THE NATIONAL TREASURY AND PLANNING

POLICY ON ASSET AND LIABILITY MANAGEMENT IN THE PUBLIC SECTOR

JUNE, 2020

FOREWORD

The National Treasury has a mandate and opportunity to fundamentally change this Country in how Government Assets are acquired and managed to advance development & service delivery to the public in general. This includes proper record keeping and reporting that will enhance openness and accountability of Public Assets.

The Government of Kenya has for years owned assets and incurred liabilities, however there is no standardised policy or system of recording the assets immediately they are procured and liabilities when they are incurred. This makes the Assets and Liabilities identification, valuation, recognition, recording and reporting unreliable due to lack of standard management system of monitoring and has led to loss of assets. This further makes auditing of Government Assets and Liabilities difficult and therefore affecting financial management and reporting in the Public Sector.

In recognition of the existing gaps on asset and liability management, The National Treasury has developed Policy on Assets and Liability Management to guide and standardize management, accounting and reporting on Assets and Liabilities across the Public Sector. The policy will guide the entities in compilation of asset registers at entity levels for consolidation, which will inform the formation of a central repository of all Assets and Liabilities.

Both National and County Governments operate on cash basis accounting system which limits reporting on non-financial Assets and Liabilities. To align the Public Sector financial management and reporting with international best practices, the Government intends to adopt accrual accounting system. This policy will facilitate uniformity and standardization of asset acquisition and asset performance and prepare the Country adoption of Accrual Accounting effective from the Financial year 2021/22. In addition, the policy will assist Public Entities determine the optimum assets levels as a tool for allocating resources and adoption of life cycle approach to management of assets.

In this regard, all government entities including Ministries, Departments and Agencies, Counties and State Corporations will be expected to adopt and or customize their policies in line with this policy in the management of Assets and Liabilities at entity level and report to the National Treasury.

Hon. (Amb.) Ukur Yatani,
Cabinet Secretary/National Treasury and Planning,
Nairobi, Kenya.

ABBREVIATIONS AND ACRONYMS

MDA	Ministries, Departments and Agencies
NALM	National Assets and Liabilities Management
PSASB	Public Sector Accounting Standards Board
PFM	Public Finance Management
PFMR	Public Financial Management Reform
PIPM	Public Investments & Portfolio Management
PPAD	Public Procurement and Asset Disposal
PPP	Public Private Partnership
PPRA	Public Procurement Regulatory Authority
SAGA	Semi-autonomous government agencies
UFA	Unclaimed Financial Assets
UFAA	Unclaimed Financial Assets Authority

DEFINITIONS

"**Asset"** is a resource owned, or in some cases, controlled, by an individual or organisation as a result of past events and from which future economic benefits or social benefits are expected to flow to the entity. Assets may be movable or immovable property, tangible or intangible, and include equipment, land, buildings, animals, inventory, cash and cash equivalents, receivables, investments, natural resources like wildlife and, intellectual rights vested in the state or proprietary rights.

"**Asset management"** is a systematic process of planning, acquisition, operating, maintaining and disposing of assets in the most cost-effective manner including all costs, risks and performance attributes.

"Accounting officer" has the same meaning assigned to it in section 2 of the Public Finance Management Act, 2012.

"Accounting Standards Board" has the same meaning assigned to it in section 2 of the Public Finance Management Act, 2012.

"Cabinet Secretary" has the same meaning assigned to it in section 2 of the Public Finance Management Act, 2012.

"County Treasury" has the same meaning assigned to it in section 2 of the Public Finance Management Act, 2012.

"Development expenditure" has the same meaning assigned to it in section 2 of the Public Finance Management Act, 2012.

"Effectiveness" relates to how well outcomes meet objectives. It concerns the immediate characteristics of an entity's outputs, and the degree to which an asset contributes to achieving specified outcomes.

"Efficiency" relates to the productivity of Public Sector entity resources used to conduct an activity in order to achieve the maximum value for those resources, to ensure that it is appropriate to business needs, the best value for money, and consistent with the principles outlined in the Public Finance Management Act, 2012.

"Financial assets" refer to assets that arise from contractual agreements on future cash flows or from owning equity instruments of another entity. Examples of financial assets include cash, equity instruments of other entities held by the entity, a contractual right to receive cash or another financial asset from another entity.

"Liability" is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential examples.

"National Treasury" has the same meaning assigned to it in section 2 of the Public Finance Management Act, 2012.The title of the National Treasury to be used at a point in time may take the title as provided for under executive orders issued from time to time.

"Non-financial assets" means an item that has its value determined by physical and tangible characteristic for example stores, equipment, land, buildings, animals, inventory, stock, natural resources like wildlife, intellectual rights vested in the state or proprietary rights.

“Optimal mix of assets” means that a portfolio of assets that maximises returns to a public entity and minimizes risk. Such a portfolio comprises a balanced mix of financial and non-financial assets is also financed by long term liabilities.

“Procurement” has the meaning assigned to it in section 2 of the Public Procurement and Asset Disposal Act, 2015.

“Public entity” has the meaning assigned to it in section 2 of the Public Procurement and Asset Disposal Act, 2015.

"Public private partnership" has the meaning assigned to it under section 2 of the Public Private Partnership Act, 2013.

“Records” a document regardless of form or medium created, received, maintained and used by an organisation in pursuance of legal obligation or in the transactions of business, of which it forms part or provides evidence.

“Semi-Autonomous Government Agencies” means agencies rather than ministries used to deliver central government services or county government services.

“State Corporation" has the meaning assigned to it in section 3 of the State Corporations Act Cap. 446.

“System” means a set of detailed methods, procedures and routines created to carry out a specific activity, perform a duty, or solve a problem.

“Transitional Assets and Liabilities” refer to Assets and Liabilities held by a government body temporarily but which are not owned by the entity. These include items that are a subject of freezing orders by the Central Bank of Kenya and courts; items held in lien by the government as well as items held as bonds, cash bail and sureties in the context of the justice system in Kenya.

“Useful life” refers to the period over which an asset is expected to be available for use by an entity.

“Value for money” means the undertaking by a procuring entity that results in a benefit accruing to that procuring entity defined in terms of cost, price, quality, quantity, timeliness and risk transfer.

The terms used in this policy which are used in the Constitution, existing laws and regulations and, internationally recognised accounting standards shall have the same meaning as they have in the Constitution, laws and regulations and the internationally recognised accounting standards.

TABLE OF CONTENT

1. INTRODUCTION AND RATIONALE OF THE POLICY

1.1 Background

This policy proposes a framework to guide and inform on management of Public Assets and Liabilities in the Public Sector. It is motivated by the recognition that, since independence the Government of Kenya has owned assets and incurred liabilities apparently without a standardised policy to manage the same. As a result, this has led to reports of Office of the Auditor General tabled in Parliament pointing out a continued trend where fixed assets registers are either non-existent or are poorly maintained by MDAs and Counties.

