAS 1 requires, among others, a statement of financial performance and a statement of changes in net assets/equity. Public sector entities shall therefore ensure that the relevant accounting records as required by the applicable standards.

15.3.2 Measurement

15.3.2.1 Measurement of Inventories: General Principle

Inventories shall be measured at the lower of cost and net realisable value **except when:**

a) inventories are acquired through a non-exchange transaction, in which case, their cost shall be measured at their fair value as at the date of acquisition; and

b) inventories are held for distribution or consumption in the production process of goods to be distributed, at no charge or for a nominal charge, whereby they shall be measured at the lower of cost; and current replacement cost

The measurement of inventories can be summarised diagrammatically as follows:

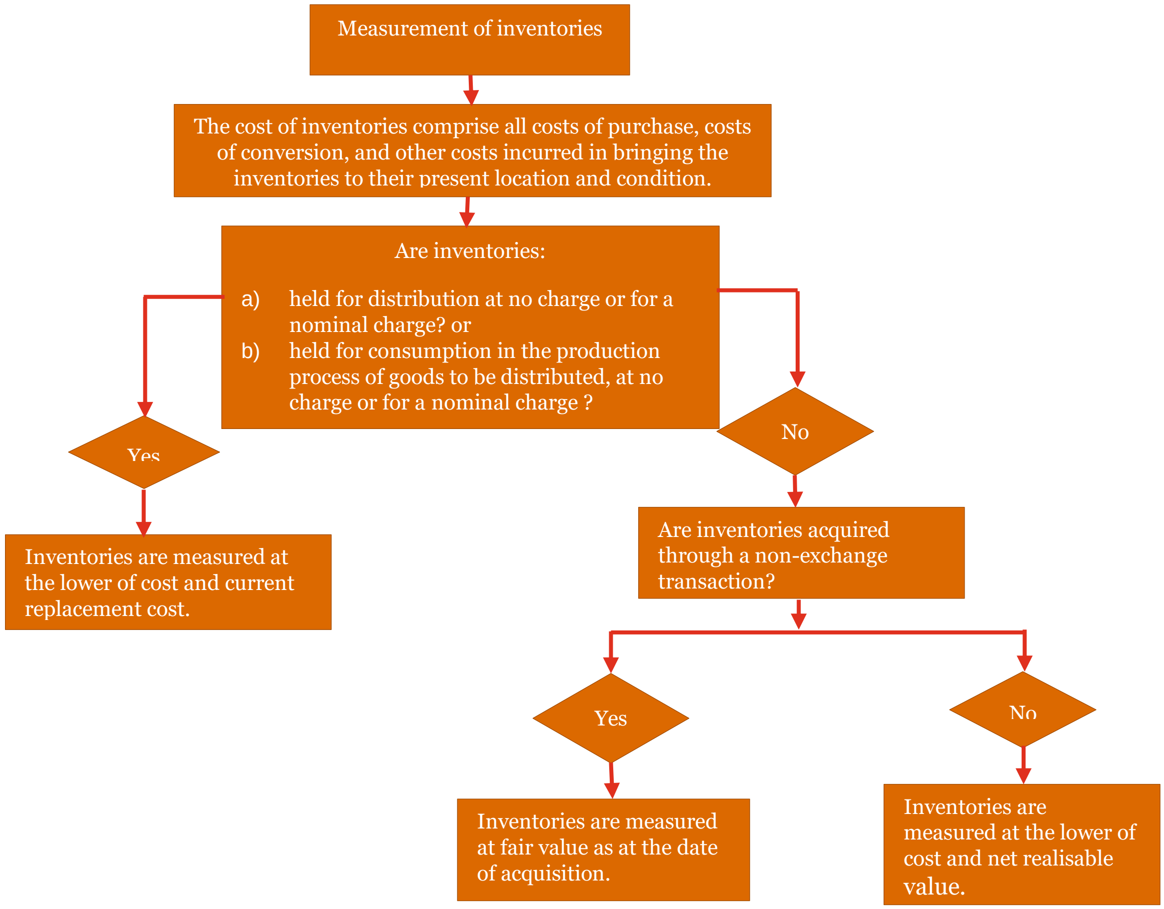

Fig 15.1

15.3.2.2 Cost

The cost of inventories comprises all:

a) costs of purchase;
b) costs of conversion; and
c) other costs incurred in bringing the inventories to their present location and condition.

15.3.2.3 Costs of Purchase

The costs of purchase of inventories include:

a) the purchase price;
b) import duties and other taxes (to such extent that they cannot be recovered by the tax authorities);
c) transport, handling and other costs directly attributable to the acquisition of finished goods, materials and supplies; and
d) Trade discounts, rebates and other similar items are deducted in determining the costs of purchase of inventories.

15.3.2.4 Costs of Conversion

(1) The costs of conversion of inventories (raw materials or work-in-progress inventories into finished goods) include:

a) costs related **directly** to units of production, such as direct labour, direct expenses, sub-contracted work;
b) a systematic allocation of fixed production overheads (i.e. those indirect production costs that remain constant irrespective of the volume of production, e.g. depreciation and maintenance of factory buildings and machinery) and variable production overheads (i.e. those indirect production costs that

vary directly, or nearly directly, with the volume of production, e.g. indirect materials or indirect labour) that are incurred in converting materials into finished goods.

(2) The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Unallocated overheads are recognised as an expense in the period in which they are incurred (period cost). In periods of abnormally high production, the amount of fixed production overhead allocated to each unit is decreased, so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

(3) Where a production process results in the production of two or more products (e.g. joint products or a main product and a by-product) and the costs of conversion are not separately identifiable, these are allocated between main products using the net realisable value basis. The net realisable value of by-products are deducted from the cost of the main product.

15.3.2.5 Other Costs

(1) Other costs incurred in bringing the inventories to their present location and condition are included in the cost of inventories. Such costs may include non-production overheads or the cost of designing products for specific customers in the cost of inventories.

(2) Costs excluded from the cost of inventories and recognised as a period cost include:
  a) Abnormal amounts of wasted materials, labour or other production costs;
  b) Storage costs, unless those costs are necessary in the production process before a further production stage;
  c) Administrative overheads that do not contribute to bringing inventories to their present location and condition; and
  d) Selling costs.

(3) Any financing elements on purchased inventories on deferred settlement terms (i.e. the difference between the purchase price for normal credit terms and the amount paid) is recognised as an interest expense over the period of the financing.

(4) The various costs can be summarised as below:

Table 15.1

Costs included in inventories		
Costs of purchase	**Costs of conversion**	**Other costs**
• Purchase price • Import duties and other taxes • Transport, handling and other costs • Less trade discounts, rebates and other similar items	• Direct production costs • Allocation of fixed production overheads based on normal capacity • Variable production overheads	• Other costs incurred in bringing the inventories to their present location and condition • Borrowing costs (limited circumstances)

Costs excluded in inventories	
Period costs	**Interest expense**
• Abnormal amounts of wasted production costs • Storage costs • Administration costs • Selling costs	• If inventory is purchased on deferred settlement terms, the difference between the purchase price for normal credit terms and the amount paid, is recognised as an interest expense over the period of the financing.

15.3.2.6 *Cost of Inventories of a Service Provider*

(1) A service provider is an entity that offers services to other entities in exchange for payment. The inventories of service providers are measured at their cost of production. The cost of production primarily comprises cost labour and other costs of personnel directly involved in providing the services. The costs of supervisory staff and attributable overheads are also part of the cost of production.

(2) Labour and other costs relating to sales and general administrative personnel are not included but treated as period costs. The profit margins and non-attributable overheads (that are usually factored into prices quoted to customers) should not be included in the cost of production.

15.3.2.7 *Cost of Agricultural Produce Harvested from Biological Assets*

(1) The produce or harvest from a biological asset (for example, milk, beef, tea leaves, fruits, coffee beans, and lumber) is treated inventory. Inventories comprising agricultural produce harvested from a public sector entity's biological assets shall be measured on initial recognition at their fair value less costs to sell at the point of harvest.

(2) However, it is important to note that while the produce is still growing or still attached to the biological asset, the produce's value forms part of the value of the biological asset and is accounted for in accordance with the Guideline on Biological Assets.

15.3.2.8 *Inventories involving non-exchange transactions*

Inventories transferred to the public sector entity by means of a non-exchange transaction shall be valued at its fair value as at the date it is acquired.

15.3.2.9 *Valuation*

(1) The value of inventories, other than those that are not ordinarily interchangeable and goods and services produced and segregated for specific projects, shall be assigned by using either the first-in, first-out (FIFO) method or the weighted average cost formula.

(2) The FIFO method assumes the inventories that are purchased first are sold first. This implies that the remaining inventory is valued at the most recent prices.

(3) Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period, and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, depending upon the circumstances of the entity.

15.3.2.10 *Net Realisable Value*

(1) Inventories whose cost may not be recoverable, should be written down below cost to net realisable value if:

a) they are damaged;
b) they are wholly or partially obsolete, that is, if there is a loss of service potential;
c) their selling prices have declined; or
d) the estimated costs of completion or the estimated costs to be incurred to make the sale, exchange, or distribution have increased.

(2) Inventories should be written down to net realisable value item by item.

15.3.2.11 Cash Discounts on Inventory Purchases

Cash discounts received from a vendor (including early payment discounts) should be recorded as a reduction of inventory costs.

15.3.2.12 Abnormal Costs

Abnormal idle facility expense, freight, handling costs and wasted material (excessive spoilage) should be expensed in the current period rather than capitalized as inventory costs.

15.3.2.13 Distributing Goods at no Charge or for a Nominal Charge

Where a public sector entity holds inventories with purpose to distribute certain goods at no charge or for a nominal amount, the net realisable value is deemed to be the current replacement cost. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions under section 15.3.2.

15.3.3 Slow moving inventory

(1) Inventory not reasonably expected to be realized into cash during an entity's normal operating cycle should be classified as a long-term asset in the balance sheet. A one-year time period should be used if there clearly is no defined operating cycle.

(2) Assuming turnover of stock is over a 12-month period, any items not used over a 24-month period shall be deemed to be slow moving.

(3) Slow moving goods shall be assessed for impairment and necessary adjustments made to the inventory records. In this respect, inventories shall be recorded in the books of account at their net realisable value.

15.3.4 Derecognition of inventories, stocks and consumable stores

(1) Inventories shall be removed from the inventory register and books of account on sale, impairment, when inventories are exchanged, distributed, or on provision of the related service.

(2) The proceeds of disposal are receipted and accounted for in the cash books. In the stores ledger the storekeeper will make entry to write off the disposed inventory, then appropriate disposal entry will be made in the inventory records.

15.3.5 Special considerations

In addition to the types of inventories identified in IPSAS 12 and IAS 2, government entities have categories of inventories for which IPSAS 12 and IAS 2 may not adequately cover the accounting treatment. These include stockpile goods, Confiscated, seized and forfeited property; and Goods held under price support and stabilisation programmes (intervention stocks). The treatment of such goods is detailed here under:

15.3.5.1 Stockpile goods

Stockpile goods may be defined as strategic materials held for use in national defence and national emergencies. They can be further categorised as:

a) non-current assets, which should be accounted for in the same way as other assets of the same type; or
b) other non-deteriorable and deteriorable inventories (the latter possibly being turned over from time to time to avoid obsolescence). Minimum capability levels of inventories should be accounted for as non-current assets. Other inventories should be accounted for under IPSAS 12 or IAS 2.

15.3.5.2 Confiscated, seized and forfeited property

(1) The accounting officer shall maintain a register of confiscated, seized and forfeited property that are awaiting resolution.

(2) Confiscated, seized and forfeited property shall not be recognised as part of inventory of the entity but shall be disclosed separately in a note to the accounts.

(3) The proceeds of realisations of confiscated, seized and forfeited property shall be recognised as Appropriations-In-Aid (A-i-A).

(4) The proceeds of items sold to satisfy outstanding tax liabilities should be treated in the same way as other taxation receipts.

15.3.5.3 Goods held under price support and stabilisation programmes (intervention stocks)

(1) Intervention buying is a method of supporting market prices for certain commodities. The public sector agencies will be required to buy, at a reserve price determined by Government, reserves of defined quality offered to it in accordance with detailed regulations. Purchased stocks are valued at cost, adjusted by any impairment or revaluation prescribed by the Government to bring them into line with market values.

(2) Costs of depreciation and any losses on sales are borne by, and any profits on sales or revaluations are surrendered to, the Government. The method of valuation for intervention stocks is based on the requirements of the Government and accounting standards do not apply.

15.3.5.4 Bullion

(1) Gold and silver bullion may be held for speculative purposes or because an entity is responsible for the production and storage of bullion.

(2) When it is held for speculative purposes, or where the quantity exceeds that which is required for the ongoing production of coins, it may be valued in the same way as marketable securities.

(3) Where an entity is responsible for the production of bullion it is treated as inventory.

(4) Investments in bullion by public sector entities shall only be held with approval by the relevant authorities.

15.3.6 Disclosures in financial statements

(1) Inventories are presented separately, under current assets, on the face of the statement of financial position of an entity.

(2) The financial statements shall disclose:

a) The accounting policies adopted in measuring inventories, including the cost formula used;
b) The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
c) The carrying amount of inventories carried at fair value less costs to sell;
d) The amount of inventories recognised as an expense during the period;
e) The amount of any write-down of inventories recognised as an expense in the period, as applicable;
f) The amount of any reversal of any write-down of inventories that is recognised in the statement of financial performance, as applicable;
g) The circumstances or events that led to the reversal of a write-down of inventories, where applicable; and
h) The carrying amount of inventories guaranteed as security for liabilities.

15.4 Transitional Provisions

(1) A public sector entity shall identify all inventories owned by the entity and those held by other parties but to which the entity has control. The accounting Officer shall prepare a register of such inventory including the type of inventory, location, quantity, unit cost and total cost, among others.

(2) On the date of the opening balance sheet under this guideline, the lower of cost or net realizable value should be applied to all existing inventory.

(3) When reliable cost information is not available, a public sector entity shall measure inventory at its fair value, and use that fair value as the deemed cost, where there should be market-based evidence of the fair value.

(4) If reliable market-based evidence of fair value is not available for inventory, the public sector entity shall consider measuring inventory at its current replacement cost.

(5) Where the public sector entity has used fair value or the current replacement cost to value inventory, as described in (1) and (2) above, the public sector entity must disclose:

a) the aggregate of those fair values or other measurement alternatives that were considered in determining deemed cost;

b) the aggregate adjustment to the carrying amounts recognised under the previous basis of accounting; and

c) whether the deemed cost was determined on the date of adoption of the accounting policy or during the period of transition.

(6) For entities that have already adopted accrual accounting, the Accounting Officer shall review the capitalization thresholds, valuation methods used, impairment and slow moving goods provisions and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records, in accordance with IPSAS 3 and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.

15.5 Applicable accounting standards

This guideline is based on the following internationally recognized accounting standards:

- IPSAS 12 & IAS 2 - Inventories
- IPSAS 33 First time adoption of accrual basis IPSAS.
- IPSAS 3 & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

15.6 Legislative authority

- Cabinet Secretary to the Treasury (Incorporation) Act, Chapter 101
- PPAD Act, 2015
- PPAD Regulations, 2020
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015

15.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 15.2

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

16 INVESTMENTS

This guideline covers the following areas:

16.1 Introduction

16.1.1. Preamble

(1) According to section 91(b) of the PFM Act, 2012, "invest means any form of funding provided to a state corporation, including providing share capital, loans, guarantees, grants or subsidies."

(2) For purposes of this guideline, investments refer to instruments held by a public sector entity to generate revenue, either in the short term or long term.

(3) Public sector entities generally hold investments for strategic reasons where there is some community, social, physical or economic benefit accruing from the investment activity. Other than for Government Business Entities (GBEs), generating a commercial return on strategic investments is considered a secondary objective, for other public sector entities.

(4) In accordance with section 6 of the PFM Act, 2012, the Act prevails with respect to banking arrangements, including investment of moneys, in case of any inconsistency between the Act and any other legislation.

(5) In accordance sections 12 (2) (h) and 12(2) (i) of the PFM Act, 2012, the National Treasury shall:

a) Monitor the management of finances of public enterprises and investments by the National Government and its entities; and

b) Monitor the financial aspects of risk management strategies and governance structures for the National Government and national government entities.

(6) Sections 29(5), 29(6) and 29(8) stipulate that the National Treasury may invest, subject to any regulations, any money kept in a bank account of the national government. Interest received and the money received from the redemption or maturity of those investments, and from the sale or conversion of securities related to them, is payable to the National Exchequer Account. Any costs, charges or expenses related to the investment shall be paid from the Consolidated Fund. The same is replicated for county governments under sections 120(3), 120(4) and 120(6).

(7) Sections 89(2) and 185(2) of the PFM Act, 2012 require the Cabinet Secretary responsible for matters relating to public investments and the CEC member for finance to prepare and submit to the National or county Assembly an annual consolidated report, including among others:

a) The amount of government shareholding, directly or indirectly, in the state corporation;

b) Any changes in the shareholding of the state corporation during the financial year

c) Amounts of any loans made by the national government to the state corporation

(8) Under sections 89(3) and 185(3) "every three years, the Cabinet Secretary for matters relating to public investments and CEC member for finance responsible shall prepare a report on the assessment of the relevant government's continued involvement or investment in, or funding of, the state/ county corporation or government-linked company.

(9) The Accounting Officer shall ensure that investments and associated risks are monitored, managed, and regularly reported.

16.1.2. Purposes for maintaining investments

(1) Specific purposes for maintaining investments by public sector entities include:

a) For strategic purposes consistent with a public sector entity's long term plan;

b) To reduce the current taxpayer burden;

c) Holding short term investments for working capital requirements;
d) Holding investments that are necessary to carry out a public sector entity's operations consistent with annual work plans, to implement strategic initiatives, or to support inter-generational allocations;
e) Provide ready cash in the event of a natural disaster. The use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets;
f) Invest amounts allocated to accumulated surplus, a public sector entity may create restricted reserves and general reserves; or
g) Provide revenues for the Consolidated Fund.

16.1.3. Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity asset register in order to facilitate consolidation into a Government register of assets. The guideline also aims to ensure uniformity in the management and administration of investments by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for investments and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to investments. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

16.1.4. Reference to Non –financial and Financial Asset Management Guidelines

(1) Investments are financial assets and hence this guideline shall be read in conjunction with the financial asset management guidelines under Part V of Guidelines on asset and liability management in the public sector.

(2) The financial asset management guidelines provide general guidance on the administration and management of financial assets as well as their accounting treatment. The Guidelines on asset and liability management in the public sector are applicable to investments.

16.2 General management and administration of investments

In addition to the management and administration aspects documented in the financial asset management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to investments.

16.2.1 Permitted investments/ investors

(1) In general, investments shall be made by public sector entities that are Government Business Entities (GBEs). Public sector entities whose mandate is the delivery of services to the public shall only make investments as directed by the National Treasury.

(2) The National Treasury issues circulars from time to guide public sector entities on the investment of surplus funds. This provides guidance on the permitted investments at a point in time. Any other investments other than as directed by circulars shall only be made with the approval of the National Treasury.

(3) Investments by GBEs shall be guided by investment plans as approved within the regulatory framework in which they operate.

(4) Restrictions on national government investing in government-linked corporations is documented under section 87 of the PFM Act, 2012 while restrictions on county government investing in government –linked corporations are detailed under section 183 of the Act. Based on the foregoing sections, a government entity may not invest in a state/ county corporation or a state/ county government-linked company, without the approval of the relevant cabinet and with guidance from the relevant treasury.

16.2.2 Planning for investments

(1) A GBE, or other entity approved by the relevant Treasury, shall develop an investment plan at the commencement of each financial year clearly stipulating the type of investments it intends to hold during the year and the timing of acquisition of such investments.

(2) The funds to be invested shall be included in the budget as well as cash flow projections of the entity.

16.2.3 Acquisition of new investments

(1) The Accounting Officer shall conduct feasibility studies and other due diligence before investing funds, to ensure the best value for money.

(2) With the exception of financial investments, new investments are acquired if an opportunity arises and approval is given by the Accounting Officer. Before approving any new investments, the Accounting Officer shall give due consideration to the contribution the investment will make in fulfilling the public sector entity's strategic objectives, and the financial risks of owning the investment and the availability of funds for such investments, over and above those required for normal entity operations.

16.2.4 Recording of investments

The Accounting Officer shall maintain a register of investments held by the entity including details of the type of investments, date of investment, maturity period, maturity date, institution in which the investment is held, documents of ownership, amount invested and amount to be obtained on maturity, among others.

16.2.5 Investment monitoring and reporting procedures

(1) A public sector entity's investments shall be reviewed on a regular basis, with sufficient minimum immediate cash reserves and a cash or liquidity buffer maintained. The daily cash position shall be monitored and managed through the Daily Cash Position Report, and long-term cash flow through the quarterly and annual cash flow forecasts. To maintain liquidity, an entity's short and long-term investment maturities shall be matched with known cashflow requirements.

(2) The performance of a public sector entity's investments will be regularly reviewed to ensure that the entity's strategic objectives are being met. Both performance and compliance with the guideline shall be reviewed. Internal investment reports are a vital management tool and, depending on their nature, are produced on a daily, weekly, monthly, quarterly or annual basis. The Accounting Officer shall prepare investment reports on a quarterly and annual basis.

16.2.6 Types of investments/ Investment mix

Public sector entities could maintain the following mix of investments:-

a) Property investments
b) Equity investments
c) Financial investments

16.2.6.1 Property investments

(1) Investment in property include land, buildings, a portfolio of ground leases and land held for development.

(2) A public sector entity's overall objective should be to only own property that is necessary to achieve its strategic objectives. As a general rule, a public sector entity shall not maintain an investment property where it is not essential to the delivery of relevant services, and property is only retained where it relates to a primary output of the entity.

(3) The Accounting Officer shall review property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. This assessment shall be based on the most financially viable method of achieving the delivery of an entity's services. The Accounting Officer shall generally follow similar assessment criteria in relation to new investment properties.

(4) The Accounting Officer shall review the performance of an entity's property investments on a regular basis.

(5) All income, including rentals and ground rent from property investments shall be included in the relevant revenue account. All rented or leased properties will be at market rentals, except where a public sector entity has identified a level of subsidy that is appropriate.

(6) Properties for sale are to be marketed in accordance with statutory requirements and in a manner that does not disrupt the market place, and with approval of the National Treasury.

(7) Any purchased properties must be supported by a current registered valuation, substantiated by the Accounting Officer including a fully worked capital expenditure analysis. A public sector entity will not purchase properties on a speculative basis.

(8) Detailed guidelines on the treatment of property investments is documented in the investment property guideline which is under section 3 of these specific policies.

16.2.6.2 Equity investments

(1) Equity investments include investments in shares of other organisations in the private or public sector. This could be shares held in associates and joint ventures and other minor shareholdings. The equity investments shall fulfil various strategic, economic development and financial objectives of a public sector entity as outlined in its long term plan.

(2) A public sector shall seek to achieve an acceptable rate of return on all its equity investments consistent with the nature of the investment and their stated philosophy on investments.

(3) Dividends received from listed and unlisted companies not controlled by public sector entities are recognised when they are received in the consolidated revenue account.

(4) Any purchase or disposition of equity investments requires Accounting Officer approval, and the governing body, as applicable, and any profit or loss arising from the sale of these investments is to be recognised in the Statement of Comprehensive Income.

(5) Unless otherwise directed by the Accounting Officer and the governing body, the gains and/or losses on disposal of an investment should be treated as revenue or expense and included in the relevant revenue account.

(6) The Accounting Officer shall ensure that the risks associated with holding equity investments are minimised and shall monitor the performance of its equity investments, at least twice a year to ensure that the stated objectives are being achieved. The Accounting Officer shall seek professional advice regarding an entity's equity investments, when appropriate.

Note: The statement of comprehensive income is used by those entities using IFRS and IAS. For those entities using IPSAS, IPSAS 1 requires, among others, a statement of financial performance and a statement of changes in net assets/equity. Public sector entities shall therefore ensure that the relevant accounting records as required by the applicable standards.

16.2.6.3 Investments in associates and joint ventures

1. Preamble

(1) Associates refer to entities over which the investor has significant influence while joint ventures refer to binding arrangements whereby two or more parties are committed to undertake an activity that is subject to joint control.

(2) Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

(3) In accordance with section 27 (1)(e) of the State Corporations Act, the State Corporations Advisory Committee is required to "examine proposals by state corporations to acquire interests in any business or to enter into joint ventures with other bodies or persons or to undertake new business or otherwise expand the scope of the activities and advise thereon."

2. Significant Influence

(1) If an entity holds, directly or indirectly (e.g. through controlled entities), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case.

(2) Conversely, if the entity holds, directly or indirectly (e.g. through controlled entities), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

(3) This guideline applies only to those associates in which the entity holds a quantifiable ownership interest either in the form of a shareholding or other formal equity structure or in another form in which the entity's interest can be measured reliably.

(4) The existence of significant influence by an entity is usually evidenced in one or more of the following ways:

a) Representation on the board of directors or equivalent governing body of the investee;
b) Participation in policy-making processes, including participation in decisions about dividends or similar distributions;
c) Material transactions between the entity and its investee;
d) Interchange of managerial personnel; or
e) Provision of essential technical information.

(5) When assessing whether it has significant influence, an entity considers the existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities. In assessing whether potential voting rights contribute to significant influence, the entity examines all the facts and circumstances that affect potential rights, except the intentions of management and the financial ability to exercise or convert those potential rights.

(6) An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of another government, a court or an administrator. It could also occur as a result of a binding arrangement.

(7) Investments where an entity does not have significant influence but are held in the long term should be classified as long term investments in the entity's records.

3. Dividend policy

Section 219 of the PFM (National Government) Regulations, 2015 provides that the remittance of dividends to the National Treasury shall be in accordance with Treasury dividend policy guidelines. Section 206 (1) of the PFM (County Governments) regulations stipulates that "The County Treasury shall prepare and issue dividend policy guidelines on how county government entities shall declare and remit dividends and surplus funds to the County Treasury."

16.2.6.4 Financial investments

(1) Financial investments include investments in derivative instruments as well as marketable securities.

(2) A public sector entity's primary objective when investing in financial investments shall be the protection of its investment capital. Accordingly, an entity may only invest in approved creditworthy counterparties.

(3) A public sector entity's investment portfolio shall be arranged to provide sufficient funds for planned expenditure and allow for the payment of obligations as they fall due.

(4) A public sector entity shall prudently manage liquid financial investments as follows:

a) Any cash investments must be restricted to a term of no more than 91 days ensuring that meets future cash flow and capital expenditure projections are met.
b) Interest income from financial investments will be credited to the Consolidated Fund, except for income from investments for special funds, reserve funds and other funds where interest may be credited to the particular fund.
c) Internal borrowing will be used wherever possible to avoid external borrowing.

16.2.6.5 Marketable Securities

(1) Financial investments include marketable securities which can be classified as either short term or long term. Short-term marketable securities are investments in equity or debt securities that are intended to be held for a period up to one year from the balance sheet date and can be readily bought or sold. Long term

marketable securities are investments in equity or debt securities that are intended to be held for a period longer than one year from the balance sheet date. However, long term bonds are never classified as current even if the intent is to sell them in the near term.

(2) Examples of marketable securities include investments in commercial paper, national government and county securities, corporate and government bonds and investments in common or preferred stock of corporations.

(3) Other short-term investments include all other unrestricted or restricted (e.g. pledged as collateral on a line of credit) investments that are intended to be held for a period no longer than one year from the balance sheet date.

16.2.6.6 Derivative financial instruments

1. Preamble

(1) The power of national government to enter into derivative transactions are documented under section 56 of the PFM Act, 2012. According to the section, the national government may enter into derivative transactions, either directly or indirectly through an intermediary, but only within the framework and limits of the Budget Policy Statement and in a manner prescribed by regulations. The transactions shall be within the scope of the regulations approved by the National Assembly. Derivative transactions entered into in terms of this section are also required to be published and publicized.

(2) Derivatives are specific types of instruments that derive their value over time from the performance of an underlying asset. Common underlying assets include investment securities, commodities, currencies, interest rates and other market indices. A characteristic feature of these instruments is that the timing of delivery of the underlying asset is remote in time from the timing of contracting the transaction.

(3) A derivative is traded between two parties – who are referred to as the counterparties. These counterparties are subject to a pre-agreed set of terms and conditions that determine their rights and obligations.

(4) This guideline uses vocabulary that is specific to derivative markets. As a result, readers should familiarize themselves with the terms applicable to derivatives.

2. Common derivative instruments

The most common derivative instruments are:

a) Futures contracts (futures) is a standardized exchange-traded derivative instrument which requires the buyer to purchase (the seller to sell) a certain asset or a financial instrument at a particular future date and price. Parameters of futures contracts are standardized to facilitate their trade in futures markets. Futures contracts on raw materials are usually with actual delivery of the asset, while those on financial instruments are settled with cash payments. It is typical for trading in futures contracts that they are used to hedge changes in the price of the underlying asset, and purely speculative;

b) Unlike the futures contract, the option gives the right but not the obligation of its holder to buy / sell an asset at a specified price during certain period of time. It is used for speculative purposes and to hedge positions. The price of the option is most strongly influenced by its time to maturity and the price of the underlying asset;

c) Warrant is a financial instrument that entitles its holder to subscribe for securities until a certain future date at a predetermined price. At the time of issuing the warrant, the current price is usually higher than the price of exercise. Unlike options, warrants have much longer lives and are issued by the companies themselves;

d) Forward contract is a non-standardized agreement between two parties respectively to buy or sell a certain asset at a specified future date at a pre-agreed price. Forward contract, unlike futures contracts, is not traded on the stock exchange and the parameters of the contract between the two parties are not standardized. With this type of instruments each party is exposed to the credit risk of the counterparty under the contract;

e) Swap is a derivative financial instrument and represents an agreement to exchange coupon, currency, interest or other types of payments between two parties as the underlying assets on which obligations are accrued is not exchanged. Payments are in the form of currency flows between the two parties so that the currency and the interest rate risk to be minimized and the future cash flows to better reflect changes in the assets and liabilities of the company. Most swaps are not traded on the stock exchange market.

