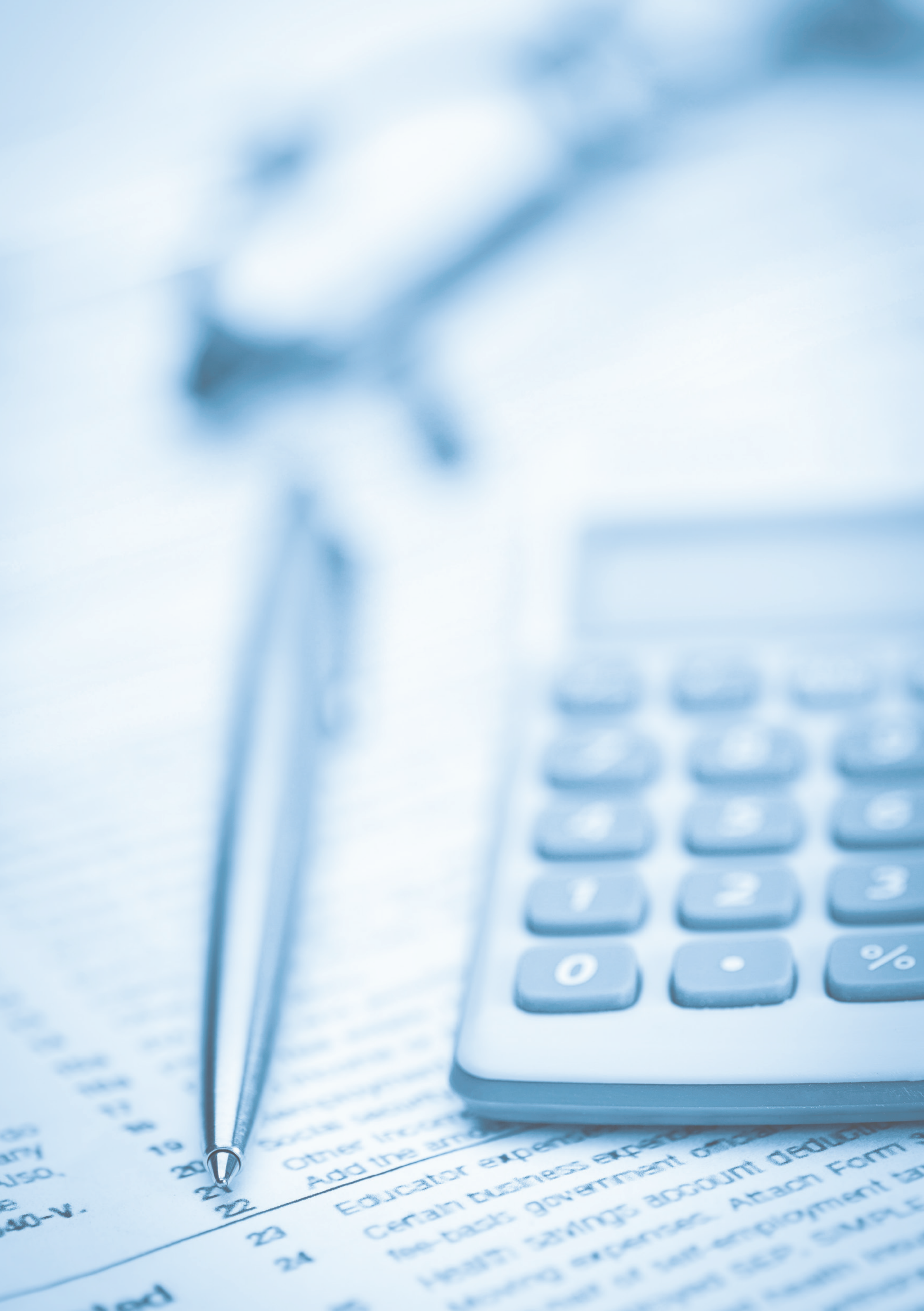
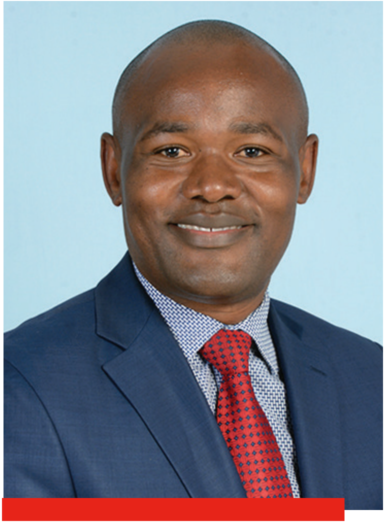
PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

2023

GUIDELINES ON TRANSITION FROM CASH TO ACCRUAL ACCOUNTING BY CONSTITUTION COMMISSIONS AND INDEPENDENT OFFICES IN KENYA





MESSAGE FROM THE CEO

On 8th August 2014, the Board approved the adoption of International Public Sector Accounting Standards (IPSAS) and the International Financial Reporting Standards (IFRS). The Ministries, Departments and Agencies (MDAs) adopted IPSAS Cash framework for reporting. This is the sub-sector within which the Constitution Commissions and Independent Offices report. IPSAS Cash is a transitional standard geared to prepare reporting entities to transition from cash to accrual accounting through encouraged disclosures.