Significant efforts have been made under the Constitution 2010, including Legislation in PFM Act, 2012 and PPAD Act, 2015 and Regulations thereof. Specific aspects on management of Assets and Liabilities were incorporated in these laws. These legislative actions did not fully address the weaknesses on Asset and Liability Management legal and institutional framework.

It is in recognition of these gaps and challenges and the fact that good asset management practice is a vital catalyst for accelerating development in a country, that the National Treasury has developed this Policy to guide and standardize management and reporting on Assets and Liabilities across the Public Sector. This policy proposes a framework for Public Entities to integrate life cycle approach to assets management, and give guidance on management of liabilities.

1.2 Rationale of the Policy

The Government of Kenya has in the past owned assets and incurred liabilities with no standardised policy nor framework for managing such Assets. Guidelines provided on planning, acquisition, operation, maintenance, disposal, recording and reporting have been inadequate. In addition, there have been no guidelines on the identification, recording and reporting on Liabilities. Different approaches have been adopted to Assets and Liabilities Management based on whether the Entity is operating on accrual or cash basis of Accounting. Assets and Liabilities Management have in most cases not been aligned to and integrated with entities strategic corporate financial and operational plans in the Public Sector.

This policy therefore, has been developed to address the foregoing aspects in regard to Assets and Liabilities management in the Public Sector. It is against this background that this Policy will provide direction on Assets and Liabilities management irrespective of the basis of accounting adopted by the Public Entities.

1.3 Vision of the Policy

Prudent Management of Assets and Liabilities in the Public Sector to provide optimum economic, environmental and social benefits to the Public.

1.4 Mission of the Policy

To bring uniformity and standardization in the Management of Assets and Liabilities across the Public Sector in a manner that is consistent with Government policies, priorities and objectives aligned to Internationally Recognized/Accepted Standards.

1.5 Aims of the Policy

The aims of this Policy are:

(a) Promoting accountability on Assets and Liabilities Management;

(b) Effective management and safeguard of public assets;

(c) The standardization in all Public Sector Entities of:

   (i) Planning, identification, acquisition, maintenance, disposal of, valuation/revaluation, recording and disclosure of Assets in the Public Sector;

   (ii) Planning, identification, incurrence, monitoring, discharge or settlement, recording of liabilities and disclosure of liabilities in the Public Sector; and

   (iii) Assets and Liabilities data management and reporting.

(d) Proper authorization of acquisition and disposal of assets; and

(e) Accurate and timely information and reporting to facilitate decision making.

(f) Maintenance of an updated Government inventory of Assets and Liabilities for all Public Entities.

1.6 Objective of the Policy

The specific objectives of this policy are to:

(a) Strengthen the framework governing Assets and Liabilities Management in the Public Sector.

(b) Create a strong framework for standardised, effective and efficient Assets and Liabilities reporting.

(c) Create a framework for development of Public Entities Assets and Liability inventories.

(d) Establish a framework for alignment of Assets and Lability Management to relevant laws and regulations, and to ensure compliance with prudent public financial management.

(e) Enhance the regulatory framework for management of Assets and Liabilities to ensure consistency with International best practice, through periodic reviews of existing laws, regulations, international accounting standards and proposal for the development of new legislation (if necessary).

(f) Provide the basis for identification of legal gaps with a view to making proposals for amendments to legislation to enhance sound Assets and Liabilities Management for economic development.

(g) Provide a supporting framework for the adoption of accrual basis of accounting by all Public Sector Entities.

1.7 Scope of the Policy

1. The policy covers the entire Public Sector Entities.
2. Public Entities may establish additional internal policies, guidelines or procedures that are consistent with this policy to supplement the governing principles contained in this document.

1.8 Policy Development Process

The process of developing this policy involved the establishment and operationalization of NALM department, under directorate of PIPM within the National Treasury, engagement of a Consultant, drafting of policy in consultation with technical working teams drawn from identified MDAs, subjecting the draft policy to stakeholder's engagement and approval. The policy has benefited and been informed by:

(a) consideration and factoring of provisions of the existing legal and institutional framework on the management of Assets and Liabilities;

(b) review and study of International Best Practice;

(c) review of Internationally Accepted Accounting Standards;

(d) challenges in management of Assets and Liabilities as highlighted by Public Sector entities' audit reports;

(e) lessons learnt from previous attempts to develop a consolidated national asset register; and

(f) consultations with stakeholders.

1.9 Guiding Principles

The principles that guide this policy are in accordance with Constitution of Kenya 2010, Kenyan laws and regulations. Good governance entails a well-functioning Assets and Liabilities management system free from unethical practices. It involves transparency, accountability and predictability in the decision-making process and oversight mechanism to ensure prudent use of public resources. The key principles of the asset management policy are as follows:

(a) Professionalism and integrity

The Assets and Liabilities functions shall be managed by professionals with requisite qualifications in asset and liability management recognized in Kenya. The officers shall conduct themselves in accordance with chapter 6 of the Constitution, Public Officer Ethics Act, 2003 (Revised 2009) and any other relevant laws; and codes of ethics, local and international treaties.

(b) Maximization of value for money

Public Entities shall ensure value for money by ensuring economy, efficiency, effectiveness, equity and creating a right environment for Assets and Liabilities management.

(c) Compliance and conformity

Public Entities shall comply and conform to all applicable laws of Kenya, regulations, policies and guidelines that relate to Assets and Liabilities Management.

(d) Transparency and Accountability

Public Entities shall conduct their affairs in an open, fair, transparent and accountable manner when carrying out procurement of Assets and Liabilities as espoused by the Constitution of Kenya 2010, the PFM Act, 2012 and the PPAD Act, 2015.

(e) Prudent planning

Asset and liability planning decisions shall be based on an evaluation of alternatives, which assesses risks and benefits, and applies the Government's core procurement principles of value for money and cost-benefit analysis across the Assets and Liability life-cycle.

(f) Reliability

Data or information provided on Assets and Liabilities by Public Sector Entities should be reliable for decision making by various users

(g) Regular Reporting

Public Entities shall ensure reporting at least annually on the status of their Assets and Liabilities in an accurate manner to the relevant Authorities.

2. SITUATION ANALYSIS

2.1 Introduction

This section covers:

(a) Overview of current legal and regulatory framework;

(b) Current institutional framework; and

(c) Gaps and challenges in Assets and Liabilities Management in Kenya.

2.2 Overview of Current Legal and Regulatory Framework

Asset and liability Management is guided by legislative authorities including but not limited to:

2.2.1 Legislative authorities

(a) Constitution of Kenya, 2010

(b) Cabinet Secretary to the Treasury (Incorporation) Act, Cap 101, Revised 2012

(c) Public Finance Management Act, 2012

(d) Public Procurement and Asset Disposal Act, 2015

(e) State Corporations Act, Cap 446, Revised 2016

(f) County Governments Act, 2012

(g) Intergovernmental Relations Act, 2012

(h) Public Private Partnerships Act, 2013

(i) Companies Act, 2015

(j) Land Act, 2012

2.2.2 Subsidiary legislation

(a) Public Finance Management (National Government) Regulations, 2015;

(b) Public Finance Management (County Governments) Regulations, 2015;

(c) Public Procurement and Asset Disposal Regulations, 2020;

(d) Executive orders;

(e) Government circulars;

(f) Gazette notices; and

(g) Other legal or statutory documentation that relate to Assets and Liabilities

2.2.3 Accounting standards

Asset and liability management in the Public Sector are guided by accounting standards as prescribed by the PSASB Kenya.