3. Use of derivative instruments by governments and public sector entities

(1) One of the functions of the PDMO, as stipulated under section 63 (h) of the PFM Act, 2012 is to "transact in derivative instruments in accordance with best international practices benchmarked to debt management offices other governments that are internationally respected for their practices".

(2) Accounting officers shall take note of the following:

a) Derivative transactions are to be used to hedge, mitigate or reduce risk exposures.
b) Derivative transactions may not be used for speculative purposes or to assume risks that are not prudent considering the purposes for which the transaction is intended.
c) Open, unhedged derivative transactions should be avoided.
d) Derivative instrument contracts should only be entered into with an associated underlying exposure.
e) Preferred hedge transactions are those determined to be effective hedges.
f) Derivative instruments and contracts should be constructed to minimize liquidity and cash flow risks associated with hedging activities. The following risks should be considered for each derivative transaction:
   (i) Counterparty Risk – the risk that the counterparty will not fulfill its obligations under the contract;
   (ii) Termination Risk – the risk that the contract could be terminated as a result of various events;
   (iii) Basis Risk – the mismatch between the interest received under the contract and the interest paid on the related bonds;
   (iv) Tax Risk – the risk due to changes in income tax rates and other changes in tax policies;
   (v) Amortization Risk – the mismatch between the principal payments on the related bonds and the payments due under the contract;
   (vi) Rollover Risk – the risk that the term of the contract does not match the term of the related bonds and that a new contract cannot be secured, and;
   (vii) Liquidity Risk – the risk that the public sector entity cannot secure a cost-effective renewal of a letter or line of credit or suffers a failed auction or remarketing of the variable-rate bonds.

g) The following strategies at a minimum should be considered to mitigate the above risks:
   (i) analyzing collateral exposure under various rate shocks;
   (ii) establishing minimum counterparty credit ratings;
   (iii) diversifying counterparties;
   (iv) defining acceptable termination events;
   (v) providing for an optional termination provision for the Government or public sector entity;
   (vi) providing limits on counterparty termination options;
   (vii) use of insurance policies,
   (viii) collateral requirements or third-party guarantees; and
   (ix) describing termination payment terms.
h) All derivative instruments and hedging activities will be employed in a manner consistent with this guideline and the provisions of section 56 of the PFM Act, 2012.
i) Legal and financial experts will be utilized, in consultation with the National Treasury, to ensure that the derivative instruments and contracts negotiated by public sector entities accomplish their intended purpose and protect the interests of the Government.

(3) Not all financial exposure or transaction exposure should be hedged. Measuring financial exposure depends upon forecasted future events; attempts to limit all exposures may introduce other risks to the Government and public sector entities.

(4) Only certain, known transactions will be hedged, such as the interest rate risk associated with the variable rate component of a Government or public sector entity debt hedged via an interest rate swap.

(5) The National Treasury will establish procedures for measuring financial exposure on a periodic basis. The results will be reported by public sector entities to National Treasury on a periodic basis such that Cabinet Secretary, National Treasury is aware of the potential exposure.

4. Characteristics of derivatives

(1) Derivatives can be very complex in nature and include all of the following characteristics:
- a) Underlying, notional amount, payment provision: - The contract has both of the following terms, which determine the amount of the settlement or settlements, and, in some cases, whether or not a settlement is required:
  - (i) One or more underlying instruments.
  - (ii) One or more notional amounts or payment provisions or both.
- b) Initial net investment: - The contract requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- c) Net settlement: - The contract can be settled net by any of the following means:
  - (i) Its terms implicitly or explicitly require or permit net settlement.
  - (ii) It can readily be settled net by a means outside the contract.
  - (iii) It provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

16.2.7 Disposal of investments

Disposal of investments shall be guided by Part XIV of the PPAD Act, 2015. Part VI of the PPAD Act, 2015 outlines the general procurement and disposal principles, including guidelines on asset disposal.

16.3 Accounting for investments

Investments, being financial instruments, shall be accounted for in accordance with the following accounting standards:

- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 41 - Financial Instruments

16.3.1 Recognition

In accordance with IPSAS 29, an entity shall recognise an investment in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of an investment instrument.

16.3.1.1 Measurement

16.3.1.2 Measurement at initial recognition

In accordance with IFRS 9 and IPSAS 29, at initial recognition, an entity measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

16.3.1.3 Measurement after initial recognition

(1) For the purpose of measuring a financial asset after initial recognition, IFRS 9 and IPSAS 29 classifies investments into the following three categories:
- a) Financial assets at fair value through surplus or deficit;
- b) Held-to-maturity investments; and
- c) Available-for-sale financial assets.

(2) After initial recognition, an entity shall measure financial assets at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:
   a) Held-to-maturity investments, which shall be measured at amortised cost using the effective interest method; and
   b) Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost.

16.3.2 Impairment

In accordance with IFRS 9 and IPSAS 29, impairment of investments is recognised in stages:

a) Stage 1 — as soon as an investment is originated or purchased, 12-month expected credit losses are recognised in surplus or deficit and a loss allowance is established. This serves as a proxy for the initial expectations of credit losses. For investments, interest revenue is calculated on the gross carrying amount (ie without deduction for expected credit losses).
b) Stage 2 — if the credit risk increases significantly and is not considered low, full lifetime expected credit losses are recognised in profit or loss. The calculation of interest revenue is the same as for Stage 1.
c) Stage 3 — if the credit risk of an investment increases to the point that it is considered credit-impaired, interest revenue is calculated based on the amortised cost (i.e. the gross carrying amount less the loss allowance). Investments in this stage will generally be assessed individually. Lifetime expected credit losses are recognised on these financial assets.

16.3.3 Accounting for equity investments

(1) An investment in an associate or a joint venture shall be accounted for under the equity method and shall be classified as a non-current asset.
(2) For investments in shareholding where an entity does not have significant influence, the value of shares held at a point in time shall be determined in accordance with IPSAS 29 and shall be classified as a current asset.

16.3.4 De-recognition of financial investments

An entity shall derecognise a financial investment when, and only when:

a) The contractual rights to the cash flows from the investment expire or are waived; or
b) It transfers the contractual rights to the investment thus transferring substantially all the risks and rewards of ownership of the investment.

16.3.5 Disclosure in financial statements

(1) Investments can be classified as either current or non-current in the Statement of Financial Position depending upon the expectation as to whether the investments will be disposed of within the next 12 months or later.
(2) A public sector entity shall classify an asset as current when the asset is due to be realised within twelve months after the end of the financial year.
(3) The entity shall classify all other investments as non-current.

16.4 Transitional provisions

(1) A public sector entity shall identify all investments held by the entity. The accounting Officer shall prepare a register of such investments capturing details of nature of investments, institution investment held, cost, term/duration of investment, maturity date, maturity value, among others.
(2) On first-time adoption of accrual accounting an entity will be required to recognise all investments at fair value.

(3) Determination of opening balances of investments involves a thorough examination of all investments held by an entity. The entity needs to:
a) compile an aggregate list of all investments;
b) check that the quantities and values recorded are correct;
c) check that the investment documents are legally enforceable. If it is not legally enforceable this may reduce the likelihood of authenticity of the investment;
d) in the case of investments held in entities experiencing financial difficulties or declining performance, the entity needs to consider whether the values held for such investments are reasonable.

(4) For entities that have already adopted accrual accounting, the Accounting Officer shall review the current practice and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors.

16.5 Applicable accounting standards

This guideline is based on the following internationally recognized accounting standards:

- IPSAS 33 First – time Adoption of Accrual Basis IPSASs
- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 41 - Financial Instruments
- IPSAS 3 & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

16.6 Legislative authority

- Cabinet Secretary to the Treasury (Incorporation) Act, Chapter 101
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015
- PPAD Act, 2015
- PPAD Regulations, 2020

16.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 16.1

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

17 Cash and cash equivalents

This guideline covers the following areas:

17.1 Introduction

17.1.1 Preamble

(1) Cash at bank refers to the sum of all coins, currency and other unrestricted liquid funds that have been placed on deposit with a financial institution. Cash at bank is considered a highly liquid form of current asset, and when reported on an entity balance sheet, it is combined with cash in hand and disclosed as cash and cash equivalents.

(2) IPSAS 2 Cash Flow Statements defines cash and cash equivalents as follows:

a) "Cash" comprises cash on hand and demand deposits; and cash equivalents are short-term, highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value.

b) A public sector entity's cash includes:

i) money and deposits held at call with the Central Bank of Kenya (CBK) and other commercial banks
ii) bank notes;
iii) coins;
iv) money orders;
v) cheques and other negotiable instruments received and which have not yet been banked, including money held in suspense; and
vi) cash impress balances on hand, such as petty cash and cash advances.

c) "Cash equivalent" refers to a highly liquid investment with a short maturity term that is both readily convertible to cash on hand at an entity's option and subject to an insignificant risk of changes in value, or borrowings which are integral to an entity's cash management and not subject to a specific term".

(3) The principles for cash management are documented under sections 83 of the PFM (both national government and county governments) Regulations, 2015.

17.1.2 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity asset register in order to facilitate consolidation into a Government register of assets. The guideline also aims to ensure uniformity in the management and administration of bank and cash by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for bank and cash, and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to bank and cash. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

17.1.3 Reference to Financial Asset Management Guidelines

(1) Cash at Bank and Petty Cash Fund are classified as financial assets and hence this guideline shall be read in conjunction with the financial asset management guidelines under Part V of Guidelines on asset and liability management in the public sector.

(2) The financial asset management guidelines provide general guidance on the administration and management of financial assets as well as their accounting treatment. The Guidelines on asset and liability management in the public sector are applicable to cash and cash equivalents.

17.2 General management and administration of cash

In addition to the management and administration aspects documented in the financial asset management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to cash.

17.2.1 Responsibilities of accounting officers

Accounting officers in public sector entities have to establish systems, procedures, processes and training to ensure sound cash management and banking.

17.2.2 Banking arrangements

In accordance with section 6 of the PFM Act 2012, the Act prevails with respect to banking arrangements, including opening of bank accounts and investment of moneys, in case of any inconsistency between the Act and any other legislation.

17.2.2.1 National Government and National Government entities

(1) According to section 28 of the PFM Act, 2012 and section 82 of the Public Finance Management (National Government) Regulations, 2015:

- a) The National Treasury shall authorize the opening, operating and closing of bank accounts and sub accounts for all government entities.
- b) The National Treasury shall establish a Treasury single account into which all revenues received by National Government entities shall be deposited and from which all payments of money to or on behalf of the National Government entities shall be made in accordance with PFM Act, 2012.
- c) The Treasury single account shall not be operated in any manner that prejudices any entity to which funds have been disbursed.
- d) An accounting officer for a national government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by the National Treasury or a Board of a National Government entity, if any.
- e) An accounting officer who authorizes the bank account of a National Government Entity to be overdrawn is liable to for the full cost of the overdrawn amount, in addition to any other disciplinary measures that:
  - i) the cabinet secretary may impose by regulations
  - ii) any other relevant authority may impose under provisions of any other legislation.
- f) The National Treasury shall keep complete and current records of all bank accounts for which it is responsible under the constitution, PFM Act or any other legislation.

(2) All foreign currency designated bank accounts shall be kept at the Central bank of Kenya for National Government entities unless exempted in writing by the Cabinet Secretary in accordance with section 76(2) of the PFM (National Government) Regulations, 2015.

(3) Every payment or instruction out of a project account shall be strictly on the basis of approved estimates of budget and financing agreement as stipulated under section 76 (3) of the PFM (National Government) Regulations, 2015.

(4) Under section 179(1) of the PFM Act, 2012, an urban area or city shall open and maintain a bank account in the name of the Urban Area or City, and with the approval of the respective CEC member for finance.

17.2.2.2 County Government and County Government entities

(1) Section 119 of the PFM Act, 2012 and sections 95 and 96 of the PFM (County governments) Regulations, 2015 provide that:

- a) The County Treasury shall authorize the opening, operating and closing of bank accounts and sub accounts for all county government and its entities.
- b) The County Treasury shall establish a Treasury single account at the Central Bank of Kenya or a bank approved by the County Treasury through which payments of money to and by the various county governments are to be made.

c) An accounting officer for a County government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by the County Treasury or a Board of a County Government entity, if any.
d) An accounting officer who authorizes the bank account of a County Government Entity to be overdrawn is liable to for the full cost of the overdrawn amount, in addition to any other disciplinary measures that:
   i) the County Executive Committee for finance may impose by regulations
   ii) any other relevant authority may impose under provisions of any other legislation
e) The County Treasury shall keep complete and current records of all bank accounts for which it is responsible under the constitution, PFM Act or any other legislation.

(2) Section 109 of the PFM Act, 2012 stipulates that:
a) The County treasury shall arrange for the County Revenue Fund to be kept in the Central bank of Kenya or a Bank approved by the County Executive Committee member responsible for finance and shall be kept in an account to be known as the "County Exchequer Account" and;
b) Ensure that all money authorized to be paid by the county government or any of its entities for a public purpose is paid from that account without undue delay.
c) The County treasury shall ensure that at no time is the County Exchequer Account overdrawn.
d) The County treasury shall obtain approval of the controller of budget before withdrawing money from the County Revenue Fund.
e) Any unutilized balances in the County Revenue Fund shall not lapse at the end of the financial year but shall be retained for the purposes for which it was established.

(3) A County Executive Committee may with approval of the county assembly establish and maintain a separate account into which all money appropriated to the Emergency fund shall be paid. The Emergency fund shall be governed by Section 110 – 115 of the PFM Act.

17.2.3 Project bank accounts

(1) According to section 76 (1) of the PFM (National government and County Governments) Regulations 2015, for the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept and such an account shall be known by the name of the project for which it is opened and each project shall maintain only one bank account.

(2) The payments out of the project accounts shall be strictly on the basis of approved estimates and the financing agreement.

(3) Section 77 of the PFM (National and county Governments) Regulations requires accounting officers to maintain a record of all receipts, disbursements and actual expenditure on a monthly basis for every project and sub-project.

17.2.4 Bank signatories

(1) Bank signatories are officers who have the authority to sign cheques and conduct online and other transactions on the public sector entity's bank accounts.

(2) The guidance on signatories to bank accounts shall be governed by sections 85 of the PFM (both National government and County Governments) Regulations, 2015. Based on these sections:
a) all signatories in respect of cheque payments, or electronic payments shall be authorized by the Accounting officer.
b) There shall be at least two authorized signatories to validate a transaction.
c) The names and designation of authorized officers and their specimen signatures shall be advised to the bank where the account is held by the accounting officer.
d) The signatories shall initial the counterfoil or enter their passwords, shall be equally responsible for the regularity of the payment and shall scrutinize the supporting documents for the payment.

(3) Variations to the list of verifying officers and cheque signatories, that is, additions, deletions or modifications, require the approval of the Accounting Officer.

(4) In accordance with section 13(1) of the PFM Act, 2012, "a public officer shall not sign a blank or incomplete cheque, record or other document, pertaining to a financial transaction".

(5) The banking regulations requires that payments for amounts exceeding Kshs 100,000 be confirmed by the paying bank before funds are transferred. Only the bank signatories have the authority to make such confirmations.

(6) It is the responsibility of the Accounting Officer to set thresholds for different categories of signatories, as appropriate, to facilitate smooth and efficient operations of the entity.

17.2.5 Registers and records of government/County Government bank accounts

(1) Each public sector entity is responsible for the maintenance of adequate accounting records, the recording of transactions and the maintenance of adequate supporting documentation, as stipulated under section 28 (6) of the PFM Act, 2012.

(2) The objectives are to ensure that the financial records of the public sector entity are maintained in accordance with Part IX of the PFM (both National and County Governments) Regulations, 2015.

(3) The Accounting Officer shall ensure that all records are accurate, relevant, reliable, and consistently reported.

17.2.6 Authority to have access to government bank accounts

This shall be governed by sections 88 of the PFM (both National Government and County Governments) Regulations, 2015. The sections provide that the relevant Treasury shall when granting authority to Accounting Officers to open and operate bank accounts, require them to include as a pre-condition to that bank, that the Cabinet Secretary/ CEC member for finance may request bank statements for that account without any reference to the authorized bank signatories of that bank account.

17.2.7 Cashflow forecasting

(1) Cash flow forecasting is an estimate of receipts and disbursements during a given period. When used as a cash management guide, this tool can lead to the optimization of funds as well as insuring sufficient liquidity is present to meet liabilities. Cash forecasting measures an organisation's ability to meet needs in light of resources with the ultimate goal of negating the need for any short-term borrowing and to avoid the liquidation of any long-term securities (investments). When done on an organisational level, spending patterns can be coordinated to mitigate any potential shortfalls and level off flow of funds.

(2) Cash flow forecasting ensures:

a) The public sector entity has the sufficient cash to meet all approved expenditures;
b) Payments are made according to the plan (cash budget);
c) Serious decline in cash balances is avoided.

(3) The primary inputs of cash flow forecasts include:

a) Budgets;
b) Procurement plans;
c) Actual expenditure and receipts; and
d) Accounts receivables and payables.

(4) Sections 29, 120 and 127 of the PFM Act, 2012 and, Sections 44 of the PFM (National government and County Governments) Regulations, 2015 require accounting officers of all public sector entities to submit annual cash flow plans to the National Treasury broken down into quarterly cash flow projections and supported by procurement plans approved in accordance with the PPAD Act, 2015.

(5) Section 44 of the PFM (National government) Regulations, 2015 and section 43 (3 & 4) of the PFM (County governments) Regulations, 2015 require the annual cash flow projections to be broken down into a three-month rolling basis. In addition, the projections are to be adjusted to reflect any implementation realities in consultation with the County Treasury. As far as possible, the quarterly cash flow projections prepared by the Accounting Officers shall be supported by a procurement plan approved in accordance with the PPAD Act, 2015.

(6) Based on sections 45 and 46 of the PFM (National Government) Regulations, 2015 and sections 44 and 45 of the PFM (county governments) Regulations, 2015, the approved cash flow projections of public sector entities shall be the basis on which the Treasury releases funds to the entities.
(7) When Accounting Officers provide reliable forecasts of the timing and amounts of material cash payments and receipts, they mitigate the risk that the entity may have insufficient funds to meet cash flow needs.

17.2.8 Revenue collection

(1) All monies due to a public sector entity must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis or at such intervals as determined by the Accounting Officer.
(2) The Accounting Officer shall establish a credit control policy that facilitates prompt cash collections from the entity's receivables.
(3) Section 47, 48, 138 and 139 of the PFM Act, 2012 gives guidance on the conditions for receiving grants and donations by entities as well as regulations on grant administration for national/ county governments, their entities or third parties. The management of revenue and other receipts shall be governed by Part VI of the PFM (both National government and county Governments) Regulations, 2015. The management of grants and donations is detailed under Part VII of the same Regulations.
(4) Section 64 of the PFM (National government) Regulations, 2015 and section 63 of the PFM (County governments) Regulations, 2015 place the responsibility of revenue management on the Accounting Officer and a receiver of revenue.

17.2.9 Expenditure management

(1) Section 147 of the PFM Act, 2012 outlines the role of accounting officers in management of public finances. The legal provisions on expenditure management and control of public funds are documented under Part X of the PFM (both national government and county governments) Regulations, 2015.
(2) The accounting officer of a public sector entity is responsible for the management of the expenditure of the entity.
(3) The accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure:
   a) that the public sector entity has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds;
   b) that the entity has and maintains a management, accounting and information system which:
      i) recognises expenditure when it is incurred;
      ii) accounts for creditors of the entity; and
      iii) accounts for payments made by the entity.
   c) that the entity has and maintains a system of internal control in respect of creditors and payments;
   d) that payments by the entity are made:
      i) directly to the person to whom it is due unless agreed otherwise for reasons as may be prescribed; and
      ii) either electronically or by way of non-transferable cheques.
   e) that all money owing by the public sector entity be paid within the prescribed number of days of receiving the relevant invoice or statement, as prescribed by the entity service charter;
   f) that the entity complies with its tax, levy, duty, pension, medical aid, audit fees and other statutory commitments;
   g) that any dispute concerning payments due by the entity to another organ of state is disposed of in terms of legislation regulating disputes between organs of state;
   h) that the entity's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework; and
   i) that all financial accounts of the entity are closed at the end of each month and reconciled with its records.

17.2.10 Security of money and accountable documents

(1) Section 118 of the PFM (National government and County governments) Regulations, 2015 requires all accountable documents, whether manual or electronic, to be under strict control at all times. Accountable

documents include bank and cash related documents such as receipt books, Authority to Incur Expenditure (AIE), cheques and imprest warrants.

(2) All money is to be kept in a secure place at all times and must not be able to be accessed by unauthorised persons. Signed cheques are to be securely stored, and not left unattended in in/out trays, lockers or similar receptacles.

(3) All money and stamps/ tickets on hand and accountable documents must be stored in a device providing security. Where money is held in money containers, such as, cash drawers or money tins when not in use, or if the responsible cash handling officer leaves the work area for any length of time, the containers must be locked and also stored in a device providing security.

(4) At the close of business each day, each authorised officer with the custody of public money, who is also provided with a device for the secure storage of those money, must ensure that those money are locked in that device, and must retain the key. Where a money container is provided, that container must also be stored in the secure storage device.

(5) Public money held by authorised officers who are also responsible for any other duty relating to the accounting for those money, shall be subject to an internal check at least monthly as to the actual amount on hand.

(6) Security arrangements regarding money under the control of authorised officers or employees should be reviewed at regular intervals by the Accounting Officer, to ensure that those arrangements are adequate.

(7) Where an officer or employee involved in handling public or other money does not arrive for duty, and his/her duties are to be performed in his/her absence by a relieving officer or employee, that relieving officer or employee and a senior officer or employee in the public sector entity must:
   a) together count the money to be handed-over before the actual hand-over to the relieving officer or employee; and
   b) prepare and both sign a suitable record of those money, and any accompanying vouchers or other relevant paperwork at the time of hand-over.

(8) Where an officer or employee who is authorised to handle money is absent from duty without satisfactory explanation, prompt investigation of the records maintained by that officer or employee shall be carried out.

(9) On all other occasions where control over money is to be passed from one authorised accountable officer or employee to another, due to relieving or any other arrangements, the first mentioned officer or employee is to:
   a) count the money and check the records to be handed-over in the presence of the replacement officer or employee;
   b) hand-over to the other officer or employee all public and other money, all public and other property, and all accounting records, in his/her possession; and
   c) prepare and sign a return in respect of what is handed-over.

(10) All accounting records shall be balanced immediately before handing them over to another officer or employee. The replacement officer must satisfy him/herself of the accuracy of the signed return, and money and accounting records handed-over, and then sign that return. If an irregularity is identified by the replacement officer or employee, he/she should immediately report this to the senior officer or employee in charge.

(11) The security of cash in Transit shall be governed by sections 89 of the PFM (both National Government and County Governments) Regulations, 2015. Accounting Officers are required to have adequate security arrangements such as safe or strong rooms and restricted access to cash handling locations, police or armed security escorts, security bags locked to the vehicle and, suitable transport and variation of movements, times and routes.

17.2.11 Cheque and electronic payments

Cheque and electronic payments, with respect to bank signatories shall be governed by sections 85 of the PFM (both National and County Governments) Regulations, 2015. The following section covers other aspects with respect to cheque and electronic payments that are not covered by the Regulations.

17.2.11.1 Unused cheques

(1) Cheque books should be kept under the control of an officer who is independent of the signing function. Any unused cheque books and cheque leafs should be kept under lock and key by an authorised officer.

(2) Issues of unused cheques should be signed for by the receiving officer and, removed from the cheque register.

(3) When pre-printed cheque cheques are received from the printer, their numbers are to be recorded in a cheque forms register and the cheques placed in a locked storage area. When cheques are printed or cancelled, the event and date are to be recorded in the cheque Register.

(4) When a cheque has been identified as having been lost before it has been used, it must be registered and shown as voided on the accounting system so that its number may not be re-used or duplicated.

17.2.11.2 Cheque cancellation

(1) Section 85(5) of the PFM Regulations 9Natioanl government and county governments) Regulations, 2015 require that "spoilt cheques shall be marked prominently with the stamp "cancelled" and, fixed securely to the cheque-list used for controlling the cheques issued each day".

(2) An issued cheque may be cancelled due to circumstances, such as:

- a) the cheque has been returned due to double payment of the same invoice; a cancellation request form is to be created referencing the relevant documents and the cheque is to be cancelled.
- b) the cheque has been returned by the payee because it was issued to the wrong person, in which case a cheque cancellation request form is to be created referencing the relevant documents; the cheque is to be cancelled and the invoice adjusted to reflect the correct payee.
- c) the cheque has not been received or has been lost by the payee, in which case the cheque is to be cancelled, the bank notified to stop payment and a replacement cheque is to be issued.
- d) the cheque has not been presented within three (3) months in which case it will be managed as an unpresented cheque.
- e) the cheque should not have been issued because the invoice should not be paid; in this case:
  - i) a cheque cancellation request form is to be created referencing the relevant documents;
  - ii) the bank is to be notified to stop payment; and
  - iii) the cheque is to be cancelled; the invoice may also require cancellation.

(3) Payment vouchers for cancelled cheques are to be marked 'cancelled' and the reasons for cancellation are to be indicated on the payment voucher. Both the original and correcting forms are to be cross-referenced.

(4) A stop payment advice regarding the cheque to be cancelled must be lodged by the public sector entity with the bank before any replacement cheque is issued, unless the cheque is in hand and has been rendered unpayable.

(5) After a cheque cancellation, the cancelled cheque must be marked 'CANCELLED', attached to the cheque cancellation request form and filed in sequence of the date upon which the cheque was stopped.

17.2.11.3 Cheque replacement

(1) Before a replacement cheque is issued to the payee, the following actions must be taken:

- a) a check of the bank statement and inquiry of the Cheque Register to make sure that the cheque has not been presented to date at the bank for payment;
- b) a stop payment advice regarding the first cheque must be lodged with the bank before any replacement cheque is issued unless the original cheque is in hand and has been rendered unpayable;
- c) if the cheque has not been presented and honoured by the bank, the cheque is to be cancelled and recorded in the Cheque Register; a replacement cheque is to be produced; and
- d) if a new payment voucher was created to issue a replacement cheque, the original payment voucher must be cancelled and the fact of issuance of a replacement cheque recorded on both the original and the replacement payment vouchers.

(2) A check list should be used to record the above steps as they are performed and, confirmed by a finance officer. The check list should be attached to and filed with the cancelled cheque for audit purposes.

(3) When the payee is deceased before the cheque has been presented, the deceased's bank account will have been frozen pending a grant of probate and administration of the estate. The following action is to be taken:

a) written instructions are to be obtained from the executor/s of the estate to cancel the original cheque and to issue another in favour of the estate;
b) the original cheque is to be cancelled but the invoice is not to be cancelled unless the original cheque was drawn from a one-time vendor account; if so, the cheque and the invoice are to be cancelled and a new vendor master file is to be created and a new invoice is to be raised for payment;
c) the vendor master file details are to be changed to show the name of the estate as the payee; and
d) the now unpaid invoice is to be paid with a new cheque or online transfer.

(4) The instructions to cancel the cheque should be signed by all executors or those having an enduring power of attorney, ensuring that authority to proceed with this action is evidenced.

17.2.11.4 Stop payment notices

(1) Stop payment notices must be issued before any replacement cheque is issued, unless the cheque is in hand and has been rendered unpayable. The cheque to be cancelled or replaced must be defaced by removing the signature block from the cheque so that it cannot be presented.

(2) The stop payment notice must be signed by a signatory who is authorised to sign cheques. The signatory does not have to be the person who signed the cheque originally. However, the authority must be current for the stop payment notice to be effective or accepted. A former signatory cannot execute a stop payment notice, and a stop payment notice cannot be backdated.

(3) The notice must be formally transmitted to the bank, by e-mail and by post or personal delivery. If sent by e-mail, a hard copy of the notice would still be posted or delivered personally.

(4) It is necessary that the cheque is checked against the accounting system and bank statements subsequent to the last day on which an update to the accounting system has been run, to confirm that the cheque has not been paid.

17.2.11.5 Unpresented cheques

(1) Each month, the list of unpresented cheques on each bank account must be reviewed for cheques that are overdue for presentation to determine required follow-up action. A bank will honour valid cheques when presented, if funds are available. Cheques are classified as stale after 6 months from the date of issue.

(2) Unclaimed monies will be remitted to the Unclaimed Financial Assets Authority (UFAA) based on the prescribed periods for different categories of assets, in accordance with the UFA Act, 2011, Revised 2012. In accordance with section 5 of the UFA Act, 2011, Revised 2012 "any sum payable in Kenya on a cheque, draft, or similar instrument, on which a bank or financial institution is directly liable, including a banker's cheque, which is outstanding for more than two years after it was payable or after its issuance if payable on demand, is presumed abandoned, unless the owner, within the immediately preceding two years, has communicated in writing with the bank or financial institution concerning it or otherwise indicated an interest as evidenced by a record prepared by the bank or financial institution".

(3) Cheques which have been unpresented for three months or longer must be promptly followed up by contacting the payee to ascertain the reason as to why the cheque has not been presented. The liability continues for six years pursuant to the provisions of section 4(1) of the Limitation of Actions Act Cap 22, Revised 2012. Government policy is, however, that if a person can prove that the funds were owing to them, the debt is to be honoured from the UFAA.

17.2.11.6 Dishonoured cheques

(1) The Accounting Officer shall identify the situations under which a cheque presented to the bank is returned. A cheque may not be honoured owing to a single reason or due to multiple reasons. These reasons are broadly categorized as fund based, stop payments, deficiencies in cheque such as discrepancy in cheque date, amount, difference in signature or ambiguous crossing / endorsements.

(2) The Accounting Officer shall investigate any cases of dishounoured cheques and ensure that any matters arising are resolved promptly, and corrective action taken.

17.2.11.7 Controls over electronic payments

(1) The controls/ safeguards relating to electronic payments include:

a) Strong internal and information technology controls on all programs, data files and devices related to customer and employee information to ensure privacy and prevent unauthorized use, including network security to protect data files from internal and external threats.
b) Written agreements that establish procedures, risk exposure, and indemnification issues should be executed with banks and third party providers.
c) Strong segregation of duties, including dual control for the establishment of templates and the authorization of transactions, establishment of limits for authorized personnel and the establishment and use of passwords, Personal identification Numbers (PIN) and secure authentication for authorized personnel to initiate transactions.
d) Bank service structure, including file receipt verification by the Originating Depository
e) Financial Institution, establishment and use of adequate controls against unauthorized Automated Clearing House (ACH) debits, such as blocks and filters, the use of separate accounts for ACH debit activity where volume and type of payment warrants it, pre-noting or testing ACH transactions to vendors and employees when practical and the use of an ACH format that supports the transmission of the remittance advice when needed.
f) Implementation and periodic review of internal controls that address access control, confidentiality of data, integrity of data, and other information security issues as appropriate.