The transition to accrual accounting for entities reporting under the cash basis framework is not the starting point but the next step towards actualizing the dream of transparency and accountability. A 2021 status report by IFAC and CIPFA on International Public Sector Financial Accountability indicates that by 2020, 30% of jurisdictions were on accrual basis of accounting compared to 24% in 2018. By 2025, 50% of all jurisdictions in the world will be reporting under accrual basis of accounting - be it IPSAS or IFRS. 9 of these jurisdictions are in Africa and Kenya is included.

In February 2020, the Board approved a roadmap that was to ensure that all public sector entities preparing their reports on cash accounting should transition to accrual accounting by 1st July 2021. This however did not materialize owing the onset of the COVID-19. With the decline of the COVID-2019, the Board approved a new date towards transition of National and County Governments from cash to accrual basis of accounting as 1st July 2023. The Board is under consultations with the Cabinet Secretary, National Treasury to gazette the implementation date in accordance with the PFM Act 2012.

As a pilot project, the Board resolved to undertake a phased approach to transition the 14 Constitutional Commissions and Independent Offices currently on IPSAS Cash to IPSAS Accrual, with the effective date as 1st July 2023. This was done with a view to obtain key lessons from the transition phase that can be applied in the global migration project.

This guideline has been prepared to assist the Independent Offices and Constitutional Commissions to seamlessly transition from cash to accrual accounting. It communicates the benefits that arise from accrual accounting, prerequisite steps to accrual migration and a roadmap to actualise the transition. Transition arrangements are also detailed within the guidelines.

It is my hope that this guideline will be of help to you as you embark on the journey to transition to accrual accounting whose benefits greatly outweigh cash accounting. I wish to reiterate the Board's commitment in supporting the commissions and independent offices in the transition process.

CONTENTS

ACRONYMS

CBK	Central Bank of Kenya
COB	Controller of Budget
CRA	Commission for Revenue Allocation
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
NT	National Treasury
OAG	Office of the Auditor General
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board

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INTRODUCTION

Article 201 (e) of the Constitution of Kenya 2010, calls for clarity in fiscal reporting as one of the key principles that govern public finance management in Kenya. This principle is securely anchored in the Public Finance Management Act 2012 stipulates the statutory reporting requirements and establishes the Accounting Standards Board.

The Public Sector Accounting Standards Board (PSASB) is established under Sections 192 to 195 of the Public Finance Management (PFM) Act 2012. The Board is mandated to provide frameworks and set generally accepted accounting standards for the development and management of accounting and financial systems and internal audit procedures by state organs and public entities as spelt out under Section 194 of the PFM Act.

In 2014, PSASB, vide gazette notice number 5440, adopted the International Financial Reporting Standards (IFRS) and the International Public Sector Accounting Standards (IPSAS) for implementation by public sector entities in financial reporting. Since this adoption, some of the Constitutional Commissions and Independent Offices have been applying the IPSAS Cash based standard which is a transitional standard to accrual basis of accounting.

1.1 Achievements arising from improved financial reporting in the public sector

Since its inception in 2014, PSASB has registered the following as some of its major achievements:

i. Adoption of International Accounting Standards-Adoption of IPSAS and IFRS has enabled the standardisation of financial reporting for all public sector entities in the country. This promotes comparability and consolidation of government financial statements as required by the PFM Act 2012. This also has put the country on a global map of the countries that are pushing to reform and inculcate accountability and transparency in the public sector.

ii. Effectiveness and efficiency of oversight- Standardisation of reporting has enabled the Office of the Auditor General to carry out the audit of financial statements in a timely manner and has provided a platform for other oversight bodies to interrogate financial statements from public sector entities.

iii. Understandability of financial information- Users of financial statements are in a better position to understand and interrogate financial information contained in public sector financial statements.

iv. Enhanced transparency- This has met the needs of the public who are increasingly demanding more disclosure of information from the Government.

v. Improved nature of audit opinions from the Office of the Auditor General: Over the last eight years, there has been a marked improvement on the nature of audit opinions issued by the OAG across public sector entities. A third of public sector entities obtain unqualified audit opinions while majority (Over 50%) obtain qualified opinions which with consistency and implementation of audit queries can move to unqualified.

vi. Training and capacity building of public sector accountants- Accountants in the public sector have over the years been trained with regards to the financial reporting. This capacity building efforts are bearing fruit as depicted by the increasing number of unqualified audit opinions and the quality of financial reports being generated by public sector entities.