2.3 Current Institutional Framework

A review of current institutional framework indicated lack of coordination in the management of Assets and Liabilities in the Public Sector.

2.4 Gaps and Challenges in Assets and Liabilities Management in Public Sector

The legal, regulatory and institutional frameworks currently in place pose certain challenges and significant gaps. These include:

2.4.1 Legal framework is fragmented, not harmonized and inadequate

The legal framework presents gaps and challenges to Assets and Liabilities management in various ways:

(i) Different aspects of Assets and Liabilities are covered by various laws

(ii) There are conflicts between laws in some instances; and

(iii) There are aspects on Assets and Liabilities Management where no legislation exists.

2.4.2 Lack of a coordinated institutional framework

Management of Assets and Liabilities in Public Sector has been fragmented. In this regard, the implementation of this policy is expected to ensure a coordinated approach with a view of strengthening the institutional framework.

2.4.3 Use of different basis of accounting

The National and County Governments and their respective agencies use cash basis of accounting for purposes of preparing their financial statements, whereas State corporations on the other hand, have adopted accrual-based accounting. This means that significant Assets and Liabilities are not reflected in Public Sector financial statements.

Use of cash basis limits the country's capacity in public assets reporting, control and management. It also hinders the determination of Assets and Liabilities values as well as evaluation of Public Sector Assets and Liability portfolio management. Therefore, there is need for all Public Sector entities to adopt a standardised basis of accounting to ensure completeness of reporting.

2.4.4 Lack of standardised Assets and Liabilities registers

Assets and Liabilities registers maintained by Public Sector entities do not have a standardised format and hence have varied information contained therein. The classification of Assets and Liabilities into various categories also differs across the entities due to a lack of a defined classification criteria. This impedes the consolidation of the information into registers of Assets and Liabilities. Based on this, there is need to develop standard Assets and Liabilities register formats as well as standardised categorization of Assets and Liabilities.

2.4.5 Lack of legislation on unclaimed non-financial assets

There is no legislation to facilitate management of unclaimed non-financial assets since the UFA Act, 2011 focus on financial assets.

2.4.6 Lack of standardised automated information systems

Assets and Liabilities management in the Public Entities within National and County Governments and their agencies remain largely manual. Some state corporations on the other hand have computerized systems for capture of Assets and Liabilities information. The maintenance of manual Assets and Liabilities records is laborious and time consuming and could result in loss of Assets and Liabilities information. This among others makes audit of government Assets and Liabilities difficult and therefore affects financial management and reporting.

3. LEGAL AND INSTITUTIONAL FRAMEWORK

3.1 Introduction

This section outlines the institutions that will have roles in Assets and Liabilities management in accordance with this policy.

3.2 Asset & Liability Management Institutional Framework

In order to achieve the aims, objectives and strategies outlined in this Policy, the Government has put in place appropriate institutional framework through the establishment and continuous strengthening of institutions dealing with aspects of planning, acquisition, administration, reporting and oversight in respect to Assets and Liabilities Management which shall be coordinated with clear roles as specified in this policy by institutions divided into three groups comprising of actors, regulatory and oversight bodies as in *figure 1* below.

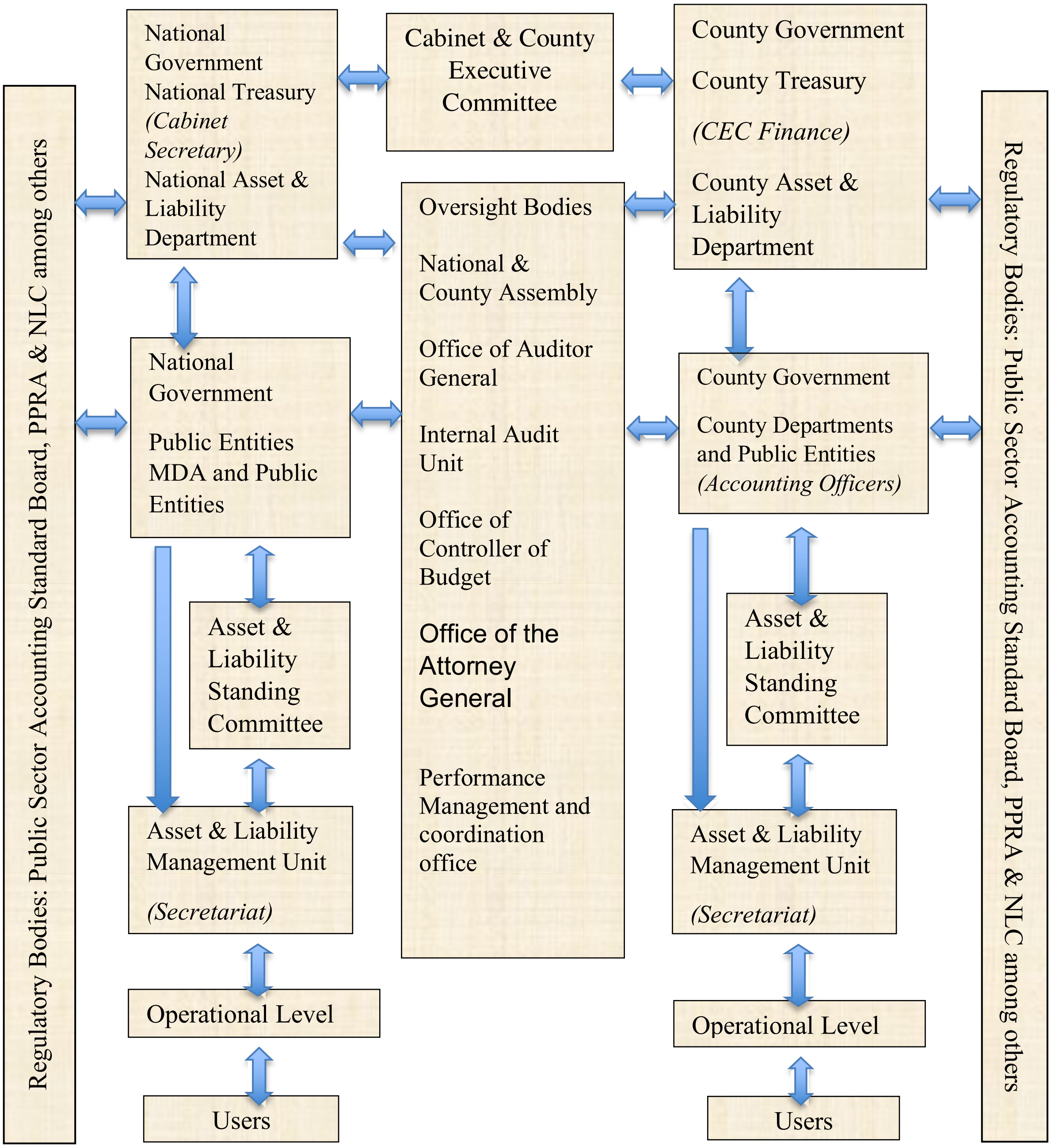

Figure 1: Institutional Framework

3.3 The National Treasury

The National Treasury as part of strengthening the institutional framework in this policy has established a department of National Assets and Liabilities Management whose primary mandate is to coordinate the overall framework of management of Assets and Liabilities.