(2) Some of the internal controls to be put in place with respect to electronic payments are listed hereunder:
a) The computer and related programs should be located in a secure environment and locked when not in use.
b) The computer programs relating to cash transfers should not be accessible in any manner by unauthorized users (i.e., from other terminals in a network environment, the Internet or the physical workstation).
c) There should be up-to-date lists maintained of users and their levels of access.
d) Appropriate management should adequately supervise the physical security of the computers which have access to programs related to cash transfers.
e) Computer access passwords and other vital information should not be leaked, whether intentionally or not, to others. Passwords and other vital access information should be changed periodically and this should be documented as a basic requirement for all users.
f) System records should be maintained to document logon attempts/session paths, etc., and they should be reviewed by appropriate management. The system should maintain logon violation records.
g) The specific computer or terminal should be validated and documented by the system upon an attempted logon.
h) Input documentation should be reviewed and approved independently from the cash transfer process. The number of approvals required should be specified and tis should documented as a control.
i) Prospective employees who will be involved in the cash transfers should be properly screened.
j) Processing periods should not be prolonged and employees should not leave the computer during the transmission process.
k) Computer hardware and software problems related to cash transfers should be documented.
l) A designated officer should supervise compliance with the above internal controls.

(3) For purposes of processing EFT and ACH cash transfers:
a) An entity should have a pre-approved listing of vendor numbers and bank account numbers for which designated cash transfers can be made to/from.
b) Only designated employees should permitted to access the system with differential rights to perform different type(s) of cash transfers. Access should be monitored and each employee should have an approved threshold.
c) Bank reconciliations should be performed by individuals independent of having access to perform cash transfers.
d) Bank reconciliation process should include a detailed review of vendors, bank account numbers and other references relating to the cash transfers. Supporting documentation should also be reviewed.

e) Recurring cash transfers should be reviewed to determine the ongoing propriety of the amount and the authorization of the expenditure.

17.2.12 Recording

(1) Accounting officers shall ensure that records are maintained for all cash and bank transactions.

(2) An accounting officer shall also maintain a register of all bank accounts held by the entity. The format of the register is prescribed under appendix 6(p).

(3) 6.

17.2.13 Reconciliations of bank accounts

(1) This shall be governed by Sections 90 of the PFM (National Government and County Governments) Regulations, 2015. Specifically:

a) Accounting officers shall ensure bank account reconciliations are completed for each bank account held by the accounting officer, every month and submit a bank reconciliation statement not later than 10th of the subsequent month to the National or County treasury, as applicable, with a copy to the Auditor General.

b) Similar reconciliations shall be carried out when the responsibility for any bank account or cheque book is handed over from one officer to another and on the occasion of any surprise inspection or survey.

c) Accounting officers shall ensure any discrepancies noted during bank reconciliation exercise are investigated immediately and appropriate action taken including updating the relevant cashbooks

d) The National or county treasury shall analyse and review the bank reconciliation statements submitted and take necessary action.

(2) In all cases, the action required to resolve individual reconciling items must be documented on the reconciliation statement concerned, and such action is to be promptly followed-up. Action must be taken by the Accounting Officer to clear all reconciling items promptly.

(3) Copies of all appropriate documents, which support figures detailed in bank reconciliations, are to be filed along with the reconciliations. Such documents include:

a) a copy of the general ledger bank account transaction listing;

b) the general ledger bank account reconciliation statement;

c) supporting documentation for the reconciliation such as bank statements, general ledger balance reports, error list reports, a report listing unpresented cheques, and cancelled and replaced cheques reports;

d) a spreadsheet detailing all reconciling items and how these have been cleared;

e) Correspondence relating to the reconciliation and clearance of reconciling items forming part of the working papers such as letters to vendors concerning cancelled or replaced cheques, reports of such, and correspondence in respect of unclaimed money, such as returned pays, are to be filed with the reconciliation; and

f) all reconciling items working papers and supporting documentation.

17.2.14 Retention of documents relating to bank and cash receipts and payments

The retention of documents and records is governed by section 119 of the PFM (National government and County governments) Regulations, 2015, and section 118 of the PFM (County governments) Regulations, 2015, where different periods are prescribed for different types of accountable documents and accounting records.

17.2.15 Reporting

(1) Accounting Officers shall disclose the closing project bank balances at the end of the financial year and fully account for them in the format prescribed by the PSASB. The guidelines for reporting of revenues are detailed under section 65 of the PFM (National Government) Regulations, 2015 and section 64 of the PFM (County governments) Regulations, 2015. Quarterly reports are required to be prepared not later than the 15th day after the end of the quarter.

(2) Section 87 of the PFM (National Government and county governments) Regulations, 2015 has outlined the information to be submitted by Accounting Officers to the Office of the Accountant General by 30 September of each year. This include name of bank, name of bank account, type of account, signatories, date on which account was opened, account number, purpose of account, bank balances at end of 30 June, and, reference number and date of National Treasury letter granting approval for opening and operating of bank account.

17.2.16 Petty cash fund/ Standing imprests

(1) A petty cash fund is "a small supply of cash used to meet daily operating needs for which disbursement cheques are not appropriate or their use is not efficient or cost-effective. According to the PFM Act, 2012 this is known as 'standing imprest'.

(2) The following internal control features must be incorporated into the operating procedures for each Petty Cash Fund.

a) The fund custodian should be located in a lockable room with restricted access, if possible.
b) Petty Cash Funds should be stored in a portable, lockable metal container (Petty Cash box) during operating hours and not left unattended.
c) During non-operating hours, the Petty Cash funds should be stored in a safe or other secure location. It is strongly recommended that only the fund custodian and the Accounting Officer be given access to the safe's contents.
d) The entity's safe should be used only for the entity's business purposes. Employees or outside parties should not be allowed to store their valuables in the safe or have access to the safe's contents.
e) In accordance with section 93 (17) of the PFM (National government and County Governments) Regulations, 2015, the head of accounts division shall perform frequent random cash counts and obtain a reconciliation between cash at hand and the fund balances as reflected in the accounting system, from the fund custodian.
f) At the end of each financial year, the Accounting Officer shall perform cash counts of all funds maintained by the entity and obtain a reconciliation between cash at hand and the fund balances as reflected in the financial statements, from the fund custodian.
g) Detailed guidance on the management of imprests is documented under sections 91 - 94 of the PFM (both National government and county governments) Regulations, 2015.

17.3 Accounting for cash at bank/ Cash

Cash, being a financial instrument, shall be accounted for in accordance with the following accounting standards:

- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 41 - Financial Instruments

17.3.1 Foreign currency transactions

The functional reporting currency for all public sector entities shall be the Kenya Shilling. Transactions carried out in any other currency, shall be translated into Kenya Shillings in accordance with the provisions of IPSAS 4 and IAS 21 as follows:

a) At the date of transaction, each transaction shall be recorded using the spot exchange rate for initial recognition and measurement.
b) At subsequent reporting dates:
   (i) The closing rate for monetary items shall be used;
   (ii) The transaction-date exchange rates for non-monetary items shall be carried at historical cost; and
   (iii) Valuation-date exchange rates for nonmonetary items that are carried at fair value shall be used.
c) Exchange differences arising on settlement of monetary items and on translation of monetary items at a rate different from when initially recognized are included in surplus or deficit, with one exception:

exchange differences arising from monetary items that form part of the reporting entity's net investment in a foreign operation are recognized in the consolidated financial statements that include the foreign operation in a separate component of net assets/equity; these differences will be recognized in the surplus or deficit on disposal of the net investment.

17.3.2 Disclosure in financial statements

(1) The total of cash and cash equivalents at the end of the reporting period as disclosed in the Statement of Cash Flows, must reconcile with the equivalent items reported in the Statement of Financial Position.

(2) At the end of each financial period, the results and financial position of an entity's operations, designated in foreign currency shall be translated into Kenya shillings using the following procedures:

a) Assets and liabilities for each statement of financial position presented (including comparatives) are translated at the closing rate at the date of that statement of financial position.

b) Revenue and expenses of each statement of financial performance (including comparatives) are translated at exchange rates at the dates of the transactions. All resulting exchange differences are recognized as a separate component of net assets/equity.

17.4 Transitional provisions

All public sector entities have been disclosing cash and cash equivalents in their financial statements and hence there are no transitional provisions.

17.5 Applicable accounting standards

- IPSAS 2 – Cashflow statements
- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 41 - Financial Instruments – effective 2022

17.6 Legislative authority

- Cabinet Secretary to the Treasury (Incorporation) Act, Chapter 101
- PFM Act, 2012
- PFM (National government) Regulations, 2015
- PFM (County governments) Regulations, 2015
- Limitation of Actions Act Cap 22, Revised 2012.
- Unclaimed Financial Assets Act No. 40 of 2011, Revised 2012
- Unclaimed Financial Assets Regulations, 2016
- E-money Regulation, 2013

17.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 17.1

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

18 Accounts Receivable

This guideline covers the following areas:

18.1 Introduction

18.1.1 Preamble

(1) Receivables, also referred to as debtors, are amounts owing by individuals or organisations in respect of the provision of goods, services, works and/or other financial assistance, in accordance with an invoice/order/contract/agreement. Such amounts must be presently receivable in accordance with the associated invoice/order/contract/agreement and other legal contractual principles.

(2) Accounts receivable can be referred to amounts owed by customers for goods and services an entity allowed the customer to purchase on credit. For example, an electricity transmission entity could bill their clients after the clients receive the electricity. While the electricity company waits for its customers to pay their bills, the entity considers unpaid invoices a part of its accounts receivable.

(3) Within a public sector entity, accounts receivable may be in respect of:

a) amounts outstanding on client billings for services rendered, for example, rental income, medical bills, school fees, payments for licences and rights, certification fees, utility bills, taxes and registration fees.
b) amounts owing by Government entity officers, for example, in respect of housing provided by the public sector entity.

18.1.2 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity asset register in order to facilitate consolidation into a Government register of assets. The guideline also aims to ensure uniformity in the management and administration of accounts receivable by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for accounts receivable and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to accounts receivable. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

18.1.3 Reference to Financial Asset Management Guidelines

(1) Accounts receivable are classified as financial assets and hence this guideline shall be read in conjunction with the financial asset management guidelines under Part V of Guidelines on asset and liability management in the public sector.

(2) The financial asset management guidelines provide general guidance on the administration and management of financial assets as well as their accounting treatment. The Guidelines on asset and liability management in the public sector are applicable to accounts receivable.

18.2 General management and administration of accounts receivable

In addition to the management and administration aspects documented in the financial asset management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to accounts receivable.

18.2.1 Planning and acquisition

(1) The accounting officer shall develop a credit policy for the public sector entity clearly stipulating the guidelines that:

a) Are used to determine which customers are extended credit and billed.
b) Set the payment terms for parties to whom credit is extended.
c) Define the limits to be set on outstanding credit accounts.
d) Facilitate assessment of late payment of receivables.
e) Outline the steps or procedures used to deal with delinquent accounts.
f) Clarify the penalties to be instituted in case of non-payment.

(2) The accounts receivable levels at the end of each month, quarter and financial year shall be taken into consideration during preparation of cash flow projections of the entity.

18.2.2 Recording

(1) The Accounting Officer shall establish procedures for the timely charging of billable services and their recording in the relevant accounts receivable system, which must be regularly reviewed, followed-up and, with prompt action taken as required.
(2) A billing status report should be run monthly to indicate whether all customers have been billed for goods or services rendered.
(3) Reconciliations between subsidiary receivables ledgers/systems and the general ledger control account should be undertaken at month end. Exceptions must be investigated and cleared by the following month end. Reconciliations must be reviewed and certified by an independent, responsible officer.
(4) Supporting documentation and copies of debtor's ledger journal entries must be filed either with the journal or in a working papers file, suitably cross-referenced and indexed, to provide an audit trail of journals.
(5) Statements of account are to be posted to each debtor monthly. Invoices are to be handed or mailed to the debtor at the time of completion of the services.
(6) Advices of changes of address or other points of communication are to be updated immediately.
(7) Statements and invoices returned unopened must be followed up immediately so as to reduce the possibility of a bad debt.
(8) The value of all outstanding invoices within a public sector entity is to be readily available throughout the year for reporting purposes. Public sector entities must ensure that full, proper and accurate recording of amounts invoiced, credit notes issued and any overpayments made by an entity are properly recorded.
(9) Receivables systems must include clear audit trails to enable easy tracing of transactions to the related source documents.
(10) Aged debtor reports are to be run monthly, indicating overdue accounts.
(11) The format to be used for purposes of submitting quarterly reports to the National Treasury is attached under Appendix 6(r).

18.2.3 Adjustments to accounts (credit notes)

(1) Adjustments to accounts receivable must be properly controlled, prepared and authorised, and evidence of each adjustment is to be retained for audit and legal purposes.
(2) A credit note may be raised when an invoice needs to be completely cancelled, or part of an invoice is incorrect and requires cancellation. The document must disclose particulars of:
a) the debtor's name and address;
b) the account number;
c) the number of the invoice to which the credit relates;
d) the line item description as shown on the invoice;
e) the reason for the credit being raised;
f) the credit note number, value, and date of issue; and
g) the signatures of the officers preparing and approving the credit.

(3) Since the issue of a credit note is similar to giving cash or a cheque to a customer, it is necessary that the credit note be authorised by the Accounting Officer or delegate having adequate seniority. The officer must not have any duties associated with the processing of invoices, credit notes or receipts and must possess the appropriate financial delegation.

18.2.4 Overdue receivables

(1) Overdue accounts must be investigated by an officer, appointed by the accounting officer, not otherwise charged with duties relating to the assessment, levy, collection or disbursement of money.

(2) Long outstanding debts must be regularly assessed and performance indicators established as a measure of the effectiveness of the debtors' collection process in a public sector entity, for example, average days' sales in debtors outstanding and the ratio of overdue accounts to total debtors.
(3) For open item accounts, that is, unmatched or unpaid transactions, receipts are applied to the specific invoices intended to be paid. If an account continues to show a poor history, it may become necessary to apply the receipts to the oldest balance.
(4) Balance forward accounts, where the transactions are not retained on statements, are to be rolled into a new balance brought forward amount. The receipt is to be applied to the oldest balance unless some arrangement has been made, or, for example, a disputed charge has been flagged and left outstanding until resolution.
(5) If legal proceedings are considered appropriate for overdue receivables, the Accounting Officer should authorise such action.

18.2.5 Letter of demand

(1) A letter of demand for payment should be forwarded to the customer after the lapse of the credit period. A letter of demand must be forwarded before legal action is contemplated, and it must be permitted to expire before legal action is initiated.
(2) The letter of demand must clearly state, as a minimum:
  a) the circumstances of the debt arising;
  b) the date/s, number/s and amount/s of the invoice/s outstanding;
  c) the amount/s of any receipt/s applied against the invoice/s;
  d) a statement that the debt remains outstanding;
  e) a statement and quantification on the penalties accruing due to delayed payments;
  f) a clear demand for payment of the debt in full within a stipulated time frame and the time frame must be reasonable so as to provide sufficient time for the debtor to comply; and
  g) a statement that, if the full amount is not received by the stipulated date, legal proceedings will be commenced to recover both the debt and costs incurred.

18.2.6 Use of debt collection agencies

(1) Specific action to be taken to recover outstanding debts will be the responsibility of the Accounting Officer. Such action may include the use of debt collection agencies or other more cost effective means of debt collection.
(2) There is no legislation on licencing of debt collection in Kenya and hence an Accounting Officer shall carry out due diligence in the selection of any debt collection agencies involved.
(3) The Accounting Officer shall ensure that contracts drawn with debt collection agencies involve minimal costs for the public sector entity and, the recovery of such costs from the debtor.
(4) In the event that a debt due to a public sector entity requires collection action, including the use of a commercial debt collection agency, the information given to the agency must in the first instance be restricted to the financial information necessary solely for the purpose of debt recovery. That information would include, in addition to the debtor's name, address and telephone number, the invoice date number and amount.
(5) If contact and collection is unsuccessful in the first instance, then the entity can provide additional details such as date of birth, previous names, current and previous contact details (including address, phone, email), alternative contact details (emergency contacts/next of kin), any known email addresses and any known details.

18.2.7 Legal recovery of overdue accounts

(1) Where it is appropriate to proceed with legal action, initial advice should be sought from the entity's legal department/unit, where applicable.
(2) Further legal advice may be sought from either the Office of the Attorney General or from an approved panel of external legal advisers arranged by the entity's legal department/ Unit.
(3) Prior to taking any legal action, the circumstances of each case and the cost of legal action must be evaluated and carefully considered by the Accounting Officer.
(4) Where the likelihood of collecting any receivables is considered improbable or not cost-effective, either an appropriate provision for impairment is to be brought to account or the debt is to be approved for write off

by an authorised loss write-off delegated officer. The procedures for provision for impairment and debt write off are documented below.

(5) The above requirements are to be applied consistently to all types of receivables.

18.2.8 Bad debts

(1) A bad debt is a debt that has actually been determined to be uncollectible, after unsuccessfully undertaking all practical and cost effective recovery action, and for which appropriate financial approval has been obtained to write-off the debt.

(2) Bad and impaired debts are to be reported in the notes to the annual financial statements as “other expenses” in the Statement of Comprehensive Income, if a provision has not been provided previously and the debts have only become uncollectible since the beginning of the reporting period.

(3) The Accounting Officer shall review the ages of the various types of receivables outstanding, in particular, details of those individual receivables which have been outstanding for more than 240 days.

Note: The statement of comprehensive income is used by those entities using IFRS and IAS. For those entities using IPSAS, IPSAS 1 requires, among others, a statement of financial performance and a statement of changes in net assets/equity. Public sector entities shall therefore ensure that the relevant accounting records as required by the applicable standards.

18.2.9 Write off of bad debts

(1) An overdue accounts receivable, that is, aged 240 days or more and not subject to a compensation claim, may be considered for write-off, if:
  a) after sufficient investigation and action, it is considered doubtful that the debt will be repaid, for example, the debtor cannot be located or has filed for bankruptcy or liquidation; or
  b) the cost of further recovery attempts exceeds the amount likely to be recovered.

(2) Before seeking write-off of any accounts receivable, the Accounting Officer must arrange a thorough investigation and the preparation of an appropriate report thereon. The Accounting Officer must ensure that:
  a) proper steps have been taken to investigate the raising and non-recovery of the debts;
  b) legal prosecution is inappropriate, unlikely to be successful, or is not cost effective;
  c) all reasonable steps have been taken to recover the debt;
  d) the debt is reasonably considered to be non-recoverable;
  e) the circumstances surrounding the loss are examined fully to ensure that satisfactory controls are in place to limit similar occurrences in the future; and
  f) a summarised justification for the write-off recommendation is provided.

(3) A write-off must be approved in accordance with the provisions of sections 69 and 150 of the PFM Act, 2012, for national government entities and county government entities, respectively. This is expounded in sections 145 – 159 of the PFM (National government) Regulations, 2015 and sections 138 – 152 of the PFM (County governments) Regulations, 2015. The regulations prescribe thresholds for write offs of losses as follows:
  a) An Accounting Officer can write off a maximum of Kshs 100,000 for any one incidence in a financial year;
  b) Write off of amounts more than Kshs 100, 000 but less than one percent of the entity approved estimates for any one incidence require the approval of the Cabinet Secretary; and
  c) Approval of write off of more than one percent of the entity’s approved estimates for any one incidence require the approval of the Cabinet.

(4) Debts may not be written off progressively so as to bring the value of the write-off within an Accounting officer’s level of delegation.

(5) The Regulations also prescribe the responsibilities of Accounting Officers with respect to write offs of losses, procedures for handling losses, categories of losses, investigation of losses and write off of losses.

(6) In accordance with section 153 of PFM (National government) Regulations, 2015 and section 146 of the PFM (County governments) Regulations, 2015 the Accounting Officer is required to maintain a register of all losses incurred in their entity during a financial year. The register is to be submitted Auditor General for audit with a copy to the National Treasury or relevant county treasury.

(7) Supporting documentation relating to write-offs must include:

a) the originals or certified copies of all documents relating to the debt written off;
b) records of telephone interviews;
c) correspondence; and
d) the memorandum of approval to write off, if applicable; it is essential that any signed acknowledgement from the debtor evidencing the debt is retained.

18.2.10 Provision for bad debts

(1) The provision for doubtful debts is the estimated amount of bad debt that will arise from accounts receivable that have been issued but not yet collected. It is identical to the allowance for doubtful accounts. The provision is used under accrual basis accounting, so that an expense is recognized for probable bad debts as soon as invoices are issued to customers, rather than waiting several months to find out exactly which invoices turned out to be uncollectible. Thus, the net impact of the provision for doubtful debts is to accelerate the recognition of bad debts into earlier reporting periods.

(2) The Accounting Officer will estimate the amount of bad debt based on historical experience. This means that it is determined as a percentage of accounts receivables without reference to specific receivables. It is highly unlikely that the provision for doubtful debts will always exactly match the amount of invoices that are actually unpaid, since it is only an estimate. Thus, the entity will need to adjust the balance in this account over time to bring it into closer alignment with the ongoing best estimate of bad debts. This can involve an additional charge to the bad debt expense account (if the provision appears to initially be too low) or a reduction in the expense (if the provision appears to be too high).

18.3 Accounting for accounts receivable

Accounts receivable, being financial instruments, shall be accounted for in accordance with the following accounting standards:

- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 41 - Financial Instruments

18.3.1 Recognition

In accordance with IPSAS 29, an entity shall recognise financial assets, such as accounts receivable, in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of a financial instrument.

18.3.2 Measurement

18.3.2.1 Initial measurement

In accordance with IFRS 9 and IPSAS 29, at initial recognition, an entity measures a financial asset, such as accounts receivables, at its fair value plus or minus, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

18.3.2.2 Subsequent Measurement

(1) For the purpose of measuring a financial asset, such as accounts receivables, after initial recognition, IFRS 9 and IPSAS 29 classifies financial assets into the following four categories:
a) Financial assets at fair value through surplus or deficit;
b) Held-to-maturity investments;
c) Loans and receivables; and
d) Available-for-sale financial assets.

(2) After initial recognition, receivables shall be measured at amortised/ adjusted cost using the effective interest method.

18.3.3 Impairment of accounts receivable

Accounts receivable should be regularly assessed for impairment so as to ensure that the balances disclosed in financial statements reflect true and fair values.

18.3.3.1 Impairment review

(1) A public sector entity must, at the end of each reporting period, perform a review or assessment of debtors, loans and advances receivable by the entity to determine whether there is any objective evidence that the amount owing is impaired, bearing in mind various factors, for example, the debt's age, financial difficulty of the debtor, any breaches of contract terms and the results of recovery action taken to date.

(2) IPSAS 29 Financial Instruments: Recognition and Measurement states that a receivable or a group of receivables is impaired and impairment losses are incurred if, and only if:

   a) there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event'); and
   b) that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(3) It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised.

(4) Impairment losses recognised in respect of receivables at the reporting date may only relate to debts not yet determined to be uncollectible, that is, those not yet written-off as a bad debt.

(5) A reversal of an impairment loss may occur if there is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. The amount of the reversal shall be recognised in the Statement of Comprehensive Income and in accordance with IPSAS 29 requirements.

Note: The statement of comprehensive income is used by those entities using IFRS and IAS. For those entities using IPSAS, IPSAS 1 requires, among others, a statement of financial performance and a statement of changes in net assets/equity. Public sector entities shall therefore ensure that the relevant accounting records as required by the applicable standards.

18.3.3.2 Provision for impairment

(1) Pursuant to the requirements of IPSAS 29, an allowance for impairment must be recognised to ensure that receivables are carried at amounts not in excess of their recoverable amounts.

(2) An adequate provision for impairment must be raised, revised and recorded in the period in which an account is identified as potentially non-collectible. The provision for impairment is calculated by assessment of the individual accounts in the accounts receivable subsidiary ledger. Monthly assessments shall be performed by applying a percentage of total amounts overdue, where the percentage to be applied is determined from history, that is, trend analysis over a reasonable period of time.

(3) Adjustments are documented and approved by the Accounting Officer for approval of a loss. Assessment must take into consideration:

   a) the potential costs of the recovery of the debt;
   b) the age and quantum of the overdue debt;
   c) the history and contact with the debtor;
   d) the possibility of recovery from other parties; and
   e) discussion with other officers, such as those who generated the revenue and who may have additional information about the debtor and why the account has not been paid.

(4) The Accounting officer should review the accounts receivable listing at least monthly to identify potential and practically non-collectible accounts. A provision for impairment must be recognised for all invoices aged greater than 150 days, unless there is sufficient evidence that recovery is probable for example, there is a payment plan in place with the debtor.

(5) The accounts receivable listing is to be reviewed at monthly intervals in order to assess doubtfulness or bad debts.

(6) The Accounting officer should review and document accounts receivable balances aged 60 days or over in order to minimise recovery problems. Accounts receivable balances aged less than 60 days should be reviewed for impairment indicators.

18.3.4 Credit balances in debtors

(1) Credit balances in accounts receivable must be reviewed at month end and investigated. If the balance is due to an overpayment, the balance is to remain in the account untouched. The account is to be included in the monthly statements sent to debtors and the balance may be highlighted in order to draw it to the attention of the customer.

(2) Credit balances are to be reverse journalled to sundry creditors for the purposes of the annual financial statements. Individual inspection is required to determine the total amount.

18.3.5 Disclosure in financial statements

(1) Accounts receivable are ordinarily paid within a short period, that is, 30 to 60 days, and are therefore disclosed as current assets. At the time of the preparation of the annual financial statements, any account not expected to be paid within twelve months due to conditions of contract and not because it is doubtful or bad, must be classified as a non-current asset. Otherwise, these accounts must be disclosed as current assets.

(2) Accounts receivable are not to be set off against accounts payable even though the debtor and the supplier are one and the same person or entity unless the balances have arisen as a consequence of an error or a mistake.

(3) The accounts are to be recorded and disclosed at their gross value. Payment discounts available are not to be taken up until the account is paid.

(4) Accounts having a credit balance at the end of the reporting period must be transferred to current liabilities, that is, sundry creditors, in the annual financial statements.

18.4 Transitional provisions

(1) Determination of opening balances of accrued revenues and accounts receivable involves a thorough examination of all amounts receivable. The entity needs to:

a) compile an aggregate list of all recorded amounts receivable (the same process can be applied to short-term loans and advances and amounts receivable in relation to unpaid user fees and charges);
b) check that the amount recorded is correct and is not in dispute;
c) check that the item is legally enforceable. If it is not legally enforceable this may reduce the likelihood of collecting the amount owed;
d) assess the likelihood of recovering the amount owed – check that contact details for the individual or entity are correct and assess whether the individual or entity has sufficient funds to pay the amount owed;
e) in the case of amounts in dispute or where the individual or entity is experiencing financial difficulties or cannot easily be traced, the entity needs to consider whether it is worth the cost of taking legal or other action to recover the amount owed. In some cases the entity may decide that it is not politically acceptable to recover an amount – this is sometimes the case with extremely old debts; and
f) where a write-off, write-down or waiver is proposed, the entity needs to carry out any procedures required before such action, document the recommended action, record details of any approval obtained and update the financial records.

(2) The entire process needs to be thoroughly documented to enable opening balances to be established and to provide an audit trail.

(3) For entities that have already adopted accrual accounting, the Accounting Officer shall review the current practice and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records, and treated in accordance with IAS 8 and IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors.

18.5 Applicable accounting standards

This guideline is based on the following IPSAS, IAS and IFRS:

- IPSAS 33 - First – time Adoption of Accrual Basis IPSASs
- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9- Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 41 - Financial Instruments
- IPSAS 3 & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

18.6 Legislative authority

- Cabinet Secretary to the Treasury (Incorporation) Act, Chapter 101
- PFM Act, 2012
- PFM Regulations (National Government), 2015
- PFM Regulations (County Governments), 2015

18.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 18.1

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

19 Loans/ Grants receivable

This guideline covers the following areas:

19.1 Introduction

19.1.1 Preamble

(1) According to Article 260 pf the Constitution of Kenya, 2010, *"loan includes any form of borrowing, lending or deferred payment in respect of which money from a public fund may be used, or is required to be used, for payment or repayment"*.

(2) A loan can be defined as something that is borrowed, especially a sum of money that is expected to be paid back with interest.

(3) Examples of loans receivables include:

a) loans or advances granted or portions thereof which are now repayable by the recipient; and

b) loans or advances made to public officers which are to be recovered, including salary/contract labour expense overpayments.

(4) Loans receivable refer to funds that have been lent out to other entities but have not yet been collected.

(5) Interest receivable is the amount of interest that has been earned, but which has not yet been received in cash.

(6) Grants receivable refer to any payments due to a public sector entity from an external party with respect to grants awarded to the entity. Such receivables shall only be applicable to instances where the external party has a contractual obligation to pay.

19.1.2 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity asset register in order to facilitate consolidation into a Government register of assets. The guideline also aims to ensure uniformity in the management and administration of loans receivable by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for loans receivable and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to loans receivable. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

19.1.3 Reference to Financial Asset Management Guidelines

(1) Loans receivable are classified as financial assets and hence this guideline shall be read in conjunction with the financial asset management guidelines under Part V of Guidelines on asset and liability management in the public sector.

(2) The financial asset management guidelines provide general guidance on the administration and management of financial assets as well as their accounting treatment. The Guidelines on asset and liability management in the public sector are applicable to loans receivable.

19.2 General management and administration of loans receivable

19.2.1 Government lending

(1) This section defines the various methods which the Government advances and/or loans to public sector entities.

(2) The power of the national and county governments to lend money is detailed under section 57 and 145 of the PFM Act, 2012.
(3) Government lending shall be the function of the national and county Treasuries.
(4) Government lending may be either direct lending or on-lending.