1.2 Gaps noted with respect to cash basis of accounting in the public sector

i. **Assets Accounting** - Entities that account and report under the cash basis are not in a position to recognise their capital assets in the financial statements. Although these are disclosed, completeness of this data may not be verifiable. This poses challenges in the management and safeguards to these assets. The issue of assets ownership, recording and completeness have over the years formed a significant portion of queries from the office of the auditor general.

ii. **Pending bills** - Accounts payables commonly referred to as pending bills have increasingly become a concern for the government in Kenya. These payables are managed outside the accounting system since entities are on cash basis of accounting. Ascertainment of the completeness of these payables and their subsequent payment will become easier with the adoption of accrual accounting.

iii. **Limited disclosures in cash basis of accounting** - Although the cash basis of accounting encourages disclosure of accrual related information, it still limits the amount and nature of information that is disclosed to meet the needs of users of general purpose financial statements.

iv. **Receipts** - Government funding through the National Exchequer transfers is a process that requires cash flow planning and therefore receiving entities may not obtain these funds within the timeframes anticipated. This means that since entities account for cash when received, monies relating to a particular year that is received in the subsequent period will not be recorded in the correct accounting/ financial year which negates the matching concept in accounting.

v. **Payments** - Expenses incurred are only recognised in cash accounting when payment is made. This means that payments for a particular period may include payments for goods and services that were consumed in previous years also negating the concept of matching in accounting.

1.3 Benefits of Accrual Reporting

Some of the benefits to accrual accounting enable entities to:

i. Maintain complete records on assets and liabilities

ii. Better manage assets with respect to maintenance, more appropriate replacement policies and identification and disposal of surplus assets

iii. Better manage risks associated with assets such as loss due to theft or damage

iv. Make more informed decisions about the feasibility of financial services entities wish to provide to the citizens

v. Demonstrate accountability in managing assets and liabilities recognised in the financial statements

vi. Plan for future funding requirements of asset maintenance and replacement

vii. Plan for the repayment of, or satisfaction of, existing liabilities

viii. Acknowledge and plan for the payment of all recognized liabilities, not just borrowings;

ix. Provide information on the impact of existing liabilities on future resources;

x. Allocate responsibility for the management of all liabilities

xi. Provide necessary input to assess whether they can continue to provide current services and the extent to which they can afford new programs and services.

1.4 Transition to accrual accounting by constitutional Commissions and Independent Offices

PSASB assessed the progress made with respect to financial reporting by the Constitutional Commissions and Independent Offices and in the meeting held on 30th June 2022, decided to transition these entities to IPSAS accrual basis of accounting with effect from 1st July 2023 and earlier adoption encouraged for 1st July 2022.

This therefore means that the entity's financial statements for the year ended 30th June 2024 or 30th June 2023 (for early adopters) shall be prepared on IPSAS accrual basis of accounting and reporting.

The decision to transition the Constitutional Commissions and Independent Offices was made based on the following factors:

1. Section 194 (2) of the PFM Act states that in setting the standards, PSASB shall take into account best international accounting practices and the capacity of the relevant entity to comply with the standards. The Board has noted that the Constitutional Commissions and Independent Offices have the capacity to comply with the accrual basis of accounting.

2. Requests from some of the Constitutional Commissions and Independent Offices to transition from cash to accrual accounting.

3. Most of Constitutional Commissions and Independent Offices are relatively new and therefore do not have systemic issues such as legacy issues on assets.

4. Existence of a policy on assets and liabilities which should be applied by these institutions to identify and recognize assets and liabilities in their books of accounts. This policy was approved by CS National Treasury for application from the period beginning 1st July 2020.

5. Some Constitutional Commissions and Independent Offices are already on accrual basis of accounting and their experience will assist the other entities as they transition to accrual accounting.
6. The lessons learnt through the phased approach will provide much required experience and learning before the other Ministries, Departments and Agencies transit to accrual accounting.

1.5 Prerequisites to accrual accounting

i. Communication of the applicable dates of accrual accounting and the expectations

Entities transiting to accrual reporting will need to have the applicable dates of migration to accrual communicated to their Commission and owned up by the Accounting Officers. This is to ensure adherence to the 3 -year transition period to full IPSAS Accrual Compliance as provided by the Standards through IPSAS 33 on First- time adoption of IPSASs.

ii. Stakeholder awareness

The entity should conduct awareness to internal and external stakeholders. This entails engagement with key institutions such as the OAG, The National Treasury, PSASB, COB, CRA among others during the transition process. The entity should also engage the internal stakeholders to ensure entity buy-in as well as effective communication of the roles to be played by each of the staff members during the transition process and the expected benefit of the whole transition process.

iii. Project co-ordination committee

The transition process needs to be spearheaded through a project co-ordination committee that will be established at Entity Level made up of officers from relevant departments. The committee will be responsible for coordinating adoption of the Accrual Accounting within the entire organization. The committee may co-opt members from other institutions to provide technical assistance and advice during the transition process. The team is responsible to the Accounting Officer through a project manager. The team should include implementers to assist in facilitating and developing workable solutions to pre-existing challenges. When users understand the issues involved and can implement the requirements of accrual accounting, not only will they accept but also become champions of IPSAS accrual in their areas of operation.