The Department will be responsible for the following functions—

(a) shall manage the assets strategic component by providing strategic policy direction and guidelines on management of high-level portfolio Assets and Liabilities and management of strategic and high value assets.
(b) support optimal utilization of assets through development of an optimal assets utilization framework to guide Public Sector entities;
(c) monitoring, evaluating and reviewing optimal use and performance of Assets and Liabilities in the Public Sector, generate reports and give recommendations to accounting officers;
(d) monitoring the implementation of risk management framework with respect to Assets and Liabilities;
(e) consolidation and maintaining an updated inventory of government Assets and Liabilities;
(f) providing support to counties on good practice of Assets and Liabilities management;
(g) facilitate continuous capacity building and training of Public Entities accounting officers on the requirements of this policy;
(h) continuous improvement and alignment of Assets and Liabilities policies and guidelines; and
(i) prepare annual report on Assets and Liabilities for submission to Parliament.

3.4 Parliament / County Assembly

The responsibilities of Parliament/ County Assembly with respect to Assets and Liabilities management, include the following, among others;

(a) provision of oversight over the budgeting process and appropriate estimates of revenue and expenditure on Assets and Liabilities; and

(b) examination of financial statements and other documents submitted to the National Assembly/County Assembly and make appropriate recommendations.

3.5 Cabinet/ County Executive Committee

The responsibilities of the Cabinet/ County Executive Committee with regard to Assets and Liabilities management include the following, among others:

(a) provide strategic leadership and interventions in Assets and Liabilities management processes; and

(b) provide necessary approvals, for proper, efficient and effective Assets and Liability management.

3.6 County Treasury

The responsibilities of the County Treasury with respect to Assets and Liabilities management include the following among others.

(a) shall manage the assets strategic component by providing strategic policy direction and guidelines, management of high-level portfolio Assets and Liabilities and management of strategic and high value assets;

(b) act as custodian of the inventory of the county government’s assets;

(c) develop County Government asset and liability management guidelines in line with policy, guidelines and templates issued by PSASB with concurrence of the Cabinet Secretary, National Treasury and Planning; and

(d) constitute county Assets and Liabilities management committees and unit to assist the County Treasury in overall implementation of Assets and Liability management framework.

3.7 Office of the Auditor General

The responsibilities of the Auditor General with respect to Assets and Liabilities management include the following among others.

(a) all reasonable precautions have been taken to safeguard the collection of revenue and the acquisition, receipt, issuance and proper use of Assets and Liabilities; and

(b) collection of revenue and acquisition, receipt, issuance and proper use of Assets and Liabilities conforms to the authority.

3.8 Internal Audit Department

The responsibilities of the Internal Audit Department with respect to Assets and Liabilities management include the following among others.

(a) providing assurance on governance, internal controls and risk management relating to Assets and Liabilities; and

(b) verifying the existence of assets administered by the entity and ensuring that there are proper safeguards for their protection.

3.9 Public Sector Entities

The responsibilities of the Public Sector entities with respect to Assets and Liabilities management include the following among others.

(a) shall adopt an Assets and Liabilities management framework that incorporates strategic Assets and Liabilities management, life cycle approach to Assets and Liabilities management and, accounting and reporting of Assets and Liabilities;

(b) shall manage the strategic component of assets, management of high-level portfolio Assets and Liabilities and management of strategic and high value assets;

(c) adopt lifecycle approach which covers planning, acquisition, operation & maintenance and disposal, establish systems for risk management of Assets and Liabilities and ensure optimal utilization of asset;

(d) shall maintain updated inventories of Assets and Liabilities and proper books of accounts to facilitate preparation of statement of Assets and Liabilities as part of financial statements; and

(e) establish an Assets and Liabilities Management Standing Committee and Asset Management Unit.

3.10 Office of the Attorney General and the Department of Justice

The Attorney General is the Government principal legal advisor and with respect to Assets and Liabilities the Office of the Attorney General will among others:

(a) reviews contracts relating to the procurement and disposal of major Assets and Liabilities;
(b) prepares vesting orders in the transfer of Assets and Liabilities from one Public Sector entity to another; and
(c) as promoter of the rule of law and defender of the public interest and hence instrumental in resolving disputes relating to Assets and Liabilities by providing necessary interpretation.

3.11 Office of the Controller of Budget

The responsibilities of the Office of the Controller of Budget with regard to Assets and Liabilities Management include the following, among others:

(a) oversee implementation of the budgets of the National and County Governments by authorizing withdrawal from public funds; and

(b) authorizing withdrawals of public funds by Public Sector Entities, where, such funds are used for the acquisition and maintenance of assets as well as payment of liabilities.

3.12 Performance Management and Coordination Office

The responsibilities of the Performance Management and Coordination with regard to Assets and Liabilities management include the following, among others:

(a) set out the criteria for evaluation of public officers with respect to Key Performance Indicators (KPIs), including those relating to Assets and Liability management; and
(b) monitor the performance of the entities including the achievement of targets set on Assets and Liability management.

3.13 Public Procurement Regulatory Authority

The responsibilities of the Public Procurement Regulatory Authority with regard to Assets and Liabilities Management include the following, among others:

(a) prepare, issue and publicise standard public procurement and asset disposal documents and formats to be used by Public Entities and other stakeholders;

(b) research on the public procurement and asset disposal system and any developments arising from the same; and

(c) advise the Cabinet Secretary, National Treasury and Planning on the setting of standards including international public procurement and asset disposal standards.

3.14 Public Sector Accounting Standards Board of Kenya

The responsibilities of the PSASB with regard to Assets and Liabilities Management include the following, among others:

(a) guide Public Sector Entities on the application of accounting and reporting standards in the country; and

(b) prescribe formats for financial statements by all state organs and Public Entities.

3.15 National Land Commission

The responsibilities of the National Land Commission with regard to Assets and Liabilities management include the following, among others:

(a) Manage public land on behalf of the National and County Governments;

(b) recommend a National Land Policy to the National Government;

(c) advise the National Government on a comprehensive program for the registration of title in land throughout Kenya;

(d) conduct research related to land and the use of natural resources, and make recommendations to appropriate authorities; and

(e) assess tax on land and premiums on immovable property in any area designated by law.