19.2.1.1 Direct lending

The Government of Kenya approves its own resources through the budget process to be lent to fund projects managed by implementing agencies or other levels of government.

19.2.1.2 On-lending

(1) According to section 23 of the PFM (National government and county governments) Regulations, 2015, before transferring any funds to an entity within or outside the government, an Accounting Officer shall "ensure that there is a written assurance from the entity that that entity implements effective, efficient and transparent financial management and internal control systems, or, if such written assurance is not or cannot be given, render the transfer of the funds subject to conditions and remedial measures requiring the entity to establish and implement effective, efficient and transparent financial management and internal control systems".
(2) On-lending arises when the Government obtains a loan from external sources, for which it is legally bound to repay to that institution, and on-lends the loan principal (*Subsidiary Loan*) to another entity (*Beneficiary*), for example a state owned entity or sub-national entity (e.g. County government), which in turn is obligated to repay the principal with interest to GoK.
(3) The external source is usually a multilateral or bilateral institution that provides concessional finance (i.e. long grace periods, long repayment periods and low interest rates) intended for development projects, which is usually denominated in foreign currency.

19.2.1.3 Planning and budgeting

(1) Government lending shall be through an agreement, outlining the terms and conditions for the loan or grant. Upon approval by the Cabinet Secretary or the CEC member for finance, an Accounting Officer may receive proceeds of financing made in favour of the government entity provided that the Accounting Officer confirms that all the conditions have been met.
(2) Projects implemented through government lending shall be aligned to the national and county development policies and programmes, as prescribed by the National and county Treasury, respectively.
(3) Project identification and design will be based on feasibility study and the intended beneficiaries shall be involved through public participation.
(4) All government lending shall be appropriated by the national and county assembly before commitment and disbursements.
(5) The budget estimates are required to include information regarding loans made by the national government, including an estimate of the principal, interest and other charges to be received by the national government in each financial year in respect of those loans, as stipulated under section 38 (1)(c) of the PFM Act, 2012.
(6) The terms and conditions of loans shall be determined on a case by case while taking into account the purpose of the loan, the ultimate beneficiary of the resources as well as the source of funds.
(7) The terms of loans on-lent to public sector entities shall take into account the provisions set out in the financing agreements signed with lenders.
(8) Once authorization has been granted for the projects to start, the public sector entity shall ensure all requirements of the lending agreement, including disclosure requirements, are adhered to.

19.2.1.4 Management and monitoring of government loans

(1) After disbursement of the proceeds, the public sector entity shall submit to the relevant treasury, a report on the expenditure and performance achieved in relation to the project and amount lent within fifteen days after the end of each quarter.
(2) The amount lent and project implementation will be subject to Audit by the Office of the Auditor General (OAG) on performance and value for money.

(3) Where non-compliance by a public sector entity with the loan conditions is established through the audit or fiduciary review process, the Cabinet Secretary or CEC for finance may suspend the disbursements and institute measures to recover any amounts misappropriated.

(4) Loan and interest repayments should be made to the relevant treasury promptly as stipulated in the agreement to avoid penalties.

19.2.1.5 Recording of loans from government

(1) The Accounting Officer shall maintain a register of all loans received from the government. The register will include details such as purpose of the loan, duration, maturity date, interest rate payable, loan amount, Interest accruing, repayments and balance to date.

(2) The Accounting shall carry out monthly reconciliations to ensure that the balances reflected in the financial records are in agreement with the balances held at the relevant treasury.

19.2.1.6 Reconciliation of loan balances

(1) On a monthly basis, the Accounting Officer shall reconcile the loan balances as per the accounting records of the entity to the balances reflected in the books of the relevant treasury.

(2) Where an on-lent loan is designated in foreign currency but funds are advanced to a public sector entity in Kenya Shillings, the balances of foreign loans shall be translated at the rates as at reporting date. Any variations shall be recognized as foreign exchange gains or losses and charged to the Statement of Comprehensive Income.

Note: The statement of comprehensive income is used by those entities using IFRS and IAS. For those entities using IPSAS, IPSAS 1 requires, among others, a statement of financial performance and a statement of changes in net assets/equity. Public sector entities shall therefore ensure that the relevant accounting records as required by the applicable standards.

19.2.1.7 Write off of loans due from public sector entities

The Cabinet Secretary shall table any proposals for write off of any amounts lent to public sector entities before the cabinet for approval.

19.2.2 Staff loans receivable

19.2.2.1 General

(1) A public sector entity may provide loans to officers or staff. This section deals with loans to public sector employees.

(2) Loans to staff must be authorised, documented and brought to account in accordance with legislative requirements, relevant policies and Accounting Standards.

(3) Section 127(1) of the PFM (National government) Regulations 2015 and section 126(1) of the PFM (County governments), Regulations, 2015 provide that the Cabinet Secretary/ CEC member for finance *"may by way of a gazette establish a mechanism for public officers to access loans including car loans, mortgage, housing loans and bicycle loans."*

(4) In addition section 17 of the State Corporations Act, Cap 446 states that, *"no state corporation shall grant to a member of the Board or staff any loan or advance or arrange any credit facility for him except in accordance with regulations made by the state corporation under this section and approved by the Treasury, but in the absence of those regulations such loan, advance or credit facility may be granted in accordance with terms and conditions approved by the Committee."*

19.2.2.2 Management of staff loans receivable

(1) Loan transactions to officers are to be recognised in the receivables subsidiary ledger which is reconciled with the general ledger control account monthly, in instances where all ledger accounts are not maintained in the general ledger. A Loans Receivable Register must be maintained to record the details required.

(2) Security must be taken for any loans. Advice may have to be taken in this regard before the loan proceeds.

(3) Providing the public sector entity possesses powers to provide loans, a proposed loan must be approved as non-recurrent expenditure within the financial delegations.

(4) A drawdown may not be individually approved in order to reduce the level at which the loan has to be approved, although draw- downs may be approved as recurrent expenditure once the initial (non-recurrent) approval has been given. Draw down approvals should attach a copy of the initial (non-recurrent) approval as authority. Under no circumstances are loan approvals to be made by any person related to or associated with the debtor. Any account in default must be investigated.

19.2.3 Loans to third parties

At the public sector entity level, loans to external parties, generally, will not occur. Loans to external parties require the approval of the National Treasury.

19.2.4 Planning and acquisition of loans receivable

(1) The accounting officer shall develop a loans receivable policy clearly stipulating the guidelines that:

g) Are used to determine which entities can be offered loans.
h) Set the payment terms for parties to whom loans are extended.
i) Define the limits to be set on outstanding loan accounts.
j) Facilitate assessment of late payment of loans receivables.
k) Outline the steps or procedures used to deal with delinquent accounts.
l) Clarify the penalties to be instituted in case of non-payment.

(2) The loans receivable levels at the end of each month, quarter and financial year shall be taken into consideration during preparation of cash flow projections of the entity.

19.2.5 Maintenance of loan records

(1) Each accounting Officer shall maintain a loan register including all loans advanced to domestic and external parties.

(2) The debt servicing cost (i.e. interest) and loan repayments must both be treated as revenue under the Consolidated Fund or County Revenue Fund, and recognised in the accounts when due.

(3) Cash transactions arising from receivables (e.g. loan advances, receipts of interest and principal) shall be recorded in the ledger of the respective public sector entity.

(4) The related non-cash transactions arising from receivables (e.g. loan receivable, loss or gain on exchange), shall also be recorded for incorporation into the annual financial statements. A non-cash transaction is a financial transaction which do not involve a cash movement but can affect the outstanding receivable e.g. loss or gain on foreign exchange can change the receivable amount without any movement of cash.

(5) The detail of all loans advanced shall be held in a loans register by the public sector entity and periodically updated. A loan shall be recorded in the loans register on the execution/ signing of the signing agreement by all parties, the terms of loans are met and disbursements received. The format of the loan register is prescribed under Appendix 6(q).

19.2.6 Loan write offs and losses

(1) A write-off must be approved in accordance with the provisions of sections 69 and 150 of the PFM Act, 2012, for national government entities and county government entities, respectively. This is expounded in sections 145 – 159 of the PFM (National government) Regulations, 2015 and sections 138 – 152 of the PFM (County governments) Regulations, 2015. The regulations prescribe thresholds for write offs of losses as follows:

a) An Accounting Officer can write off a maximum of Kshs 100,000 for any one incidence in a financial year;
b) Write off of amounts more than Kshs 100, 000 but less than one percent of the entity approved estimates for any one incidence require the approval of the Cabinet Secretary; and
c) Approval of write off of more than one percent of the entity's approved estimates for any one incidence require the approval of the Cabinet.

(2) Loans receivable may not be written off progressively so as to bring the value of the write-off within an Accounting officer's level of delegation.

(3) The Regulations also prescribe the responsibilities of Accounting Officers with respect to write offs of losses, procedures for handling losses, categories of losses, investigation of losses and write off of losses.

(4) In accordance with section 153 of PFM (National government) Regulations, 2015 and section 146 of the PFM (County governments) Regulations, 2015 the Accounting Officer is required to maintain a register of all losses incurred in their entity during a financial year. The register is to be submitted Auditor General for audit with a copy to the National Treasury or relevant county treasury.

(5) Supporting documentation relating to write-offs must include:

a) the originals or certified copies of all documents relating to the loan written off;
b) records of telephone interviews;
c) correspondence; and
d) the memorandum of approval to write off, if applicable; it is essential that any signed acknowledgement from the loanee evidencing the loan is retained.

19.3 Accounting for loans receivable

Loan receivables, being financial instruments, shall be accounted for in accordance with the following accounting standards:

- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 41 - Financial Instruments

19.3.1 Recognition

In accordance with IPSAS 29, an entity shall recognise financial assets, such as loan receivables, in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of a financial instrument.

19.3.2 Measurement

19.3.2.1 Initial measurement

In accordance with IFRS 9 and IPSAS 29, at initial recognition, an entity measures a financial asset, such as loan receivables, at its fair value plus or minus, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

19.3.2.2 Subsequent Measurement

(3) For the purpose of measuring a financial asset, such as loan receivables, after initial recognition, IFRS 9 and IPSAS 29 classifies financial assets into the following four categories:

e) Financial assets at fair value through surplus or deficit;
f) Held-to-maturity investments;
g) Loans and receivables; and
h) Available-for-sale financial assets.

(4) After initial recognition, receivables shall be measured at amortised/ adjusted cost using the effective interest method.

19.3.3 Impairment of loan receivables

Loan receivables should be regularly assessed for impairment so as to ensure that the balances disclosed in financial statements reflect true and fair values.

19.3.3.1 Impairment review

(1) A public sector entity must, at the end of each reporting period, perform a review or assessment of loans and advances receivable by the entity to determine whether there is any objective evidence that the amount owing is impaired, bearing in mind various factors, for example, the loan's age, financial difficulty of the loanee, any breaches of contract terms and the results of recovery action taken to date.

(2) Where a loan is impaired, the accounting treatment for impairment is prescribed in IPSAS 29 Financial Instruments: Recognition and Measurement. Impairment, referred to as doubtful debts, requires the loan/advance to remain intact and the raising of a contra account recording the impairment.

(3) IPSAS 29 Financial Instruments: Recognition and Measurement states that a receivable or a group of receivables is impaired and impairment losses are incurred if, and only if:

a) there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event'); and

b) that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(4) It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised.

(5) Impairment losses recognised in respect of loan receivables at the reporting date may only relate to debts not yet determined to be uncollectible, that is, those not yet written-off as a bad debt.

(6) A reversal of an impairment loss may occur if there is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. The amount of the reversal shall be recognised in the Statement of Comprehensive Income and in accordance with IPSAS 29 requirements.

Note: The statement of comprehensive income is used by those entities using IFRS and IAS. For those entities using IPSAS, IPSAS 1 requires, among others, a statement of financial performance and a statement of changes in net assets/equity. Public sector entities shall therefore ensure that the relevant accounting records as required by the applicable standards.

19.3.3.2 Allowance for impairment

(1) In the event that a loan in default is judged to be doubtful, interest calculations should continue to be made in accordance with the loan agreement.

(2) Charges for which the public sector entity is entitled under the terms of the loan agreement will be accounted for and disclosed in the same manner as interest. That is, if charges they will be added to the loan balance.

(3) Pursuant to the requirements of IPSAS 29, an allowance for impairment must be recognised to ensure that loan receivables are carried at amounts not in excess of their recoverable amounts.

(4) An adequate provision for impairment must be raised, revised and recorded in the period in which an account is identified as potentially non-collectible. The provision for impairment is calculated by assessment of the individual accounts in the loans receivable subsidiary ledger. Monthly assessments shall be performed by applying a percentage of total amounts overdue, where the percentage to be applied is determined from history, that is, trend analysis over a reasonable period of time.

(5) Adjustments are documented and approved by the Accounting Officer for approval of a loss. Assessment must take into consideration:

a) the potential costs of the recovery of the loan;

b) the age and quantum of the overdue loan;

c) the history and contact with the loanee;

d) the possibility of recovery from other parties; and

e) discussion with other officers, such as those who generated the revenue and who may have additional information about the loanee and why the account has not been paid.

(6) The Accounting officer should review the loan receivables listing at least monthly to identify potential and practically non-collectible accounts. A provision for impairment must be recognised for all loans that remain unpaid for a period greater than three months, unless there is sufficient evidence that recovery is probable for example, there is a payment plan in place with the loanee.

(7) The loan receivables listing is to be reviewed at monthly intervals in order to assess doubtfulness or bad debts.

(8) The Accounting officer should review and document loan receivables that remain unserviced for three months or over in order to minimise recovery problems. All loan receivable balances should be reviewed for impairment indicators.

19.3.4 Credit balances in loan receivables

(1) Credit balances in loan receivables must be reviewed at month end and investigated. If the balance is due to an overpayment, the balance is to remain in the account untouched. The account is to be included in the monthly statements sent to the loanee and the balance may be highlighted in order to draw it to the attention of the loanee.

(2) Credit balances are to be reverse journalled to sundry creditors for the purposes of the annual financial statements. Individual inspection is required to determine the total amount.

19.3.5 Disclosure in financial statements

(1) Loan receivables are ordinarily received within a short period, that is, 30 to 60 days, and are therefore disclosed as current assets. At the time of the preparation of the annual financial statements, any account not expected to be received within twelve months due to conditions of contract and not because it is doubtful or bad, must be classified as a non-current asset. Otherwise, these accounts must be disclosed as current assets.

(2) Loan receivables are not to be set off against loans payable even though the loanee and the lender are one and the same person or entity unless the balances have arisen as a consequence of an error or a mistake.

(3) The accounts are to be recorded and disclosed at their gross value. In this respect, disclosure in annual financial statements includes the balance outstanding plus interest and other valid charges that are due and unpaid. Interest due at balance date, will be brought to account as a sundry debtor (accrued interest) in the annual financial statements.

(4) Accounts having a credit balance at the end of the reporting period must be transferred to current liabilities, that is, sundry creditors, in the annual financial statements.

19.4 Transitional provisions

(1) Determination of opening balances of loans receivable involves a thorough examination of all existing loan advances. The entity needs to:

a) compile a list of all loans advanced to third parties;

b) check that the details recorded for specific loans are correct by reference to financing agreements; and

c) Reconciliation of entity records with loanee records.

(2) The process followed needs to be documented to enable opening balances to be established and to provide an audit trail.

(3) For entities that have already adopted accrual accounting, the Accounting Officer shall review the current practice and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors.

19.5 Applicable accounting standards

This guideline is based on the following IPSAS, IAS and IFRS:

- IPSAS 33 - First – time Adoption of Accrual Basis IPSASs
- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9- Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 41 - Financial Instruments
- IPSAS 3 & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

19.6 Legislative authority

- Cabinet Secretary to the Treasury (Incorporation) Act, Chapter 101
- PFM Act, 2012

- PFM Regulations (National Government), 2015
- PFM Regulations (County Governments), 2015

19.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 19.1

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

20 Other Receivables

This guideline covers the following areas:

20.1 Introduction

20.1.1 Preamble

(1) Other receivables include deposits, prepayments and outstanding imprests/staff receivables.

(2) Deposits are advance payments, which will be returned to an entity upon the termination of an agreement (e.g. security deposit for lease) or applied to future payment (e.g., down payment on purchase of an equipment).

(3) A prepaid asset (or also known as prepayment or prepaid expense) is an expenditure that is paid for in one accounting period (e.g., May 2018) but will not be entirely consumed until a future period (e.g., July 2018 to June 2019). Common examples of prepayments are rent, insurance, and prepaid fuel coupons.

(4) Outstanding imprests/ staff receivables relate to amounts owing from officers of the entity relating to advances made but which are not accounted for.

(5) Sections 91(1) of the PFM (National government and County Governments) Regulations, 2015 describe an imprest as a form of cash advance or a float which the Accounting Officer may authorize to be issued to officers who in the course of duty are required to make payments which cannot conveniently be made through the cash office of a government entity or bank account. Imprests that are not accounted for at a point in time form part of staff receivables in an entity.

20.1.2 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardised public sector entity asset register in order to facilitate consolidation into a Government register of assets. The guideline also aims to ensure uniformity in the management and administration of other receivables by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for other receivables and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to other receivables. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

20.1.3 Reference to Financial Asset Management Guidelines

(1) Other receivables are classified as financial assets and hence this guideline shall be read in conjunction with the financial asset management guidelines under Part V of Guidelines on asset and liability management in the public sector.

(2) The financial asset management guidelines provide general guidance on the administration and management of financial assets as well as their accounting treatment. The Guidelines on asset and liability management in the public sector are applicable to other receivables.

20.2 General management and administration of other receivables

In addition to the management and administration aspects documented in the financial asset management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to other receivables.

20.2.1 Advance payments/ deposits

(1) Section 146 of PPAD Act, 2015 states that no works, goods or services shall be paid for before they are executed or delivered and accepted by the Accounting Officer of the procuring entity or an officer authorized by him or her in writing except where so specified in the tender documents and contract agreement.

(2) Section 146 of the PPAD Act, 2015 also states that an advance shall not be paid before a contract is signed.

(3) Section 147 of the PPAD Act, 2015 states that under exceptional circumstances advance payment may be granted and shall not exceed twenty percent (20%) of the price of the tender and shall be paid upon submission by the successful tenderer to the procuring entity of an advance payment security equivalent to the advance itself and that security shall be given by a reputable bank or any authorized financial institution issued by a corresponding bank in Kenya recognised by the Central Bank of Kenya, in case the successful tenderer is a foreigner.

(4) Section 148 of the PPAD Act, 2015 states that the successful tenderer shall use the advance paid only in activities related to the tender. If the successful tenderer uses the entire advance or part of it in other activities that are unrelated to the tender, the advance shall immediately be considered as a debt, which shall be paid by seizing the entire security or part of it.

(5) Based on Sections 146, 147 and 148 of the PPAD Act 2015, the Accounting Officer should ensure the following is adhered to pertaining advance payments:

a) The advance payment shall be in the best interest of an entity;
b) The signed contract shall state the payment terms of the vendor;
c) No more than 20% of the total value of the tender and shall be paid upon submission by the successful tenderer to the procuring entity of an advance payment security equivalent to the advance itself; and
d) The entity should ensure that the successful tenderer shall use the advance paid **only** for activities related to the tender.

20.2.2 Prepayments

(1) Prepayments arise when payments are made:

a) in respect of goods and/or services not yet received; or
b) which otherwise relate to one or more future reporting periods.

(2) Examples of prepayments are amounts paid by public entities in advance for:

a) insurance premiums;
b) maintenance contracts;
c) property taxes;
d) dues and subscriptions;
e) permits and licenses; and
f) rent.

(3) These above transactions do not yet satisfy the expense criteria. However, they do meet the asset criteria, and should be recognised as an asset until the expense is actually incurred or the related period of time has elapsed.

(4) Where a material prepayment must be made, a bank guarantee and indemnity should be obtained from the supplier, before the remittance is made.

20.2.3 Deposit/Prepayment made in foreign currency

If an advance payment/deposit is made in a currency different from an entity's functional currency then the provisions of IPSAS 4 or IAS 21 are applied in translations and determination or foreign exchange gains and losses. According to the standard, the deposits/advance payment ought to be initially translated at the transaction exchange rate (spot rate) and recomputed at the prevailing closing rate during reporting (This applies for all monetary items).

20.2.4 Outstanding imprests/ Staff advances

20.2.4.1 Preamble

(1) An advance to staff for which payment is expected, in part or in whole, at a later date or for which some other form of extinguishment is expected, is brought to account in the subsidiary ledger. Where it is not

expected that any repayment or other form of recovery will be made, an approval is to be obtained for the advance be expensed.

(2) Approval for any advance must be given in accordance with delegations for non-recurrent expenditure. Advances must not be made in any circumstance where conflict of interest may arise.

(3) Approval must not be given by a person who is related to, or associated with, the intended recipient.

(4) An acknowledgement of the receipt of the advance must be taken. This may be as simple as:
   a) a signature by the recipient on the payment voucher;
   b) a bank deposit receipt to the recipient's bank account; or
   c) a formal receipt.

(5) Collection of the advance must be pursued. Should an advance become troublesome to collect or to extinguish, collection procedures, should be initiated. Staff advances should be referred to a senior officer.

(6) Policies, procedures and documentation to be used in advancing and settlement of advances are enumerated in the PFM Regulations as follows:
   a) Section 91 (2) requires that a person who is needs an advance must complete an imprest warrant form.
   b) Section 92 (1) states that the Accounting Officer or Authority to Incur Expenditure (AIE) holder shall approve the establishment of an imprest facility including the maximum amount for the specific purpose of that facility.

20.2.4.2 Temporary, Standing and Special Imprest

(1) Section 93 (1) of the PFM Regulations (National Government) breaks down imprests into 3 categories:
   a) Temporary or Safari imprest;
   b) Standing Imprest; and
   c) Special Imprest.

(2) Section 93 (1) of the PFM Regulations (County Government) breaks down imprests into 2 categories:
   a) Temporary or Safari imprest; and
   b) Standing Imprest.

20.2.4.3 Guidelines for impressts

The main guidelines relating to imprests have been provided for under Sections 93 of the PFM regulations (National Government and county governments), 2015, as follows:

(1) Temporary imprests shall be issued mainly in respect of official journeys and are intended to provide officers with funds with which they can meet travelling, accommodation and incidental expenses.

(2) Before issuing temporary imprests under section 93, the Accounting Officer shall ensure that:
   a) the main objective of the journey cannot be achieved by other cheaper means;
   b) the applicant has no outstanding imprests;
   c) the applicant imprest has been recorded in the imprest register including the amount applied for; and
   d) adequate funds are available against the relevant items of expenditure to meet the proposed expenditure.

(3) A holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to the duty station.

(4) In the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.

(5) In order to effectively and efficiently manage and control the issue of temporary imprests, an accounting officer or AIE Holder shall ensure that no second imprest is issued to any officer before the first imprest is surrendered or recovered in full from his or her salary.

(6) Standing imprest shall be intended to be in operation for a time and requires bringing the cash level of the advance continuously up to the agreed fixed level 'by systematic re-imbursement of expenses.

(7) Standing imprest shall involve personal responsibility as it shall be issued to an officer in his or her own name, and not to the holder of an office.

(8) A special Imprest (National Government only) is issued for services of a confidential nature the particulars of which cannot be made public. This shall be supported by certificate that the money has been paid, a declaration by the responsible Cabinet Secretary responsible for the national government entity and

relevant accounting officer that they have satisfied themselves that the money has been properly expended and, has not been used to supplement the emoluments of any officer.

20.2.4.4 Summary of Administrative Process for Advances

The responsibilities of various parties in the imprest processing is summarized in the table below.

Table 20.1

Responsible	Task
Imprest Applicant	Fills out the imprest warrant form and ensures that all information needed is completed and accurate.
Accounting officer/AIE Holder	Authorizes the activity and confirms that funds are available to meet the expenses and that the amount is realistic and a proper charge against public funds.
Accountant In-charge imprest	Certifies that the amount has been recorded in the imprest warrant register and that the applicant does not have an outstanding imprest.
Accountant in-charge votebook	Certifies that the imprest has been noted in the votebook and the balance available in the votebook after taking into account the commitment.
Accounting officer	Reviews and approves the imprest warrant.
Imprest Holder (upon return from the trip)	Submits a completed reconciliation of the amount advanced for review and approval. The imprest holder needs to ensure that all expenses claimed have supporting receipts or other relevant accounting supporting documents. The holder also attaches a deposit slip of any surplus not expended. A copy of the warrant form has to be attached to the accountability documents.
Imprest Holder's Supervisor/ Head of department	Reviews and confirms the reconciliation prepared is accurate and approves. This is then submitted to the accounting department for booking or posting of actual expenditure.
Accountant responsible for payments/ cash office	A report to be prepared on a monthly basis on the status of the outstanding imprests. The names of the defaulters should be forwarded to the Human Resources Department for recovery.

20.2.5 Write offs and losses of other receivables

(1) Losses and write-offs of other receivables must be approved by the Accounting Officer in accordance with the provisions of sections 69 of the PFM Act, for national and county governments, respectively. This is expounded in sections 145 – 159 of the PFM (National government) Regulations, 2015 and sections 138 – 152 of the PFM (County governments) Regulations, 2015. The regulations prescribe thresholds for write offs of losses as follows:

a) An Accounting Officer can write of a maximum of Kshs 100,000 for any one incidence in a financial year;
b) amounts more than Kshs 100, 000 but less than one percent of the entity approved estimates for any one incidence require the approval of the Cabinet Secretary; and
c) Approval of more than one percent of the entity's budget for any one incidence require the approval of the Cabinet.

(2) The Regulations also prescribe the responsibilities of Accounting Officers with respect to write offs of losses, procedures for handling losses, categories of losses, investigation of losses and write off of losses.

20.3 Accounting for other receivables

Other receivables, being financial instruments, shall be accounted for in accordance with the following accounting standards:

- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 41 - Financial Instruments

20.3.1 Recognition

In accordance with IPSAS 29, an entity shall recognise financial assets, such as other receivables, in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of a financial instrument.

20.3.2 Measurement

20.3.2.1 Initial measurement

In accordance with IFRS 9 and IPSAS 29, at initial recognition, an entity measures a financial asset, such as other receivables, at its fair value plus or minus, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

20.3.2.2 Subsequent Measurement

(1) For the purpose of measuring a financial asset, such as other receivables, after initial recognition, IFRS 9 and IPSAS 29 classifies financial assets into the following four categories:
   a) Financial assets at fair value through surplus or deficit;
   b) Held-to-maturity investments;
   c) Loans and receivables; and
   d) Available-for-sale financial assets.

(2) After initial recognition, receivables shall be measured at amortised/ adjusted cost using the effective interest method.

20.3.3 Impairment

In accordance with IFRS 9 and IPSAS 29, impairment of financial assets is recognised in stages:

a) Stage 1 — as soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognised in profit or loss and a loss allowance is established. This serves as a proxy for the initial expectations of credit losses. For financial assets, interest revenue is calculated on the gross carrying amount (ie without deduction for expected credit losses).

b) Stage 2 — if the credit risk increases significantly and is not considered low, full lifetime expected credit losses are recognised in profit or loss. The calculation of interest revenue is the same as for Stage 1.

c) Stage 3 — if the credit risk of a financial asset increases to the point that it is considered credit-impaired, interest revenue is calculated based on the amortised cost (ie the gross carrying amount less the loss allowance). Financial assets in this stage will generally be assessed individually. Lifetime expected credit losses are recognised on these financial assets.

20.3.4 De-recognition

An entity shall derecognise a financial asset, including other receivables, when and only when:

a) The contractual rights to the cash flows from the financial asset expire or are waived; or
b) It transfers the contractual rights to the financial asset thus transferring substantially all the risks and rewards of ownership of the financial asset.

20.3.5 Disclosure in financial statements

(1) Other receivables are ordinarily paid within a short period, that is, 30 to 60 days, and are therefore disclosed as current assets. At the time of the preparation of the annual financial statements, any account not expected to be paid within twelve months due to conditions of contract and not because it is doubtful or bad, must be classified as a non-current asset. Otherwise, these accounts must be disclosed as current assets.

(2) The total amount of other receivables as disclosed in the notes to the financial statements should not comprise more than ten percent of receivables.

(3) Other receivables having a credit balance at the end of the reporting period must be transferred to other liabilities, that is, sundry creditors, in the annual financial statements.

20.4 Transitional provisions

(1) Determination of opening balances of other receivables involves a thorough examination of all recorded amounts receivable. The entity needs to:

a) compile an aggregate list of all deposits, prepayments and staff advances made;
b) check that the amount recorded is correct and is not in dispute;
c) check that the item is legally enforceable. If it is not legally enforceable this may reduce the likelihood of collecting the amount advanced or prepaid; and
d) where a write-off, write-down or waiver is proposed, the entity needs to carry out any procedures required before such action, document the recommended action, record details of any approval obtained and update the financial records.

(2) The entire process needs to be thoroughly documented to enable opening balances to be established and to provide an audit trail.

(3) For entities that have already adopted accrual accounting, the Accounting Officer shall review the current practice and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors.

20.5 Applicable accounting standards

- IPSAS 28 & IAS 31 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 4 & IAS 21 – The Effects of changes in foreign exchange rates
- IPSAS 41 – Financial Instruments
- IPSAS 33 - First – time Adoption of Accrual Basis IPSASs
- IPSAS 3 & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

20.6 Legislative authority

- Cabinet Secretary to the Treasury (Incorporation) Act, Chapter 101
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015
- PPAD Act, 2015
- PPAD Regulations, 2020

20.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 20.2

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

21 Borrowings/ Loans payable

This guideline covers the following areas:

21.1 Introduction

21.1.1 Preamble

(1) A loan can be defined as something that is borrowed, especially a sum of money that is expected to be paid back with interest. Borrowing can also be defined as receiving something of value in exchange for an obligation to pay back something of usually greater value at a particular time in the future.

(2) According to Article 260 of the Constitution of Kenya, 2010, *"loan includes any form of borrowing, lending or deferred payment in respect of which money from a public fund may be used, or is required to be used, for payment or repayment"*.

(3) Article 214 of the Constitution defines public debt as "all financial obligations attendant to loans raised or guaranteed and securities issued or guaranteed by the national government".