iv. Identification and valuation of assets and liabilities

Accrual accounting requires that an entity accounts for its assets and liabilities. Entities transitioning to accrual reporting will be required to identify all the assets and liabilities. Once identification is done, the entity should apply the policies on National Assets and Liabilities for guidance on matters relating to valuation, asset classification, capitalization thresholds, depreciation rates among others. This will determine the figures at which they will be recognized, subsequent measurement and disclosure of the assets and liabilities in the entities' financial statements.

v. Financial Management System

An entity transitioning to IPSAS Accrual will need to evaluate the adequacy of the existing financial management system with respect to functionalities supporting accrual reporting. The best practice requires that the system should be robust enough to facilitate recording of assets and liabilities, depreciation and other accrual related information.

vi. Capacity building and training of accounting staff on IPSAS accrual accounting

A transitioning entity will need to build the capacity of its staff involved in the transition to accrual reporting. A gap analysis should be conducted to understand the training needs of the members of staff including those involved heavily in the process and determine the nature and depth of training or capacity building that is required. Entities are encouraged to engage The National Treasury and PSASB and other relevant institutions with respect to capacity building and training.

vii. Monitoring and evaluation

The IPSAS Accrual Standard number 33 on First Time Adoption of IPSAS stipulates that once an entity adopts IPSAS accrual for the first time, there is a three- year transition period to allow the entity to fully comply with the IPSAS standards. The role of monitoring the transition project rests with the project coordination team who should report to the Accounting Officer through the project manager.

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TRANSITION PROCESS

The transition to accrual accounting requires careful planning and preparation. The following factors will ensure a seamless transition process:

a. Staff capacity

b. Nature of the entity's operations; and

c. Availability, accuracy and comprehensiveness of documentation surrounding current processes.

An entity has an option of transitioning to accrual accounting at one go (Big Bang transition) or through a phased approach. The transition path taken by the entity will depend on the complexity, size and scope of the entity. It is the decision of the entity to assess what transaction types should be transitioned first and the timing of the associated transition.

In accordance with IPSAS 33: First time adoption of IPSAS Accrual, an entity that transitions at one go will prepare its first set of IPSAS compliance financial statements as 30th June 2024 or 30th June 2023(for early adopters). Where an entity elects to have a phased approach, its first set of financial statements will not be IPSAS compliant and therefore will be termed as transitional IPSAS financial statements. These statements will not have all the accrual elements until FY 2025/2026. The phased approach will allow entities to gather information on non- current assets over the transition period.

The table below demonstrates a phased approach to transition from cash to accrual accounting with a view that in the year 2025/2026, the entities will have fully transitioned. However, should an entity elect to transition fully within the period before year 3(FY 2025/2026) it can also do so and this is also guided in the table.

Under the phased approach the following will be the positions;

Year	Financial Statements
FY 2022/2023- 30th June 2023	IPSAS cash based financial statements
FY 2023/2024- 30th June 2024	First transitional IPSAS accrual financial statements that include all financial assets, and all liabilities as a minimum requirement. Entities that will have identified all or some of the non- current assets and inventories can include them
FY 2024/2025- 30th June 2025	Second transitional IPSAS accrual financial statements that will include all financial assets, all liabilities, and all inventories all inventories as a minimum requirement. Entities that will have identified all or some of the non- current assets can include them
FY 2025/2026- 30th June 2026	Fully compliant IPSAS Accrual financial statements that include all financial assets, all financial liabilities and all non-financial assets including inventories.

2.1 Staged approach transition process

Details	Year 0 2022/23	Year 1 2023/24	Year 2 2024/25	Year 3 2025/26 & beyond
Communication strategy	Receive communication from PSASB on transition to accrual accounting			
	Communicate the decision to senior management and Commissioners/Board of Directors			
	Communicate to internal stakeholders including the internal audit department	Continue to communicate the implication to internal stakeholders including the internal audit department	Continue to communicate the implication to internal stakeholders including the internal audit department	Continue to communicate the implication to internal stakeholders including the internal audit department
	Decide on early adoption as of 1st July 2022 or the Board appointed date of 1st July 2023 and communicate to the board and OAG			
	Communicate to other relevant stakeholders	Continue to communicate to other relevant stakeholders	Continue to communicate to other relevant stakeholders	Continue to communicate to other relevant stakeholders