3.16 Conclusion

The success for implementation of effective Assets and Liabilities management will depend on commitment to change, an attitude of continuous improvement, and close cooperation between oversight institutions, as well as Assets and Liabilities Management structures within Public Sector entities. The National Treasury will ensure a coordinated approach to Assets and Liabilities management due to the multiple players and inter- related functions of government.

4. ASSET AND LIABILITY MANAGEMENT IMPLEMENTATION FRAMEWORK

4.1 Introduction

This section outlines the critical issues relating to Assets and Liabilities Management and provides policy statements towards resolving the identified issues. Specific strategies to support policy statements will be included in the guidelines to be issued by the National Treasury.

4.2 Asset and Liability Management Framework

Critical Issue

Currently, Public Entities lack a comprehensive, standardised and harmonious framework guiding management of Assets and Liabilities in the Kenya Public Sector.

Policy statement

1. All Public Sector Entities shall adopt an Assets and Liabilities Management framework that incorporates: (i) Strategic Assets and Liabilities Management; (ii) Life cycle approach to Assets and Liabilities Management and, (iii) Accounting and reporting of Assets and Liabilities.
2. National and County Treasuries shall manage the assets strategic component by providing strategic policy direction and guidelines, management of high-level portfolio Assets and Liabilities and management of strategic and high value assets by establishing Assets and Liability management department.
3. Public Entities to adopt lifecycle approach which covers planning, acquisition, operation & maintenance and disposal, establish systems for risk management of assets and ensure optimal utilization of asset.
4. Public Entities shall maintain updated inventories of Assets and Liabilities and proper books of accounts to facilitate preparation of statement of Assets and Liabilities as part of financial statements.

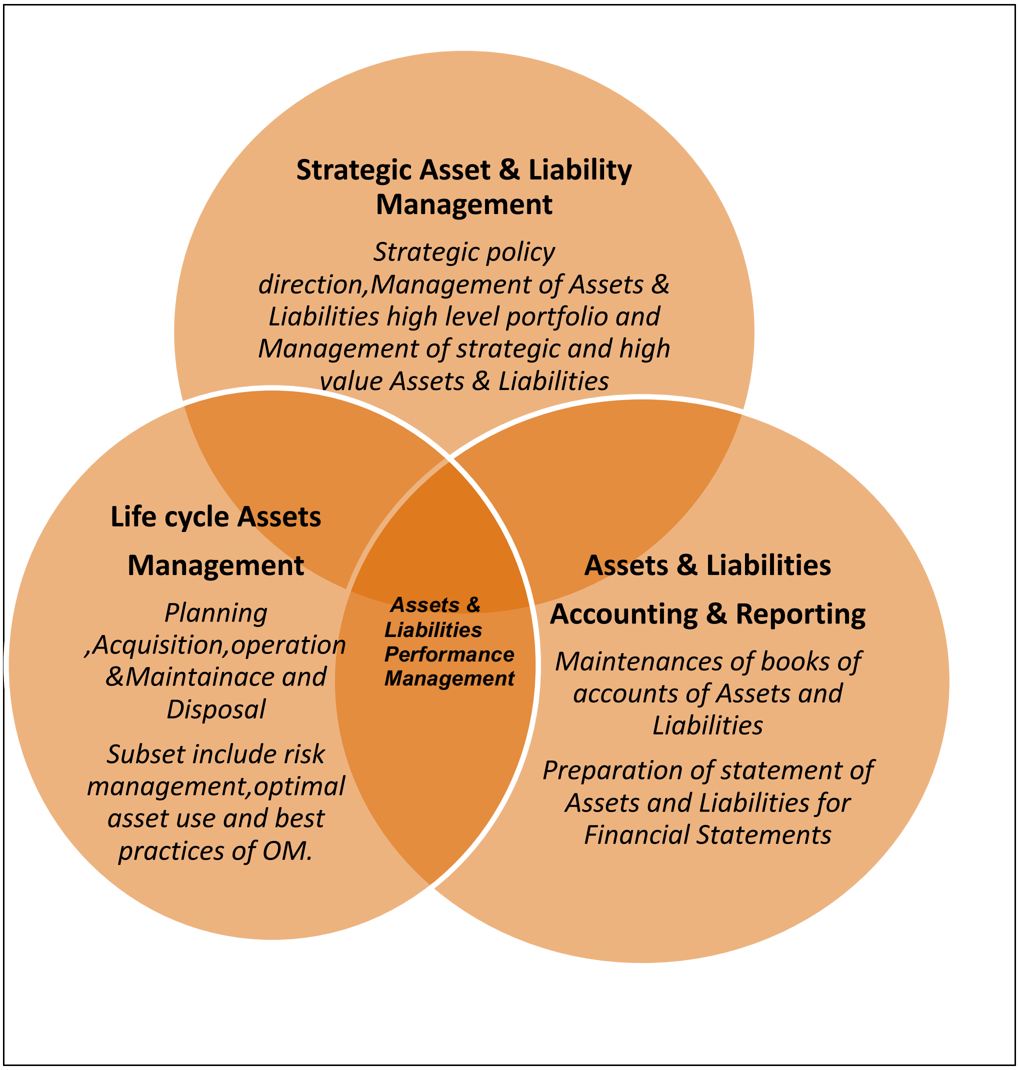

Figure 2: Assets and Liabilities Management Framework

4.3 Legal and Regulatory Framework

Critical issue

Laws guiding Assets and Liabilities Management are not harmonized and are fragmented. There is need therefore to in some instances develop, review and/or harmonise the relevant legislation.

Policy statements

National Treasury shall:

(i) put in place a framework for the review, harmonisation and development of legislation governing Assets and Liabilities Management.
(ii) spearhead the review, harmonisation and amendment of law(s) governing Assets and Liabilities Management.

4.4 Coordination of Asset and Liability Management Institutional Framework

Critical issue

The management of Assets and Liabilities has been fragmented. Some entities have developed policies relating to management of Assets and Liabilities, while others deal with specific categories of Assets and Liabilities. There are no clear roles of different Organisations in managing Assets and Liabilities.

Policy statement

(i) Asset and liability Management shall be coordinated with clear roles as specified in this policy by institutions divided into three groups comprising of actors, regulatory and oversight bodies.
(ii) National Treasury shall have a program coordinating role in harmonizing institutions engaged in Assets and Liabilities Management through its department of National Assets and Liabilities Management.

4.5 Asset and Liability Management Policies

Critical issue

Policies on Assets and Liabilities Management are not standardised in the Public Sector with each entity having their own Assets and Liabilities Management policies. The overarching documents with respect to legislation are skewed towards cash basis of accounting.

Policy statements

(i) National Treasury shall issue guidelines of this policy on Assets and Liabilities Management for use by the Public Sector Entities.
(ii) Public Sector Entities shall align their policies to this policy and policy guidelines issued by the National Treasury.