(4) The PFM Act, 2012, under section 2, has the following definitions with respect to loans and borrowings:

a) "borrower" means a person to whom a loan has been or is to be made;

b) "County Public Debt" means all financial obligations attendant to loans raised and securities issued by the county government; and

c) "short term borrowing" means borrowing by a government by way of Treasury Bills, bank-overdraft or other instrument to cover temporary cash shortfalls and is repayable within twelve months.

(5) This guideline covers loans and securities issued by the government and loans received from external parties. Guarantees are covered under the guideline on contingent liabilities.

(6) According to Section 44A (5)(b) of the Banking Act, Cap 488 a *"loan includes any advance, credit facility, financial guarantee or any other liability incurred on behalf of any person".*

(7) Borrowing by national government and by counties is governed by Articles 211 and 212 of the Constitution respectively while public debt is governed by Article 214. Article 211 stipulates that the national government can only borrow in accordance with an Act of Parliament (This refers to the PFM Act, 2012) and, the Cabinet Secretary shall be accountable to Parliament for national government borrowing. According to Article 212, "*a county government may borrow only if the national government guarantees the loan; and with the approval of the county government's assembly".*

(8) Section 5(2) of the State Corporations Act, Cap 446 stipulates that*, "the power of a state corporation to borrow money in Kenya or elsewhere shall be exercised only with the consent of the Minister (i.e. Cabinet Secretary, assigned state corporation responsibility) and subject to such limitations and conditions as may be imposed by the Treasury with respect to state corporations generally or specifically with respect to a particular state corporation".*

(9) Detailed guidelines on borrowing/ loans are documented in the debt policy and borrowing framework developed by the National Treasury.

21.1.2 Supremacy of PFM Act, 2012 with respect to borrowing, loans and guarantees

(1) In accordance with section 6 of the PFM Act 2012, the Act prevails with respect to borrowing, lending and loan guarantees in case of any inconsistency between the Act and any other legislation.

(2) The guiding principles for government borrowing, borrowing powers and borrowing purposes are stipulated under sections 183, 187 and 192 of the PFM (National government) Regulations, 2015 and sections 176, 177, 178 of the PFM (County governments) Regulations, 2015.

(3) The responsibilities of the Cabinet Secretary and functions of the national government with respect to grants and loans are documented under sections 31, 33 and 46 – 61 of the PFM Act while the mandate of the Public Debt Management Office (PDMO) are documented under sections 62 – 65. Management of debt at county level is outlined under sections 122, 123, 140 - 144 of the PFM Act, 2012. The foregoing sections stipulate the records of loans to be maintained by treasuries, authority for borrowing, obligations and restrictions on guaranteeing and borrowing, persons authorized to execute loan documents as well as the issuance of securities the government.

(4) Budget estimates are required to include information regarding loans and guarantees made to the relevant government, including an estimate of the principal, interest and other charges to be received by the national government in each financial year in respect of those loans, as stipulated under sections 38 (1)(d) and 130 of the PFM Act, 2012. The budget estimates are to be reflected in the Medium-Term Debt Management Strategy Papers for the national government and county governments.

(5) Detailed guidelines on public debt management are documented under Part XIV of the public Finance (National Government) Regulations, 2015, including those of the Public Debt Management Office (PDMO). Part XIV of the PFM (County Governments) regulations, 2015 also provides guidelines for Public debt management at county level.

(6) The management of both domestic and external debt is the responsibility of the National Treasury. The responsibility is delegated to the PDMO in accordance with section 63 of the PFM Act, 2012 which outlines that functions of the Office. Section 65 of the Act stipulates the relationship between the PDMO and county treasuries.

(7) The Intergovernmental Budget and Economic Council, under section 187(2)(c) of the PFM Act, 2012 is required to "provide a forum for consultation and cooperation between the national and county governments on matters relating to borrowing and the framework for national government loan guarantees, criteria for guarantees and eligibility for guarantees".

(8) The roles and responsibilities of Accounting Officers in debt management operations and loan administration are documented under section 205 of the PFM (National Government) Regulations, 2015.

21.1.3 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity liability register in order to facilitate consolidation into a Government register of liability. The guideline also aims to ensure uniformity in the management and administration of borrowings/ loans by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for borrowings/ loans and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to borrowings/ loans. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

21.1.4 Reference to Liability Management Guidelines

(1) Loans/ borrowings are classified as liabilities and hence this guideline shall be read in conjunction with the liability management guidelines under Part VI of Guidelines on asset and liability management in the public sector.

(2) The liability management guidelines provide general guidance on the administration and management of liabilities as well as their accounting treatment. The Guidelines on asset and liability management in the public sector are applicable to loans payable/ borrowings.

21.2 General management and administration of borrowings/ loans

In addition to the management and administration aspects documented in the liability management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to borrowings/ loans.

21.2.1 Classifications of loans/ debt

Loans can be obtained either from within the country (domestic debt) or from sources outside the country (external debt).

21.2.1.1 Domestic debt

(1) Domestic debt in Kenya is managed by the National Treasury. The National Treasury may appoint a bank/ financial institution to act as an agent to issue domestic debt on its behalf, in accordance with section 50(9) and section 53 (8) of PFM Act, 2012.

(2) Domestic debt is debt raised by the Government within Kenya, mainly through the issuance of government securities locally, including Treasury bills and bonds. These are mainly held by commercial banks, non-bank financial institutions, insurance companies and pension funds.

(3) The criteria for issuance of government securities are detailed under section 197 of the PFM (National government) Regulations, 2015 and sections 182 and 183 of the PFM (County governments) Regulations, 2015.

(4) The terms of maturity for government securities range from 90 days to 30 years. In particular, treasury bills are issued for 90,182 and 364 days while bonds are issued for periods of one to 30 years. Government securities could hence be classified as short, medium or long term.

(5) The Government can also raise domestic debt by borrowing from local commercial banks.

21.2.1.2 External debt

(1) External debt is finance obtained from abroad, in the form of long term, medium term, and short-term debt. The debt could be obtained from bilateral creditors, multilateral creditors or commercial banks. The National and County Governments obtain loans (and grants) from foreign development partner agencies, such as foreign banks and organisations, as well as foreign governments. External loans may be obtained for particular development projects (project assistance) or be provided for general budgetary support (non-project assistance).

(2) External debt should be distinguished from grants received from development partners. Such foreign assisted grants are treated as revenue and not liabilities and, are recorded in the year that they are received.

(3) Where external loans are provided in the form of commodities, such as supplies, equipment and food, the liability shall be recorded at the cash (Kenya Shilling) equivalent.

(4) Accounting Officers implementing development partner financed projects shall seek approvals from the National Treasury whenever new projects are contracted during the non-budgetary periods or where funds are exhausted mid-stream.

(5) All Accounting Officers shall channel funding and project proposal requests to development partners through the National Treasury. This include requests for additional project funding and extension of project period.

21.2.2 Acquisition of loans

21.2.2.1 Authority for borrowing by national and county governments

(1) In accordance with sections 49 and 140 of the PFM Act, 2012, the Cabinet Secretary, National Treasury and the CEC member of Finance at the County level may, on behalf of the respective government, raise a loan only if the loan and the terms and conditions for the loan are set out in writing in accordance with the fiscal responsibility principles set out in the most recent budget policy statement and, the debt management strategy of the national government in the medium term. A loan may be raised either within Kenya or from outside Kenya. This is reiterated under sections 187(2) of the PFM (National government) Regulations, 2015 and section 177(2) of the PFM (County governments) Regulations, 2015.

21.2.2.2 Borrowing by national government

(1) In accordance with section 185 of the PFM (National government) Regulations, 2015*, "any borrowing by the national government shall be informed by the medium-term debt management strategy."*

21.2.2.3 Borrowing by national government entities

(1) Borrowing by national government entities shall be guided by section 51 of the PFM Act, 2012. Generally, borrowing by a national government entity shall be approved by the Cabinet Secretary, National Treasury.

21.2.2.4 Borrowing by county governments

(1) As stated under Article 212 of the Constitution, *"a county government may borrow only if the national government guarantees the loan; and with the approval of the county government's assembly."*

21.2.2.5 Borrowing by county government entities

(1) Borrowing by county government entities is governed by section 142 of the PFM Act, 2012. In general, short term borrowing by county government entities shall be authorised by the county assembly and such borrowing shall be repaid within one year from the date of borrowing.

(2) In accordance with section 177 of the PFM Act, 2012, an urban area or city may borrow:

a) from the county government;
b) through its county government; or
c) by way of bank overdraft.

21.2.2.6 Borrowing by state corporations

(1) Section 5(2) of the State Corporations Act, Cap 446 stipulates that, *"the power of a state corporation to borrow money in Kenya or elsewhere shall be exercised only with the consent of the Minister (i.e. Cabinet Secretary, assigned state corporation responsibility) and subject to such limitations and conditions as may be imposed by the Treasury with respect to state corporations generally or specifically with respect to a particular state corporation."*

21.2.3 Use of funds acquired through borrowing

(1) In accordance with section 15, 107 and 174(e) of the PFM Act, 2012:

a) Over the medium term, government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure; and
b) Short term borrowing shall be restricted to management of cash flows and in case of a bank overdraft facility it shall not exceed five percent of the most recent audited relevant government revenue.

(2) Section 188 of the PFM (National government) regulations, 2015 and section 185 of the PFM (County governments) also stipulate that all sums borrowed under the Act shall be expended only on the activities included in the approved estimates of expenditure of public sector entities.

(3) Most capital projects are financed through domestic and external borrowing. Accounting Officers shall ensure absorption of all funds earmarked for domestically and foreign financed projects to ensure effective and efficient utilisation of borrowed funds.

21.2.4 Borrowing limits

The relevant Treasury shall ensure that the level of debt does not exceed the level specified annually in the medium-term debt management strategy submitted to Parliament or County Assembly, as stipulated under sections 15 and 107 of the PFM Act, 2012.

21.2.5 Loan security

(1) An Accounting Officer shall provide an entity's assets as security of a loan, only with the approval of the National Treasury.

(2) Section 891 of the Companies Act, 2015 requires a limited company to maintain a register of all charges on its property indicating:

a) a short description of the property charged;
b) the amount secured by the charge; and
c) except in the cases of securities to bearer, the names of the persons entitled to it.

21.2.6 Loan disbursements in kind

Loan disbursements in kind including delivery of equipment, direct payments to service providers and technical assistance should also be recognized as loans and amounts included in the loan register of an entity.

21.2.7 Loan repayments

In accordance with section 42 of the PFM (National Government) Regulations and sections 41(2) and 41(3) of the PFM (county governments), 2015:

a) Debt service payments shall be a first charge on the Consolidated Fund/ County Revenue Fund and the Accounting Officer shall ensure this is done to the extent possible that the national/ county government does not default on debt obligations.
b) Debt payments shall be made whether or not they meet the general rules, provided that the Cabinet secretary/ County Executive Committee Member reports of any excess over appropriations, with full explanations of the circumstances, to National/ County Assembly in the next quarterly reporting cycle.

21.2.8 Loan records

(1) Each accounting Officer shall maintain a loan register including all loans received from both domestic and external sources.

(2) All loan monies received must be recorded as a receipt in the Consolidated Fund or County Revenue Fund. This includes any direct loans from development partners to beneficiaries within the Government.

(3) The debt servicing cost (i.e. interest) and loan repayments must both be treated as charged items under the Consolidated Fund or County Revenue Fund, and recognised on an accrual basis regardless of cash payment date.

(4) In certain cases, foreign loans obtained by the Government are on-lent to autonomous bodies and agencies, at a rate different from that on which the original loan was obtained. The difference in interest earned and interest paid in this case shall be retained in a separate account and treated as revenue to the Government. Detailed guidance on on-lent loans are detailed in the loans receivable guideline.

(5) Cash transactions arising from liabilities (e.g. loan receipts, repayments of interest and principal) shall be recorded in the ledger of the respective public sector entities.

(6) The related non-cash transactions arising from liabilities (e.g. loan liability, loss or gain on exchange), shall also be recorded in the ledger for incorporation into the annual financial statements. A non-cash transaction is a financial transaction which do not involve a cash movement but can affect the outstanding liability e.g. loss or gain on foreign exchange can change the liability amount without any movement of cash.

(7) The detail of all loans shall be held in a loans register by the public sector entity and periodically updated. A loan shall be recorded in the loans register on the execution/ signing of the signing agreement by all parties, the terms of loans are met and disbursements received. The format of the loan register is prescribed under Appendix 7(a).

21.2.9 Loan reporting

(1) According to section 31, the Cabinet Secretary is required to submit a report of all loans made to the national government, national government entities and county government every four months. The Cabinet Secretary is also required to submit reports on the same on request from either House of Parliament.

(2) Under section 33 of the PFM Act, 2012, the Cabinet Secretary is required to submit to Parliament, on or before the 15 February in each year, a statement setting out the debt management strategy of the national government in the medium term with respect to its actual liability and potential liability in respect of loans and guarantees and its plans for dealing with those liabilities.

(3) Section 80 of the PFM Act, 2012 also requires the National Treasury to prepare a statement of the total amount of debt of national government that is outstanding at the end of the financial year.

(4) Section 81 of the Act requires accounting officers to prepare annual financial statements that include a statement of an entity's debt which is outstanding at the end of the financial year.

(5) At the county level, the county treasury is required to maintain a record of all loans made to the county treasury government. In addition, the county treasury shall, on or before 28 February in each year, submit to the county assembly a statement setting out the debt management strategy of the county government over the medium term, with regard to it actual liability and potential liability in respect of loans and its plans for dealing with those liabilities. This is stipulated under section 123 of the PFM Act, 2012.

21.3 Accounting for borrowings/ loans

Borrowings/ loans, being financial instruments, shall be accounted for in accordance with the following accounting standards:

- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 41 - Financial Instruments

21.3.1 Recognition

(1) A loan must be recognised only when:

a) the transaction or event requiring a future sacrifice has occurred;
b) it is probable, that is, it is more likely rather than less likely, that a future sacrifice will be required to be made; and
c) the amount can be valued or estimated reliably without undue bias or error.

(2) Loans shall only be recognized in accounting records of a public sector entity on receipt of loan proceeds by the entity.

21.3.2 Measurement

21.3.2.1 Measurement at initial recognition

In accordance with IFRS 9 and IPSAS 29, at initial recognition, an entity shall measure its loan liability at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the loan.

21.3.2.2 Measurement after initial recognition

After initial recognition, an entity shall measure all loan liabilities at amortised/ adjusted cost using the effective interest method.

21.3.3 Reconciliation of loan records

(1) Reconciliations shall be prepared between the borrower and lender to ensure that accurate records are maintained by both entities. The loan balances and transactions recorded in the ledger should also be reconciled to detailed loan records maintained by the Public debt Management Office, where applicable.

(2) On a quarterly basis, the Accounting Officer shall reconcile:

a) The opening balance of each loan;
b) the sum of all domestic and foreign loan receipts, to the records of loan receipts for each loan, as recorded by the entity;
c) the sum of all authorised loan repayments to the accounts of loan repayments (interest and principal) for each loan;
d) Interest charges for each loan;
e) Loan write offs, if any; and
f) The closing balance of each loan.

(3) In instances of loans designated in foreign currency, the reconciliation between borrower and lender balances shall identify any gains and losses arising from foreign currency loans.

(4) A record of such foreign exchange gains and losses shall be kept by the public sector entity by adjusting (increasing for a loss, decreasing for a gain) the loan records and making a corresponding adjustment to the loan register.

21.3.4 Derecognition

(1) An entity shall remove a borrowing/ loan from its statement of financial position when, and only when, it is extinguished i.e., when the obligation specified in the contract is discharged, waived, cancelled or expires.

(2) The difference between the carrying amount of a borrowing/ loan extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in surplus or deficit.

(3) Where an obligation is waived by the lender or assumed by a third party as part of a non-exchange transaction, an entity applies IPSAS 23 – Revenue from non- exchange transactions or IFRS 15 – Revenue from contracts with customers.

21.3.5 Disclosure in financial statements

(1) With respect to reporting on assets and liabilities, sections 81 (2) and 164(2) of the PFM Act, 2012 requires the Accounting Officer of each public sector entity to include the following in the annual financial statements of the entity:
   a) a statement of the entity's debt which is outstanding at the end of the financial year;
   b) a statement of the entity's debt guaranteed by the national government as at the end of the financial year; and
   c) a statement of the entity's assets and liabilities as at the end of the financial year in respect of the recurrent Vote, development Vote and funds and deposits, among others.

(2) A public sector entity shall classify a loan liability as current when the loan is due to be settled within twelve months after the end of the financial year. The entity shall classify all other loans as non-current.

21.4 Transitional provisions

(1) Determination of opening balances of loans involves a thorough examination of all existing domestic and external loans. The entity needs to:
   a) compile a list of all existing loans;
   b) check that the details recorded for specific loans are correct by reference to financing agreements; and
   c) Reconciliation of entity records with lender records.

(2) The process followed needs to be documented to enable opening balances to be established and to provide an audit trail.

(3) For entities that have already adopted accrual accounting, the Accounting Officer shall review the current practice and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors.

21.5 Applicable accounting standards

This guideline is based on the following internationally recognized accounting standards:

- IPSAS 33 - First – time Adoption of Accrual Basis IPSASs
- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 5 & IAS 23 – Borrowing costs
- IPSAS 3 & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

21.6 Legislative authority

- Article 260 of the Constitution
- PFM Act, 2012
- PFM (National government) Regulations, 2015
- PFM (County Governments) Regulations, 2015
- Public Audit Act No. 34 of 2015
- Banking Act, Cap 488, Revised 2015

21.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 21.1

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

22 Contingencies/ Contingent Assets and Liabilities

This guideline covers the following areas:

22.1 Introduction
22.2 General management and administration of contingent assets/ liabilities
22.3 Accounting for contingent assets/ liabilities
22.4 Transitional provisions
22.5 Applicable accounting standards
22.6 Legislative authority
22.7 Implementation of guideline

22.1 Introduction

22.1.1 Preamble

(1) Contingencies are obligations (liabilities), or benefits (assets), that arise from past or current events, and whose existence will only be confirmed by the occurrence, or non-occurrence, of a future event outside the control of the public sector entity.

(2) In summary:
   a) a contingent asset exists where compensation may be received from a third party; and
   b) a contingent liability exits where compensation may be payable to a third party.

(3) IPSAS 19 & IAS 37 – "Provisions, Contingent Liabilities and Contingent Assets" define contingent assets and contingent liabilities as follows:
   A. A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the entity.
   B. A contingent liability is:
   a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the entity; or
   b) A present obligation that arises from past events but is not recognised because:
      (i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
      (ii) The amount of the obligation cannot be measured with sufficient reliability.

(4) Section 27 of the PFM (National government) Regulations, 2015, require that the *"Budget Policy Statement shall contain a fiscal risk statement, including, any commitments and contingent liabilities not included in the fiscal forecasts, and all other circumstances which may have a material effect on the fiscal and economic forecasts and which have not already been incorporated into the fiscal forecasts, as well as information on the losses and outstanding payments of the State Corporations"*. This means that all public sector entities shall identify all contingent liabilities and submit the same to the National Treasury for consideration of disclosure in the Statement.

22.1.2 Characteristics of contingent assets

(1) Contingent assets are distinct from assets as they are characterized by the uncertainty related to the existence of an asset at the financial statement date.

(2) Contingent assets usually arise from unplanned or other unexpected events that lead to an existing condition or situation the outcome of which is uncertain. The outcome or resolution of the condition or situation after the financial statement date will confirm whether an asset exists.

(3) Two basic characteristics of contingent assets are:
   a) there must be an existing condition or situation that is unresolved at the financial statement date; and
   b) there must be an expected future event that will resolve the uncertainty as to whether an asset exists.

(4) Examples of contingent assets in the public sector include debt write offs and debt swaps where the government is required by a lender to carry out a project in place of repayment of debt or interest.

(5) Prudence is a fundamental accounting concept which conveys that when uncertainty exists, assets, revenue and gains should not be overstated, and liabilities, expenses and losses should not be understated. In practice, this has been interpreted to mean taking a cautious view in the recognition of assets and revenues while ensuring that all probable liabilities and expenses are recognized.

(6) Another reason for treating contingent assets differently than contingent liabilities is the fact that recognition of contingent assets may be seen as being riskier to the long-term viability of the entity than the recognition of contingent liabilities. If a contingent liability is not incurred as expected, the viability of the entity is not compromised. However, if a contingent asset does not materialize, affordability of future services may be affected.

(7) In order to address the risk associated with the recognition of contingent assets, an argument could be made to recognize them when the probability of their realization is so high that there is little doubt as to the existence of an asset at the financial statement date.

(8) Based on the foregoing, this guideline provides detailed guidelines on contingent liabilities with lighter emphasis on contingent assets.

22.1.3 Characteristics of contingent liabilities

(1) A contingent liability arises in any situation where past or current actions or events create a risk of a call on Exchequer funds in the future. Dependent on whether or not a particular set of circumstances arise, the actual amount or the timing of the cost would be uncertain. Specific examples include guarantees, litigation, insurance, contractual indemnities and warranties.

(2) Arrangements giving rise to contingent liabilities should only be entered into where necessary and, then, only after the potential expenditure implications have been evaluated and assessed in the light of the possible scenarios that could arise on foot of the contingent liability. The potential benefits should always be compared with the most likely cost and with the range of possible costs to ensure that the contingent liability is properly assessed. Estimating a value or range of values for a contingent liability is complex because of the range of variables and, therefore, potential outcomes. Where possible, comparable experiences should be used to inform possible outcomes.

(3) Contingent liabilities often escape proper fiscal scrutiny as a result of their non-cash, long-term nature. This may create:

a) possible biases in decision making, crowd-out other expenditures, and make the government bear unnecessary risks;
b) Decrease the credibility and predictability of fiscal policy; and
c) May contribute to threats to the long-term fiscal sustainability (i.e. financial solvency of the state).

Thus, failure to identify contingent liabilities may blind public sector entities and the government to future fiscal costs and risks.

22.1.4 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity asset and liability register in order to facilitate consolidation into a Government register of assets and liabilities. The guideline also aims to ensure uniformity in the management and administration of contingencies by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for contingencies and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to contingencies. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

22.1.5 Implicit vs explicit contingencies

(1) A contingent credit risk is incurred when a party, in most cases a public sector entity, is unable to meet its financial obligations to third parties that government has guaranteed. (**Explicit**)

(2) It could also arise where there is market or public expectation for government to support a failed institution that is deemed to be of national interest. (**Implicit**)

(3) Explicit contingent liabilities are defined by law or contract. They refer to promises or guarantees of payments by the government to a third party explicitly mentioned in the contract and triggered by exogenous events. These may include:
  a) Guarantees for borrowing and obligations of county governments and public or private entities;
  b) Umbrella guarantees for various loans (for example, agriculture loans);
  c) Guarantees for trade and exchange rate risks; and
  d) State insurance and re-insurance schemes.

(4) Explicit direct liabilities with uncertain amounts relate to payment commitments by the government to a third party which will have to be made with certainty, but whose size is not known at the time of signing the concession contract (e.g. land expropriation compensation).

(5) Explicit contingent assets refer to promises of payment by a third party to the government explicitly mentioned in a contract and triggered by exogenous or endogenous events (e.g. revenue sharing agreement in a PPP arrangement).

(6) Contingent implicit liabilities can be defined as those liabilities that are not officially recognized until after a failure occurs. The triggering event, the value at risk, and the amount of the government outlay that could eventually be required are all uncertain. Fiscal authorities are also often forced to cover the uncovered losses and obligations of the central bank, subnational governments, state-owned and large private enterprises, budgetary and extrabudgetary agencies, and other politically significant institutions.

(7) Implicit contingent liabilities can also arise from the moral obligation of government that reflects public and interest-group pressures, future public pensions social security schemes, and health care financing, future recurrent costs of public investments, defaults of subnational government or public or private entities on nonguaranteed debt and other obligations, cleanup of liabilities of entities being privatized, banking failure, failure of a nonguaranteed pension fund, employment fund, or social security fund (protection of small investors), default of central bank on its obligations (foreign exchange contracts, currency defense, balance of payments stability), bailouts following a reversal in private capital flows, environmental recovery, disaster relief, military financing etc.

(8) Implicit contingent liabilities may include:
  a) A default of a sub-sovereign, public or private entity on a non-guaranteed debt and other liabilities;
  b) Bank failure;
  c) Investment failure of a government related pension fund, employment fund, or social security fund;
  d) central bank default on its obligations (foreign exchange contracts, currency defence, balance of payments stability); and
  e) Residual environmental damage, disaster relief, military financing.

22.1.6 Reference to Financial Assets and Liability Management Guidelines

(1) Contingent asset and liabilities are financial in nature and, hence this guideline shall be read in conjunction with the financial asset and liability management guidelines under Part V and Part VI of Guidelines on asset and liability management in the public sector.

(2) The financial asset and liability management guidelines provide general guidance on the administration and management of financial assets and liabilities as well as their accounting treatment. The Guidelines on asset and liability management in the public sector are applicable to contingencies.

22.2 General management and administration of contingent assets/ liabilities

In addition to the management and administration aspects documented in the financial asset and liability management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to contingent assets/ liabilities.

22.2.1 Identification of contingent liabilities

22.2.1.1 Overview

(1) Contingent liabilities arise out of financial contracts or from the business operations of an entity.

(2) A contingent liability may be defined as one which will arise only upon a contingent (uncertain) event occurring. For example, if a visitor to the public sector entity should fall and suffer injuries, it is not definite that an outlay will be required to be made by the public sector entity. No liability will arise with any certainty until the visitor commences legal action and wins the case. However, an estimate of such contingent liabilities is to be made if a case becomes actionable and correspondence of the claim has been received. Such claims are to be disclosed by way of a note to the annual financial statements – when a third party takes action against the entity.

(3) Contingencies disclosed in a public sector entity's annual financial statements are varied and could include litigation in progress, guarantees and undertakings, letters of comfort, insurance and indemnities.

(4) Assistance may have to be sought from experts in order to ascertain the quantum of a contingent liability.

(5) The following sections cover various types of contingent liabilities.

22.2.1.2 Litigation in progress

(1) Outstanding legal matters for each public sector entity are to be considered, as they are potential claims for unpaid or short paid charges.

(2) The Accounting Officer shall maintain a litigation register for all ongoing litigation against a public sector entity.

(3) The Accounting Officer shall liaise closely with the office of the attorney general in the quantification of potential claims from litigation.

22.2.1.3 Guarantees

(1) Loan guarantees by national government are governed by Article 213 of the Constitution which stipulates that "an Act of Parliament prescribe terms and conditions under which the national government may guarantee loans". These terms and conditions are detailed in the PFM Act, 2012, and the related Regulations.

(2) The guidance on the guarantee of loans by the Government on behalf of public sector entities are detailed under sections 8, 32, 33, 50 and 58 – 61 of the PFM Act, 2012, including. These sections stipulate the power of the Cabinet Secretary to guarantee loans, the requirement of the Cabinet secretary to submit a statement on loan guarantee to Parliament, money payable in respect of a guarantee to be a charge on the Consolidated Fund and recovery of amounts paid on a guarantee.

(3) A guarantee may only be issued where there is specific statutory authority to issue such a guarantee.

(4) Guarantees issued by any public sector entity or the National treasury constitute a contingent liability. The extent of that liability will have to be determined by reference to the terms of the guarantee and to the loan agreement.

(5) Matters relating to guarantees shall be detailed in the Guarantees and Indemnities Register.

(6) The Public Debt Management Office (PDMO), under section 194 of the PFM (National government) Regulations, 2015, has the responsibility of assessing *"risks in issuing guarantees including contingent liabilities inherent in public private partnerships projects, and prepare reports thereon"*. The Office is also required to *"facilitate the recovery of any outstanding interest and other costs incurred by Government due to the honouring of outstanding guarantees."*

(7) The eligibility and evaluation criteria for national government guarantees are documented under sections 202 and 181 of the PFM (National government) Regulations, 2015 and PFM (County governments) Regulations, 2015, respectively. The process of approving guarantees for a national government entity are detailed under section 203 of the PFM (National Government) Regulations, 2015.

(8) The process for applying for national government guarantee are outlined under section 184 of the PFM (County government) Regulations, 2015.

22.2.1.4 Indemnities

(1) Indemnities are agreements to compensate bodies or individuals for loss or damage arising. As an indemnity commits the State to meeting future liabilities if the indemnity is called, it should only be contemplated where it is necessary and where there is:

a) proper statutory authority for or

b) appropriate approval to the grant of the indemnity itself and for the discharge of any liabilities that may arise under the indemnity.

(2) If new legislation is required, indemnities should not be granted until the relevant legislation is enacted.

(3) In all cases, the prior approval of the National Treasury should be obtained before indemnities are entered into by public sector entities. The Office of the Attorney General shall be involved in the drafting of indemnity agreements.

22.2.1.5 Letters of Comfort/ Support

(1) A Letter of Comfort is a term used to describe a form of written assurance to lending institutions or others in relation to borrowing or other financial commitments where there is no statutory power to guarantee or where guarantees up to the statutorily authorised level have already been given.

(2) Such letters are objectionable as they may be interpreted as imposing a contingent liability on the Exchequer without due approval. The main principle is that a letter which expressly, or by implication, gives a guarantee or undertaking not already authorised by legislation should not, in any circumstances, be issued.

(3) Only the National Treasury is mandated to issue letters of support. The Office of the Attorney General shall be involved in the drafting of letters of support.

22.2.1.6 Insurance

(1) The general rule is that no insurance should be effected against the risk of any loss which, if it arose, would fall wholly and directly on public funds. This is based on the understanding that the risks for which the Government is liable are innumerable and widely distributed, and that losses maturing in any one year are never so large as to materially disturb the financial position of the year, so that it is cheaper in the long term for the Exchequer to 'carry its own insurance'. However, each category of risk must be considered on its merits in order to establish whether a departure from the general rule would be justified. Such departures require National Treasury approval.

(2) In covering risks relating to works of art, etc. on loan to public sector entities (and not, therefore, Government property), the general rule whereby the State bears its own insurance need not necessarily apply. The possibility of arranging commercial insurance as an alternative to issuing an indemnity should also be considered.

22.2.2 PPP arrangements

(1) Kenya has had private investments in her public infrastructure over the last 30 years. The PPP Act, 2013 provides a clear and predictable legal basis to enter into PPP Agreements. The PPP Regulations were published in 2014 and provide detailed guidelines to the PPP Act for smooth implementation of the Act.