Details	Year 0 2022/23	Year 1 2023/24	Year 2 2024/25	Year 3 2025/26 & beyond
Project coordination team	Formation of a Project coordination team on appointment of project manager			
	Development and approval of terms of reference for Project coordination team			
	Sensitization and training of the project team			
	Project management and direction	Project management & direction	Project management & direction	Project management & direction
		Project monitoring & evaluation	Project monitoring & evaluation	Project monitoring & evaluation
Training and capacity building	Identify the training gaps across the organization			
	Sensitize various groups in line with the gaps identified	Continue to sensitize various groups in line with the gaps identified	Continue to sensitize various groups in line with the gaps identified	Continue to sensitize various groups in line with the gaps identified
	Provide an in-depth training for the accounting team on accrual related concepts	Continue to provide an in-depth training for the accounting team on accrual related concepts	Continue to provide an in-depth training for the accounting team on accrual related concepts	Continue to provide an in-depth training for the accounting team on accrual related concepts
Financial management system	Ensure salient issues in IFMIS e.g., bank reconciliation, system required liabilities are resolved			
Assets **Financial assets**				
Receivables from exchange and non-exchange transactions	- Analyses circumstances to identify where receivables may arise. - Review completeness of existing data e.g., list of debtors, updated staff imprest register - Quantify the opening balances as at 1st July	- Enter the opening balances in the system and support the opening with debtors listing - Recognize receivables on	- Refine receivables data and presentation - Continue to report receivables in the financial statements with	- Refine receivables data and presentation - Continue to report receivables in the financial statements

Details	Year 0 2022/23	Year 1 2023/24	Year 2 2024/25	Year 3 2025/26 & beyond
	2023 and any related provisions for irrecoverable amounts	a continuous basis during the year - Recognize receivables in 2023/24 financial statements	related provisions	with related provisions
Cash	- Bank- identify existing bank accounts including those held with other banks other than CBK and develop a bank register. - Review the quality and completeness of the existing data for cash/Bank. - The cash balance based on cash accounting shall be the same as the cash balance based on accrual accounting except for case where additional bank accounts have been identified.	- Enter the opening balances in the system. - Recognize Cash/Bank on a continuous basis during the year. - Recognize Cash/Bank in 2023/24 financial statements.	- Refine Cash/Bank data and presentation - Continue to report Cash/Bank in the financial statements	- Refine Cash/Bank data and presentation - Continue to report Cash/Bank in the financial statements
Investments	- Identify all the areas where investments may arise. - Open the register of all investments e.g., T-bills and T-Bonds - Review the quality and completeness of the existing data for investments	- Record the opening balances values as of 1st July 2023 - Recognize investments in 2023/24 Financial Statements (Record any losses or gains)	- Refine investments and the need for revaluation data and presentation - (Record any losses or gains)	- Refine investments and the need for revaluation data and presentation - (Record any losses or gains)
Leases (Entity as lessor)	- Identify areas where leases income may arise e.g., renting out property. - Record leases in leases register for management purposes.	- Record the opening balance values as of 1st July 2023 - Recognize revenue from finance and operating leases. - Recognize lease receivables (under receivables) in 2023/24 Financial Statements	- Refine lease receivables data. - Continue to report lease receivables in the financial statements. - Continue to recognize revenue from finance and operating leases	- Refine lease receivables data. - Continue to report lease receivables in the financial statements. - Continue to recognize revenue from finance and operating leases.

Details	Year 0 2022/23	Year 1 2023/24	Year 2 2024/25	Year 3 2025/26 & beyond
Non-financial Assets				
Land (If applicable)	- Undertake inventory of land - Establish cost or values (use government valuer) - Record land in the Asset/land register	- Record opening balances for identified controlled land. - Continue to identify cost or value building and record in the land register. - Recognize new land in 2023/24 Financial Statements	- Record opening balances for subsequently identified controlled land. - Refine lands data. - Recognize additional land in 2024/25 Financial Statements - Continue to identify cost or value building and record in the assets register	- Record opening balances for land subsequently identified controlled. - Complete recognition ALL land assets in 2025/26 Financial Statements - Continue to refine data on new land in subsequent years.
Buildings	- Undertake inventory of building - Establish cost or values (use government valuer) - Assess the useful life for all identified buildings. - Record building in the building/Asset register	- Record opening balances for identified and controlled buildings. - Continue to identify cost or value of buildings and record in the building/Assets register. - Recognize additional building in 2023/24 Financial Statements - Compute depreciation charged on buildings and expense to statement of performance. - Assess for impairment (where applicable)	- Record opening balances for buildings subsequently identified and controlled. - Recognize new/additions to buildings in 2024/25 Financial Statements - Continue to identify cost or value buildings and record in the building/assets register. - Continue computing depreciation charged on buildings and expense to statement of performance. - Continue assessing for impairment (where applicable)	- Record opening balances for buildings subsequently identified and controlled. - Recognize new/additions to buildings in 2024/25 Financial Statements - Continue to identify cost or value buildings and record in the building/assets register. - Continue computing depreciation charged on buildings and expense to statement of performance. - Continue assessing for impairment (where applicable)