4.6 Asset and Liability Registers

Critical issues

Public Sector Entities do not have a standard format for preparation of Assets and Liabilities registers. The classification of Assets and Liabilities into categories is also not standardised which raises a challenge in generating a consolidated Assets and Liabilities inventories.

Policy statements

(i) National Treasury, in consultation with PSASB, shall issue standardised templates for specific categories of Assets and Liabilities.
(ii) National Treasury and County Treasuries shall prepare inventories of Assets and Liabilities based on consolidation of entities Assets and Liabilities register.
(iii) Public Entities shall prepare their Assets and Liabilities registers based on the issued templates.

4.7 Asset and Liability Information Systems

Critical issues

There are no automated assets information management systems in most Public Entities with capabilities to integrate, consolidate and analyze data. This contribute to inefficiencies and wastages.

Policy statements

(i) Public Entities shall utilize ICT-based information systems for the purposes of managing Assets and Liabilities in three components of strategic management, lifecycle, accounting and reporting.
(ii) National Treasury and County treasuries shall develop a data sharing system to integrate, collate, analyze and consolidate Assets and Liabilities data into registers.

4.8 Establishment of Asset and Liability Management Committee and Unit

Critical issue

The Assets and Liabilities management structures currently in place at Public Sector Entities are not adequate. Different offices play different roles in Assets and Liabilities Management and such roles are disjointed and hence cannot ensure efficiency and effectiveness. For effective planning, acquisition, operation, maintenance and disposal of asset and liabilities there is need to develop a coordinated approach to Assets and Liabilities Management at entity level.

Policy statement

(i) Public Sector Entities shall establish, maintain and document adequate asset management structures, including an Asset and Liability Management Unit and a Standing Committee on Assets and Liabilities Management.

(ii) The committee shall comprise the head of administration, head of accounting, head of finance, head of procurement and relevant technical officers. The Assets and Liability Unit shall be the secretariat and coordinator of the standing committee.

Responsibilities of the committee shall be the following—

(a) ensure compliance with this policy and the policy guidelines developed by the National Treasury;

(b) monitor and evaluate Assets and Liabilities performance;

(c) assess and ensure optimal asset levels of the entity as guided by National Treasury guidelines;

(d) institutionalise a risk-based and life-cycle asset management approach;

(e) submit the Assets and Liabilities updated inventory and registers to the Accounting Officer for signature and subsequent forwarding to the National Treasury;

(f) ensure harmonized and accurate reporting on Assets and Liabilities;

(g) ensure reliable information system on Assets and Liabilities performance;

(h) ensure that Assets and Liability audit queries are resolved effectively; and

(i) any other function relating to Assets and Liabilities.

(iii) Public Sector Entities shall establish an Asset and Liability Management Unit whose functions will be the following, among others:

(a) serve as secretariat and coordinator of the standing committee.

(b) ensure adoption of risk-based and life-cycle asset management approach

(c) maintain an updated register on asset and liabilities

(d) maintain the entities asset and liabilities management system to ensure timely reports to guide on decision making

(e) prepare the entities annual asset and liability plan as well as repair and maintenance plan.

(f) ensure proper replacement plan of fixed assets and maintenance of optimal stock levels.

(g) ensure proper asset tagging system.

(h) advise the accounting officer on matters related to optimal management of assets.

(i) schedule and perform periodical physical asset identification, verification, inspection and validation.

(j) act as custodian of the entities assets ownership documents.

(k) coordinate and advice on disposal of surplus and obsolete assets.

(l) facilitate the insurance of movable and immovable assets and revaluation of assets.

(m) monitor, evaluate and report the performance of Assets and Liabilities strategies to the accounting officer.

4.9 Documents of Ownership for Assets

Critical issue

Some entities do not have documents of ownership for their assets. This has been highlighted in audit reports over the years, especially with respect to land, where entities do not have proof of ownership for their land, and motor vehicles, where entities do not have logbooks.

Policy statement

Accounting officers shall ensure that a Public Sector entity has documents of ownership for all its assets. 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 on land and building shall be in the name of Cabinet Secretary to the Treasury of Kenya and shall be under the custody of the National Treasury.

4.10 Risk Management

Critical issue

There is general lack of identification, documentation and allocation of risks associated with Assets and Liabilities in the Public Sector. Public Sector entities do not have documented management frameworks on risk identification, assessment and reporting to facilitate focus of resources on assets risk management. Most state corporations have developed risk management frameworks but such frameworks may not be available in MDAs and County Governments. In the absence of documented guidelines and registers, mitigation measures have not been put in place. This could result in exposure to risks and ultimately, heavy losses to Public Sector entities.

Policy statements

1. National Treasury shall monitor implementation of risk management framework with respect to Assets and Liabilities.
2. Accounting officers shall identify, document and prepare risk registers as per guidelines issued by the National Treasury, including adequate mitigation strategies to address the risks identified.
3. Accounting officers shall submit entity risk registers/reports to the National Treasury on a regular basis.

4.11 Administration and Management of Assets

Critical issue

Public Sector entities manage assets using different approaches to asset management. For harmony and standardization in management and accounting for assets, there is need for entities to adopt a common approach.

Policy statement

The Public Sector entities shall adopt the life-cycle approach of Asset Management which will include the following phases:

(a) Planning;

(b) Acquisition;

(c) Operation and maintenance; and

(d) Disposal.

4.11.1 Planning

Critical issues

Planning for assets in some Public Sector entities is characterized by inadequate integrated planning where plans are not coordinated with overall entity strategy and mandate. There are also instances of excess assets being held by entities and lack of critical assets for operations in some entities. In addition, there are cases of unplanned acquisition of Assets and Liabilities.

Policy statements

(i) planning for assets shall be linked to the broader strategic planning and medium-term capital investment/acquisition plans, capital budgets, operating budgets and asset management plans of the Public Sector entity.

(ii) assets must be planned for, budgeted for and approved.

(iii)Public Sector entities shall hold only those assets that are necessary for the efficient, effective and economical delivery of their mandate and strategic objectives.

4.11.1 Acquisition

Critical issues

Based on audit reports of Public Sector entities, there are instances of acquisitions of assets outside procurement plans and budgets, overpricing of items as well as acquisitions that are not approved by the relevant officers. In other instances, acquisition is supply driven resulting in a mismatch between user needs and assets acquired.

In a number of cases, future operational costs on assets are not considered during acquisition and this leads to entities being unable to maintain assets acquired. Contingent liabilities have also not been considered when contracting for acquisition of assets, thus leading to heavy cash outflows in the future, for instances in public private partnerships.

In some cases, donated/gifted assets have been lost where developments are made on acquired assets before ownership has been transferred to Public Sector entities.