(2) In the context of generating contingent liabilities, the PPP Act has provided for the establishment of the PPP Facilitation Fund, which among others is expected to cater for contingent liabilities arising from PPP activities to the extent possible.

(3) The PPP Facilitation Fund was established for collection and consolidation of all resources from any source into one fund. The moneys received in the fund is expected to be applied towards supporting contracting authorities in preparation phase of a project, the tendering process and project appraisal, support the activities of PPP Unit, provide a source of liquidity to meet any contingent liabilities arising from a project and also to settle the transaction advisor retainer fees.

(4) Contingent liabilities could arise in PPP arrangements from:

a) Termination events;
b) Contract breach;
c) Exchange rate risks;
d) Inflation; and
e) Demand risks, if the guarantee that the demand for service levels would exceed a certain point.

22.2.3 Monitoring of contingent liabilities

(1) Each accounting officer shall ensure that contingent liabilities are monitored on a regular basis.

(2) The accounting officer shall review the register of contingent liabilities on a quarterly basis to ensure that all material contingent liabilities are identified and recorded.

(3) The register will also be updated with changes in circumstances relating to a contingent liability.

22.2.4 Recording of contingent liabilities

(1) A Litigation Register shall be maintained by each public sector entity for monitoring and annual reporting purposes, particularly in relation to the reporting of contingent liabilities. This register shall include the following details for cases where legal action is in hand or expected:

a) the file/register number;
b) the insurance reference/claim number (where applicable);
c) the other party's name;
d) the other party's legal representative;
e) a brief description of the claim;
f) the departmental officers(s)/agent(s) involved (where applicable);
g) the date that the file was created;
h) the commencement date of the action;
i) the date of the service of writs;
j) the departmental legal representative (panel and non-panel);
k) the action taken to date;
l) the total estimate of the costs, inclusive of legal and damages;
m) the legal costs (amounts, description and date) incurred to date;
n) any comments, for example, reference to legal opinions received and other pertinent details;
o) the current status of the claim, for example, claim settled; and
p) where the litigation involves a potential payout by the public sector entity, an estimate of that payout (contingency) shall be included, based on a best estimate of both the expected outcome (settlement out of court or full proceedings) and the likely cost, given the outcome.

(2) Matters relating to guarantees and indemnities shall be detailed in the Guarantees and Indemnities Register with the following details:

a) the nature of the document (guarantee or indemnity or both)
b) the initial amount involved
c) the extent of the guarantee or indemnity, that is, the extent of the liability
d) the duration of the document and the date of normal expiration and
e) the current amount of the guaranteed instrument, including any accrued interest or reductions in principal and/or interest.

(3) Records of other contingencies shall be maintained including the following information:

a) Description;
b) name, address of the other party;
c) value (actual amount or best estimate);
d) type of obligation, for example, legal matter, indemnity or guarantee;
e) identified trigger/s for the realisation of the contingency;
f) estimated date of expiration;
g) action taken to manage the contingency, for example, action taken to mitigate any losses; and
h) details surrounding the finalisation of the contingency, for example, a court decision.

(4) Public sector entities can make reference to the disclosure framework on contingent liabilities under PPP developed by the World Bank Group.

22.3 Accounting for contingent assets/ liabilities

Contingent assets/ liabilities shall be accounted for in accordance with IPSAS 19 and IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.

22.3.1 Relationship between provisions and contingent liabilities

(1) In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this guideline the term contingent is used for liabilities and assets that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future

events not wholly within the control of the entity. In addition, the term contingent liability is used for liabilities that do not meet the recognition criteria of a liability.

(2) IPSAS 19 & IAS 37 distinguish between:

a) Provisions—which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations; and

b) Contingent liabilities—which are not recognised as liabilities because they are either:

(i) Possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits or service potential; or

(ii) Present obligations that do not meet the recognition criteria in the Standard (because either it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

(3) Guidance as to whether a provision should be recognised or a contingent liability disclosed for a present obligation is as follows:

Table 22.1

Likelihood of an outflow of economic resources				
		Probable (at least 50/50 probability)	**Improbable (less than 50/50 probability)**	**Remote (significantly less than 50/50 probability)**
Amount can be reliably measured or estimated?	Yes	Provision to be recognised.	Contingent liability disclosed no provision; recognised.	No provision recognised and no contingent liability disclosed.
	No	Contingent liability disclosed; no provision recognised.	Contingent liability disclosed; no provision recognised.	No provision recognised and no contingent liability disclosed.

(4) The likelihood of occurrence will be based on the judgement of the Accounting Officer. Where necessary, the Accounting Officer shall seek the opinion of an expert.

22.3.2 Recognition

A public sector entity should not recognize a contingent asset or contingent liability.

22.3.3 Reporting

(1) The Accounting Officer shall prepare a report of all contingent assets and contingent liabilities at least annually. The frequency of reporting should be based on an assessment of the nature of the contingency, its materiality and the volatility of changing circumstances related to the contingency. In particular, sections 81 of the PFM Act, 2012 requires accounting officers to prepare annual financial statements that include a "statement of the entity's debt guaranteed by the national government as at the end of the financial year". Section 89 of the Act requires the Cabinet Secretary responsible for investments to prepare a report detailing the amount of any guarantees issued by the national government in respect of state corporations and the cumulative amount of undischarged loans and guarantees in respect of state corporations.

(2) The report by the Accounting Officer should disclose the nature, amount, potential risk/benefit and the likelihood of the contingency occurring.

(3) The reporting format for purposes of submitting reports to the National Treasury is included as appendix 7(b).

22.3.4 Disclosure in financial statements

(1) Disclosure requirements for contingencies are detailed in IPSAS 19 & IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.

(2) No accounting entries shall be made for contingent assets and liabilities. Contingent assets and liabilities are hence not recognised in the Statement of Financial Position but those that are material should be disclosed in the notes to the financial statements.

(3) A check is to be performed before the annual financial statements are signed that items disclosed as contingent liabilities do not require reclassification as liabilities (including provisions) or commitments.

22.4 Transitional provisions

(1) Determination of contingent liabilities involves a thorough examination of all possible claims against the public entity that are likely to crystallise as a result of the happening of a future event. The entity needs to:

a) compile a list of all ongoing litigation and insurance claims against the entity;
b) identify any guarantees, letters of comfort and indemnities made on behalf of other parties;
c) Review all contracts with third parties for any contingent assets and/or liabilities; and
d) Quantify the claims due from each of the identified events.

(2) Contingent assets shall only be identified where the probability of their realization is so high that there is little doubt as to the existence of an asset.

22.5 Applicable accounting standards

This guideline is based on the following internationally recognised accounting frameworks:

- IPSAS 19 & IAS 37 - Provisions, Contingent Liabilities and Contingent Assets
- IPSAS 33 - First – time Adoption of Accrual Basis IPSASs

22.6 Legislative authority

- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015

22.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 22.2

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

23 Provisions

This guideline covers the following areas:

23.1 Introduction

23.1.1 Preamble

(1) A provision is an amount that a public sector entity puts in aside in its accounting records to cover a future liability.

(2) The purpose of a provision is to make a current year's balance more accurate, as there may be costs which could, to some extent, be accounted for in either the current or previous financial year. These costs that distinctly belong to a specific year could be misleading if accounted for in the future.

(3) IPSAS 19 & IAS 37 Provisions, Contingent Assets and Contingent Liabilities define a provision as "a liability of uncertain timing or amount."

(4) Some examples of provisions are:

a) Losses e.g. provisions for slow-moving inventory where the amount is computed as a percentage of inventory balance;
b) Deferred tax payable;
c) Pension and gratuity payable but not due for payment as staff not reached retirement age;
d) Leave payments payable at the end of a reporting period; and
e) Severance costs computed and payable to staff but not paid as retirement age not reached.

(5) The budget estimates of a public sector entity are required to include information regarding any payments to be made and liabilities to be incurred by the public sector entities for which an appropriation Act is not required which shall include the constitutional or national legislative authority for any such payments or liabilities, as stipulated under sections 38(1)(e) and 130(1)(c) of the PFM Act, 2012.

23.1.2 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity liability register in order to facilitate consolidation into a Government register of liabilities. The guideline also aims to ensure uniformity in the management and administration of provisions by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for provisions and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to provisions. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

23.1.3 Reference to Liability Management Guidelines

(1) Provisions are classified as liabilities and hence this guideline shall be read in conjunction with the liability management guidelines under Part VI of Guidelines on asset and liability management in the public sector.

(2) The liability management guidelines provide general guidance on the administration and management of liabilities as well as their accounting treatment. The Guidelines on asset and liability management in the public sector are applicable to provisions.

23.2 General management and administration of provisions

In addition to the management and administration aspects documented in the liability management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to provisions.

23.2.1 Planning for provisions

The Accounting Officer shall make provisions for any losses that are likely to arise from the operations of an entity, whose timing and amount are uncertain. The amount of provision shall be based on past experience and the prevailing circumstances.

23.3 Accounting for provisions

Provisions shall be accounted for in accordance with IPSAS 19 and IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.

23.3.1 Provision vs contingent liabilities

(1) In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this guideline the term contingent is used for liabilities and assets that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In addition, the term contingent liability is used for liabilities that do not meet the recognition criteria of a liability.

(2) IPSAS 19 and IAS 37 distinguishes between:

a) Provisions—which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations; and

b) Contingent liabilities—which are not recognised as liabilities because they are either:

(i) Possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits or service potential; or

(ii) Present obligations that do not meet the recognition criteria in the Standard (because either it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

(3) Guidance as to whether a provision should be recognised or a contingent liability disclosed for a present obligation is as follows:

Table 23.1

		Likelihood of an outflow of economic resources		
		Probable (at least 50/50 probability)	**Improbable (less than 50/50 probability)**	**Remote (significantly less than 50/50 probability)**
Amount can be reliably measured or estimated?	Yes	Provision to be recognised.	Contingent liability disclosed no provision; recognised.	No provision recognised and no contingent liability disclosed.
	No	Contingent liability disclosed; no provision recognised.	Contingent liability disclosed; no provision recognised.	No provision recognised and no contingent liability disclosed.

(4) The likelihood of occurrence will be based on the judgement of the Accounting Officer. Where necessary, the Accounting Officer shall seek the opinion of an expert.

23.3.2 Recognition

(1) A provision should be recognised when:

a) An entity has a present obligation (legal or constructive) as a result of a past event;

b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

c) A reliable estimate can be made of the amount of the obligation.

(2) If these conditions are not met, no provision should be recognised.

23.3.3 Measurement

(1) The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date.

(2) The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.

(3) Where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation.

(4) Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

(5) Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an entity recognizes gains on expected disposals of assets at the time specified by the Accounting Standard dealing with the assets concerned.

(6) Provisions should be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision should be reversed.

23.3.4 Derecognition

A public sector entity will remove a provision, or part of a provision, from its statement of financial position when and only when it is extinguished. In other words, the liability is only de-recognised once the obligation upon the entity specified in the contract is discharged, cancelled or extinguished, or expires, and there is no longer a legal obligation on the public sector entity to pay cash or provide goods or services.

23.3.5 Disclosure

Disclosure of provisions shall be in accordance with IPSAS 19 and IAS 37. In particular, for each class of provisions a public sector entity shall disclose:

a) the movement of the provisions during the financial period; and
b) a brief description of the nature of the obligation and the expected timing of the outflows.

23.4 Transitional provisions

(1) The effect of adopting this guideline on its effective date (or earlier) should be reported as an adjustment to the opening balance of accumulated surpluses/ (deficits) for the period in which the guideline is first adopted. Entities are required to adjust the opening balance of accumulated surpluses/ (deficits) for the earliest period presented and to restate comparative information.

(2) For entities that have already adopted accrual accounting, the Accounting Officer shall review the current practice and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors.

23.5 Applicable accounting standards

This guideline is based on the following internationally recognised accounting frameworks:

- IPSAS 33 - First – time Adoption of Accrual Basis IPSASs
- IPSAS 19 & IAS 37 - Provisions, Contingent Liabilities and Contingent Assets
- IPSAS 3 & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

23.6 Legislative authority

- PFM Act, 2012
- PFM Regulations (National government), 2015
- PFM Regulations (County governments), 2015
- PPAD Act, 2015
- PPAD Regulations, 2020

23.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 23.2

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

24 Long Term Employee Benefits

This guideline covers the following areas:

24.1 Introduction

24.1.1 Preamble

(1) Public sector entities employ a large number of staff and provide them with multiple benefits, including benefits available upon retirement, such as pensions and gratuity payments.

(2) An employee benefit is any form of consideration given by an entity in exchange for service rendered by employees.

(3) An employee may provide services to a public sector entity on a full-time, part-time, permanent, casual, or temporary basis. For the purpose of this guideline, employees include staff engaged on permanent and pensionable basis.

(4) Employee benefits include benefits provided to either employees or their dependants (to their spouses, children, or other dependants), and may be settled by payments (or the provision of goods or services) made either directly to the employees or their dependants, or to others, such as insurance companies. These include death gratuity and widows' and children's pension.

(5) Short-term employee benefits and other long-term benefits are due to be settled during employment (within 12 months from service rendered or later), while post-employment employee benefits are settled after the end of employment.

(6) Long term employee benefits include pensions, post-employment medical care, post-employment life insurance, and other retirement benefits such as long-service leave, Sabbatical leave, other long-service benefits, Long-term disability benefits, profit sharing, bonuses and deferred compensation (if not payable wholly within 12 months after the end of the period). Long term benefits also include termination benefits relating to dismissal.

(7) Post-employment and other long-term employee benefits are granted in exchange of services rendered by an employee, while termination benefits relate to benefits triggered by the termination of an employee. Pension can be either under defined contribution plans, or defined benefit plans.

24.1.2 Pension and other long-term employee benefits in Kenya

(1) The Pensions Act (Cap.189), makes provisions for the granting and regulating the payment of pensions, gratuities and other allowances in respect of the public service for officers under the Government of Kenya.

(2) In accordance with section 5 (4) of the State Corporations Act, Cap 446, *"a state corporation may, with the approval of the Minister in consultation with the Treasury and the Committee, establish pension, gratuity, superannuation, provident or other funds for the state corporation's employees and their dependants."*

(3) According to the existing terms and conditions of service, officers in the public service expect terminal benefits in accordance with their letters of appointment, as an incentive for the services they render to the country for a number of years of their working life.

(4) Paragraph 4 of the Letter of (Probationary) Appointment in the service of the Government of Kenya, Form G.P. 24 (Revised) reads as follows:-
"If you are confirmed in your appointment, you will be eligible on retirement for retiring benefits in accordance with the provisions of the Pensions Legislation of the Public Service of Kenya".

(5) An officer who has rendered pensionable service to the Government of Kenya expects the payment of retirement benefits in accordance with the provisions of the Pensions Act. The benefits in question are non-

contributory or free. In other words, the officer does not have to contribute a part of his salary in order to secure rights to retiring benefits.

(6) In accordance with the provisions of the Pensions Act (Cap.189) and section D of the Human Resource Policies and Procedures Manual for the Public Service, 2016, Civil Servants or their dependants may be paid, on leaving the service of the Government and on fulfilling certain conditions, one or more of the following benefits;

a) Service pension plus commuted pension;
b) Service gratuity;
c) Marriage gratuity;
d) Injury pension;
e) Death gratuity;
f) Dependants pension; and
g) Annual allowance

24.1.3 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity liability register in order to facilitate consolidation into a Government register of liabilities. The guideline also aims to ensure uniformity in the management and administration of pension and other long-term employee benefits by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for pension and other long-term employee benefits and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to pension and other long-term employee benefits. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

24.1.4 Scope

(1) This guideline applies to the accounting for pensions and other long term employee benefits to be reported in the financial statements of public sector entities.

(2) Employee benefits to which this guideline applies are:

a) Under formal plans or other formal agreements between a public sector entity and individual employees (employment agreements), groups of employees, or their representatives;
b) Under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, state, industry, or other multi-employer plans, or where entities are required to contribute to the composite social security program; or
c) By those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the public sector entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the public sector entity's informal practices would cause unacceptable damage to its relationship with employees.

24.1.5 Reference to Liability Management Guidelines

(1) Pension and other employee benefits are classified as liabilities and hence this guideline shall be read in conjunction with the liability management guidelines under Part VI of Guidelines on asset and liability management in the public sector.

(2) The liability management guidelines provide general guidance on the administration and management of liabilities as well as their accounting treatment. The Guidelines on asset and liability management in the public sector are applicable to long term employee benefits.

24.2 General management and administration of pension

In addition to the management and administration aspects documented in the liability management guidelines documented in the Guidelines on asset and liability management in the public sector, the following matters are specific to pensions and other long-term benefits.

24.2.1 Human Resource Policies and Procedures Manual for the Public Service, 2016

Section D of the Human Resource Policies and Procedures Manual for the Public Service, 2016 contains guidance on exit from service and terminal benefits. The section outlines the various benefits available to public service officers as well as the criteria for eligibility to each.

24.2.2 Increase in pension payments

(1) The Pensions (Increase) Act, Cap 190 provides for the rates and dates of increase of pensions. This rate should not exceed 3 per cent per annum but is subject to a scheme's funding level.

(2) An increase of pensions in payment can also be determined by the scheme or employer, or both.

24.2.3 Retirement age

(1) In accordance with the Income Tax (Retirement Benefit) Rules 1994, payment of a pension shall not commence until a member reaches 50 years of age. This is the early retirement age.

(2) The Public Service Superannuation Scheme Act section 27(1) sets the normal retirement age at 60 years and on attaining that age, such a benefit shall be payable. Members may opt to receive lump-sum payments that are calculated depending on whether the member makes or does not make contributions.

(3) A member will receive full benefits when he or she retires before the normal retirement age, if it is on the grounds of ill health, or if the member permanently emigrates from Kenya to another country.

(4) Where a member of a defined benefit scheme leaves employment before attaining retirement age, he or she will receive no more than 50 per cent of the accrued benefits. The remaining 50 per cent will be retained in the scheme and will be paid to the member in accordance with the trust deed and rules upon attaining the normal retirement age.

(5) A member of a defined contribution schemes shall receive his or her contributions and 50 per cent of the employer's contributions, if he or she retires before attaining retirement age. The remaining 50 per cent of the employer's benefit will be retained in the scheme and will be paid to the member in accordance with the trust deed and rules upon attaining the normal retirement age.

24.2.4 Types of pensions

(1) There are two kinds of pensions available in Kenya. One is the defined contribution plan and the other is the defined benefits plan. Below is a tabular comparison between the two:

Table 24.1

Defined Contribution Plan	Defined Benefits Plan
This plan specifies how much money the employer or both employee and employer needs to contribute to the pension plan.	This plan specifies how much employees will receive in payments during their retirement.
Investment risk is on the employees.	Investment risk is on the employer. Outflows from the pension trust to employees are pre-specified.

(2) In the case of defined contribution plan the employee, or employer contributions or both make a contribution to the pension plan on a regular basis, usually monthly. The value of the ultimate benefits received by the employee depends on the amount of contributions paid and any investment return achieved by the pension scheme less, any fees and charges.

(3) Under the defined benefits plan, the employee is guaranteed a certain amount of benefits/ payments in the future. Because pension payments are usually made much later in the future, there is a clear time difference between when employees receive the future payments and when employees actually earn those benefits. Because of this difference, companies must use the accrual basis of accounting instead of when cash changes hand.

24.3 Accounting for long term employee benefits

Pension and other long- term benefits shall be accounted for in accordance with IPSAS 39 and IAS 19 – Employee benefits.

24.3.1 General Recognition Principle for all Employee Benefits

(1) A public sector entity shall recognise the cost of any employee benefit to which its employees have become entitled to as a result of service rendered to the entity during the reporting period:

a) As a **liability** (accrued expense), after deducting any amount already paid (either directly to the employees or as a contribution to an employee benefit fund). If the amount already paid exceeds the obligation arising from service before the reporting date, a public sector entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

b) As an **expense**, unless another accounting policy requires or permits the inclusion of the benefits in the cost of an asset (for example, the *Accounting Policy on Inventories or* the *Accounting standards on Property, Plant and Equipment).*

(2) Short term benefits are expensed in the period in which they occur. Those that remain unpaid as at the reporting date are included in financial statements as accruals.

24.3.2 Post-employment benefits

(1) Plans providing these benefits are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

(2) Post-employment benefit plans are formal or informal arrangements under which a public sector entity provides post-employment benefits for one or more employees. Post-employment benefits include, for example:

a) Retirement benefits, such as pensions and lump sum payments on retirement; and

b) Other post-employment benefits, such as post-employment life insurance.

(3) A public sector entity applies this guideline to all arrangements whereby an entity provides post-employment benefits, whether or not they involve the establishment of a separate entity, such as a pension scheme, superannuation scheme, or retirement benefit scheme, to receive contributions and to pay benefits.

(4) Depending on the economic substance of the plan, as derived from its principal terms and conditions, post-employment benefit plans are classified as one of the following two plans:

a) Defined contribution plans

b) Defined benefit plans

(5) In order to be classified as a defined contribution plan a post-employment benefit plan must require the entity to pay fixed contributions into a separate entity (a fund or an insurance company).

(6) Under defined contribution plans, the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund or the insurance company. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by a public sector entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee, not on the entity.

(7) A post-employment benefit plan will be classified as a defined benefit plan when a public sector entity's obligation is to provide the agreed benefits to current and former employees and is not limited to the amount that it agrees to contribute to the fund or insurance company.

(8) This is the case when the entity has a legal or constructive obligation through:

a) A plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;

b) A guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

c) Those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where a public sector entity has a history of increasing benefits for former employees to keep pace with inflation, even where there is no legal obligation to do so.

(9) Under defined benefit plans, actuarial risk (that benefits will cost more than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the entity. If

actuarial or investment experience is worse than expected, the entity's obligation may be increased or vice versa if actuarial or investment experience is better.

(10) Unlike defined contribution plans, the definition of a defined benefit plan does not require the payment of contributions to a separate entity.

(11) According to section 5(3) of the Pensions Act, 2018, benefits accrue to an officer after completion of ten years of pensionable service.

24.3.3 Defined Contribution Plans

(1) Defined contribution plans are post employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and, will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

(2) Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Subsequently, no actuarial assumptions are required to measure the obligation or the expense, and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

24.3.3.1 Recognition and Measurement

(1) When an employee has rendered service to a public sector entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service:

a) As a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a public sector entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

b) As an expense, unless another accounting policy requires or permits the inclusion of the contribution in the cost of an asset.

(2) It is important to note that accounting for defined contribution plans is similar to the accounting for short-term employee benefits. Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, the amount recognised shall be the discounted amount.

24.3.4 Defined Benefit Plans

(1) Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

Note: Using the projected unit credit method, total pension benefits at the normal retirement age are divided by the total length of service into a unit of pension benefit unit which is then allocated to each year during the period of employment. Full explanation of this method is detailed under IPSAS 39.

(2) Defined benefits plans can be unfunded in what is referred to as pay-as-you-go basis schemes. In such cases there are no funds and no recovery.

(3) The pensions accounting treatment for defined benefit plans requires:

a) To determine the fair value of the assets and liabilities of the pension plan at the end of the year

b) To determine the amount of pension expense for the year to be reported on the income statement

c) The net asset or liability position of the pension plan on a fair value basis.

(4) Accounting for defined benefit plans requires actuarial assumptions to measure the obligation and the expense, and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis, because they may be settled many years after the employees render the related service.

(5) There are four important components that must be considered when determining pension expense:
  a) *Current Service Cost:* The increase in the present value of the pension obligation that results from the employees' current services.
  b) *Past Service Cost:* These costs arise from plan initiations, plan amendments, and reductions in the number of employees under pension plans.
  c) *Interest Cost:* The increase in the overall pension obligation due to the passage of time.
  d) *Expected Income from Plan Assets:* Income expected from assets in the pension plan, including investment income from interest, dividends, and capital gains.

24.3.4.1 Recognition and Measurement

(1) When an employee has rendered service to a public sector entity during a period, the entity shall recognise the contribution payable to a defined benefit plan in exchange for that service:
  a) As a liability (accrued expense), on computation of ; and
  b) As an expense, unless another accounting policy requires or permits the inclusion of the contribution in the cost of an asset.

(2) The formula for the determination/ computation of amounts due for long term benefits under defined benefit schemes for public service officers is documented in the Pensions Act, Cap 189. The computation of each type of benefit is further simplified in the legal provisions of the Pensions Act document.

24.3.5 Other Long-Term Employee Benefits

(1) Other long term employee benefits are benefits to employees that are expected to be settled after twelve months following the end of the reporting period in which the employee render the related service.

(2) Other long-term employee benefits include items such as:
  a) Long-term compensated absences such as long service or sabbatical leave;
  b) Jubilee or other long service benefits;
  c) Long-term disability benefits;
  d) Bonuses and profit sharing payable twelve months or more after the end of the period in which the employees render the related service;
  e) Deferred compensation paid twelve months or more after the end of the period in which it is earned; and
  f) Compensation payable by the entity until an individual enters new employment.

24.3.5.1 Recognition and Measurement

(1) The amount recognised as a **liability (asset)** for other long-term employee benefits shall be the net total of the following amounts:
  a) The present value of the other long-term employee benefit obligation at the reporting date; minus
  b) The fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

(2) For other long-term employee benefits, a public sector entity shall recognise the net total of the following amounts in **surplus or deficit**, except to the extent that another accounting policy requires or permits their inclusion in the cost of an asset:
  a) Service cost;
  b) Net Interest on the net other long-term employee benefit liability (asset); and
  c) Re-measurements of the net defined benefit liability (asset).

24.3.6 Termination Benefits

(1) Termination benefits are employee benefits payable as a result of either:
  a) A public sector entity's decision to terminate an employee's employment before the normal retirement date; or

b) An employee's decision to accept a public sector entity's offer of benefits in exchange for termination of employment.

24.3.6.1 Recognition

(1) A public sector entity shall recognise a liability and expense for termination benefits at the earlier of the following dates:
   a) When the entity can no longer withdraw the offer of those benefits; and
   b) When the entity recognises costs for a restructuring that is within the scope of the accounting standard on Provisions, Contingent Liabilities and Contingent Assets, and involves the payment of termination benefits.

(2) For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when a public sector entity can no longer withdraw the offer of termination benefits is the earlier of:
   a) When the employee accepts the offer; and
   b) When a restriction (e.g. a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

(3) For termination benefits payable as a result of a public sector entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:
   a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.
   b) The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.
   c) The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

(4) When a public sector entity recognises termination benefits, the entity may also have to account for a plan amendment or a curtailment of other employee benefits.

24.3.6.2 Measurement

(1) A public sector entity shall measure termination benefits on initial recognition, and shall measure and recognise subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to postemployment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:
   a) If the termination benefits are expected to be settled wholly before twelve months after the end of the reporting period in which the termination benefit is recognised, the entity shall apply the requirements for short-term employee benefits.
   b) If the termination benefits are not expected to be settled wholly before twelve months after the end of the reporting period, the entity shall apply the requirements for other long-term employee benefits.

(2) Because termination benefits are not provided in exchange for service, attribution of the benefit to periods of service is not relevant.

(3) Where termination benefits fall due more than 12 months after the reporting date, they shall be discounted using the discount rate.

24.3.7 Derecognition

A public sector entity will remove a pension liability, or part of it, from its statement of financial position when and only when it is extinguished. In other words, the liability is only de-recognised once the obligation upon the entity specified in the contract is discharged, cancelled or extinguished, or expires, and there is no longer a legal obligation on the public sector entity to pay cash or provide goods or services.

24.3.8 Disclosures in financial statements

The disclosures for long term employee benefits in the financial statements of a public sector entity are detailed under IAS 19 – Employee benefits.

24.4 Transitional Provisions

(1) On the date of the opening balance sheet under this guideline, a public sector entity shall determine its initial liability for defined benefit plans and other long-term employee benefits at that date as:
   a) The present value of the obligation at the date of adoption of IPSASs by using the Projected Unit Credit Method; and
   b) Minus the fair value, at the date of adoption of IPSASs, of plan assets (if any) out of which the obligations are to be settled directly.

(2) The effect of the change in the accounting policy to adopt the accounting standards on Employee Benefits includes any re-measurements that arose, if any, in earlier periods. Under its previous basis of accounting, those public sector entities that may not have recognised and/or measured any liability, in which case the increase in the liability will represent the full amount of the liability minus the fair value, at the date of adoption of IPSASs, of any plan assets in accordance with §1 of the current paragraph. This increased liability is recognised in opening accumulated surplus or deficit in the period in which the items are recognised and/or measured.

(3) A first-time adopter shall recognise all cumulative re-measurements in opening accumulated surplus or deficit in the period in which the items are recognised and/or measured.

(4) For entities that have already adopted accrual accounting, the Accounting Officer shall review the current practice and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors.

24.5 Applicable accounting standards

This guideline is based on the following IPSAS and IFRS:

- IPSAS 39 Employee benefits (Final Pronouncement July 2016)
- IPSAS 33 First time adoption of accrual basis IPSAS.
- IFRS 2 Share-based payment
- IPSAS 3 & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

24.6 Legislative authority

- Pensions Act (Cap. 189)
- Pensions (Increase) Act (Cap. 190)
- Retirement Benefits Act (No. 3 of 1997)
- Income Tax Act (Cap. 470)
- National Social Security Fund Act (No. 45 of 2013)
- Provident Fund Act (Cap. 191)
- Public Service Superannuation Scheme Act (No. 8 of 2012)
- Parliamentary Pensions Act (Cap. 196)
- Presidential Retirement Benefits Act (No. 11 of 2003)
- Retirement Benefits (Deputy President and Designated State Officers) Act (No. 8 of 2015)
- Asian Officers' Family Pensions Act (Cap. 194)
- Asian Widows' and Orphans' Pensions Act (Cap. 193)
- Widows' and Children's Pension Scheme (WCPS) Act, Cap 195
- Employment Act, 2007

- Retirement Benefits (Individual Retirement Benefits Schemes) Regulations 2000
- Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations 2000
- Retirement Benefits (Minimum Funding Level and Winding up of Schemes) Regulations 2000
- Retirement Benefits (Forms and Fees) Regulations 2000
- Retirement Benefits (Managers and Custodians) Regulations 2000
- Retirement Benefits (Mortgage Loans) Regulations 2009
- Retirement Benefits (Administrators) Regulations 2007
- Retirement Benefits (Umbrella Retirement Benefits Schemes) Regulations 2017
- The Income Tax (Retirement Benefit) Rules 1994
- Income Tax (National Social Security Fund) (Exemption) Rules 2002
- Provident Fund Regulations
- The Retirement Benefits (Post-Retirement Medical Funds) Guidelines 2018
- The Retirement Benefits (Good Governance Practices) Guidelines 2018
- PFM Act, 2012
- PFM (National Government) Regulations, 2015
- PFM (County Governments) Regulations, 2015
- Human Resource Policies and procedures Manual for Public Service, 2016
- Practices notes and guidelines issued by the Retirement Benefits Authority
- Treasury Circular 18 of 2010 (for all public service retirement benefit schemes).
- PSSS Act, 2012 and related Regulations

24.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 24.2

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

25 Accounts Payable

This guideline covers the following areas:

25.1 Introduction

25.1.1 Preamble

(1) Accounts payable/creditors represent amounts payable to individuals or to organisations in respect of the provision of goods, services, works and/or other financial assistance, in accordance with an order, contract or agreement. Such amounts must be present obligations payable in accordance with the associated order, contract or agreement or other legal contractual principles.