Details	Year 0 2022/23	Year 1 2023/24	Year 2 2024/25	Year 3 2025/26 & beyond
Machinery and equipment including transport assets, ICT, Furniture and fittings and others	- Undertake inventory of all other assets - Establish cost or values. - Assess the useful life for all identified assets. - Record identified assets in the Assets register	- Record opening balances for identified other assets. - Continue to identify cost or value of other assets and record in the Assets register. - Recognize additions for other assets in 2023/24 Financial Statements. - Compute depreciation charged on other assets and expense to statement of financial performance. - Assess for impairment (where applicable)	- Record opening balances for other assets subsequently identified controlled. - Recognize additions for other assets in 2024/25 - Financial Statements. - Continue to identify cost or value other assets and record in the assets register. - Continue computing depreciation charged on other assets and expense to statement of performance. - Assess for impairment (where applicable)	- Record opening balances for other assets subsequently identified controlled. - Complete recognition of ALL other assets in 2025/26 - Financial Statements - Continue to refine data on new other assets in subsequent years. - Continue computing depreciation charged on other assets and expense to statement of performance. - Continue assessing for impairment (where applicable)
Intangible Assets	- Undertake inventory of Intangible assets (copyrights, software, patents etc) - Establish cost or values. - Assess the useful life for all identified Intangible assets. - Record identified intangible assets in the intangible Asset register	- Record opening balances for identified intangible assets - Continue to identify cost or value of intangible assets and record in the intangible Assets register - Recognize intangible assets in 2023/24 Financial Statements - Compute	- Record opening balances for intangible assets subsequently identified - Recognize intangible assets in 2024/25 Financial Statements - Continue to identify cost or value intangible assets and record in the intangible assets register - Continue computing amortization	- Record opening balances for intangible assets subsequently identified controlled - Complete recognition of ALL intangible assets in 2025/26 Financial Statements - Continue to refine data on new intangible assets in subsequent years

Details	Year 0 2022/23	Year 1 2023/24	Year 2 2024/25	Year 3 2025/26 & beyond
		amortization charged on intangible assets and expense to statement of performance - Assess for impairment (where applicable)	charged on intangible and expense to statement of performance - Continue assessing for impairment (where applicable)	- Continue computing amortization charged on intangible assets and expense to statement of performance - Continue assessing for impairment (where applicable)
Inventories	- Identify items that may qualify as inventory (e.g., Finished goods, raw materials, consumables and goods in transit) - Review the quality and completeness of the existing data for inventories.	- Identify, value and enter the identified opening balances of inventory as of 1st July 2023 and support the opening with inventory listing. - Identify and record inventory related provisions. - Recognize additions to inventories in 2023/24 financial statements.	- Report ALL identified Inventory in FY 2024/25. Enter all opening balances for inventory as at 1st July 2024. - Refine inventory data and presenta-tion. - Continue to report inventory in the financial statements less related provisions.	- Refine inventory data and presenta-tion. - Continue to report inventory in the financial statements less related provisions
Liabilities				
Debt	- Identify items that may qualify as debt. - Review the quality and completeness of the existing data for debt. - Record all debt in a debt register.	- Identify, calculate, and record the opening balances of debt as of 1st July 2023 and support the opening balances with listing. - Recognize debt in 2023/24 financial statements	- Refine debt data and presentation. - Continue to report additional debt in the financial statements.	- Refine debt data and presentation. - Continue to report debt in the financial statements
Accounts payables	- Identify items that may qualify as accounts payables including retentions monies and other deposits.	- Identify and record the opening balances of accounts payables as of 1st	- Refine accounts payables data and presenta-tion.	- Refine accounts payables data and presenta-tion.

Details	Year 0 2022/23	Year 1 2023/24	Year 2 2024/25	Year 3 2025/26 & beyond
	- Review the quality and completeness of the existing data with respect to pending bills including their verification. - Obtain supplier statements and perform reconciliations for accounts payables	July 2023 and support the opening with listing. - Recognize additional accounts payables in 2023/24 financial statements. - Continue to obtain supplier statements and perform reconciliations for accounts payables	- Continue to report accounts payables in the financial statements. - Continue to obtain supplier statements and perform reconciliations for accounts payables	- Continue to report accounts payables in the financial statements. - Continue to obtain supplier statements and perform reconciliations for accounts payables.
Other liabilities including provisions and lease liabilities, deferred income, social benefits, employee benefits among others	- Identify items that may qualify as other liabilities. - Review the quality and completeness of the existing data including their verification. - Perform reconciliations for other liabilities where possible	- Identify and record the opening balances of other liabilities as of 1st July 2023 and support the opening with listing. - Recognize additions to other liabilities in 2023/24 financial statements. - Continue to perform reconciliations for other liabilities where possible	- Refine other liabilities data and presenta-tion. - Continue to report other liabilities in the financial statements. - Continue to obtain supplier statements and perform reconciliations for other liabilities where possible.	- Refine accounts payables data and presenta-tion. - Continue to report other liabilities in the financial statements. - Continue to obtain supplier statements and perform reconciliations for other liabilities where possible.
Contingent liabilities including guarantees	- Analyse circumstances and identify areas where contingent liabilities may exist. - Review the quality and completeness of the existing data. - Assess the probability of payments related to guarantees and other contingent liabilities.	- Identify and estimate the provisions if payments are probable and include opening balances as of 1st July 2023 for identified provisions. - Disclose all identified contingent	- Refine contingent liabilities data and presenta-tion. - Continue to assess where provision is needed and record the accordingly in the financial statements.	- Refine contingent liabilities data and presenta-tion. - Continue to assess where provision is needed and record the accordingly in the financial statements.

