Republic of Kenya

PSASB
PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

REF: PSASB/02/2026

DATE: 26th June 2026

TO: ALL PUBLIC SECTOR ENTITIES REPORTING UNDER IPSAS FRAMEWORK

ADOPTION OF THE REDUCING BALANCE METHOD OF DEPRECIATION FOR PROPERTY, PLANT AND EQUIPMENT (PPE) UNDER IPSAS 45

Background

In reviewing financial reporting practice across the public sector, the Board has noted that items of property, plant and equipment are, in a number of cases, fully depreciated to a nil carrying amount while remaining functional and in active service. This is attributable largely to the sector-wide convention of applying the straight-line method regardless of an asset's actual consumption pattern, and to the limited extent to which useful lives are reviewed annually, as required by IPSAS 45. Some entities have responded by undertaking periodic revaluation exercises, which, while a reasonable corrective step, are costly. In the interest of a more sustainable and economical solution, the Board has resolved to direct a public-sector-wide transition to the reducing-balance method of depreciation.

Implementation timeline

Entities are encouraged to voluntarily adopt the reducing balance method in the financial year 2025/26, with the change treated as a change in accounting estimate under IPSAS 3. From the financial year 2026/27 onwards, the reducing-balance method shall be mandatory for all IPSAS-reporting entities.

Accounting treatment

The transition shall be treated as a change in accounting estimate, not a change in accounting policy, in accordance with IPSAS 3 and IPSAS 45. Entities shall accordingly apply the new method prospectively: using the carrying amount as of the date of change as the basis for future depreciation, with no restatement of prior-period comparatives, and recognizing the effect in the surplus or deficit of the current and future periods, as appropriate.

The reducing-balance method shall be applied by asset class, supported by the entity's own assessment of the consumption pattern for that class. Where the straight-line method remains the more faithful representation for a particular class, entities may retain it for that class, with the basis for doing so documented.

Support for Implementation

Entities are urged to review their accounting policies and financial systems to ensure alignment with this Directive.

PSASB will issue updated templates in the coming year to capture this guidance. PSASB and the National Treasury are also available to support entities in this transition.

The Board thanks all reporting entities for their continued commitment to the quality and credibility of public-sector financial reporting and looks forward to your partnership in implementing this Directive.

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