Policy statements

(i) Assets acquisition shall be based on approved procurement plans and budgets. Any deviations from plans and budgets shall be approved by the Accounting Officer in accordance with existing laws and regulations.
(ii) Accounting Officers shall consider corporate procurement arrangements negotiated by various government agencies in the acquisition of assets.
(iii) All asset acquisitions shall be based on the needs of the entity in view of its mandate and strategic objectives.
(iv) All donated assets must be approved by the Accounting Officer prior to acceptance.
(v) Accounting Officer must evaluate and document the future operational costs of all acquired assets and the effect they might have on future tariffs

and taxes. Such costs shall especially be taken into account before a donated asset is accepted by a Public Sector entity.

(vi) No development or improvements can be made on assets before transfer of ownership is completed.

(vii) Before a decision is made to enter into a PPP, the Public Sector entity shall consult with the National Treasury for technical guidance and financial implications, especially with respect to potential contingent liabilities.

4.11.2 Operation and Maintenance

Critical issues

Most Public Sector entities do not have asset maintenance plans. Some entities do not have asset identification/ tagging systems. In some instances, there are inadequate arrangements for the development, implementation and maintenance of security and internal controls over Assets and Liabilities. In this respect, there is lack of regular asset verifications, majority of assets are not insured and there have been reported losses of assets, and particularly, project assets.

Imprudent use of resources has been highlighted in Public Sector entity audit reports, for example, there are cases of idle assets being held by entities resulting from replacement of assets that are in good condition. Some Public Entities do not have investment policies resulting in imprudent allocation of resources. Imprudent use of resources had resulted in cash flow challenges for some entities leading to their inability to fulfill their mandates.

In a number of cases, adequate asset records are not maintained. In particular, most entities do not have robust asset registers, where values of assets are not recorded. There is also lack of adequate information with respect to project assets. Most mainstream Public Sector entities do not have complete asset records due to the use of cash basis of accounting. In some instances, large balances are held in suspense accounts due to poor record keeping and lack of regular reviews and reconciliation of records.

Policy statements

(i) Accounting Officers shall take responsibility for the control and utilisation of assets, monitor maintenance actions and budget for the operation and maintenance needs of each asset or category of assets under their control. All assets shall be properly maintained and in a manner which will ensure that such assets attain their useful lives.

(ii) Accounting officers shall allocate funds for maintenance every financial year by considering the percentage of overall recurrent expenditure and maintenance cost.

(iii) The Accounting Officer shall develop and implement asset identification/ tagging system, in accordance with guidance provided by the National Treasury.

(iv) The Accounting officer is responsible for ensuring that adequate arrangements are developed, implemented and maintained for the security and control of all assets within the Public Sector entity, both during and outside normal working hours.

(v) The Accounting Officer shall be responsible for maintaining an accurate, current and complete register of assets under his or her control or possession as prescribed by the relevant laws and regulations.

(vi) The accounting officer shall prepare reconciliations of the amounts as per asset register and the amounts as per the general ledger. The variances shall be investigated and resolved.

(vii) Every Accounting Officer shall at least once during every financial year undertake a comprehensive verification and condition assessment of all fixed assets controlled or used by the Public Sector entity.

(viii) Initial valuation of assets for purposes of maintaining asset records shall be carried out either by management estimates or by the Government valuer.

(ix) Insurance cover for the Public Sector entity assets shall be guided by risk exposure and cost-benefit criteria.

(x) All project Assets and Liabilities should be reported to the National Treasury on quarterly and annual basis. The accounting officer is responsible for ensuring that all project assets are correctly identified, recorded and reported.

(xi) Accounting officers shall ensure that replacement of assets is based on useful life and condition.

(xii) An Accounting Officer shall ensure prudent management of assets so to ensure that the entity's resources are managed effectively and efficiently.

(xiii) The Accounting Officer shall ensure optimal mix of assets and shall manage such assets in compliance with policy directives issued by the National Treasury.

(xiv) Accounting officers shall ensure regular reconciliation of Assets and Liabilities records.

(xv) Accounting officers shall ensure that any unclaimed financial assets held in the suspense accounts and can no longer be applied to the original purpose intended are transferred to the UFAA.

(xvi) Accounting officers shall monitor and evaluate asset performance, asset management and asset management systems against their respective objectives to ensure that they meet the intended service delivery objectives.

4.11.3 Disposal

Critical issues

There are many idle and unserviceable assets that have not been disposed of by Public Sector entities. In some cases, there have been haphazard disposal of assets and also instances where entities incur heavy costs during the sale of assets, for example, where assets are not disposed of on "as is, where is" basis. In other instances, the useful life of assets is not considered in disposal and hence assets have been disposed of while they would still be useful to an entity for the achievement of its mandate. There is also conflict of interest in the disposal process where the entity has not obtained the best value for money, for assets disposed of.

Failure to dispose of assets leads to deterioration of assets and additional incidental costs being incurred as a result of holding assets, such as storage costs.

Policy statements

(i) Accounting Officers shall provide an annual report on idle and unserviceable assets to the National Treasury.
(ii) An asset disposal plan shall be based on approved budgets which shall be integrated with entity strategic and operational plans.
(iii) Assets should be disposed of preferably, on “as is, where is” basis.
(iv) The Public Sector entity shall not dispose of an asset needed to provide the minimum level of entity services.
(v) The disposal of an asset must be fair, equitable, transparent, competitive and consistent.
(vi) Land and buildings shall only be disposed of after approval by the National Treasury, in consultation with the National Land Commission and or the Ministry responsible for housing, as applicable.
(vii) Only the Cabinet Secretary to the Treasury/CEC County Treasury, may approve an asset to be used as a donation from one public entity to another, and to private entities and individuals.
(viii) Transfers from Public Sector entities to private entities shall be in accordance with the contractual arrangements in place and applicable laws.
(ix) Accounting officers shall ensure all assets due for disposal are valued so as to determine a reserve price.

4.12 Administration and Management of Liabilities

Critical issues

Liabilities are acquired on incurrence of expenditure or acquisition of resources from third parties, when the resultant obligations remain unpaid. In the Public Sector, obligations remain unpaid due to unathorised expenditure, expenditure not included in budgets/ plans, poor prioritization of payments and, delays/ bureaucracies in payment processing. Delays in payment processing could also be due to execution of contracts/ agreements by invalid representatives of an entity. Liabilities could also arise from delays in submission of certificate of work done/completion certificate, retention money held and delays in Exchequer releases.

Liabilities also arise due to lack of proper planning including lack of feasibility studies, poor project plan and design, lack of cost-benefit analysis and failure to consider alternative funding. In addition, expenditure on multi-period projects that are not included in subsequent year budgets result in unavailability of funds to settle obligations and liquidity challenges at the end of a reporting period.

Additional liabilities are incurred by entity in instances of variation of contracts as well as shifts in the regulatory environment of an entity, relating to changes in laws and policies. This could also be due to failure to involve the Office of Attorney General and the National Treasury in negotiations and drawing contracts.

Lack of borrowing policies and weak implementation of existing policies at entity level to some entities also leads to outstanding obligations for an entity. In some instances, liabilities are due to poor governance/ mismanagement of Public Entities resulting in poor performing institutions. This causes unnecessary obligations on the part of the National Treasury to fund any liabilities of the institutions to third parties.