Details	Year 0 2022/23	Year 1 2023/24	Year 2 2024/25	Year 3 2025/26 & beyond
		liabilities in 2023/24 financial statements in line with IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets		
Commitments (PPE & Intangible assets)	- Analyse circumstances and identify areas where commitments may exist. - Review the quality and ensure completeness of the existing data.	- Disclose all identified material commitments in 2023/24 financial statements	- Continue to assess commitments and disclose them accordingly in the financial statement	- Continue to assess commitments and disclose them accordingly in the financial statement
Accounting for Transactions				
	- Continue to account for transactions under cash basis of accounting as receipts and payments	Record all opening balances relating to financial assets and financial liabilities as mandatory items in the opening statement of financial position. Opening balances for identified non-financial assets and inventory may also be included.	Record ALL balances relating to inventory as at 1st July 2024 as a mandatory additional item. Opening balances in relation to identified non-current assets subsequently identified may be included.	Record ALL opening balances of the remaining classes of identified non-current assets
		- Account for revenue and expenditure during this year i.e when revenue is earned and when expenses are incurred and record the associated receivables and payables.	Continue to account for earned revenue and incurred expenditure and the related receivables, payables and inventory.	Continue to account for earned revenue and incurred expenditure and the related receivables, payables and inventory.

Details	Year 0 2022/23	Year 1 2023/24	Year 2 2024/25	Year 3 2025/26 & beyond
	- New transactions for capital items such as land, buildings and equipment will be expensed during this year but will form part of the opening balances as at 1st July 2023.	Assets purchased within this year will be capitalized in the financial statements for the period. Gain or loss on disposal to be accounted for un the statement of financial performance. Depreciation should be recorded as an expense with respect to identified and recorded assets.	Additions during this period should be capitalized and disposals and related gains and losses accounted for in the statement of financial performance. Depreciation should be recorded as an expense with respect to identified and recorded assets.	Additions for all non-financial assets during this period and beyond should be capitalized and disposals and related gains and losses accounted for in the statement of financial performance. Depreciation should continue to be recorded as an expense with respect non-current assets.
		Where an entity elects to start recording identified non-financial assets this period, the opening balances should be recorded and transactions relating to new assets be capitalized. Disposals should also be accounted for. Depreciation should be recorded as an expense with respect to identified assets	Where an entity elects to start recording identified nonfinancial assets this period, the opening balances should be recorded and transactions relating to new assets be capitalized. Disposals should also be accounted for. Depreciation should be recorded as an expense with respect to identified assets	

Details	Year 0 2022/23	Year 1 2023/24	Year 2 2024/25	Year 3 2025/26 & beyond
Financial statements				
Financial statements to be prepared by the entity	The FS will be prepared on IPSAS cash accounting basis	The FS will be prepared on IPSAS Accrual basis with respect to inclusion of financial assets, and liabilities.	The FS will be prepared on IPSAS Accrual basis with respect to inclusion of financial assets, inventories and liabilities.	The 2025/26 FS shall be fully compliant with IPSAS accrual basis as all assets and liabilities will have been captured including all non- financial assets.
		The FS will be the first transitional FS to full accrual IPSAS.	The FS will be the second transitional FS to full accrual IPSAS.	Continue to prepare and refine FS on IPSAS accrual basis in the subsequent years. Make an unreserved statement of compliance with IPSAS.
		Where an entity has included ALL financial ALL non-financial assets and ALL liabilities these FS will be fully compliant with IPSAS accrual basis.	Where an entity has included ALL financial ALL non-financial assets and ALL liabilities these FS will be fully compliant with IPSAS accrual basis.	

2.2 Transition Requirements

i. Identification, valuation, recording, management, disposal, capitalisation of assets, depreciation rates, asset classes should be guided by the National Assets and Liabilities Management Policy issued by National Treasury for application from 1st July 2020.

ii. Templates for recording assets and liabilities can be obtained from the National Treasury's/ PSASB' s website alongside the NALM Policy.

iii. While recognising assets for the first time in an entity's books, deemed cost shall be used. Deemed cost is an amount used as a surrogate for acquisition cost or depreciated cost at a given date.

iv. Deemed cost where the costs of assets previously acquired has been determined, will be the cost of the asset adjusted for depreciation at the date of first recognition or recording of opening balances.

v. In the event that the cost of assets previously acquired has been determined but upon computing depreciation the asset is determined as fully depreciated at the point of first recognition, the entity will determine the fair value and use it as the deemed cost. Any subsequent depreciation is based on the fair value determined at that date and starts from the date the deemed cost has been determined.