(2) Accounts payable include amounts for services provided or goods furnished to a public sector entity before the end of the reporting period, for which payment has not yet been made.

(3) The budget estimates of a public sector entity are required to include information regarding any payments to be made and liabilities to be incurred by a public sector entity for which an appropriation in not included in an Appropriation Act, together with the constitutional or national legislative authority for any such payments or liabilities, as stipulated under sections 38(1)(e) and 130(1)(c) of the PFM Act, 2012. Based on this, all public sector entities must include all payments to be made and liabilities to be incurred in their budgetary estimates.

25.1.2 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity liability register in order to facilitate consolidation into a Government register of liabilities. The guideline also aims to ensure uniformity in the management and administration of accounts payable by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for accounts payable and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to accounts payable. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

25.1.3 Reference to Liability Management Guidelines

(1) Accounts payable are classified as liabilities and hence this guideline shall be read in conjunction with the liability management guidelines under Part VI of Guidelines on asset and liability management in the public sector.

(2) The liability management guidelines provide general guidance on the administration and management of liabilities as well as their accounting treatment. The Guidelines on asset and liability management in the public sector are applicable to accounts payable.

25.2 General management and administration of accounts payable

In addition to the management and administration aspects documented in the liability management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to accounts payable.

25.2.1 Planning for supplies

(1) All procurement for supplies shall be in accordance with the approved budget and the annual procurement plan of a public sector entity.

(2) The planning for receipt of goods and services shall take into account the provisions of the PPAD Act, 2015 and the various methods of procurement.

(3) Public sector entities shall not issue letters of credit to direct suppliers citing reasons of emergencies, inadequate funding and untimely funding, among others, while such supplies can be planned for well in advance.

25.2.2 Supplier authorization

(1) Goods and services must be obtained from properly authorised suppliers.

(2) Public sector entities may use different procurement methods and hence suppliers could be acquired using the various methods. As such, suppliers could be acquired by either the procuring public sector entity or other public sector entity, in accordance with sections 93 and 103 of the PPAD Act, 2015.

(3) Once a supplier has been authorized, the Accounting Officer will create a new supplier account in the entity's financial accounting system which assigns a unique identification number to the supplier. Only suppliers who have been qualified will be paid by a public sector entity.

25.2.3 Documents relating to accounts payable

(1) Payment by Government entities must be supported by relevant source documents, which in most instances include supplier invoices, delivery notes, purchase requests, approved purchase or service orders, approved inspection and acceptance certificates, agreements, contracts and receiving documents by the entity. The invoice and delivery note represent confirmation from a third-party that a product or service was provided to an entity.

(2) Examples of documents relating to accounts payable are:

a) Purchase Orders/ Service Orders detailing what an entity ordered for and at what cost;
b) Stores Receipt Voucher/ Goods Received Note showing what goods /services were actually received;
c) Certificate of payment for works performed; and
d) Invoice – What the supplier billed the entity.

(3) Only when the details in the relevant documents are in agreement will a supplier's invoice be entered into the Accounts Payable account and scheduled for payment.

25.2.4 Trade creditor account management

25.2.4.1 Creating new creditor accounts

(1) Application forms for new accounts, required for new suppliers before supply on credit can commence, must be signed by the Accounting Officer.

(2) The creation of new creditor accounts shall be centralized so as to ensure allocation of a unique identification number to each creditor.

25.2.4.2 Processing transactions in creditor accounts

(1) Trade creditor accounts will generally include transactions for which:

a) goods and services have been accepted and the invoice has been received from the supplier but not paid; and
b) goods and services have been accepted but the invoice has not been received from the supplier at the period end.

(2) The balance of the first category (i.e. 1 (a) above) is to be extracted from the accounts payable system as outstanding creditors and, is to be reported as trade creditors or accounts payable.

(3) The balance of the second category (i.e. 1 (b) above) is to be estimated from the value given in the purchase order or in the contract. These values are to be taken up as accrued charges, unless the invoice is received and processed prior to the completion of the accounting period for which reports are being compiled.

(4) The cut off for purposes of recognition of accounts payable shall be the end of the reporting period. All liabilities outstanding at the end of a reporting period shall be quantified and included in the financial statements for the period.

25.2.5 Processing of accounts payable

(1) The acquisition of liabilities relating to creditors must follow proper procurement process as defined in the PPAD Act, 2015.

(2) Authority for the incurrence of liabilities for creditors must be in accordance with expense and asset management guidelines as well as a public sector entity's financial and procurement delegation thresholds within the accounting system.

(3) When a public sector entity orders assets, goods and/or services, it is legally liable to pay for those assets, goods or services once they are delivered. Where the purchase is a creditable acquisition (taxable), under the income tax legislation, a compliant tax invoice is required.

(4) All invoices must be verified to ensure payments are appropriately made to the correct supplier for the correct amount and, for goods and services delivered.

(5) The responsibility of the Accounting Officer is to ensure that a public sector entity pays only the entity's bills and invoices that are legitimate and accurate. This means that before a supplier's invoice is entered into the accounting records and scheduled for payment, the invoice must reflect:
- a) what the entity had ordered;
- b) what the entity has received; and
- c) the proper unit costs, calculations, totals, terms, etc.

(6) Once the tax invoice is processed and it has been noted that the goods have been received in good order, then the payment can be made in accordance with the established terms and conditions.

(7) Payments to creditors must be accurately determined and promptly recorded and classified. Full or part payment of creditor liabilities must only be made in respect of those goods/ services which have been received/performed satisfactorily, in accordance with the public sector entity's purchase order, contract, tender or other agreement.

(8) Payments must generally be made in accordance with the suppliers' terms of agreement/ contract. Procedures must be established to ensure that all invoices are paid at such a time as to maximise the public sector entity's cash flow and still take advantage of any discount terms offered.

(9) The processing of payments to suppliers should take into account the timelines provided in the public sector entity's service charter.

(10) Comprehensive accounts payable records should be maintained that show liabilities to be paid in the future, what is due, and whether they have been paid. The following safeguards should be put in place:
- a) Review of invoices for calculation accuracy and payment approval;
- b) Comparison of invoice quantities, prices, and terms with purchase orders;
- c) Comparison of invoice quantities with receiving report.

25.2.6 Recording

(1) A liability for creditors must not be recorded unless there has been a related receipt of goods or services. All invoices should be promptly recorded in the accounts payable system as soon as they are approved as a valid liability for goods and services received, regardless of their due dates for payment.

(2) Such liabilities must continue to be recorded until related payments have been made. The value of all unpaid invoices within the public sector entity must be readily available throughout the year for reporting purposes.

(3) Where a purchase order has been processed for assets, goods or services, the expense is to be recorded when notification of the receipt of those assets, goods or services or a valid tax invoice has been received. Payment occurs only when the invoice and the notification that the goods have been received in good order have been received.

(4) When a purchase order was not previously issued to acquire the assets/goods/services, the creditor is to be recognised at the time that the related invoice is recorded within the relevant accounts payable system.

25.2.7 Segregation of duties

(1) Segregation of duties separates roles and responsibilities to ensure that an individual cannot process a transaction from initiation through to payment without the involvement of others and thereby segregation of duties reduces the risk of fraud or error to an acceptable level.

(2) For purposes of accounts payable, one individual should not be able to set up a new supplier, create a purchase order for that supplier, post and approve the invoice from that supplier, create, approve and record the payment to that supplier.

(3) The following duties shall be performed by different staff:
   a) Receipt of goods/ services and invoice processing.
   b) Invoice processing and making general ledger entries (except for corrections).
   c) Invoice processing and cheque signing.
   d) Cheque approval and any of the aforementioned duties.

25.2.8 Reconciliation between creditors ledger and general ledger

(1) A public sector entity may maintain its creditor records in either a creditors ledger or general ledger, or both. This section will apply where an entity maintains a creditors ledger.

(2) Public sector entities must maintain a self-balancing creditors ledger in order to provide a cross-check on total creditors recorded, and the creditors ledger must be reconciled monthly to the balance of the general ledger creditors control account. Any debit balances in the creditor's ledger must be reviewed by a supervising officer.

25.2.9 Supplier statement reconciliation

(1) Supplier statement reconciliation or supplier statement reconciliation involves reconciling an individual supplier balance in the accounts payable ledger with a statement submitted by a supplier.

(2) The Accounting Officer of each public sector entity shall ensure that supplier statement reconciliations are carried out monthly and any reconciling items promptly investigated and, action taken to resolve them.

25.2.10 Aged accounts payable report

(1) The Accounting Officer shall prepare an aged accounts payable report on a monthly basis. An aged accounts payable report, sometimes referred to as an aged creditors report, is used as a management tool to monitor the age of the outstanding payables from supplier or supplier invoices, allowing early action to be taken to ensure good trade credit terms are maintained with suppliers, invoices are paid at the appropriate time, and early settlement discounts are taken whenever possible. In addition, the aged accounts payable report can be used to help predict cash flow requirements for future accounting periods.

(2) Section 93 of the PFM Act, 2012 stipulates that a public sector entity that fails to meet its financial obligations constitute a serious material breach or persistent material breach for purposes of stopping transfer of funds under Article 225(3) of the Constitution.

(3) According to section 94 of the PFM Act, 2012, some of indicators of serious or persistent material breach of the Act by a state organ or public entity include:
   a) Failure to make payments as and when due;
   b) Default on financial obligations for financial reasons; and
   c) recurring or continuous failure by a State organ or public entity to meet its financial commitments which substantially impairs the State organ's or public entity's ability to procure goods, services or credit on usual commercial terms.

(4) The Accounting Officer shall ensure payments are made with reference to the aged accounts payable report. In this regard, the Accounting Officer shall ensure that long outstanding payables are given priority in the settlement of accounts payable.

(5) Section 156(4)(d) of the PFM Act, 2012 stipulates that *"a public officer or accounting officer engages in improper conduct if the officer fails without reasonable cause to pay eligible and approved bills promptly in circumstances where funds are provided for."* The penalties for non-compliance with the Act are stipulated under section 199 of the PFM Act, 2012.

25.2.11 Payment of accounts payable for a public sector entity by the National Treasury

(1) Payments of accounts payable by the National Treasury on behalf of public sector entities shall only be made after approval by the cabinet. The Cabinet Secretary, National Treasury shall table a proposal to the cabinet on behalf of the public sector entity. Such write offs include write off of loans to farmers

(2) A public sector entity shall make a written request to the National Treasury clearly presenting a case for bail out. The National Treasury shall make an assessment of the case presented before it and ascertain the financial position of the entity.

(3) Where necessary the National Treasury could invoke the provisions of section 93 of the PFM Act, 2012, in relation to the public sector entity. This section stipulates that a public sector entity that fails to meet its financial obligations constitute a serious material breach or persistent material breach for purposes of stopping transfer of funds under Article 225(3) of the Constitution.

25.2.12 Debit balances in creditors

(1) Debit balances in accounts payable must be reviewed at month end and investigated. If the balance is due to an overpayment, the balance is to remain in the account. The balance may be highlighted in order to draw it to the attention of the supplier.

(2) Debit balances are to be reverse journalled to sundry debtors for the purposes of the annual financial statements. Individual inspection is required to determine the total amount.

(3) If the debit balance is as a result of an overpayment or otherwise represent amounts due from the creditor that cannot be set off against future purchases, efforts must be made to recover the amount from the creditor.

25.3 Accounting for accounts payable

Accounts payable, being financial instruments, shall be accounted for in accordance with the following accounting standards:

- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 41 - Financial Instruments

25.3.1 Recognition

Payables should be recognised in the accounting records of an entity at the time an obligation to pay an amount to a third party was created for the public sector entity. The triggering events consistent with this principle are as follows:

a) For goods and services, the delivery of goods, the provision of a service, or the fulfilment of a contract;
b) For grants and subsidies, the existence of a valid claim, that is when all requirements and conditions for receiving a subsidy or benefit are satisfied by the third party; and
c) For wages and salaries, when an employee earns an entitlement to receive a cash remuneration or similar benefit, as specified in the law or employment contract.

25.3.2 Measurement

25.3.2.1 Initial measurement

In accordance with IFRS 9 and IPSAS 29, at initial recognition, an entity measures a financial liability at its fair value plus or minus, in the case of a financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

25.3.2.2 Subsequent Measurement of liabilities

After initial recognition, an entity shall measure all financial liabilities at amortised/adjusted cost using the effective interest method.

25.3.3 De-recognition of accounts payable

A government entity will remove an accounts payable, or part of it, from its statement of financial position when and only when it is extinguished i.e., when the obligation specified in the contract is discharged, waived, cancelled or expires. In other words, the liability is only de-recognised once the obligation upon the entity specified in the contract is discharged, cancelled or extinguished, or expires, and there is no longer a legal obligation on the public sector entity to pay cash or provide goods or services.

25.3.4 Disclosure in financial statements

(1) Accounts payable are ordinarily payable within a short period, in most cases within the next financial year, and are therefore disclosed as current liabilities. At the time of the preparation of the annual financial statements, any account not expected to be payable within twelve months due to conditions of contract must be classified as a non-current liability. Otherwise, these accounts must be disclosed as current liabilities.

(2) Accounts payable are not to be set off against accounts receivable even though the supplier and the debtor are one and the same person or entity unless the balances have arisen as a consequence of an error or a mistake.

(3) The accounts are to be recorded and disclosed at their gross value.

(4) Accounts having a debit balance at the end of the reporting period must be transferred to current assets, that is, sundry debtors, in the annual financial statements.

25.4 Transitional provisions

(1) Determination of opening balances of accounts payable and accrued expenses involves a thorough examination of all ongoing expenses. The entity needs to:
   a) compile a list of all accounts payable;
   b) Confirm that goods and services have been received for the accounts payable;
   c) check that the amounts recorded for specific transactions are correct; and
   d) check that the recorded amounts are complete/ verifiable – this may involve seeking confirmation from regular suppliers.

(2) The process followed needs to be documented to enable opening balances to be established and to provide an audit trail.

(3) The accounts payable brought forward from previous years should be budgeted for in the next financial year and treated as a first charge on receipt of funds.

(4) For entities that have already adopted accrual accounting, the Accounting Officer shall review the current practice and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors.

25.5 Applicable accounting standards

This guideline is based on the following Accounting Standards:

- IPSAS 33 - First – time Adoption of Accrual Basis IPSASs
- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 3 & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

25.6 Legislative authority

- PFM Act, 2012
- PFM (National government) Regulations, 2015
- PFM (County Governments) Regulations, 2015

25.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 25.1

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

26 Accruals

This guideline covers the following areas:

26.1 Introduction

26.1.1 Preamble

(1) IPSAS 19.19(b) defines accrual as follows: *"Accruals are liabilities to pay for goods and services that have been received or supplied, but have not been paid, invoiced, or formally agreed with the supplier, including amounts due to employees (for example, amounts related to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions."*

(2) Under accrual accounting, all transactions are to be recorded in the accounting period to which they relate. This means that revenues and expenses are recorded when they are incurred, regardless of when cash is exchanged. The term "accrual" refers to any individual entry recording revenue or expense in the absence of a cash transaction.

(3) All public sector entities must establish and maintain policies and procedures specific to their own environment and internal systems to ensure that all appropriate accruals are processed at the end of each reporting period.

(4) The budget estimates of a public sector entity are required to include information regarding any payments to be made and liabilities to be incurred by a public sector entity for which an appropriation in not included in an Appropriation Act, together with the constitutional or national legislative authority for any such payments or liabilities, as stipulated under sections 38(1)(e) and 130(1)(c) of the PFM Act, 2012. Based on this, all public sector entities must include all payments to be made and liabilities to be incurred in their budgetary estimates.

26.1.2 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity liability register in order to facilitate consolidation into a Government register of liabilities. The guideline also aims to ensure uniformity in the management and administration of accruals by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for accruals and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to accruals. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

26.1.3 Reference to Liability Management Guidelines

(1) Accruals are classified as liabilities and hence this guideline shall be read in conjunction with the liability management guidelines under Part VI of Guidelines on asset and liability management in the public sector.

(2) The liability management guidelines provide general guidance on the administration and management of liabilities as well as their accounting treatment. The Guidelines on asset and liability management in the public sector are applicable to accruals.

26.2 General management and administration of accruals

In addition to the management and administration aspects documented in the liability management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to accruals.

26.2.1.1 Litigation fees and litigation costs

A Litigation Register is required to be maintained within each public sector entity by an Accounting Officer. Claims need to be reassessed annually as to the expected potential outlays. This is not to be confused with the disclosure required in respect of contingent liabilities. The amount to be determined under this section is an estimate of any legal fees or other legal costs which will ultimately materialise as a result of litigation or legal services.

26.2.1.2 Utilities

(1) Public utilities expenditure, such as power (electricity), fuel, water and telecommunications, typically paid in arrears, must be accrued (pro-rata) at the end of each period and reversed in the following period.

(2) The Accounting Officer shall maintain a record of all utilities that have not been paid at the end of a reporting period.

26.2.1.3 Lease rentals and rent

(1) As finance leases are accounted for separately, the liability for lease rentals should be recognized as liabilities.

(2) Accruals may have to be made for rentals being paid under an operating lease, but only where these are outstanding, and then only where the rentals are not paid in advance. For example, if rent is payable in June for the following month, and as at year end, the rent had not been paid, no accrual is required because the expense relates to the following year. However, if the rent is paid at the end of each period, (say, 30 June for the month of June) and had not been paid at the end of the period, then an accrual must be made.

26.2.1.4 Purchases and other expenses

(1) A review of the trade creditors' invoices processed for a reasonable period after the cut-off date, ensures that charges relating to the prior period are recognised and brought to account for reporting purposes. Care must also be exercised to avoid double counting of accruals using purchase orders and invoices subsequently processed.

(2) Accruals for other expenses not involving normal trade credit facilities must be made on the basis of reasonable estimates if an invoice or payment voucher is not available at the time that the accruals are required. These accruals should include credit card charges and purchases.

26.2.1.5 Income tax, VAT and other taxes

(1) At the reporting date, the net amount owed to the public sector entity or owing to a body responsible for tax collection must be recognised in the Statement of Financial Position as a current receivable or payable (whichever is appropriate).

(2) At the reporting date, the amount of input tax credits receivable from the tax collection body and separately, the tax payable to the tax collection body shall be disclosed in the notes to the annual financial statements.

26.2.1.6 Accrued salaries and wages

(1) Wages and salaries are the remuneration paid or payable to employees for work performed on behalf of an employer or services provided. On the one hand, a salary is the regular payment by an employer to an employee for employment that is expressed either monthly or annually but, is paid most commonly on a monthly basis. On the other hand, wages are usually associated with employee compensation that is based on the number of hours worked multiplied by an hourly rate of pay. Generally, the employees earning hourly wages will be paid weekly.

(2) A liability for salaries and wages incurred but not paid is to be accrued at the end of the reporting period.

26.2.1.7 Annual leave

(1) Entities should be able to obtain details of opening and closing annual leave entitlements from their payroll system (changes to payroll systems to ensure that this information is available on a regular and timely basis is the major implementation issue for recognition of this liability).

(2) An entity may have a policy limiting the number of days' leave that may be carried forward. In such cases, the accrual for the annual leave liability may be calculated for the full amount of annual leave owing, even

where some individuals have accumulated leave in excess of the permitted amount, with reductions in accordance with the policy being performed as a separate exercise.

(3) Accrued annual leave is usually taken within the following period and there is therefore no need to discount the amount.

(4) Annual leave due but not taken is to be recognized as a liability. It is to be calculated on the basis of leave owing to each employee (including any time in lieu) and, is to be based on the individual employee's expected salary at the time the leave is likely to be taken. For example, if the leave is expected to be taken within the following period, the employee's expected salary during that period would be used.

(5) Accrued annual leave that must be taken within the following year is to be classified as a current liability. Accrued annual leave that may be taken after the following year is to be classified as a noncurrent liability. The provision for annual leave is not discounted.

26.2.1.8 Accrued employer superannuation contributions

(1) Accrued employer superannuation contributions in respect of salaries and wages refers to those employer superannuation contributions presently owing in respect of the Government superannuation scheme, but not yet paid at the reporting date.

(2) This amount is calculated as follows:

a) amounts not yet remitted to the Pensions Department at the National Treasury and other pension schemes in respect of pay actually paid; and

b) amounts which relate to any portion of a pay which has been worked by officers, but for which actual payment has not been made and is not yet payable.

26.2.1.9 Accrued payroll deductions

(1) If the monthly payroll tax assessment has not been paid by the end of the financial reporting period, an accrual shall be raised. The accrual is calculated on the same basis as the normal payroll tax monthly returns.

(2) Accruals for payroll deductions should be recognised in respect of:

a) eligible payments constituting direct salaries/wages, employer superannuation contribution, fringe benefits tax, contributions for NHIF, NSSF, Co-operative Societies, HELB; and

b) accrued salaries and wages at the end of the reporting period.

(3) Accrued payroll deductions will form part of current liabilities.

26.2.1.10 Accrued fringe benefits

Accrued fringe benefits and fringe benefits tax payable are to be calculated and recognised as a liability. In determining this figure, accrued fringe benefits are to be recognised in accordance with the respective employees' salary packages. Associated fringe benefits tax liabilities are to be determined in accordance with the Income Tax Act.

26.3 Accounting for accruals

Accruals, being financial instruments, shall be accounted for in accordance with the following accounting standards:

- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 41 - Financial Instruments

26.3.1 Recognition

(1) Accruals should be recognised in the accounting records of an entity at the time an obligation to pay an amount to a third party is created for the public sector entity. The triggering events consistent with this principle are as follows:

a) For goods and services, the delivery of goods, the provision of a service, or the fulfilment of a contract; and

b) For wages and salaries, when an employee earns an entitlement to receive a cash remuneration or similar benefit, as specified in the law or employment contract.

(2) An expense as well as related accrual is recognised when goods or services are receipted or an invoice has been received.

(3) Payment is only made when both of these processes are complete and, in the case of direct invoices, payment has been approved by the Accounting officer. Accruals may need to be calculated for:

a) work performed on the public sector entity's behalf, though not complete or invoiced; and
b) material amounts of direct invoices that have not been received but expenditure relates to the reporting period.

26.3.2 Measurement

For accruals relating to goods, services or works, estimates of accrued charges are to be based on valid purchase orders, quotations, price lists or past experience.

26.3.2.1 Measurement at initial recognition

In accordance with IFRS 9 and IPSAS 29, at initial recognition, an entity shall measure its accruals at fair value plus transaction costs that are directly attributable to the acquisition or issue.

26.3.2.2 Measurement after initial recognition

After initial recognition, an entity shall measure all accrued liabilities at amortised/adjusted cost using the effective interest method.

26.3.3 Derecognition

A public sector entity will remove an accrual, or part of it, from its statement of financial position when and only when it is extinguished. In other words, the accrual is only de-recognised once the obligation upon the entity specified in the contract is discharged, cancelled or extinguished, or expires, and there is no longer a legal obligation on the public sector entity to pay cash or provide goods or services.

26.3.4 Disclosure in financial statements

(1) Accruals shall be disclosed in the annual financial statements and in the notes to the statements. The accruals figures is usually included in the line item of "Accounts payable and accruals".

26.4 Transitional provisions

(1) Determination of opening balances of accruals involves a thorough examination of all ongoing expenses. The entity needs to:

a) compile a list of all recorded amounts payable;
b) check that the amounts recorded for specific transactions are correct;
c) check that the recorded amounts are complete – this may involve seeking confirmation from relevant parties; and
d) review all expenses to see if there are likely to be liabilities at period end.

(2) The process followed needs to be documented to enable opening balances to be established and to provide an audit trail.

(3) For entities that have already adopted accrual accounting, the Accounting Officer shall review the current practice and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors.

26.5 Applicable accounting standards

This guideline is based on the following internationally recognised accounting standards:

- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures

- IPSAS 41 – Financial instruments
- IPSAS 33 - First – time Adoption of Accrual Basis IPSASs
- IPSAS 3 & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

26.6 Legislative authority

- PFM Act, 2012
- PFM (National government) Regulations, 2015
- PFM (County governments) Regulations, 2015

26.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 26.1

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

27 Other Liabilities

This guideline covers the following areas:

27.1 Introduction

27.1.1 Preamble

(1) Other liabilities include liabilities other than long term employee benefits, accounts payable, accruals or provisions.

(2) The budget estimates of a public sector entity are required to include information regarding any payments to be made and liabilities to be incurred by a public sector entity for which an appropriation in not included in an Appropriation Act, together with the constitutional or national legislative authority for any such payments or liabilities, as stipulated under sections 38(1)(e) and 130(1)(c) of the PFM Act, 2012. Based on this, all public sector entities must include all payments to be made and liabilities to be incurred in their budgetary estimates.

(3) All public sector entities must establish and maintain policies and procedures specific to their own environment and internal systems to ensure that all other liabilities are processed at the end of each accounting period.

(4) This guideline covers all other liabilities other than loans, accounts payable, accruals and provisions.

27.1.2 Objectives of the guideline

(1) The objective of this guideline is to guide the preparation of a standardized public sector entity liability register in order to facilitate consolidation into a Government register of liabilities. The guideline also aims to ensure uniformity in the management and administration of other liabilities by all public sector entities.

(2) In addition, the guideline prescribes the appropriate measurement, treatment and disclosure for other liabilities and provide technical guidance for the preparation of financial statements, so as to enable them to give a true and fair view, with respect to other liabilities. The guideline is prepared following guidance from all relevant International Accounting Standards, including IPSASs, IAS and IFRS.

27.1.3 Reference to Liability Management Guidelines

(1) Other liabilities are classified as liabilities and hence this guideline shall be read in conjunction with the liability management guidelines under Part VI of Guidelines on asset and liability management in the public sector.

(2) The liability management guidelines provide general guidance on the administration and management of liabilities as well as their accounting treatment. The Guidelines on asset and liability management in the public sector are applicable to other liabilities.

27.2 General management and administration of other liabilities

In addition to the management and administration aspects documented in the liability management guidelines in the Guidelines on asset and liability management in the public sector, the following matters are specific to other liabilities.

27.2.1 Unearned/ deferred revenue

(1) Unearned revenue, or sometimes referred to as deferred revenue, is the payment received by a public sector entity from its customers for products or services that will be delivered at some point in the future.

(2) Unearned revenue can therefore be defined as revenue received or invoiced in advance and, represents an obligation of the public sector entity to other parties which will be subsequently satisfied.

(3) The revenue is progressively recognised, as and when:

a) the public sector entity provides the goods and/or services to which the revenue relates; or

b) the period of time to which the revenue relates has elapsed.

(4) Examples of unearned revenue in the public sector includes advance receipts for rent payments, annual subscriptions, licence and medical fees, rail or airline tickets , school fees and insurance.

(5) These transactions do not satisfy the revenue recognition criteria. However, they do meet the recognition criteria for a liability in the transition to meeting the revenue recognition criteria.

(6) Unearned revenue must be apportioned between current and non-current liabilities and reported under Other Liabilities in the Statement of Financial Position.

27.2.2 Advance deposits

(1) Advance deposits are funds received in advance of services to be provided and for which invoices have not been issued at period end.

(2) Examples of advance deposits in the public sector include, patient fees paid in advance of hospitalization to secure a position, initial deposit received for sale or rental of property, plant and equipment, advance deposits on imports of goods, deposits received on sales of securities.

(3) In the first instance, the deposits are to be banked to a controlled revenue collections bank account and are to be accounted for as a sundry creditor and must be analysed into current or non-current liabilities. They must not be set off against debtors until the services have been performed or the goods supplied.

(4) When an invoice is ultimately issued, the excess of the advance paid over the value of the invoice, if any, continues to be categorised as a sundry creditor, until it is repaid or otherwise discharged.

(5) The disclosure will have to be classified as either current or non-current liabilities depending upon the expectation as to whether the goods or services will be delivered within the next 12 months or later.

(6) Deposits forfeited are to be transferred from the liability account to revenue fund of the entity.

(7) The refunds of deposits or payment of interest shall be in accordance with specific contract agreements.

27.2.3 Security deposits received

(1) Security deposits are funds received in order to ensure that an event occurs, contract conditions are complied with or property is not lost.

(2) Examples of security deposits are deposits for leases/ rent by lessors/ landlords as well as deposits received by utility companies for connections to services such as water, electricity, and telephone deposits.

(3) When an invoice is ultimately issued, the excess of the advance paid over the value of the invoice, if any, continues to be categorised as a sundry creditor, until it is repaid or otherwise discharged.

(4) The disclosure will have to be classified as either current or non-current liabilities depending upon the expectation as to whether the goods or services will be delivered within the next twelve months or later.

(5) Deposits forfeited are to be transferred from the liability account to a controlled revenue account. Any refundable deposits shall be in accordance with specific contract conditions.

27.2.4 Credit balances in debtors

(1) The total of all credit balances (per customer) in the debtors' ledger at balance date must be disclosed as a current liability in the annual financial statements.

(2) IPSAS 1 and IAS 1 on Presentation of Financial Statements states that assets and liabilities are to be reported separately and shall not be offset unless required or permitted by an Accounting Standard.