In a number of cases, adequate liability records are not maintained. In particular, some entities do not have robust liability registers, where values of liabilities are not recorded. Most mainstream Public Sector entities do not have complete liability records due to the use of cash basis of accounting.

Liability management in the Public Sectors characterized by lack of identification of contingent liabilities and lack of professional valuation of liabilities e.g. pensions and contingent liabilities.

The current legal provisions do not adequately guide entities on the treatment of provisions/ depreciation against the backdrop of budget accounting and the need for fund balances to be submitted back to the exchequer.

Policy statements

(i) Accounting Officers shall ensure that the expenditure is for authorised official purposes and for the proper provision of goods and/or services in accordance with approved Public Sector entity budgets, plans, goals and objectives.

(ii) Expenditure relating to multi-period projects shall be factored in annual budgets.

(iii) Accounting Officers shall ensure that all contingent liabilities relating to the entity are identified, quantified and disclosed in the financial statements.

(iv) Accounting Officers shall prepare realistic cash flow projections to ensure that expenditure is paid for as and when incurred.

(v) Accounting Officers shall put in place proper transitional arrangements in instances of policy and legal shifts to ensure incurrence of minimal liabilities.

(vi) Accounting Officers shall ensure that the Office of the Attorney General and the National Treasury are involved in negotiations and drawing of financial contracts, as guided from National Treasury.

(vii) Borrowing by Public Sector entities shall be in accordance with entity debt policy aligned with National Treasury policy and guidelines.

(viii) The National Treasury and Performance Contracting Unit under the Office of the President shall develop guidelines to ensure that Accounting Officers of Public Entities are held to account for the performance of their entities in respect of Assets and Liabilities management.

(ix) Accounting officers shall ensure that due diligence is undertaken before committing the entity to any project that could result in liabilities being incurred. The officers shall ensure proper planning of liabilities including feasibility studies, project design, cost-benefit analysis and alternative funding.

(x) Accounting officers shall ensure that proper records of all liabilities are kept.

4.13 Proper Accounting Records Not Maintained

Critical issues

Proper accounting records are not maintained for prudent management of Assets and Liabilities. Some laws, such as the State Corporations Act, Cap 446, require Public Sector entities to set aside a cash reserve for the depreciation charge for each year to serve as a replacement fund. The treatment of provisions, depreciation and accumulated reserves is thus not clear.

Policy statements

1. The Accounting Officer shall ensure that proper accounting records are kept of all Assets and Liabilities held by the Public Sector entity, including unclaimed assets.
2. National treasury shall provide guidance on the treatment of provisions, depreciation, accumulated reserves and any other non-cash backed balance sheet items.

4.14 Use of Different Basis of Accounting

Critical issue

Some entities in the Public Sector use cash basis of accounting for purposes of financial recording and reporting using while others use accrual basis of accounting.

Policy statements

(i) PSASB shall prescribe the accrual basis of accounting as the standardised basis of accounting for all Public Sector entities.
(ii) Public Entities shall implement the basis of accounting prescribed by the Board.

4.15 Resource Requirements

Critical issue

Public Sector entities may currently not have designated staff dealing with Assets and Liabilities Management. The staff may also not have the requisite qualifications and experience in relation to Assets and Liabilities Management. In addition, entities may not have the necessary resources to value the Assets and Liabilities under their custody.

Policy statements

(i) Public Sector entities shall leverage on existing resources in the Public Sector:
(ii) Public Sector entities shall utilize the staff already available in the public service.
(iii) Accounting officers shall ensure that all relevant staff are sensitized and trained on this policy. National Treasury shall organize for regular training for staff involved in Assets and Liabilities Management.
(iv) Valuation of Assets and Liabilities shall be conducted by valuers in the relevant government ministries and agencies.

4.16 Compliance with This Policy

(i) Accounting officers shall ensure compliance with this policy including sensitization and training of officers on the policy.
(ii) Accounting officers shall also monitor compliance of the entity with the policy and submit appropriate reports to the relevant authorities.

5. POLICY MONITORING, EVALUATION, REPORTING AND REVIEW

For the National Treasury to effectively track and monitor the implementation of this policy, the following monitoring, evaluation and reporting framework will apply:

5.1 Monitoring

1. The Accounting Officer of every Public Sector entity are responsible for monitoring Assets and Liabilities Management at the entity level in accordance with this policy. The Accounting Officer shall also ensure harmonization of entity Assets and Liabilities Management policies with this policy in the next two years.
2. National Treasury is responsible for oversight of the implementation of this policy and for ensuring that its provisions are adhered to and applied consistently across all Public Sector entities. Compliance and monitoring will be assessed through quarterly reviews of reports submitted by Public Sector entities, field verification visits, optimal utilization tools used by entities, review of assets, liabilities and risk registers prepared by entities and regular analytics of information provided. In this respect, the Treasury will facilitate continuous capacity building and training of accounting officers and their staff on the requirements of this policy.
3. NALM will provide guidance on unique requirements, in exceptional circumstances due to nature of operations if unable to comply with the policy.
4. The Internal Audit department will provide assurance on compliance of Public Sector entities with this policy and raise any concerns on Assets and Liabilities management.
5. The National Treasury will be responsible for ensuring continuous improvement in Assets and Liabilities management in the Public Sector.

5.2 Evaluation

The National Treasury will evaluate the implementation plan of this policy and report on the progress of its implementation to the Cabinet annually. The annual reports will evaluate the completeness and existence of Asset and Liability registers submitted by Public Entities as well as accuracy of values attached to specific Assets and Liabilities. Through the consolidation process, Assets and Liabilities relating to Public Entities will be reconciled to ensure authenticity of amounts recorded by various entities.

Annual additions of assets will be reviewed to ensure that value for money has been achieved in acquisitions. The National Treasury will undertake a baseline survey on Assets and Liabilities Management and subsequently develop a detailed monitoring and evaluation framework with the relevant indicators to be tracked and impact evaluations.

5.3 Reporting obligations of Accounting Officers to National Treasury

1. The accounting officer shall ensure that quarterly and annual Assets and Liabilities reports, including Assets and Liabilities registers, risk registers and optimal utilization reports, are submitted to the National Treasury in the prescribed formats for review and consolidation.
2. The Accounting officer is responsible for submitting copies of entity harmonized policies and guidelines to National Treasury for concurrence.
3. Auditor General Office will conduct independent review to ensure policy compliance in the Public Sector.

5.4 Review of the policy

1. This policy will be reviewed from time to time to take cognizance of—
   (a) changes in policy, legislation and regulatory environment;
   (b) change in applicable accounting frameworks; and/or
   (c) trends in international good practice on Assets and Liabilities Management.
2. The Cabinet Secretary to the Treasury of Kenya, will be responsible for updating this policy.

5.5 Effective Date

This Policy will become effective on 1st July 2020.