vi. Deemed cost where the cost of assets previously acquired has not been determined will be the fair value determined at the date of recording the asset. Any subsequent depreciation is based on the fair value determined at that date and starts from the date the deemed cost has been determined.

vii. Where an asset was acquired through a non- exchange transaction(transfer/donation) and the cost information about the asset is not available, the entity can use the fair value as its deemed cost and continue with depreciation as per (vi) above.

viii. For purposes of recognising and accounting for PPE, the Board directs that all entities should use the cost model without any considerations for revaluation model in future.

ix. Where an entity is not able to determine the cost of an asset other than land or buildings, the management estimate obtained from assessing other assets of similar nature and quality is permissible for purposes of recording the opening balances.

x. Where an entity has already recorded opening balances and prior period information is obtained in the subsequent periods, prior period adjustments to the opening balances should be made.

xi. Entities should continue to refine data in a progressive manner to ensure that they prepare a full compliant IPSAS accounts by end of FY 2025/2026.

xii. All documentation in relation to opening balances should be maintained to support the balances at each period.

2.3 Financial Reports during the 1st year of Reporting

Entities will prepare their 1st transitional accrual based financial statements (where staged approach is elected) or first fully IPSAS compliant financial statements (where big bang approach is elected). PSASB has elected that the entities will not produce comparative statements during the first year of transition. Therefore, these financial statements will include the following:

a) One statement of financial position, and an opening statement of financial position at the date of adoption of accrual basis IPSAS;
b) One statement of financial performance;
c) One statement of changes in net assets/equity;
d) One cash flow statement;
e) A comparison of budget and actual amounts for the current year as a separate additional financial statement;
f) Related notes and the disclosure of narrative information about material adjustments

2.4 Project Delivery

Transition to accrual is a big project for any entity and therefore must be formulated with a project lifecycle in mind. The following steps may be adopted:

Phase	Strategy	Activity
Set- up Phase	Resource mobilisation and Project set -up	Setting up project scope, considering risks
	Entity Project Plan/ Transition Road Map	Costing time and resources
	Transition Path	Evaluating and agreeing on either One-time approach or phased approach
	Development of Project Planning documents	Work Plan, staffing plan, Risk Management Plan, Communication plan etc
Implementation Phase	Technical capacity and current systems	Review of existing technical capacity
	Future Accounting system capabilities	Review need to upgrade the IT system for future support of the Accrual Reporting
	Accounting Manual	Revise and update the accounting manual accordingly
	Staff training and Recruitment	Enhance technical expertise of staffs
	Opening Balances	Identify complete and accurate opening balances
Pre- launch Phase	Dry runs	Maintain the old tried and tested procedures alongside the transition requirements. This will enable the entity to iron out any errors or malfunctions
	Monitoring and evaluation	Monitoring and evaluation team to review the project plans and scheduling of activities. This can be done through use of internal audit unit
Launch	Going Live 1st July 2023	Reviewing the outcome of dry runs and ensuring that all issues have been sorted and that the entity is fully compliance with the requirements of IPSAS Accrual

2.5 Reporting During the "Hybrid" Period

Entities will need to carefully consider their reporting requirements during the period when the system may not be delivering either full cash or full accrual accounting. In circumstances where they continue to be required to deliver some form of cash accounts, for example, a cash appropriation account for Parliament, it will be necessary that systems continue to be able to deliver this. Some accounting systems may be sufficiently sophisticated to be able to produce cash and accrual reports. For instances where this is not possible, two other solutions for this issue may be:

Running Parallel Accounting Systems

If entities have introduced a new system for accrual accounting, then it may be possible to continue using the old system to produce cash reports.

Advantages of running a parallel system

i. The reports continue to be produced in the format which is familiar and acceptable to the recipient body
ii. The entity continues to have a consistent reporting format which allows for comparisons between periods
iii. Analysis of the accounts continues on a sound basis until the new system becomes more fully accrual accounting

Disadvantages of running a parallel system

i. There is a high likelihood that this will involve double keying of entries unless an electronic feed can be implemented from new system to old system
ii. Increased cost due to additional resource required to run and maintain two systems
iii. Potentially complex reconciliations between the two systems to ensure they are synchronized

2.6 Good Practice Disclosures

The following examples are suggested disclosures which may enhance the ability of a reader to understand the financial position of the entity during the transition period:

Basis of Preparation

The basis on which the accounts have been prepared e.g. some cash elements and some accrual elements and to specify what items are on cash basis and which are on accrual basis.

Transition to Accrual Accounting

What transition path an entity has adopted and why it has chosen to transition some functions first rather than other functions and the progress it has made towards achieving full accrual accounting and compliance with IPSAS.

Staged Adoption of IPSAS

Disclose those IPSAS which are fully compliant versus those where compliance is some way in the future and the reasons why compliance is greater with some IPSAS than others.

Opening Statement of Financial Position

The accounting policies adopted in preparing the opening Statement of Financial Position.

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