(3) Credit balances in debtors accounts are usually the result of debtor overpayments or unused credits arising from adjustments.

(4) All credit balances must be verified for accuracy and refunded where possible. Where the debtor has frequent transactions with the public sector entity and the credit can reasonably be expected to be offset against future debts yet to be incurred by the debtor, he/she should be advised of the credit in order for it to be taken up.

27.2.5 Suspense accounts

(1) All transactions that cannot be readily identified shall be recorded immediately in suspense accounts and shall be held there temporarily. This practice will ensure that all money are receipted and banked promptly.

(2) The public sector entity's systems for suspense accounts must ensure that:
   a) sources of items in the accounts are readily identified;
   b) amounts included in the accounts are promptly cleared; and
   c) reconciliations are performed regularly to confirm the balance of each account.

27.2.5.1 Suspense account entries

(1) Section 107 of the PFM (National government and County governments) regulations, 2015 outlines guidance on clearance and suspense accounts. In general, all transactions relating to clearance and suspense accounts are to be supported by authentic and verifiable source documents, clearly indicating the approved allocation.

(2) Transactions recorded in suspense accounts will include, but not be limited to:
   a) refunds of overpayments or incorrect payments of expenditure;
   b) receipt of expenditure recovered to be reimbursed to an expenditure account;
   c) unclaimed money to be held for twelve months;
   d) found money;
   e) money belonging to a third party and which are to be refunded;
   f) money received by electronic funds transfer, but temporarily not able to be credited to an appropriate account;
   g) unclaimed cheques;
   h) deposits paid with tender documents which may be refundable;
   i) money held awaiting correct revenue codes to be established.

(3) All items are to be cleared from the suspense accounts promptly. At the end of each month, the Accounting officer shall, following the reconciliation of the accounts with the general ledger, prepare a listing of items in transaction order and supply it to the relevant supervisor or manager for review.

(4) The Accounting officer shall:
   a) check the correctness of the entries in the suspense accounts record against the data from which the entries were made;
   b) check that the monthly balancing and reconciliation has been properly performed by an authorised officer; and
   c) ensure that money with respect to each item comprising the balance of the account are being properly held.

27.2.5.2 Clearance of transactions

(1) In any instance where money have been held in the suspense accounts and can no longer be applied to the original purpose intended or otherwise applied, this money shall be transferred to the Unclaimed Financial Assets Authority (UFAA). The time period for determination of abandoned assets is stipulated in the Act and the Regulations, for example, in accordance with section 4, 5 and 7 of the UFA Act, 2011, Revised 2012, and section 3 of the UFA Regulations 2016, deposits for utility services, travellers cheques, money orders, life or endowment insurance policy or annuity contracts shall be transferred to UFAA after the expiry of two years after due date of payment.

(2) Should a claim be subsequently made in respect of an amount that has been transferred to the UFAA, the public sector entity shall accord the necessary assistance to the claimant to obtain back the funds.

(3) Sections 53(13), 53(14), 53(15), 144 (16), 144 (17) and 144 (18) of the PFM Act, 2012 provide guidance on proceeds from government securities which have not been collected or cannot be paid to the holder because the whereabouts of the holder or his personal representatives are unknown, or the holder has died. After the expiry of six years, such funds are to be returned to the Exchequer account to form part of the Consolidated Fund or the Revenue Fund, as appropriate. The right of any person who has legitimate claim to the proceeds of a security is not affected by the payment of the funds to the Consolidated Fund or County Revenue Fund.

27.2.5.3 Suspense account reports

(1) Quarterly reports are to be prepared by the Accounting Officer about items that have been in the public sector entity's suspense accounts for more than six months.

(2) The report shall include:
   a) the action taken to identify the source of each item;
   b) a recommendation about the proposed action for the item; and

c) a record of the consideration and decisions of the Accounting Officer or delegate about the item.

27.2.6 Liabilities of other public sector entities assumed

Any liability of a public sector entity that is assumed by another public sector entity, for example, assets acquired through loans contracted by an entity, shall be accounted for as follows:

a) on acquisition of the asset and loan, the receiving public sector entity shall recognise the asset as well as a liability;
b) on assumption of the asset and liability by another entity, the public sector entity transferring the assets and liability shall enter into a documented agreement obligating the receiving entity to service the liability, in accordance with the original agreement with the lender;
c) the assuming entity shall recognize both the asset and liability in their accounting records.

27.2.7 Agreements equally proportionately unperformed

(1) Agreements equally proportionately unperformed are reciprocal agreements under which both parties are at the same stage of performance. It may be that neither party has fulfilled any commitments or that both parties have performed, to an equal extent, some of the promises, whilst other commitments remain to be honoured.
(2) Examples of such agreements include significant contracts for the purchase of materials or equipment, leases, forward exchange contracts and certain types of employment agreements.
(3) Where a liability exists with respect to such agreements, that liability shall be recorded in the appropriate general ledger account.
(4) Where an entity has contractually committed for the performance of a contract for a period of more than one financial year, the unperformed amount of the contract shall be disclosed as capital commitments in the entity's financial statements.

27.2.8 Retention money in construction contracts

(1) Retention is a percentage of the amount certified as due to the contractor on an interim certificate, that is deducted from the amount due and retained by the client. It is generally held to ensure that a contractor performs all of its obligations under the contract and, is then released either on practical completion or after the end of a defects notification period. The amount and timing of payment of retention money is based on contract agreements.
(2) Interim certificates should make clear the amount of retention and a statement should also be prepared showing retention for contractors and where applicable, sub-contractors.
(3) The Accounting Officer shall maintain a register of retention monies due to contractors at given point in time. The register will include details such as, name of contractor, contract number, works being carried out, date of interim certificate, Interim certificate number, total amount of interim certificate, amount retained for each certificate, start of defects liability period, end of defects period, expected payment date of retention funds, any payments made and the total amount payable to all contractors.
(4) A separate detailed ledger account shall also be maintained in the financial records.
(5) Monthly reconciliations of the retention money register and the retention money ledger in the financial system shall be conducted and any reconciling items resolved promptly.
(6) The Accounting Officer shall ensure that works are inspected for any defects during the defects liability period before any payments for retention are made.
(7) If any defects are noted during the defects liability period, the public sector entity is entitled to demand from the contractor to remedy the defect and if the contractor fails to do so, the entity has a right to use the retention money to remedy the defect using the retention money. When that happens, the public sector entity is entitled to only pay to the contractor the balance of the money remaining after recovering the cost of catering for the defects in the project.
(8) If, on the other hand, the project has no defects at the end of the defects liability period, the public sector entity has no option but to pay to the contract the remaining balance of the retention money without further delay. This is done after it has been certified by an expert that the project has no defects which require to be remedied by the contractor.

(9) Any funds retained on contracts that are not paid at the end of a reporting period shall be reflected as a liability in the financial statements.

27.2.9 Capital commitments

Section 56 of the PFM (National Government) Regulations, 2015 and section 55 of the PFM (County Governments), Regulations, 2015 acknowledge that public sector entities can enter into contracts which impose financial obligations on an entity for more than one financial year. The Regulations require that Accounting Officers secure resources required for such contracts in accordance with the financing requirements.

27.2.9.1 General

(1) Commitments occur when a purchase order is issued or a contract is entered into, requiring expenditure in the future.

(2) Indications that assist in confirming the existence of a commitment include:
- a) the existence of an executed contract between the parties for the delivery of goods and/or services;
- b) the potential for losses to accrue to a party if contractual obligations are breached; or
- c) if compensation may be payable in the event of default.

(3) Examples of commitments are:
- a) the execution of contracts for the construction of infrastructure assets;
- b) the issuance of purchase order or signing of contract for major items of plant and equipment;
- c) the issuance of purchase order or signing of contract for procurement of office supplies over a contracted period of time, more than one financial year;
- d) the supply of communication services for periods more than one year; or
- e) the engagement of external consultants for periods more than one year.

(4) In these examples, a commitment crystallises as a liability when:
- a) construction of an asset commences;
- b) items of equipment are received;
- c) office supplies are delivered;
- d) phone services are established; or
- e) external consultants commence their engagement.

27.2.9.2 Management of capital commitments

(1) When commitments, through the supply of goods or services under a contract between the public sector entity and another party become liabilities, the management of commitments becomes a critical component of the public sector entity's internal control and operational control systems.

(2) Reports on commitments should disclose anticipated costs, their timing and their impact on current and future cash projections. To capture and report this information, the public sector entity is required to:
- a) update cash flow projections;
- b) ensure that payments are only made when due;
- c) ensure that payments made are in accordance with the terms of the contracts that have been executed between the parties; and
- d) manage and approve price or contract variations, if they occur.

27.2.9.3 Identification, recording and reporting of capital commitments

(1) Procedures should also be in place to ensure that commitments are in compliance with relevant statutory requirements and other guidelines issued by National Treasury.

(2) Procedures must be implemented within each public sector entity to ensure that any capital commitments entered into are:
- a) promptly identified, recorded and monitored;
- b) valid; and
- c) appropriately documented.

(3) The public sector entity shall disclose in the annual financial statements, the following categories of capital commitments:
- a) non-cancellable operating leases;
- b) expenditure; and
- c) grants and subsidies.

(4) The value of capital commitments shown in the notes to the annual financial statements must be inclusive of any applicable taxes.
(5) The public sector entity's commitment for leased public sector entity vehicles, equipment and office space is calculated on monthly lease payments and the outstanding lease period at the reporting date.
(6) In respect of grants and subsidies, a liability may be recognised only where the public sector entity is committed to providing the grant or subsidy and has little or no discretion to avoid making the payment, for example, under a grant agreement, the grantee has met eligibility criteria and has provided the deliverables in terms of the grant conditions. Where these criteria have not been met, the grant or subsidy remains a commitment.

27.3 Accounting for other liabilities

Other liabilities, being financial instruments, shall be accounted for in accordance with the following accounting standards:

- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 41 - Financial Instruments

27.3.1.1 Recognition

Accruals should be recognised in the accounting records of an entity at the time an obligation to pay an amount to a third party is created for the public sector entity. The triggering events consistent with this principle are as follows:

c) For goods and services, the delivery of goods, the provision of a service, or the fulfilment of a contract; and
d) For wages and salaries, when an employee earns an entitlement to receive a cash remuneration or similar benefit, as specified in the law or employment contract.

27.3.1.2 Measurement

Initial measurement

(1) In accordance with IFRS 9 and IPSAS 29, at initial recognition, an entity measures a financial liability at its fair value plus or minus, in the case of a financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

Subsequent measurement of liabilities

(2) After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method.

27.3.1.3 Derecognition

A public sector entity will remove a liability, or part of a liability, from its statement of financial position when and only when it is extinguished. In other words, the liability is only de-recognised once the obligation upon the entity specified in the contract is discharged, cancelled or extinguished, or expires, and there is no longer a legal obligation on the public sector entity to pay cash or provide goods or services.

27.3.1.4 Disclosure in financial statements

(1) Other liabilities shall be disclosed in the annual financial statements and in the notes to the statements.
(2) The line item for 'other liabilities' shall not exceed ten percent of the value of total liabilities.
(3) Significant commitments that have not crystallised as a reporting date should be disclosed as a note to the financial statements.

27.4 Transitional provisions

(1) Determination of opening balances of other liabilities involves a thorough examination of all ongoing expenses. The entity needs to:

a) compile a list of all recorded amounts payable;
b) check that the amounts recorded for specific transactions are correct;
c) check that the recorded amounts are complete – this may involve seeking confirmation from relevant parties; and
d) review all expenses to see if there are likely to be liabilities at period end.

(2) The process followed needs to be documented to enable opening balances to be established and to provide an audit trail.

(3) For entities that have already adopted accrual accounting, the Accounting Officer shall review the current practice and ensure alignment with this guideline. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors.

27.5 Applicable accounting standards

This guideline is based on the following Accounting Standards:

- IPSAS 33 - First – time Adoption of Accrual Basis IPSASs
- IPSAS 28 & IAS 32 - Financial Instruments: Presentation
- IPSAS 29 & IFRS 9 - Financial Instruments: Recognition and Measurement
- IPSAS 30 & IFRS 7 – Financial Instruments: Disclosures
- IPSAS 41 – Financial instruments
- IPSAS 3 & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

27.6 Legislative authority

- PFM Act, 2012
- PFM (National government) Regulations, 2015
- PFM (County governments) Regulations, 2015
- Unclaimed Financial Assets (UFA) Act, 2011, Revised 2012
- Unclaimed Financial Assets (UFA) Regulations, 2016

27.7 Implementation of guideline

The dates of implementation of the guideline are as follows:

Table 27.1

Effective Date	Beginning on or after 1 July 2020
Date guideline approved	
Date guideline amended	

28 Accounting entries

28.1 Accounting entries for non-financial assets other than inventories

28.1.1 On transition

Debit: Asset a/c	XXX	
Credit: Retained Earnings a/c		XXX

(With opening values of assets)

28.1.2 On acquisition of asset

a) On purchase of an asset

Debit: Asset Account	XXX	
Credit: Cash/Payables		XXX

(with the costs incurred in acquisition of asset)

b) On construction or major renovations of assets

(i) During the construction/renovation of a assets, the costs shall be recorded as WIP as below:

Debit: Work in Progress – Specific asset a/c	XXX	
Credit: Cash/Payables		XXX

(with the costs incurred in construction/ renovations during a given period)

(ii) When construction is complete:

Debit: Asset Account	XXX	
Credit: Work in Progress – Asset account		XXX

(with accumulated cost of work in progress for the completed asset)

c) On receipt/ transfer of asset from other government entity

Debit: Asset Account	XXX	
Credit: In-kind receipt of asset (Revenue/Income)		XXX

(with the book value of asset as provided by transferring entity)

d) On acquisition of an asset through a finance lease

Debit: Asset Account	XXX	
Credit: Lease – Liability account		XXX

(with the value of the asset determined at inception of lease)

28.1.3 On depreciation

Debit: Depreciation Expense – specific asset account	XXX	
Credit: Accumulated Depreciation – specific asset account		XXX

(with the depreciation charge for a given accounting period)

28.1.4 On impairment

Debit: Impairment Loss – specific asset account	XXX	
Credit: Asset account		XXX

(with the amount of impairment)

28.1.5 On revaluation

(i) In case of an increase in revaluation

Debit: Non-current asset account (valuation amount less original cost)	XXX	
Debit: Accumulated depreciation (balances brought forward)	XXX	

Credit: Revaluation reserve (gain on revaluation)		XXX
(with increase in valuation)		

Note: Where the revaluation amount is less than the original cost, the difference should be credited to the original cost account.

(ii) In case of a decrease in revaluation

Debit: Revaluation reserve (to maximum of original gain)	XXX	
Debit: Income statement (any residual loss)	XXX	
Credit: Accumulated depreciation (Balances brought forward)		XXX
Credit: Non-current asset (valuation less original cost)		XXX
(with decrease in valuation)		

(iii) Depreciation after revaluation

Debit: Revaluation reserve	XXX	
Credit: Retained earnings		XXX
(with the annual depreciation amounts)		

(iv) Disposal of revalued assets

Debit: Revaluation reserve	XXX	
Credit: Retained earnings		XXX
(with any balances in the revaluation reserve for the asset)		

28.1.6 On derecognition

a) On sale of an asset

(i) To remove asset from records

Debit: Asset Disposal	XXX	
Credit: Asset Account		XXX
(with the cost or fair value of the asset sold)		

(ii) To derecognize accumulated depreciation

Debit: Accumulated depreciation account	XXX		
Credit: Asset Disposal account			XXX
(with the accumulated disposal of the asset sold)			

b) On receipt of proceeds from sale of an asset

Debit: Bank - Development/ Recurrent	XXX	
Credit: Asset Disposal Account		XXX
(with the amount received on sale of the asset)		

c) On demolition of an asset

Debit: Asset disposal account	XXX	
Credit: Asset Account		XXX
(with the net book value of the asset demolished)		

d) On transfer of an asset to another public sector entity

Debit: Asset disposal account XXX

Credit: Asset account XXX

(with the net book value of the asset transferred)

Note: The accounts to which the journals are passed should be in accordance with SCOA as guided by GFS manual 2014.

28.2 Accounting entries for inventories, stocks and consumables

a) On transition

Debit: Inventories a/c XXX

Credit: Retained Earnings a/c XXX

(With opening values of inventories)

b) On receipt of inventory

Debit: Inventories Account – Raw materials or finished goods a/c XXX

Credit: Bank/Accounts payable account XXX

(with amount of inventory received)

c) On return of goods supplied to a supplier

Debit: Bank/Accounts payable account XXX

Credit: Inventories Account – Raw materials or finished goods a/c XXX

(with amount of inventory returned)

d) On use of materials in production

Debit: Inventories - Work in progress a/c XXX

Credit: Inventories – Raw materials a/c XXX

(with amount of raw materials transferred from raw materials)

e) To record indirect production costs in overhead

Debit: Work in progress a/c XXX

Credit: Bank/ Accounts payable a/c XXX

(With amount of overhead cost)

f) To record production labour in overhead

Debit: Work in progress a/c XXX

Credit: Wage expenses a/c XXX

(with amount of wage expense)

g) On transfer of work in progress to finished goods

Debit: Inventories – Finished goods a/c XXX

Credit: Inventories – Work-in-Progress a/c XXX

(With amount of Work-in-Progress transferred to finished goods)

h) On sale of inventory

Journal entry 1

Debit: Cost of goods sold XXX

Credit: Inventories – Finished goods XXX

(With value of finished goods sold)

Journal entry 2

Debit: Bank/ Accounts Receivable XXX

Credit: Sales XXX

(With value of finished goods sold)

i) To write off obsolete stocks/ un-saleable stocks
Debit: Obsolete inventories expense a/c XXX

Credit: Inventories a/c XXX

(with amount written off)

j) To set up a provision for slow moving stocks
Debit: Slow moving stocks expense XXX

Credit: Provision for slow moving stocks XXX

(with amount provided for)

Note: The accounts to which the journals are passed should be in accordance with SCOA as guided by GFS manual 2014.

28.3 Accounting entries for investments

a) On transition
Debit: Investments a/c XXX

Credit: Retained Earnings a/c XXX

(With opening values of investments)

b) On acquisition of investments
Debit: Investments XXX

Credit cash/ Accounts payable XXX

(with amount of investment)

c) On receipt of dividend or interest from investments

Debit: Bank account XXX
Credit: Investment income XXX

(With amount of dividend or interest received)

d) On disposal of investments valued at cost
Debit: Bank account (disposal proceeds received) XXX

Debit: Loss on disposal account (Cost less disposal proceeds) XXX

Credit: Investments (cost) XXX

Note: Where disposal results in a gain on disposal, a gain on disposal account shall be credited.

e) On revaluation of investments

(i) In case of an increase in revaluation

Debit: Investment account (valuation amount less original cost) XXX

Credit: Revaluation reserve (valuation amount less original cost) XXX

(with increase in valuation)

(ii) In case of a decrease in revaluation

Debit: Revaluation reserve (to maximum of original gain) XXX

Credit: Investment account (valuation less original cost) XXX

(with decrease in valuation)

(iii) Disposal of revalued investments

Debit: Revaluation reserve XXX

Debit: Bank account XXX

Debit: Loss on disposal (income statement) XXX

Credit: Investment account XXX

(with any balances in the revaluation reserve for the investment)

Note: Where disposal results in a gain on disposal, a gain on disposal account shall be credited.

28.4 Accounting entries for cash and cash equivalents

a) On deposit of funds into Bank account

Debit: Bank – Specific bank account XXX

Credit: Source of funds e.g. receivables, grants XXX

(With amount deposited)

b) On payment of funds from bank account

Debit: Payee e.g. Creditor account, expense XXX

Credit: Bank – Specific bank account XXX

(With amount paid)

Note: The accounts to which the journals are passed should be in accordance with SCOA as guided by GFS manual 2014.

28.5 Accounting entries for accounts receivable

a) On transition

Debit: Accounts Receivable a/c XXX

Credit: Retained Earnings a/c XXX

(With opening values of Accounts Receivable)

b) At the time of recording a credit sale and billing the customer

Debit: Accounts Receivable – specific customer A/C XXX

Credit: Revenue/ Credit sales A/C XXX

(with invoice amount)

c) At the time of money received from customer

Debit: Cash or Bank A/C XXX

Credit: Accounts Receivable – specific customer A/C XXX

(with amount received)

d) A credit note is issued to a customer
Debit: Revenue a/c XXX

Credit: Accounts receivable – specific customer a/c XXX

(with amount to be reversed)

e) To write off an accounts receivable as a bad debt
Debit: Bad debt expense a/c XXX

Credit: Accounts receivable – specific customer a/c XXX

(with amount written off)

f) To set up a provision for doubtful debts
Debit: Bad debt expense XXX

Credit: Provision for doubtful debts XXX

(with amount provided for)

g) To use the provision for doubtful debts to write off an accounts receivable
Debit: Provision for doubtful debts XXX

Credit: Accounts receivable – specific customer a/c XXX

(on write off of receivable previously provided for)

h) To record cash received after an accounts receivable has been written off
Debit: Cash XXX

Credit: Other revenue XXX

(with amount of cash received)

Note: The accounts to which the journals are passed should be in accordance with SCOA as guided by GFS manual 2014.

28.6 Accounting entries for loans/ grants receivables

a) On transition
Debit: Accounts Receivable a/c XXX

Credit: Retained Earnings a/c XXX

(With opening values of Accounts Receivable)

b) At the time of recording a credit sale and billing the customer
Debit: Accounts Receivable – specific customer A/C XXX

Credit: Revenue/ Credit sales A/C XXX

(with invoice amount)

c) At the time of money received from customer
Debit: Cash or Bank A/C XXX

Credit: Accounts Receivable – specific customer A/C XXX

(with amount received)

d) A credit note is issued to a customer
Debit: Revenue a/c XXX

Credit: Accounts receivable – specific customer a/c XXX

(with amount to be reversed)

e) To write off an accounts receivable as a bad debt
Debit: Bad debt expense a/c XXX

Credit: Accounts receivable – specific customer a/c XXX

(with amount written off)

f) To set up a provision for doubtful debts
Debit: Bad debt expense XXX

Credit: Provision for doubtful debts XXX

(with amount provided for)

g) To use the provision for doubtful debts to write off an accounts receivable
Debit: Provision for doubtful debts XXX

Credit: Accounts receivable – specific customer a/c XXX

(on write off of receivable previously provided for)

h) To record cash received after an accounts receivable has been written off
Debit: Cash XXX

Credit: Other revenue XXX

(with amount of cash received)

Note: The accounts to which the journals are passed should be in accordance with SCOA as guided by GFS manual 2014.

28.7 Accounting entries for other receivables

28.7.1 On transition

Debit: Deposits/ Prepayments a/c XXX

Credit: Retained Earnings a/c XXX

(With opening values of deposits and/ or prepayments)

28.7.2 Accounting for Deposits

a) Upon payment of the deposit

Account Entry	Deposits	Bank/Cash
Debit	XXXX	
Credit		XXXX

b) Refund of deposit
In case, cash was received for the refund of a security deposit

Account Entry	Bank/Cash	Deposits Rent
Debit	XXXX	
Credit		XXXX

28.7.3 Accounting for Prepayments

a) On making a prepayment

Account Entry	Prepayment a/c	Bank/Cash Accounts
Debit	XXXX	
Credit		XXXX

b) Monthly amortization of prepaid expenditure
On a straight-line method of amortization for prepaid expenses;

Account Entry	Expense	Prepayment
Debit	XXXX	
Credit		XXXX

28.7.4 Accounting documents and entries for imprests

Table 28.1

Description	Required documents	Accounting entries
Advance	• Approved Imprest warrant form	Debit: Advance – Specific officer a/c Credit: Cash/Bank – Specific bank a/c
Advance Settlement	• Approved imprest warrant form. • Expenses Report with all the supporting documents (i.e. receipts, airline tickets, bus tickets etc.) and boarding cards	Dr. Expense a/c – Specific expense a/c Cr. Advance – Specific officer a/c
Staff salary Advance	• Approved staff salary advance form denoting compelling reasons for the application	Dr. Staff salary advance – Specific officer a/c Cr. Cash/Bank – specific bank a/c
Staff salary advance settlement (Recovery via payroll)	• Approved salary advance form showing the advance issued.	Dr. Salary expense – Specific expense a/c Cr. Staff salary advance – Specific officer a/c

Note: The accounts to which the journals are passed should be in accordance with SCOA as guided by GFS manual 2014.

28.8 Accounting entries for loans payable/ borrowings

a) On transition

Debit: Retained Earnings a/c	XXX	
Credit: Loans a/c		XXX

(With opening values of loans)

b) Upon receipt of loan monies
Debit: Bank Account XXX

Credit: Loan a/c – specific source XXX

[recording of loan monies received]

c) On repayment of principal and interest
Debit: Interest Expenditure a/c XXX

Debit: Loan Principal Repayments XXX

Credit: Bank Account XXX

[to record the repayment of principal and interest on loans]

d) Recognition of gains e.g. foreign exchange gains on foreign loans
Debit: Loan a/c – Specific source XXX

Credit: Foreign exchange gain a/c XXX

(With amount of foreign exchange gain)

e) Recognition of losses e.g. foreign exchange loss on foreign loans
Debit: Foreign exchange loss a/c XXX

Credit: Loan a/c – Specific source XXX

(With amount of foreign exchange loss)

f) For loan monies received on behalf of other public sector entities
(i) On receipt of loan
Debit: Bank Account XXX

Credit: Loans received – Specific entity account XXX

[to record the receipt of loan monies by the Government, on behalf of other entities]

(ii) On transfer of funds received to the relevant public sector entity
Debit: Loans received - Specific entity account XXX

Credit: Bank Account XXX

[to record the transfer of loan monies by the Government, to recipient bodies]

Note: The accounts to which the journals are passed should be in accordance with SCOA as guided by GFS manual 2014.

28.9 Accounting entries for provisions

a) On transition

Debit: Retained Earnings a/c XXX

Credit: Provisions a/c XXX

(With opening values of provisions)

b) The journal to record the provision

Debit: Expense a/c XXX

Credit: Provision account XXX

(with the amount to be provided for)

c) On settlement of a provision through payment

Debit: Provision account XXX

Credit: Bank/ cash XXX

(with the amount paid)

d) Entry on increase in provisions

Debit: Expense a/c XXX

Credit: Provision account XXX

(with increase in provision)

e) Entry on decrease in provisions

Debit: Provision a/c XXX

Credit: Expense a/c XXX

(with decrease in provision)

Note: The accounts to which the journals are passed should be in accordance with SCOA as guided by GFS manual 2014.

28.10 Accounting entries for long term employee benefits

28.10.1 On transition

Debit: Retained Earnings a/c XXX

Credit: Pensions a/c XXX

(With opening values of pension payments due)

28.10.2 For defined contribution plans

On making payments for a defined contribution plan

Debit: Pension Expense a/c

Credit: Cash a/c

(with amount of pension contributions)

28.10.3 For defined benefit plans

a) To record company contribution to pension

Debit: Defined Benefit Pension Liability XXX

Credit: Cash XXX

(with amount of contribution)

b) To record pension expense

Debit: Pension expense XXX

Credit: Defined Benefit Pension Liability XXX

(with amount of pension expense incurred)

c) To adjust pension liability to fair value – in case of an increase

Debit: Other comprehensive income (OCI) XXX

Credit: Net defined benefit liability XXX

(with amount of increase)

d) To adjust pension liability to fair value – in case of a decrease

Debit: Net defined benefit liability XXX

Credit: Other comprehensive income (OCI) XXX

(with amount of decrease)

Note: The accounts to which the journals are passed should be in accordance with SCOA as guided by GFS manual 2014.

28.11 Accounting entries for accounts payable

a) On transition
Debit: Retained Earnings a/c XXX

Credit: Accounts payable a/c XXX

(With opening values of accounts payable)

b) To record a purchase of goods, inventory or asset on account from a supplier
Debit: Purchases/Inventory/ Asset – specific a/c XXX

Credit: Accounts payable – specific supplier a/c XXX

(with value of goods, inventory or asset received)

c) To record a purchase of services or incurrence of expenses on account from a supplier
Debit: Expense Account XXX

Credit: Accounts payable – specific supplier account XXX

(with value of services delivered)

d) To record payment to a supplier
Debit: Accounts payable – specific supplier a/c XXX

Credit: Cash/ Bank XXX

(with amount paid)

e) To make a payment taking a supplier early settlement discount
Debit: Accounts payable XXX

Credit: Discount received XXX

Credit: Cash/ Bank XXX

(with amounts paid and discount received)

f) Goods returned and a debit note is issued to a supplier for goods returned
Debit: Accounts payable XXX

Credit: Purchases XXX

(with amount of debit note)

Note: The accounts to which the journals are passed should be in accordance with SCOA as guided by GFS manual 2014.

28.12 Accounting entries for accruals

a) On transition
Debit: Retained Earnings a/c XXX

Credit: Accruals a/c XXX

(With opening values of accruals)

b) To record an accrual
Debit: Expense Account/ other relevant account XXX

Credit: Accrual account XXX

(with value of services or goods delivered)

c) To record payment for a liability
Debit: Accrual account XXX

Credit: Cash/ Bank XXX

(with amount paid)

Note: The accounts to which the journals are passed should be in accordance with SCOA as guided by GFS manual 2014.

28.13 Accounting entries for other liabilities

a) On transition
Debit: Retained Earnings a/c XXX

Credit: Other Liabilities a/c XXX

(With opening values of other liabilities)

b) To record a liability
Debit: Expense Account/ other relevant account XXX

Credit: Liability account XXX

(with value of services or goods delivered)

c) To record payment for a liability
Debit: Liability account XXX

Credit: Cash/ Bank XXX

(with amount paid)

d) Accounting entry for transfer of a liability to another entity

Journal entry 1

On transfer of the liability from transferor entity (in the books of transferor)

Debit: Liability account	XXX	
Credit: Receiving entity		XXX

(with value of liability transferred)

Journal entry 2

On receipt of payments from receiving entity (in the books of receiving entity)

Debit: Receiving entity	XXX	
Credit: Liability account		XXX

(with amount received)

Note: The accounts to which the journals are passed should be in accordance with SCOA as guided by GFS manual 2014.